GLOBAL-ESTATE RESORTS, INC.

24 June 2013

PHILIPPINE STOCK EXCHANGE
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

Attention : Ms. Janet A. Encarnacion
Head, Disclosure Department

Dear Ms. Encarnacion:

In compliance with the Rule on Additional Listing of Shares, Global-Estate Resorts, Inc. (GERI) hereby submits the attached Comprehensive Corporate Disclosure in relation to a private placement transaction signed on 21 June 2013.

Thank you.

Very truly yours,

Dominic V. Isberto
Corporate Secretary

**COMPREHENSIVE CORPORATE DISCLOSURE
IN CONNECTION WITH THE SUBSCRIPTION AGREEMENT
BETWEEN GLOBAL-ESTATE RESORTS, INC.
AND MEGAWORLD CORPORATION**

The transaction as described below is made pursuant to the resolution of the Board of Directors of Global-Estate Resorts, Inc. (hereinafter the "Company") in a special meeting held on 21 June 2013 to implement the increase in authorized capital stock as approved in the Special Meeting of the Shareholders on 08 November 2011.

a. Name of the Listed Company

Global-Estate Resorts, Inc.

b. Description of the transaction including timetable for implementation and related regulatory requirements

The Company has an authorized capital stock of Ten Billion Pesos (Php10,000,000,000) divided into Ten Billion (10,000,000,000) common shares with a par value of One Peso (Php1.00) per share. On 08 November 2011, the shareholders of the Company approved an increase in authorized capital stock to Twenty Billion Pesos (Php20,000,000,000) divided into Twenty Billion (20,000,000,000) common shares with a par value of One Peso (Php1.00) per share.

On 21 June 2013, the Board of Directors of the Company resolved to implement the increase in capital and approved the subscription by Megaworld Corporation to Two Billion Five Hundred Million (2,500,000,000) common shares of the increase in capital (hereinafter, the "Shares"), at the price per share of Two Pesos and Twenty-six Centavos (Php2.26), or a total subscription price of Five Billion Six Hundred Fifty Million Pesos (Php5,650,000,000.00).

The planned increase in capital will be submitted to the Securities and Exchange Commission (SEC) for approval through an application for amendment of Article Seven of the Company's Amended Articles of Incorporation.

The subscription to the increase in capital is exempt from registration with the SEC, it being an exempt transaction by express provision of Section 10.1 (i) of the Securities Regulations Code (SRC). No notice of exemption or fee is required for the transaction pursuant to SRC Rule

10.1(2). Nevertheless, the Company will file SEC Form 10.1 (Notice of Exemption).

The Shares will be applied for listing with the Philippine Stock Exchange as soon as practicable. To comply with the listing requirements of the PSE, the Company will present the transaction for ratification by the shareholders at the Annual Meeting of Shareholders scheduled on 30 July 2013.

c. Rationale for the transaction

The subscription by Megaworld allows the Company to raise equity funds in a most expeditious and efficient manner, at the least cost to the Company, to finance the development of its various projects, for land acquisition, and general corporate purposes.

d. **Aggregate value of the consideration**

The total subscription price for the Subscribed Shares is Five Billion Six Hundred Fifty Million Pesos (Php5,650,000,000.00). Twenty-five percent (25%) of the total subscription price shall be paid on 26 June 2013 and the balance within ten (10) business days after approval by the SEC of the increase in capital stock, grant of PSE exemption from the rights or public offer requirement, and approval by the Company's shareholders of the subscription.

e. **Basis upon which the consideration or the issue value was determined**

The subscription price represents a premium of 5% over the thirty (30) trading-day volume weighted average price (VWAP) of the common shares of the Company immediately preceding the date of the subscription.

f. Detailed work program of the application of the proceeds

The proceeds of the transaction will be used for funding of the development of the Company's projects, namely:

- Boracay Newcoast in Boracay Island, Aklan;
- Twin Lakes in Batangas; and,
- Sta Barbara Heights in Iloilo;

and for land acquisition and general corporate purposes.

g. Identity of the beneficial owners of the Shares

Name of Subscriber : Megaworld Corporation ("Subscriber")

Date of incorporation: 24 August 1989

Nature of business : The Subscriber is one of the leading property developers in the Philippines and is primarily engaged in the development in Metro Manila of large-scale mixed-use planned communities, or community townships, that integrate residential, commercial, educational/training, leisure and entertainment components. The Subscriber's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail space. The Company has three primary business segments: (i) real estate sales of residential and office developments, (ii) leasing of office space, primarily to business process outsourcing ("BPO") enterprises, and retail space, and (iii) management of hotel operations.

Major projects and investments of the Subscriber : Among the Subscriber's main projects and investments are:

- Eastwood City which is a mixed-use project on approximately 18 hectares of land in Quezon City that integrates corporate, residential, education/training, leisure and entertainment components;

- Forbes Town Center which is located on 5 hectares of land in Bonifacio Global City, Taguig, which, upon completion, will consist of residential, retail, and entertainment properties;

- McKinley Hill which is a community township located on approximately 50 hectares of land in Fort Bonifacio, Taguig and consists of office, residential, retail, educational, entertainment, and recreational center;

- Newport City which is also a community township located on 25 hectares of land at the Villamor Air Base in Pasay City which integrates the live-work-play concept of Eastwood City and which, upon completion, will comprise a residential zone, a corporate zone, a leisure and entertainment zone, and a hotel zone including the Marriott Hotel, Maxims Hotel, Remington Hotel, Belmont Luxury Hotel, and Savoy Hotel;

- Manhattan Garden City which is a residential development project consisting of 20 residential towers on a 5.7 hectare-land at the Araneta Center in Quezon City;

- Cityplace which a mixed-use project under development on a 2.5 hectare-lot in Binondo, Manila;

- Uptown Bonifacio which is located on an approximately 15.4-hectare property in Fort Bonifacio in Taguig City and is comprised of a residential portion in the northern part of Fort Bonifacio, and a portion for mixed-use (office and retail space) on a parcel of land owned by Napolcom, under joint venture arrangements with BCDA and Napolcom;

- McKinley West which is a mixed-use project, under joint venture with BCDA, located on an approximately 34.5-hectare portion of the JUSMAG property owned by BCDA and located across McKinley Hill in Taguig;

- The Mactan Newtown which is an expected mixed-use township development on a 25-hectare property near Shangri-La's Mactan Resort and Spa in Mactan, Cebu;

- Iloilo Business Park which is a mixed-planned community in a 54.5-hectare property in Mandurriao, Iloilo, site of the old Iloilo airport, and which, upon completion, will have BPO office buildings, boutique hotels, a convention center, retail centers, and a lifestyle center.

Capital structure of the Subscriber as of 11 June 2013 :

	In Shares	In Amount
Common shares	30,140,000,000 P1.00 par	P30,140,000,000
Preferred shares	6,000,000,000 P0.01 par	60,000,000
Total Authorized Capital Stock	36,140,000,000	P30,200,000,000
Authorized Common Capital Stock	30,140,000,000	P30,140,000,000
Issued as of June 11, 2013 (including Treasury Shares)	29,535,080,402	29,535,080,402
Outstanding Common as of 11 June 2013	29,403,660,402	P29,403,660,402
Treasury Shares	131,420,000	131,420,000
Preferred	6,000,000,000	60,000,000
Total Outstanding (excluding Treasury Shares)	35,403,660,402	P35,403,660,402

Audited Financial Statements for the last three (3) fiscal years :
Please refer to Annexes "1," "2," and "3."

List of subsidiaries and affiliates of the Subscriber :

Subsidiaries

- Megaworld Land, Inc.
- Prestige Hotels & Resorts, Inc.
- Mactan Oceanview Properties and Holding, Inc.
- Megaworld Cayman Islands, Inc.
- Richmonde Hotel Group International Limited
- Eastwood Cyber One Corporation
- Forbes Town Properties & Holdings, Inc.
- Megaworld Newport Property Holdings, Inc.
- Oceantown Properties, Inc.
- Piedmont Property Ventures, Inc.
- Stonehaven Land, Inc.
- Streamwood Property, Inc.
- Suntrust Properties, Inc.
- Empire East Land Holdings, Inc.
- Megaworld Central Properties, Inc.
- Megaworld-Daewoo Corporation
- Manila Bayshore Property Holdngs, Inc.
- Megaworld Resort Estates, Inc.
- Megaworld-Globus Asia, Inc.
- Philippine International Properties, Inc.
- Townsquare Development Inc.

Associates

- Suntrust Home Developers, Inc.
- Megaworld-Global Estate, Inc.
- Palm Tree Holdings & Development Corporation
- Alliance Global Properties Limited
- Gilmore Property Marketing Associates, Inc.
- Twin Lakes Corporation
- Travellers International Hotel Group, Inc.

Board of directors of the Subscriber :

Andrew L. Tan	Chairman
Katherine L. Tan	Director
Kingson U. Sian	Director
Enrique Santos L. Sy	Director
Miguel B. Varela	Independent Director
Gerardo C. Garcia	Independent Director
Roberto S. Guevarra	Independent Director

Principal officers of the Subscriber :

Andrew L. Tan	Chairman and President
Kingson U. Sian	SVP and Executive Director
Lourdes T. Gutierrez	Chief Operating Officer
Francisco C. Canuto	SVP, Treasurer, Compliance Officer, and Chief Information Officer
Philipps C. Cando	SVP for Operations
Monica T. Salomon	First Vice-President for Corporate Management
Garry V. de Guzman	First Vice-President for Legal Affairs
Maria Victoria M. Acosta	Managing Director for International Sales
Kimberly Hazel A. Sta. Maria	AVP for Corporate Communications and Advertising
Edwin B. Maquinto	Corporate Secretary
Rolando D. Siatela	Assistant Corporate Secretary

h. Change in the ownership structure of the Company Before and After the transaction

Name of Shareholders of GERI	Before the Subscription (As of 21 June 2013)		After the Subscription	
	No. of Shares	% of Ownership	No. of Shares	% of Ownership
Alliance Global Group, Inc.	5,405,000,000	63.69%	5,405,000,000	49.20%
Megaworld Corporation	0	0	2,500,000,000	22.76%
PCD Nominee Corporation (Filipino)	1,443,824,630	17.01%	1,443,824,630	13.14%
Fil-Estate Management, Inc.	1,065,774,606	12.56%	1,065,774,606	9.70%
PCD Nominee Corporation (Foreign)	457,878,360	5.40%	457,878,360	4.17%

CAP Pension Trust Fund	9,263,280	0.11%	9,263,280	0.08%
Greenfield Development Corporation	8,640,000	0.10%	8,640,000	0.08%
John T. Lao	7,035,100	0.08%	7,035,100	0.06%
Lucio W. Yan	5,755,000	0.07%	5,755,000	0.05%
Romeo G. Roxas	3,716,000	0.04%	3,716,000	0.03%
Avesco Marketing Corp.	3,512,106	0.04%	3,512,106	0.03%
RBL Finishing Corporation	2,924,998	0.03%	2,924,998	0.03%
Wilbur L. Chan	2,611,825	0.03%	2,611,825	0.02%
Jennifer C. Lee or Josephine C. Lim	2,000,000	0.02%	2,000,000	0.02%
Gilmore Property Marketing Associates, Inc.	1,983,000	0.02%	1,983,000	0.02%
Federal Homes, Inc.	1,939,860	0.02%	1,939,860	0.02%
Philippine Veterans Bank FAO Comprehensive Annuity Plans & Pension Corp	1,837,428	0.02%	1,837,428	0.02%
Fritz L. Dy	1,813,500	0.02%	1,813,500	0.02%
Dynaland Properties & Developers, Inc.	1,700,001	0.02%	1,700,001	0.02%
Robert John L. Sobrepena	1,617,485	0.02%	1,617,485	0.01%
Maximo S. Uy &/or Lim Hue Hua	1,478,400	0.02%	1,478,400	0.01%
Others	55,694,421	0.01%	55,694,421	.51%
Total	8,486,000,000	100.00%	10,986,000,000	100.00%

Change in the ownership structure of the Subscriber Before and After the transaction

None.

i. Interest which directors of the Company or of Megaworld have in the transaction.

None.

j. Statement as to the steps to be taken, if any, to safeguard the interests of independent shareholders.

As mentioned above, the Company will present the transaction for approval by the shareholders at the Annual Meeting of Shareholders on 30 July 2013.

Attached is a copy of the Subscription Agreement dated 21 June 2013.

GLOBAL-ESTATES RESORTS, INC. 24 June 2013

Issuer

By:

DOMINIC V. ISBERTO

Corporate Secretary

SUBSCRIPTION AGREEMENT

This Subscription Agreement (the "Agreement") is executed this 21 June 2013 at Makati City by and between:

> **GLOBAL-ESTATE RESORTS, INC.**, a corporation duly organized and existing under Philippine laws, with principal office address at the 7/F Renaissance Tower, Meralco Avenue, Pasig City, represented herein by its President, Ferdinand T. Santos (hereafter, the **Company**);
>
> \- and -
>
> **MEGAWORLD CORPORATION**, a corporation duly organized and existing under Philippine laws, with principal office address at the 28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City, represented herein by its Chief Operating Officer, Lourdes T. Gutierrez (hereinafter, the **Subscriber**);
>
> (Each of the Company and the Subscriber is hereinafter referred to as a "Party" and collectively referred to as the "Parties".)

WHEREAS, the Company is a publicly-listed company with an authorized capital stock of TEN BILLION PESOS (Php10,000,000,000) divided into 10,000,000,000 common shares each with a par value of One Peso (Php1.00);

WHEREAS, on 08 November 2011, the shareholders of the Company approved the increase in the authorized capital stock of the Company to TWENTY BILLION PESOS (Php20,000,000,000) divided into 20,000,000,000 common shares each with a par value of One Peso (Php1.00) (the "Capital Increase");

WHEREAS, the Company shall file an application with the Securities and Exchange Commission ("SEC") for the approval of the Capital Increase and an application with the Philippine Stock Exchange ("PSE") for the listing of the shares to be issued out of the same;

WHEREAS, the Subscriber has offered to subscribe to shares of the Company to be issued out of the Capital Increase, and the Company has accepted the offer of the Subscriber, under the terms and conditions set forth below;

NOW THEREFORE, pursuant to the foregoing premises, and in consideration of the mutual covenants of the Parties set forth herein, the Parties hereby agree as follows:

I. SUBSCRIPTION TO SHARES

1.1 The Subscriber hereby subscribes to **TWO BILLION FIVE HUNDRED MILLION (2,500,000,000)** common shares of the capital stock of the Company (the "Subscribed Shares") at the price of Php2.26 per share, which represents a premium of 5% over the 30-trading day volume weighted average price (VWAP) of the common shares of the Company immediately preceding the date of this Subscription Agreement. The Subscribed Shares shall be issued out of the Capital Increase for an aggregate subscription price of **PESOS: FIVE BILLION SIX HUNDRED FIFTY MILLION (Php5,650,000,000)** (the "Subscription Price"), which Subscribed Shares represent approximately 22.75% of the outstanding shares of common stock of the Company after giving effect to the Capital Increase.

1.2 The Subscription Price shall be paid by the Subscriber to the Company in the following manner:

(a) The amount of PESOS: ONE BILLION FOUR HUNDRED TWELVE MILLION FIVE HUNDRED THOUSAND (Php1,412,500,000.00) representing 25% of the Subscription Price shall be paid in cash by the Subscriber to the Company on 26 June 2013;

(b) The amount of PESOS: FOUR BILLION TWO HUNDRED THIRTY SEVEN MILLION FIVE HUNDRED THOUSAND (Php4,237,500,000.00) representing 75% of the Subscription Price shall be paid to the Company within ten (10) business days after performance by the Company of its covenants under Sections 3.1, 3.2, and 3.3 hereof.

II. REPRESENTATIONS, WARRANTIES AND COVENANTS

2.1 Each Party represents to each other that:

(a) It is a corporation duly organized, validly existing and in good standing under the laws of the Philippines and has the corporate power and authority necessary to carry on its business as now conducted.

(b) It has all the requisite corporate power and authority to enter into this Agreement, and to consummate the transactions contemplated hereby and thereby.

(c) This Agreement has been duly executed and delivered by it and constitutes its valid and binding obligation, enforceable against it in accordance with its terms.

2.2 The Company represents that it has the power and authority to issue the Subscribed Shares, subject to the approval by the SEC of the Capital Increase.

2.3 The Company represents that upon approval by the SEC of the Capital Increase, the Subscribed Shares shall have all rights and privileges attaching to them including, without limitation, the right to receive all dividends or distributions declared, made or paid on or after the approval by the SEC of the Capital Increase.

2.4 The Company represents that upon the approval by the SEC of the Capital Increase and full payment of the Subscription Price, the capital structure of the Company shall be as follows:

Authorized Capital Stock	: Php20,000,000,000
Outstanding Capital Stock	: Php10,986,000,000
Paid-up Capital Stock	: Php10,986,000,000

III. COVENANTS AND UNDERTAKINGS

The Company undertakes that it shall as soon as practicable:

3.1 obtain approval from its stockholders of the subscription by the Subscriber to the Subscribed Shares in a regular or special meeting in compliance with the Revised Listing Rules of the PSE;

3.2 file an application with the SEC and obtain SEC approval for the Capital Increase;

3.3 obtain an exemption from the PSE from the rights offer or public offer requirement under the Revised Listing Rules of the PSE;

3.4 file an application with the PSE and obtain PSE approval for the listing of the Subscribed Shares;

3.5 timely remit to the Bureau of Internal Revenue ("BIR") the documentary stamp tax on the issuance of the Subscribed Shares, which shall be for the exclusive account of the Company, and file with the BIR the appropriate tax return.

Signed on the date and at the place written above.

GLOBAL-ESTATE RESORTS, INC.	MEGAWORLD CORPORATION
By:	By:
FERDINAND T. SANTOS	LOURDES T. GUTIERREZ
President	*Chief Operating Officer*

Signed in the presence of:

____________________ ____________________

ACKNOWLEDGMENT

BEFORE ME, a Notary Public for and in PASIG CITY on this ______________, personally appeared the following parties:

Name	Competent Evidence of Identity
Ferdinand T. Santos	TIN 106-807-161
Lourdes T. Gutierrez	TIN 106-893-930

known to me and to me known to be the same persons who executed the foregoing document, which is a Subscription Agreement consisting of three (3) pages, including this page where this Acknowledgment is written, and who acknowledged to me that the same is their free and voluntary act and deed and that of the corporations they represent.

WITNESS my hand and seal on the date and at the place first above written.

Doc. No. 40 ;
Page No. 9 ;
Book No. III ;
Series of 2013.

ALAN B. QUINTANA
Notary Public
NOTARY PUBLIC
Pasig, San Juan, Pateros, Taguig
Appt. No. 75 until Dec. 31, 2014
9F Renaissance Towers, Meralco Ave., Pasig City
ATTORNEY'S ROLL NO. 39468
IBP No. 887162, Pasig 1-2-12
PTR No. 8410445, Pasig 1-2-2013
MCLE Compliance No. IV - 0002924

MEGAWORLD CORPORATION

28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City 1200, Philippines
Tels: (632) 867-8826 to 40
www.megaworldcorp.com • E-mail: infodesk@megaworldcorp.com

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Megaworld Corporation and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the years ended **December 31, 2010, 2009 and 2008,** in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 financial statements and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors and appointed by the stockholders, has examined the financial statements of the Company 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.

Signed under oath by the following:

Signature : ______________________
ANDREW L. TAN
Chairman of the Board

Signature : ______________________
ANDREW L. TAN
Chief Executive Officer (President)

Signature : ______________________
FRANCISCO C. CANUTO
Chief Financial Officer (Treasurer)

MEGAWORLD CORPORATION

28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City 1200, Philippines
Tels: (632) 867-8826 to 40
www. megaworldcorp.com • E-mail: infodesk@megaworldcorp.com

SUBSCRIBED AND SWORN to before me on this _____day of Apr 04 2011 at MAKATI CITY, Philippines affiants exhibiting to me their Community Tax Certificate Nos. as follows:

Andrew L. Tan	10575590	January 06, 2011	Quezon City
Francisco C. Canuto	05944515	January 11, 2011	Makati City

Doc. No. 464;
Page No. 94;
Book No. 17;
Series of 2011

ATTY FIDEL L. EVANGELISTA
NOTARY PUBLIC
UNTIL DEC. 31, 2012
ROLL 31498
IBP NO. 835882 11-10-2010 PASIG
PTR NO. 2641660 01-03-2011 MAKATI
MCLE COMPLIANCE NO. I-0005897
MCLE EXEMPTION NO. III-000664
APPOINTMENT NO. M-144
TIN NO. 120-884-559-000 (4)

Punongbayan & Araullo

Report of Independent Auditors

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

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

The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

We have audited the accompanying consolidated financial statements of Megaworld Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2010, 2009 and 2008, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, 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 Megaworld Corporation and Subsidiaries as at December 31, 2010, 2009 and 2008, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: **Dalisay B. Duque**
Partner

CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 2641851, January 3, 2011, Makati City
Partner's SEC Accreditation No. 0012-AR-2 (until Feb. 1, 2012)
BIR AN 08-002511-9-2008 (until Nov. 24, 2011)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

March 15, 2011

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	5	**P 22,031,584,943**	P 20,876,005,473	P 12,325,333,064
Trade and other receivables - net	6	**14,133,801,384**	10,749,643,934	11,420,125,379
Subscriptions receivable	24	**-**	2,272,642,649	-
Financial assets at fair value through profit or loss	7	**125,000,000**	41,500,000	17,400,000
Residential and condominium units for sale	3	**6,286,477,215**	5,719,854,891	5,847,104,417
Property development costs	3	**3,798,108,537**	3,720,702,927	2,821,399,894
Prepayments and other current assets - net		**437,227,590**	367,756,457	390,067,827
Total Current Assets		**46,812,199,669**	43,748,106,331	32,821,430,581
NON-CURRENT ASSETS				
Trade and other receivables	6	**15,617,214,463**	13,534,302,355	6,661,850,041
Advances to landowners and joint ventures	9	**2,708,026,497**	1,208,026,496	335,048,101
Land for future development	2	**1,482,561,015**	1,269,561,000	1,809,743,589
Investments in available-for-sale securities	8	**6,211,184,496**	2,926,531,713	4,350,224,672
Investments in and advances to associates and other related parties	10	**13,671,332,490**	12,665,714,849	10,982,670,783
Investment property - net	11	**9,716,530,045**	9,105,785,069	7,140,319,564
Property and equipment - net	12	**360,518,201**	381,176,983	430,180,785
Deferred tax assets - net	22	**7,860,539**	7,887,713	2,418,273
Other non-current assets	13	**442,095,396**	406,679,936	367,389,073
Total Non-current Assets		**50,217,323,142**	41,505,666,114	32,079,844,881
TOTAL ASSETS		**P 97,029,522,811**	P 85,253,772,445	P 64,901,275,462

	Notes	2010	2009	2008
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans and borrowings	14	**P 1,311,354,897**	P 850,744,029	P 348,831,327
Bonds payable	15	**3,416,062,159**	-	-
Trade and other payables	16	**4,037,713,348**	3,662,373,258	2,689,022,672
Customers' deposits	2	**1,013,053,489**	960,106,021	1,024,881,409
Income tax payable		**29,061,975**	50,108,777	10,816,032
Reserve for property development	2	**3,640,068,354**	2,468,349,023	2,078,799,883
Deferred income on real estate sales	2	**2,220,540,650**	1,515,687,720	1,180,849,892
Other current liabilities	17	**1,741,665,060**	1,347,443,261	931,751,599
Total Current Liabilities		**17,409,519,932**	10,854,812,089	8,264,952,814
NON-CURRENT LIABILITIES				
Interest-bearing loans and borrowings	14	**6,128,583,476**	7,449,057,858	5,906,746,354
Bonds payable	15	**5,000,000,000**	8,608,407,826	3,696,290,569
Customers' deposits	2	**1,222,422,709**	892,800,498	969,510,257
Reserve for property development	2	**2,487,557,735**	2,023,028,273	1,743,300,891
Deferred income on real estate sales	2	**1,588,240,851**	1,217,863,024	1,014,902,786
Deferred tax liabilities - net	22	**3,249,030,654**	2,641,563,555	1,843,353,761
Advances from other related parties	23	**289,868,257**	625,936,481	836,258,246
Retirement benefit obligation	21	**116,039,185**	90,767,520	81,219,560
Other non-current liabilities	17	**1,019,123,375**	1,013,818,761	851,789,377
Total Non-current Liabilities		**21,100,866,242**	24,563,243,796	16,943,371,801
Total Liabilities		**38,510,386,174**	35,418,055,885	25,208,324,615
EQUITY	24			
Total equity attributable to parent company's shareholders		**57,776,023,630**	49,111,847,183	38,980,292,755
Non-controlling interest		**743,113,007**	723,869,377	712,658,092
Total Equity		**58,519,136,637**	49,835,716,560	39,692,950,847
TOTAL LIABILITIES AND EQUITY		**P 97,029,522,811**	P 85,253,772,445	P 64,901,275,462

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
REVENUES				
Real estate sales	6	**P 13,110,567,020**	P 12,574,801,962	P 12,430,321,088
Interest income on real estate sales	6	**933,424,160**	714,213,230	612,320,924
Realized gross profit on prior years' sales	2	**1,355,982,007**	1,277,434,472	752,681,262
Rental income	11	**2,694,310,554**	2,000,477,427	1,300,910,039
Hotel operations	2	**232,757,023**	216,143,646	246,919,573
Equity in net earnings of associates, interest and other income - net	19	**2,214,742,331**	975,587,944	1,954,942,770
		20,541,783,095	17,758,658,681	17,298,095,656
COSTS AND EXPENSES				
Real estate sales	2	**8,606,699,164**	7,940,756,662	8,082,125,043
Deferred gross profit	2	**2,431,379,388**	1,815,065,914	1,624,410,655
Operating expenses	18	**2,140,225,634**	1,808,120,886	1,744,978,492
Interest and other charges - net	20	**544,401,114**	587,544,169	990,784,498
Hotel operations	2	**124,463,666**	103,017,443	110,169,420
Tax expense	22	**1,609,101,525**	1,437,541,131	951,101,304
		15,456,270,491	13,692,046,205	13,503,569,412
NET PROFIT FOR THE YEAR		**P 5,085,512,604**	P 4,066,612,476	P 3,794,526,244
Net profit attributable to:				
Parent company's shareholders		**P 5,026,180,575**	P 4,055,401,191	P 3,771,127,007
Non-controlling interest		**59,332,029**	11,211,285	23,399,237
		P 5,085,512,604	P 4,066,612,476	P 3,794,526,244
Earnings per Share				
Basic and Diluted	25	**P 0.200**	P 0.176	P 0.187

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
NET PROFIT FOR THE YEAR		**P 5,085,512,604**	P 4,066,612,476	P 3,794,526,244
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized gains (losses) on available-for-sale (AFS) financial assets	8	**4,031,843,227**	1,211,879,519	(1,250,778,389)
Reversal of unrealized losses on AFS financial assets of a deconsolidated subsidiary		**63,656,553**	-	-
Reclassification adjustments for gains (losses) of disposed AFS financial assets included in profit or loss	8	**(473,319,584)**	276,543,393	(51,926,367)
Share in other comprehensive income of associates		**71,176,649**	-	-
		3,693,356,845	1,488,422,912	(1,302,704,756)
Translation adjustments		**(186,558,030)**	(86,806,621)	410,292,926
Less related tax	22, 2.4	**55,967,408**	26,041,986	(11,728,077)
		(130,590,622)	(60,764,635)	398,564,849
		3,562,766,223	1,427,658,277	(904,139,907)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 8,648,278,827**	P 5,494,270,753	P 2,890,386,337
Total comprehensive income attributable to:				
Parent company's shareholders		**P 8,588,946,798**	P 5,483,059,468	P 2,866,987,100
Non-controlling interest		**59,332,029**	11,211,285	23,399,237
		P 8,648,278,827	P 5,494,270,753	P 2,890,386,337

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
CAPITAL STOCK	24			
Balance at beginning of year		P 25,829,203,626	P 20,701,646,901	P 20,701,646,901
Additional issuance during the year		-	5,127,556,725	-
Balance at end of year		25,829,203,626	25,829,203,626	20,701,646,901
ADDITIONAL PAID-IN CAPITAL	24	8,432,990,413	8,432,990,413	8,432,990,413
TREASURY STOCK - at cost	24			
Balance at beginning of year		(1,188,836,744)	(1,188,836,744)	(871,543,094)
Reduction representing the shares held by a deconsolidated subsidiary		555,115,114	-	-
Additions during the year		-	-	(317,293,650)
Balance at end of year		(633,721,630)	(1,188,836,744)	(1,188,836,744)
NET UNREALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	8			
Balance at beginning of year		116,256,567	(1,372,166,345)	(69,461,589)
Other comprehensive income (loss) for the year		3,693,356,845	1,488,422,912	(1,302,704,756)
Balance at end of year		3,809,613,412	116,256,567	(1,372,166,345)
ACCUMULATED TRANSLATION ADJUSTMENTS	2.4			
Balance at beginning of year		(121,744,648)	(60,980,013)	(459,544,862)
Other comprehensive income (loss) for the year, net of tax		(130,590,622)	(60,764,635)	398,564,849
Balance at end of year		(252,335,270)	(121,744,648)	(60,980,013)
RETAINED EARNINGS				
Balance at beginning of year		16,043,977,969	12,467,638,543	9,098,865,349
Net profit attributable to parent company's shareholders		5,026,180,575	4,055,401,191	3,771,127,007
Cash dividends	24	(479,885,465)	(479,061,765)	(402,353,813)
Balance at end of year		20,590,273,079	16,043,977,969	12,467,638,543
Total Equity Attributable to Parent Company's Shareholders		57,776,023,630	49,111,847,183	38,980,292,755
NON-CONTROLLING INTEREST				
Balance at beginning of year		723,869,377	712,658,092	772,956,023
Deductions		(40,088,399)	-	(83,697,168)
Net profit attributable to non-controlling interest		59,332,029	11,211,285	23,399,237
Balance at end of year		743,113,007	723,869,377	712,658,092
TOTAL EQUITY		P 58,519,136,637	P 49,835,716,560	P 39,692,950,847

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

	Notes	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 6,694,614,129	P 5,504,153,607	P 4,745,627,548
Adjustments for:				
Interest income	19	(835,944,617)	(690,238,144)	(1,486,040,236)
Finance costs	20	516,440,321	556,326,705	766,416,111
Depreciation and amortization	18	443,203,639	365,795,590	238,834,323
Equity in net earnings of associates	10, 19	(442,281,307)	(157,958,213)	(109,464,838)
Fair value losses (gains) - net	19, 20	(83,500,000)	(24,100,000)	42,653,717
Dividend income	19	(40,630,134)	(44,247,127)	(48,880,085)
Operating profit before working capital changes		6,251,902,031	5,509,732,418	4,149,146,540
Increase in trade and other receivables		(5,467,069,558)	(6,201,387,858)	(5,394,041,435)
Decrease (increase) in residential and condominium units for sale		412,044,886	127,249,526	(37,609,566)
Decrease (increase) in property development costs		(77,405,610)	112,428,459	557,922,101
Decrease (increase) in prepayments and other current assets		(69,471,133)	22,311,370	104,566,830
Increase in advances to landowners and joint ventures		(1,500,000,001)	(872,978,395)	(165,664,462)
Increase (decrease) in trade and other payables		204,094,188	854,376,714	(222,761,682)
Increase (decrease) in customers' deposits		382,569,679	(141,485,147)	(397,825,551)
Increase in deferred income on real estate sales		1,075,230,757	537,798,066	871,380,840
Increase in reserve for property development		1,636,248,793	669,276,522	1,228,583,888
Increase in other liabilities		424,798,078	415,691,663	283,434,290
Cash generated from operations		3,272,942,110	1,033,013,338	977,131,793
Cash paid for income taxes		(946,782,440)	(559,614,717)	(568,856,191)
Net Cash From Operating Activities		2,326,159,670	473,398,621	408,275,602
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment property	11	(991,266,588)	(2,261,263,607)	(1,759,545,786)
Land for future development		(213,000,015)	-	(204,162,180)
Property and equipment	12	(62,373,098)	(33,162,257)	(64,209,436)
Interest received		835,944,617	689,655,133	1,228,937,506
Net decrease (increase) in other non-current assets		(221,527,843)	17,607,943	(19,963,210)
Net decrease (increase) in available-for-sale securities		472,360,615	2,912,115,871	(1,237,996,955)
Net increase in investments in and advances to associates and other related parties		(408,034,396)	(238,527,057)	(2,631,219,346)
Dividends received	19	40,630,134	44,247,127	48,880,085
Payments made for the subscribed common stock of an associate	10	-	(1,583,687,182)	(1,967,194,514)
Proceeds from disposals of property and equipment		-	-	341,384
Proceeds from sale of investments in subsidiaries and associate		-	-	1,205,107,503
Net decrease in financial assets at fair value through profit or loss		-	-	1,016,639,571
Payments made for the acquisitions of new subsidiaries		-	-	(140,725,295)
Net Cash Used in Investing Activities		(547,266,574)	(453,014,029)	(4,525,110,673)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from exercise of stock rights	24	2,272,642,649	2,854,914,076	-
Interest paid		(1,323,861,629)	(896,733,166)	(519,186,181)
Payments of long-term liabilities		(1,052,209,181)	(348,831,328)	(457,345,854)
Cash dividends paid	24	(519,885,465)	(479,061,765)	(402,353,813)
Proceeds from long-term liabilities	14	-	7,400,000,000	4,500,000,000
Acquisition of treasury stock	24	-	-	(317,293,650)
Net Cash From (Used in) Financing Activities		(623,313,626)	8,530,287,817	2,803,820,502
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,155,579,470	8,550,672,409	(1,313,014,569)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		20,876,005,473	12,325,333,064	13,638,347,633
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 22,031,584,943	P 20,876,005,473	P 12,325,333,064

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. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 9 and 11) .

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2010, 2009 AND 2008
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Megaworld Corporation (the Company or parent company) was incorporated in the Philippines on August 24, 1989, primarily to engage in the development of large scale mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The Company is presently engaged in property-related activities, such as, project design, construction and property management. The Company's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail space.

All of the Company's common shares of stock are listed at the Philippine Stock Exchange (PSE).

The registered office of the Company, which is also its principal place of business, is located at the 28th Floor, The World Centre Building, Sen. Gil Puyat Avenue, Makati City.

Alliance Global Group, Inc. (AGI), also a publicly listed company in the Philippines, is the Group's ultimate parent company. AGI is a holding company and also presently engaged in the food and beverage business, real estate and quick service restaurant. AGI's registered office, which is also its primary place of business, is located at the 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Quezon City.

The Company holds interests in the following subsidiaries and associates:

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2010	2009	2008
Subsidiaries:				
Megaworld Land, Inc. (MLI)		**100%**	100%	100%
Prestige Hotels and Resorts, Inc. (PHRI)	(a)	**100%**	100%	100%
Mactan Oceanview Properties and Holdings, Inc. (MOPHI)		**100%**	100%	100%
Megaworld Cayman Islands, Inc. (MCII)		**100%**	100%	100%
Richmonde Hotel Group International (RHGI)		**100%**	100%	100%
Eastwood Cyber One Corporation (ECOC)		**100%**	100%	100%
Forbes Town Properties and Holdings, Inc. (FTPHI)		**100%**	100%	100%
Megaworld Newport Property Holdings, Inc. (MNPHI)		**100%**	100%	100%
Oceantown Properties, Inc. (OPI)		**100%**	100%	100%
Piedmont Property Ventures, Inc. (PPVI)	(b)	**100%**	100%	100%
Stonehaven Land, Inc. (SLI)	(b)	**100%**	100%	100%
Streamwood Property, Inc. (SPI)	(b)	**100%**	100%	100%
Megaworld-Daewoo Corporation (MDC)		**60%**	60%	60%
Megaworld Central Properties, Inc. (MCPI)		**51%**	51%	51%
Megaworld Resort Estates, Inc. (MREI)	(c)	**51%**	51%	51%
Megaworld Globus Asia, Inc. (MGAI)		**50%**	50%	50%
Philippine International Properties, Inc. (PIPI)	(d)	**50%**	50%	50%
Townsquare Development, Inc. (TDI)	(e)	**31%**	31%	31%

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2010	2009	2008
Associates:				
Empire East Land Holdings, Inc. (EELHI)		**48.38%**	48.38%	48.38%
Suntrust Home Developers, Inc. (SHDI)		**42.48%**	42.48%	42.48%
Palm Tree Holdings and Development Corporation (PTHDC)		**40%**	40%	40%
Gilmore Property Marketing Associates, Inc. (GPMAI)	(f)	**39.83%**	31%	31%
Alliance Global Properties Ltd. (AGPL)	(g)	**39.44%**	44.34%	-
Travellers International Hotel Group, Inc. (TIHGI)	(h)	**10%**	10%	10%

Explanatory Notes:

(a) Wholly owned subsidiary of MLI.

(b) Acquired subsidiaries in 2008 but have not yet started commercial operations as of December 31, 2010.

(c) Subsidiary was incorporated in 2007. MREI owns 100% of TDI and GPMAI as of December 31, 2007. In June 2008, MREI's ownership in TDI and GPMAI decreased to 60% which resulted in the Company's indirect interest of 31% as of December 31, 2009 and 2008. MREI has not yet started commercial operations as of December 31, 2010.

(d) Subsidiary was incorporated in 2002 and acquired by the Company in 2006; has not yet started commercial operations as of December 31, 2010.

(e) Subsidiary was incorporated in 2006. In September 2007, the Company's 100% ownership in TDI was acquired by MREI which resulted in the Company's indirect interest of 51% as of December 31, 2007. In June 2008, TDI issued additional shares of stock which resulted in a decrease in MREI's ownership in TDI to 60%. In this regard, the Company has indirect interest in TDI of 31% as of December 31, 2010, 2009 and 2008.

(f) In November 2007, MREI acquired 100% ownership in GPMAI which resulted in the Company's indirect interest of 51% as of December 31, 2007. In 2008, MREI's ownership in GPMAI decreased to 60%; it further decreased to 28.85% in 2010. GPMAI was consolidated starting 2007 up to 2009; in 2010, it was deconsolidated and treated as an associate of the Group. As of December 31, 2010, the Company has 39.83% indirect interest in GPMAI.

(g) In February 2009, RHGI acquired 44.34% ownership in AGPL, which resulted in the Company's indirect interest of 44.34% as of December 31, 2009. In October 2010, AGPL issued additional shares of stock which resulted in the decrease in RHGI's ownership in AGPL to 39.44%. AGPL is considered as an associate due to the Company's significant influence, but not control, on AGPL.

(h) The associate was incorporated in 2003 and started commercial operations in August 2009. In 2008, the Company acquired 10% ownership in TIHGI through a share swap agreement. In August 2010, the Company's investment in TIHGI was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. Subsequently, in November 2010, TIHGI redeemed the 430.0 million preferred shares held by the Company. The conversion of common shares and the redemption of preferred shares did not change the Company's ownership in TIHGI. Although the Company's percentage ownership is only 10%, TIHGI was classified as an associate due to the Company's significant influence on TIHGI.

Except for MCII, RHGI and AGPL, all the subsidiaries and associates were incorporated in the Philippines and operate within the country. MCII and AGPL were incorporated and operate in the Cayman Islands while RHGI was incorporated and operates in the British Virgin Islands.

The Company and its subsidiaries (the Group), except for MREI, PIPI, PPVI, SLI and SPI which are not yet in commercial operations as of December 31, 2010, are presently engaged in the real estate business, hotel operations and marketing services.

EELHI and SHDI are publicly listed companies in the Philippines.

The consolidated financial statements of the Group for the year ended December 31, 2010 (including the comparatives for the years ended December 31, 2009 and 2008) were authorized for issue by the Company's Board of Directors (BOD) on March 15, 2011.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all the years 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.

The consolidated financial statements have been prepared using the measurement basis 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) (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expense in two statements: a consolidated statement of income and a consolidated statement of comprehensive income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

The Group has opted to present two comparative periods for the consolidated statement of financial position even when it is not required to do so.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Company's presentation and functional 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. Functional currency is the currency of the primary economic environment in which an entity operates.

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

In 2010, the Group adopted the following revisions, interpretations and annual improvements to existing PFRS that are relevant to the Group and effective for its consolidated financial statements for the annual period beginning on or after January 1, 2010.

PAS 27 (Revised)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

Below is a discussion of the impact of these accounting standards.

(i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The adoption of the standard did not result in any adjustment to the financial statements as there was no gain or loss recognized from the changes in the Group's ownership interests in GPMAI and AGPL.

(ii) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable assets. All acquisition-related costs should be expensed. The adoption of the revised standard has no significant effect on the 2010 consolidated financial statements as the Group did not have any business acquisition during the year.

(iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the financial statements because the Group did not distribute non-cash assets to stockholders during the year.

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

- PAS 1 (Amendment), *Presentation of Financial Statements* (effective from January 1, 2010). The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

- PAS 7 (Amendment), *Statement of Cash Flows* (effective from January 1, 2010). The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flows from investing activities.

- PAS 17 (Amendment), *Leases* (effective from January 1, 2010). The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. The Group currently has no lease agreements that include both land and building.

- PAS 18 (Amendment), *Revenue* (effective from January 1, 2010). The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

- PAS 36 (Amendment), *Impairment of Assets* (effective from January 1, 2010). PAS 36 clarifies that the largest unit permitted for the purpose of allocating goodwill to cash-generating units for goodwill impairment is the operating segment level defined in PFRS 8 before aggregation.

- PAS 38 (Amendment), *Intangible Assets* (effective from July 1, 2009). The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets.

- PFRS 8 (Amendment), *Operating Segments* (effective from January 1, 2010). It clarifies that a measure of segment assets should be disclosed only if the amount is regularly provided to the chief operating decision maker (CODM). The Company reports total assets for each of its reportable segments as they are regularly provided to the CODM, hence, does not have any significant effect on the Company's segment reporting.

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

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

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

(c) Effective Subsequent to 2010

There are new PFRS and revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. 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 12 (Amendment), *Income Taxes* (effective from January 1, 2012). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, *Investment Property*, it can be difficult and subjective to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made.

As a practical solution to the problem, the amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, Standing Interpretations Committee (SIC) - 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn.

Since the amendment is related to the issuance of PFRS 9 in 2009, management is still evaluating the effect of this amendment to the Company's financial statements in conjunction with its adoption of PFRS 9 in 2013 (see PFRS 9 below).

(ii) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.

(iii) PAS 32 (Amendment), *Financial Instruments: Presentation – Classification of Rights Issues* (effective from February 1, 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. In particular, when the amendment is applied, rights (and similar derivatives) to acquire a fixed number of an entity's own equity instruments for a fixed price stated in a currency other than the entity's functional currency, would be equity instruments, provided the entity offers the rights pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of this amendment is not expected to have a significant effect on the Group's financial statements as it does not frequently issue rights that are denominated in currency other than its functional currency.

(iv) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19, *Employee Benefits*, surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually make substantial advance contributions to its retirement fund.

(v) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from 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 a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in the consolidated financial statements.

(vi) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

(vii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective for annual periods beginning on or after July 1, 2011). The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its consolidated financial statements as they only affect disclosures and the Group usually provides adequate information in its financial statements in compliance with disclosure requirements.

(viii) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39 will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

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

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

Management is yet to assess the impact that this amendment is likely to have on the consolidated financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

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

2.3 Basis of Consolidation

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses, and dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, shares of stock of the Company held by the subsidiaries are recognized as treasury stock and these are presented as deduction in the consolidated statement of changes in equity. Any changes in the market values of such shares as recognized separately by the subsidiaries are likewise eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interest (previously called "minority interest") as follows:

(a) Investments in Subsidiaries

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the group's share of the identifiable net assets acquired is recognized as goodwill (see also Note 2.10). If this 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 in profit or loss as gain.

(b) Investments in Associates

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

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as Investment in Associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the Group's carrying amount of the investment.

Changes resulting from the profit or loss generated by the associate are shown as part of Equity in Net Earnings of Associates, Interest and Other Income - net in the Group's consolidated statement of income and, therefore, affect the net results of the Group. Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Group, as applicable.

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 commitments, has incurred obligations or made payments on behalf of the associate.

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 assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in Jointly Controlled Operations

For interests in jointly controlled operations, the Group recognized in its consolidated financial statements 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. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) Transactions with Non-controlling Interest

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

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

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

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

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

2.4 Foreign Currency Transactions

(a) Functional and Presentation Currency

Except for MCII, RHGI and AGPL, which use the U.S. dollars as their functional currency, the accounting records of the Group are maintained in Philippine pesos. Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the Company operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency.

(b) Transactions and Balances

Foreign currency transactions during the year 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized under Interest and Other Charges – net in the consolidated statement of income.

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

The operating results and financial position of MCII and RHGI, which are measured using the U.S. dollars, their functional currency, are translated to Philippine pesos, the Company's functional currency, as follows:

(i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the reporting date;

(ii) Income and expenses for each profit or loss account are translated at the annual average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in MCII and RHGI are recognized as Translation Adjustments in the consolidated statement of comprehensive income. As these entities are wholly owned subsidiaries, the translation adjustments are fully allocated to the parent company's shareholders.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine pesos 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.

The Company's equity in net earnings or loss of AGPL, which is also measured in U.S. dollars, is translated to Philippine pesos using the annual average exchange rates.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

The Group's financial instruments are currently lodged in the following classifications:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meet certain conditions and are designated by the entity to be carried at fair value through profit or loss 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 assets 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 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.

(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. These are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

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

Loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, and Advances to Associates and Other Related Parties in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Trade receivables, which generally have one-year to five-year terms, are noninterest-bearing instruments recognized initially at fair value and subsequently stated at amortized cost using the effective interest method, less accumulated impairment losses, if any. An impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(c) AFS Financial Assets

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

All AFS financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from Net Unrealized Gains (Losses) on AFS Financial Assets to profit or loss and presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Equity in Net Earnings of Associates, Interest and Other Income - net and Interest and Other Charges – net accounts in the consolidated statement of income.

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

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

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

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

2.6 Real Estate Transactions

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

Borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group as part of the property development costs.

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

Property Development Costs and Residential and Condominium Units for Sale are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined (see also Note 2.15).

2.7 Investment Property

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property, and carried at cost, net of accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation, (see also Note 2.15). Depreciation of investment property is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years.

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

2.8 Property and Equipment

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment losses.

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

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of office and land improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

Condominium units	10-25 years
Office and land improvements	5-20 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	3-5 years

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 also Note 2.15).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

2.9 Financial Liabilities

Financial liabilities of the Group include Interest-bearing Loans and Borrowings, Bonds Payable, Trade and Other Payables and Advances from Other Related Parties.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest related charges are recognized as expense in profit or loss under the caption Interest and Other Charges – net account in the consolidated statement of comprehensive income.

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

Trade and Other Payables are initially recognized at their fair value and subsequently measured at amortized cost less settlement payments.

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

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

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

2.10 Business Combination

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (see also Note 2.15). Impairment losses on goodwill are not reversed.

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

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

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

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

(a) Transaction costs directly attributable to business acquisition previously formed part of the acquisition costs. These costs are now required to be expensed.

(b) The non-controlling interest was previously measured at the proportionate share of the acquiree's identifiable net assets. There is now an option to measure this at fair value.

(c) Business combinations achieved in stages were accounted for as separate steps or acquisitions. Any additional shares acquired of interest did not affect previously recognized goodwill. Currently, business combination achieved in stages requires the acquirer to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

(d) Contingent consideration was recognized if, and only if, payment was probable; i.e. the Group had a present obligation, the economic outflow was more likely than not, and a reliable estimate is determinable. Subsequent adjustment to the contingent consideration was recognized as an adjustment to goodwill. Changes in the fair value of contingent consideration as a result of additional information that existed after the acquisition date are now accounted for as follows:

(i) Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

(ii) Contingent consideration classified as an asset or liability that:

- is a financial instrument and is within the scope of PFRS 9 or PAS 39 is measured at fair value, with any resulting gain or loss recognized either in profit or loss or in other comprehensive income in accordance with PFRS 9 or PAS 29, as applicable.

- is not within the scope of PFRS 9 or PAS 39 is accounted for in accordance with PAS 37 or other PFRSs, as appropriate.

2.11 Segment Reporting

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

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

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

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

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

2.12 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. 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, probable 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.

2.13 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT) and trade discounts.

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

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

The sale is recognized when a certain percentage of the total contract price has already been collected. The amount of real estate sales recognized in the consolidated statement of income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by the parent company, MGAI and ECOC, while MDC report revenues for tax purposes based also on the percentage-of-completion method.

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

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

(c) *Rental and hotel income* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Rental income is recognized on a straight-line basis over the lease term.

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

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

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

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

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 2.17) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.6).

Operating expenses and other costs (other than costs of real estate sold) are recognized in the profit or loss upon utilization of the service or receipt of goods or at the date they are incurred.

2.14 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

(b) Group as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognized as income in 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.

2.15 Impairment of Non-financial Assets

The Group's Investments in Associates, Goodwill (included as part of Other Non-current Assets), Investment Property, Land for Future Development, and Property and Equipment are subject to impairment testing. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, 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 amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs-to-sell, and value-in-use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to other assets in the cash generating unit.

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 impairment loss.

2.16 Employee Benefits

(a) Post-employment Benefit

Post-employment benefit is provided to employees through 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 plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

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

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) 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 the Trade and Other Payables account of the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.17 Borrowing Costs

For financial reporting purposes, 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.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.18 Income Taxes

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

Current income 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 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 the profit or loss.

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

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the profit or loss. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

2.19 Related Party Transactions

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

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

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

2.20 Equity

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Treasury stock is stated at the cost of re-acquiring such shares.

Net unrealized gains (losses) on AFS financial assets represent gains or losses recognized due to changes in fair values of these assets.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign-currency denominated financial statements of certain subsidiaries into the Group's functional and presentation currency.

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

2.21 Earnings Per Share

Basic earnings per share is computed by dividing consolidated 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 declared, stock split and reverse stock split during the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares. As of December 31, 2010, 2009 and 2008, the Group does not have potential dilutive common shares.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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 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 Securities

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that the assets are not impaired as of December 31, 2010, 2009 and 2008. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

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

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

(c) Operating and Finance Leases

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

(d) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.12 and relevant disclosures of contingencies are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

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

(a) Revenue Recognition Using the Percentage-of-Completion Method

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts.

(b) Determining Net Realizable Value of Residential and Condominium Units for Sale and Property Development Costs

In determining the net realizable value of residential and condominium units for sale and property development costs, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of real estate for sale and property development costs is affected by price changes in the different market segments as well as the trends in the real estate industry.

These are considered key sources of estimation and uncertainty and may cause significant adjustments to the Company's Residential and Condominium Units for Sale and Property Development Costs within the next financial year.

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

The carrying value of the Company's Residential and Condominium Units for Sale and Property Development Costs amounted to P6.3 billion and P3.8 billion, respectively, as of December 31, 2010, P5.7 billion and P3.7 billion, respectively, as of December 31, 2009 and P5.8 billion and P2.8 billion, respectively, as of December 31, 2008.

(c) Principal Assumptions for Management's Estimation of Fair Value

Investment Property is measured using the cost model. The fair value disclosed in Note 11 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

For financial assets, fair value determination is discussed in Note 2.5.

(d) *Useful Lives of Property and Equipment and Investment Property*

The Group estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property 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. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment property would increase recorded operating expenses and decrease non-current assets.

Investment Property, net of accumulated depreciation, amounted to P9.7 billion, P9.1 billion and P7.1 billion as of December 31, 2010, 2009 and 2008, respectively (see Note 11). Property and equipment, net of accumulated depreciation and amortization, amounted to P360.5 million, P381.2 million and P430.2 million as of December 31, 2010, 2009 and 2008, respectively (see Note 12).

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

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

Allowance for impairment on Trade and Other Receivables amounted to P3.3 million at the end of 2010, P7.9 million at the end of 2009 and P8.0 million at the end of 2008 (see Note 6).

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

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, 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 base of the instrument. The amount of changes in fair value would differ had the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. The carrying amounts of cash and cash equivalents, financial assets at FVTPL and AFS financial assets are disclosed in Notes 5, 7 and 8, respectively.

(g) *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.

Net deferred tax assets amounted to P7.9 million as of December 31, 2010 and 2009, and P2.4 million as of December 31, 2008 (see Note 22).

(h) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. 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.

There were no impairment losses required to be recognized in 2010, 2009 and 2008 based on management's assessment.

(i) *Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation amounted to P116.0 million, P90.8 million and P81.2 million as of December 31, 2010, 2009 and 2008, respectively (see Note 21.2).

4. SEGMENT INFORMATION

4.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office developments. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment relates to the management of hotel business operations. The Corporate and Others segment includes marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.11. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

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, receivables, real estate inventories, property and equipment, and investment property, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

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

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2010, 2009 and 2008 and certain asset and liability information regarding segments at December 31, 2010, 2009 and 2008.

2010

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 15,399,973,187	P 2,694,310,554	P 232,757,023	P 808,477,515	P -	P19,135,518,279
Intersegment sales	-	52,014,865	-	179,885,935	(231,900,800)	-
Total revenues	P 15,399,973,187	P 2,746,325,419	P 232,757,023	P 988,363,450	(P 231,900,800)	P19,135,518,279
RESULTS						
Segment results	P 3,042,478,040	P 2,062,875,628	P 38,125,649	P 752,871,759	P 25,888,854	P 5,922,239,930
Unallocated expenses						(117,450,295)
Income from operations						5,804,789,635
Interest income	-	-	-	835,944,617	-	835,944,617
Finance costs	-	-	-	(516,440,321)	-	(516,440,321)
Equity in net earnings of associates	-	-	-	442,281,306	-	442,281,306
Fair value gains – net	-	-	-	83,500,000	-	83,500,000
Dividend income	-	-	-	40,630,134	-	40,630,134
Foreign currency gains – net	-	-	-	3,908,758	-	3,908,758
Profit before tax						6,694,614,129
Tax expense						(1,609,101,525)
Net profit before non-controlling interest						5,085,512,604
Non-controlling interest share in net profit						(59,332,029)
Net profit attributable to parent company's shareholders						P 5,026,180,575
ASSETS AND LIABILITIES						
Segment assets	P 63,241,644,678	P 5,919,037,407	P 178,376,810	P13,025,093,222	P -	P82,364,152,117
Investments in and advances to associates and other related parties - net	-	-	-	13,671,332,490	-	13,671,332,490
Unallocated assets	-	-	-	994,038,204	-	994,038,204
Total assets	P 63,241,644,678	P 5,919,037,407	P 178,376,810	P27,690,463,916	P -	P97,029,522,811
Segment liabilities	P 32,027,981,425	P 1,530,032,850	P 78,854,006	P 4,873,517,893	P -	P38,510,386,174
OTHER SEGMENT INFORMATION						
Project and capital expenditures	P 11,043,392,051	P 2,364,995,996	P 27,258,790	P 24,528,367	P -	P13,460,175,204
Depreciation and amortization	18,632,235	378,357,035	22,631,161	23,583,208	-	443,203,639

2009

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 14,566,449,663	P 2,000,477,427	P 216,143,646	P 59,044,461	P -	P16,842,115,197
Intersegment sales	-	62,047,938	-	71,112,463	(133,160,401)	-
Total revenues	P 14,566,449,663	P 2,062,525,365	P 216,143,646	P 130,156,924	(P 133,160,401)	P16,842,115,197
RESULTS						
Segment results	P 3,721,385,850	P 1,535,784,727	P 44,321,641	P 31,021,942	P 25,888,853	P 5,358,403,013
Unallocated expenses						(206,001,589)
Income from operations						5,152,401,424
Interest income	-	-	-	690,238,144	-	690,238,144
Finance costs	-	-	-	(556,326,705)	-	(556,326,705)
Equity in net earnings of associates	-	-	-	157,958,213	-	157,958,213
Dividend income	-	-	-	44,247,127	-	44,247,127
Fair value gains – net	-	-	-	24,100,000	-	24,100,000
Foreign currency loss – net	-	-	-	(8,464,596)	-	(8,464,596)
Profit before tax						5,504,153,607
Tax expense						(1,437,541,131)
Net profit before non-controlling interest						4,066,612,476
Non-controlling interest share in net profit						(11,211,285)
Net profit attributable to parent company's shareholders						P 4,055,401,191
ASSETS AND LIABILITIES						
Segment assets	P 55,378,759,577	P 5,072,588,995	P 182,070,130	P11,172,314,788	P -	P71,805,733,490
Investments in and advances to associates and other related parties - net	-	-	-	12,665,714,849	-	12,665,714,849
Unallocated assets	-	-	-	782,324,106	-	782,324,106
Total assets	P 55,378,759,577	P 5,072,588,995	P 182,070,130	P24,620,353,743	P -	P85,253,772,445
Segment liabilities	P 28,887,111,381	P 1,102,204,707	P 51,504,125	P 5,377,235,672	P -	P35,418,055,885
OTHER SEGMENT INFORMATION						
Project and capital expenditures	P 8,450,184,072	P 2,212,988,366	P 36,106,669	P 1,205,765	P -	P10,700,484,872
Depreciation and amortization	13,553,509	325,257,171	7,729,572	19,255,338	-	365,795,590

2008

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 13,795,323,274	P 1,300,910,039	P 246,919,573	P 310,557,611	P -	P15,653,710,497
Intersegment sales	-	76,532,769	-	76,702,719	(153,235,488)	-
Total revenues	P 13,795,323,274	P 1,377,442,808	P 246,919,573	P 387,260,330	(P 153,235,488)	P15,653,710,497
RESULTS						
Segment results	P 3,081,106,749	P 998,942,887	P 54,807,975	P 194,364,735	P 25,888,852	P 4,355,111,198
Unallocated expenses						(267,810,547)
Income from operations						4,087,300,651
Interest income	-	-	-	1,486,040,236	-	1,486,040,236
Finance costs	-	-	-	(766,416,111)	-	(766,416,111)
Foreign currency loss – net	-	-	-	(176,988,434)	-	(176,988,434)
Equity in net earnings of associates	-	-	-	109,464,838	-	109,464,838
Dividend income	-	-	-	48,880,085	-	48,880,085
Fair value losses – net	-	-	-	(42,653,717)	-	(42,653,717)
Profit before tax						4,745,627,548
Tax expense						(951,101,304)
Net profit before non-controlling interest						3,794,526,244
Non-controlling interest share in Net profit						(23,399,237)
Net profit attributable to parent company's shareholders						P 3,771,127,007
ASSETS AND LIABILITIES						
Segment assets	P 40,952,630,176	P 3,013,855,655	P 167,402,312	P 9,289,609,706	P -	P53,423,497,849
Investment in and advances to associates and other related parties - net	-	-	-	10,982,670,783	-	10,982,670,783
Unallocated assets	-	-	-	495,106,830	-	495,106,830
Total assets	P 40,952,630,176	P 3,013,855,655	P 167,402,312	P20,767,387,319	P -	P64,901,275,462
Segment liabilities	P 19,236,885,198	P 553,618,261	P 54,366,165	P 5,363,454,991	P -	P25,208,324,615
OTHER SEGMENT INFORMATION						
Project and capital expenditures	P 8,688,100,952	P 1,978,303,096	P 1,875,428	P 142,646,426	P -	P10,810,925,902
Depreciation and amortization	17,368,238	182,199,244	796,349	38,470,492	-	238,834,323

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2010	2009	2008
Cash on hand and in banks	**P 1,109,041,947**	P 6,384,861,752	P 731,319,856
Short-term placements	**20,922,542,996**	14,491,143,721	11,594,013,208
	P 22,031,584,943	P 20,876,005,473	P 12,325,333,064

Cash in banks and short-term placements generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods between 15 to 30 days and earn effective interest ranging from 3.5% to 4.8% in 2010, 3.5% to 8.5% in 2009 and 3.0% to 8.5% in 2008.

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2010	2009	2008
Current:			
Trade receivables	**P 12,899,356,339**	P 9,938,940,019	P 11,012,739,154
Allowance for impairment	**(3,324,211)**	(7,895,021)	(8,043,660)
	12,896,032,128	9,931,044,998	11,004,695,494
Advances to contractors and suppliers	**710,223,731**	570,214,061	382,752,035
Others	**527,545,525**	248,384,875	32,677,850
	14,133,801,384	10,749,643,934	11,420,125,379
Non-current:			
Trade receivables	**15,617,214,463**	13,533,275,932	6,660,823,617
Others	**-**	1,026,423	1,026,424
	15,617,214,463	13,534,302,355	6,661,850,041
	P 29,751,015,847	P 24,283,946,289	P 18,081,975,420

A reconciliation of the allowance for impairment at the beginning and end of 2010, 2009 and 2008 is shown below.

	2010	2009	2008
Balance at beginning of year	**P 7,895,021**	P 8,043,660	P 3,502,310
Write-off of trade receivables previously provided with allowance	**(4,570,810)**	(937,382)	(1,783,690)
Impairment loss during the year	**-**	788,743	6,325,040
	P 3,324,211	P 7,895,021	P 8,043,660

The installment period of sales contracts averages to five years. Trade receivables are noninterest-bearing and are remeasured at amortized cost using the effective interest rate of 10%. Interest income recognized amounted to P933.4 million in 2010, P714.2 million in 2009 and P612.3 million in 2008; these amounts are presented as Interest Income on Real Estate Sales in the consolidated statements of income.

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 resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by postdated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

The fair values of trade and other receivables are disclosed in Note 28.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of investments in marketable securities which are presented at their fair values determined directly by reference to published prices quoted in an active market as of December 31, 2010, 2009 and 2008. The changes in fair values of these financial assets are presented as Fair Value Gains - net in 2010 and 2009 under Equity in Net Earnings of Associates, Interest and Other Income - net (see Note 19) and as Fair Value Losses - net in 2008 under Interest and Other Charges - net (see Note 20) in the consolidated statements of income.

RHGI has sold certain marketable securities and recognized a net loss amounting to P5.3 million in 2008 which amounts are presented as part of Miscellaneous - net under the Interest and Other Charges account in the 2008 consolidated statement of income (see Note 20). In addition, RHGI entered into forward contracts covering U.S. dollars in 2007, which were settled in 2008. Foreign exchange losses on this transaction are presented as part of Foreign Currency Losses - net under Interest and Other Charges - net account in the 2008 consolidated statement of income (see Note 20).

8. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

AFS financial assets comprise the following as of December 31:

	2010	2009	2008
Investment in equity instruments	**P 5,535,716,669**	P 2,778,231,823	P 1,076,571,258
Investment in debt instruments	**675,467,827**	148,299,890	3,273,653,414
	P 6,211,184,496	P 2,926,531,713	P 4,350,224,672

The fair values of AFS financial assets have been determined directly by reference to published prices in an active market.

The aggregate cost of AFS financial assets as of December 31, 2010, 2009 and 2008 amounted to P2.4 billion, P2.8 billion and P5.7 billion, respectively. The fair value gains/losses arising from these financial assets which significantly comprised the movements in the carrying amounts of AFS, are reported as part of Net Unrealized Gains (Losses) on AFS Financial Assets in the consolidated statements of comprehensive income.

A portion of the AFS financial assets of RHGI placed with a certain bank is covered by a set-off provision. The amount of compensating loan set-off against AFS financial assets amounted to U.S.$3.1 million (P145.8 million) and U.S.$6.9 million (P325.6 million) as of December 31, 2009 and 2008, respectively. There was no compensating loan set-off against AFS financial assets in 2010.

A portion of the AFS financial assets are owned by RHGI and FTPHI, which are wholly owned subsidiaries of the Company. Hence, the movements in the AFS financial assets arising from fair value gains/losses are fully allocated to the parent company's shareholders.

9. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various projects. These are treated as jointly controlled operations; there were no separate entities created by these joint venture agreements. The joint venture agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of condominium to be constructed on the properties. Costs incurred by the Group for these projects are recorded under the Property Development Costs account in the consolidated statements of financial position (see Note 2.6). The amounts of other related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group (see Note 2.3)

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint ventures under agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the agreements, 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.

Repayment of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the owner's share in saleable lots or in the form of cash to be derived from the sales of the landowner's share in the saleable lots and residential and condominium units.

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

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

	2010	2009	2008
Total commitment for cash advances	**P 1,500,000,000**	P 958,720,120	P 247,730,000
Total cash advances granted	**(1,500,000,000)**	(958,720,120)	(247,730,000)
	P -	P -	P -

The net commitment for construction expenditures amounts to:

	2010	2009	2008
Total commitment for construction expenditures	**P 7,911,278,595**	P 6,999,089,356	P 6,164,100,646
Total expenditures incurred	**(5,505,759,467)**	(4,014,820,948)	(3,244,787,600)
	P 2,405,519,128	P 2, 984,268,408	P 2,919,313,046

The Group's interests in jointly-controlled operations and projects range from 72% to 95% in 2010, 2009 and 2008. The listing and description of the Group's jointly controlled projects are as follows:

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

The aggregate amounts of the current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of and for the years ended December 31, 2010, 2009 and 2008 related to the Group's interests in joint ventures are not presented as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.3).

As of December 31, 2010 and 2009, the Group either 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.

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

The details of investments in and advances to associates and other related parties, are as follows:

	% Interest Held as of End of 2010 (see Note 1)	2010	2009	2008
Investments in associates – at equity				
Acquisition costs:				
EELHI	48.38%	**P 5,726,128,415**	P 5,726,128,415	P 5,726,128,415
SHDI	42.48%	**875,445,000**	875,445,000	875,445,000
PTHDC	40.00%	**64,665,000**	64,665,000	64,665,000
GPMAI	39.83%	**98,806,194**	-	-
AGPL	39.44%	**2,463,056,417**	1,583,687,182	-
TIHGI	10.00%	**570,000,000**	1,000,000,000	1,000,000,000
		9,798,101,026	9,249,925,597	7,666,238,415
Accumulated equity in comprehensive income :				
Balance at beginning of year		**1,403,518,676**	1,245,560,463	1,148,146,700
Dividends received from TIHGI		**(90,736,000)**	-	-
Equity in net earnings for the year (see Note 19)		**442,281,307**	157,958,213	109,464,838
Share in other comprehensive income		**71,176,649**	-	-
Deduction due to sale of investment		**-**	-	(12,051,075)
Balance at end of year		**1,826,240,632**	1,403,518,676	1,245,560,463
Advances to associates and other related parties (see Note 23.3)		**2,046,990,832**	2,012,270,576	2,070,871,905
		P 13,671,332,490	P 12,665,714,849	P 10,982,670,783

The shares of stock of EELHI and SHDI are listed in the PSE. The total quoted or market value of investments in these two listed associates amounted to P3.3 billion, P2.7 billion and P2.4 billion as of December 31, 2010, 2009 and 2008, respectively. Overall, the related book values of the Group's holdings in all of its associates are substantially in excess of both the investments' cost and market values, hence, management has assessed that the recognition of impairment losses was not deemed necessary.

On April 30, 2008, AGI, TIHGI and the Company entered into a Deed of Exchange to swap certain real estate properties for TIHGI's shares of stock. The Company and AGI initially received 6.125 billion shares of TIHGI in exchange for parcels of land and the hotel and office buildings with approximate aggregate values of P6.125 billion at the time of exchange. Several transactions with other related parties covering the TIHGI's shares held by the Company took place thereafter, and as a result of these transactions, the Company holds 1.0 billion shares or 10% ownership in TIHGI as of December 31, 2010, 2009 and 2008.

In August 2010, TIHGI amended its Articles of Incorporation to convert P9.9 billion or 99% of its common shares to redeemable, voting and participating preferred shares. This was approved by the Securities and Exchange Commission on October 14, 2010. Consequently, the investment of the Company in TIHGI of 1.0 billion common shares was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. As this was just a conversion of shares and did not change the Company's 10% ownership in TIHGI, no gain or loss from the transaction was recorded in the Company's books. In November 2010, TIHGI redeemed 430.0 million preferred shares held by the Company at par value. There are no outstanding receivables as of December 31, 2010 arising from TIHGI' redemption of preferred shares held by the Company. Despite of the 10% ownership, the Company considers TIHGI as an associate due to the presence of significant influence over TIHGI's operations since two out of the five directors of TIHGI are also members of the Company's BOD.

In 2010, the Company received cash dividends from TIHGI amounting to P90.7 million. The amount received is considered a return of investment and is presented as deduction from the Accumulated Equity in Comprehensive Income shown in the previous table presented.

In October 2010, AGPL issued additional 57.7 million common shares. Out of the total number of shares that AGPL issued, RHGI, a 100% owned subsidiary of the Company, subscribed to only 19.1 million shares (lesser than its proportionate share) at a cost of P20.4 million. This resulted in the decline of RHGI's percentage ownership in AGPL to 39.44% in 2010.

Also, in October 2010, GPMAI issued additional 27.0 million shares to EELHI resulting in the decline of TDI's percentage ownership in GPMAI to 48.08% and MREI's and the Company's indirect ownership to 28.85% and 39.83%, respectively. Accordingly, GPMAI was deconsolidated and treated as an associate as of December 31, 2010. GPMAI's issuance of new shares was made at book value, hence, no dilution gain or loss was recognized.

The balance of the Accumulated Equity in Comprehensive Income of P1.8 billion, P1.4 billion and P1.3 billion as of December 31, 2010, 2009 and 2008, respectively, which is mainly lodged in the Group's Retained Earnings as of those dates, is not available for declaration as dividend.

The aggregated amounts of assets, liabilities and net profit (loss) of the associates are as follows:

	Assets	Liabilities	Revenues	Net Profit (Loss)
2010:				
EELHI	P 27,830,579,495	P 8,313,108,199	P 2,313,768,713	P 225,222,976
SHDI	574,744,907	463,771,003	8,263,029	4,730,857
PTHDC	1,137,581,235	1,005,298,094	64,128	(178,157)
GPMAI	748,619,721	157,143,964	252,107,804	165,840,133
AGPL	6,352,873,392	7,846,770	205,630,984	95,518,781
TIHGI	41,043,334,923	27,086,278,378	14,876,965,463	3,220,646,817
	P 77,687,733,673	**P 37,033,446,408**	**P 17,656,800,121**	**P 3,711,781,407**

	Assets	Liabilities	Revenues	Net Profit (Loss)
2009:				
EELHI	P 25,401,749,839	P 7,459,494,647	P 2,171,236,867	P 155,035,423
AGPL	2,786,358,428	8,288,592	242,641,296	182,881,935
SHDI	569,630,769	463,451,254	7,987,805	3,917,117
PTHDC	1,142,753,539	1,010,292,242	350,027	21,676
TIHGI	23,125,565,794	7,186,796,066	2,305,037,279	5,430,402
	P 53,026,058,369	P 16,128,322,801	P 4,727,253,274	P 347,286,553
2008:				
EELHI	P 26,023,446,296	P 8,567,842,527	P 1,978,904,355	P 215,545,491
SHDI	581,036,188	478,773,790	9,716	(74,297,845)
PTHDC	1,143,271,195	1,010,831,573	4,558,843	663,210
TIHGI	16,072,026,556	138,687,230	303,496,167	115,680,708
	P 43,819,780,235	P 10,196,135,120	P 2,286,969,081	P 257,591,564

11. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation at the beginning and end of 2010, 2009 and 2008 are shown below.

	Land	Buildings	Condominium Units	Total
December 31, 2010				
Cost	P 1,412,634,527	P 5,878,941,281	P 3,954,063,399	P 11,245,639,207
Accumulated depreciation	-	(930,323,176)	(598,785,986)	(1,529,109,162)
Net carrying amount	**P 1,412,634,527**	**P 4,948,618,105**	**P 3,355,277,413**	**P 9,716,530,045**
December 31, 2009				
Cost	P 1,427,094,149	P 5,621,910,029	P 3,219,937,754	P 10,268,941,932
Accumulated depreciation	-	(724,584,211)	(438,572,652)	(1,163,156,863)
Net carrying amount	P 1,427,094,149	P 4,897,325,818	P 2,781,365,102	P 9,105,785,069
December 31, 2008				
Cost	P 1,288,942,006	P 3,869,991,271	P 2,865,320,562	P 8,024,253,839
Accumulated depreciation	-	(581,313,122)	(302,621,153)	(883,934,275)
Net carrying amount	P 1,288,942,006	P 3,288,678,149	P 2,562,699,409	P 7,140,319,564
January 1, 2008				
Cost	P 1,222,942,006	P 3,862,879,850	P 1,112,886,197	P 6,198,708,053
Accumulated depreciation	-	(481,146,675)	(232,318,198)	(713,464,873)
Net carrying amount	P 1,222,942,006	P 3,381,733,175	P 880,567,999	P 5,485,243,180

A reconciliation of the carrying amounts at the beginning and end of 2010, 2009 and 2008 of investment property is shown below.

	Land	Buildings	Condominium Units	Total
Balance at January 1, 2010, net of accumulated depreciation	P 1,427,094,149	P 4,897,325,818	P 2,781,365,102	P 9,105,785,069
Additions	-	257,140,943	734,125,645	991,266,588
Transfers	-	(109,691)	-	(109,691)
Investment property of a deconsolidated subsidiary	(14,459,622)	-	-	(14,459,622)
Depreciation charges for the year	-	(205,738,965)	(160,213,334)	(365,952,299)
Balance at December 31, 2010, net of accumulated depreciation	**P 1,412,634,527**	**P 4,948,618,105**	**P 3,355,277,413**	**P 9,716,530,045**
Balance at January 1, 2009, net of accumulated depreciation	P 1,288,942,006	P 3,288,678,149	P 2,562,699,409	P 7,140,319,564
Additions	138,152,143	1,751,918,758	371,192,706	2,261,263,607
Transfers	-	-	(12,168,571)	(12,168,571)
Depreciation charges for the year	-	(143,271,089)	(140,358,442)	(283,629,531)
Balance at December 31, 2009, net of accumulated depreciation	P 1,427,094,149	P 4,897,325,818	P 2,781,365,102	P 9,105,785,069
Balance at January 1, 2008, net of accumulated depreciation	P 1,222,942,006	P 3,381,733,175	P 880,567,999	P 5,485,243,180
Additions	-	7,111,421	1,752,434,365	1,759,545,786
Transfers	66,000,000	-	-	66,000,000
Depreciation charges for the year	-	(100,166,447)	(70,302,955)	(170,469,402)
Balance at December 31, 2008, net of accumulated depreciation	P 1,288,942,006	P 3,288,678,149	P 2,562,699,409	P 7,140,319,564

Certain properties held for lease with a net book value of P2.0 billion as of December 31, 2007 were used as collateral for ECOC's Interest-bearing Loan (see Note 14). In 2008, ECOC asked for the partial release of the mortgage which was approved by the creditor. As of December 31, 2010, 2009 and 2008, the carrying value of investment properties that remained as collateral to this loan amounted to P800.0 million.

Rental income earned from these properties amount to P2.7 billion, P2.0 billion and P1.3 billion in 2010, 2009 and 2008, respectively, and are shown as Rental Income in the consolidated statements of income. The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amounted to P91.4 million in 2010, P94.7 million in 2009 and P109.7 million in 2008. The operating lease commitments of the Group as a lessor are fully disclosed in Note 26.1.

The fair market values of these properties are P52.9 billion, P36.1 billion and P22.7 billion as of December 31, 2010, 2009 and 2008, respectively. These are determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 10% in 2010, 2009 and 2008.

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2010, 2009 and 2008 are shown below.

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
December 31, 2010						
Cost	P 629,423,370	P 208,009,574	P 125,515,520	P 73,056,949	P -	P1,036,005,413
Accumulated depreciation and amortization	(419,607,035)	(137,705,039)	(68,848,502)	(49,326,636)	-	(675,487,212)
Net carrying amount	**P 209,816,335**	**P 70,304,535**	**P 56,667,018**	**P 23,730,313**	**P -**	**P 360,518,201**
December 31, 2009						
Cost	P 636,068,482	P 164,774,710	P 110,228,731	P 68,340,932	P -	P 979,412,855
Accumulated depreciation and amortization	(384,211,287)	(112,828,976)	(62,091,448)	(39,104,161)	-	(598,235,872)
Net carrying amount	P 251,857,195	P 51,945,734	P 48,137,283	P 29,236,771	P -	P 381,176,983
December 31, 2008						
Cost	P 632,401,752	P 143,937,386	P 109,833,026	P 62,607,743	P -	P 948,779,907
Accumulated depreciation and amortization	(339,497,192)	(92,673,661)	(55,230,345)	(31,197,924)	-	(518,599,122)
Net carrying amount	P 292,904,560	P 51,263,725	P 54,602,681	P 31,409,819	P -	P 430,180,785
January 1, 2008						
Cost	P 601,292,072	P 123,945,281	P 109,663,808	P 50,010,694	P 66,000,000	P 950,911,855
Accumulated depreciation and amortization	(300,540,877)	(74,922,406)	(47,108,599)	(27,662,319)	-	(450,234,201)
Net carrying amount	P 300,751,195	P 49,022,875	P 62,555,209	P 22,348,375	P 66,000,000	P 500,677,654

A reconciliation of the carrying amounts at the beginning and end of 2010, 2009 and 2008 of property and equipment is shown below.

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 251,857,195	P 51,945,734	P 48,137,283	P 29,236,771	P -	P 381,176,983
Additions	2,476,163	43,273,546	14,583,113	2,040,275	-	62,373,098
Transfers	(9,121,275)	(38,682)	703,675	2,675,742	-	(5,780,540)
Depreciation and amortization charges for the year	(35,395,748)	(24,876,063)	(6,757,054)	(10,222,475)	-	(77,251,340)
Balance at December 31, 2010, net of accumulated depreciation and amortization	**P 209,816,335**	**P 70,304,535**	**P 56,667,018**	**P 23,730,313**	**P -**	**P 360,518,201**

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 292,904,560	P 51,263,725	P 54,602,681	P 31,409,819	P -	P 430,180,785
Additions	3,666,730	20,837,324	395,705	8,262,498	-	33,162,257
Depreciation and amortization charges for the year	(44,714,095)	(20,155,315)	(6,861,103)	(10,435,546)	-	(82,166,059)
Balance at December 31, 2009 net of accumulated depreciation and amortization	P 251,857,195	P 51,945,734	P 48,137,283	P 29,236,771	P -	P 381,176,983
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 300,751,195	P 49,022,875	P 62,555,209	P 22,348,375	P 66,000,000	P 500,677,654
Additions	31,109,680	19,992,105	185,825	12,921,826	-	64,209,436
Transfers	-	-	(16,607)	(324,777)	(66,000,000)	(66,341,384)
Depreciation and amortization charges for the year	(38,956,315)	(17,751,255)	(8,121,746)	(3,535,605)	-	(68,364,921)
Balance at December 31, 2008 net of accumulated depreciation and amortization	P 292,904,560	P 51,263,725	P 54,602,681	P 31,409,819	P -	P 430,180,785

13. OTHER NON-CURRENT ASSETS

This account consists of:

	2010	2009	2008
Goodwill	**P 264,768,344**	P 264,768,344	P 264,768,344
Guarantee and other deposits	**174,767,810**	135,516,056	99,014,532
Others	**2,559,242**	6,395,536	3,606,197
	P 442,095,396	P 406,679,936	P 367,389,073

Goodwill is subject to impairment testing at least annually. No impairment losses were recognized in 2010, 2009 and 2008.

Guarantee deposits pertain mainly to payments made for compliance with construction requirements in relation to the Group's real estate projects.

14. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing Loans and Borrowings account represents the following loans of the Group as of December 31:

	2010	2009	2008
Current:			
Megaworld Corporation	**P 1,203,380,952**	P 736,690,476	P 232,000,000
ECOC	**107,973,945**	114,053,553	116,831,327
	1,311,354,897	850,744,029	348,831,327
Non-current:			
Megaworld Corporation	**6,074,595,238**	7,277,976,191	5,614,666,667
ECOC	**53,988,238**	171,081,667	292,079,687
	6,128,583,476	7,449,057,858	5,906,746,354
	P 7,439,938,373	P 8,299,801,887	P 6,255,577,681

In 2008, the Company signed a financing deal with local bank in which the Company may avail of a P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion). The Company had availed of P4.5 billion out of the P5.0 billion facility in 2008 while the remaining P500.0 million was availed of in 2009. The proceeds of the loan were used to fund the development of the Group's 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. Interest is payable every quarter based on the Philippine Dealing System Treasury Fixing rate (PDSTF-R) plus a certain spread.

In February 2009, the Company issued unsecured corporate notes to several financial institutions in the aggregate principal amount of P1.4 billion which will mature in seven years from the issue date. The principal repayments on this loan shall commence in February 2010 and interest shall be paid semi-annually based on a 9.0% annual interest rate.

Also, in May 2009, the Company obtained an unsecured long-term loan from a local bank amounting to P500.0 million. The loan is payable for a term of seven years and interest is payable semi-annually based on a floating six-month PDSTF-R plus a certain spread, subject to semi-annual reprising.

The remaining portion of the loans payable by the Company pertains to the balance of a long-term loan obtained in 2003 from a local bank with an original amount of P950.0 million which is payable in 10 years, inclusive of a three-year grace period on principal payments. Interest is payable every quarter based on 91-day treasury bill plus a certain spread. The Company also obtained an additional loan with original amount of P403.0 million in 2006 from the same local bank subject to the same terms and conditions. Collateral for the loans consisted of a mortgage over certain investment property of the Company (see Note 11).

The amount payable by ECOC pertains to the balance of a long-term loan facility obtained in 2002 with an original amount of U.S.$25 million (approximately P1.3 billion) from a foreign financial institution. The proceeds of the loan were used in the construction of several information technology buildings at the Eastwood CyberPark which is operated by ECOC. The drawdown from the loan facility amounting to U.S.$20 million (P1.06 billion) was made on October 15, 2002. The loan is payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest is payable every six months at London Inter-bank Offer Rate plus certain spread. Collaterals for the loan consisted of a mortgage over ECOC's certain Investment Property (see Note 11), and a full guarantee from the parent company.

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

Total finance costs attributable to these loans amounted to P620.6 million, P647.0 million, and P394.4 million in 2010, 2009 and 2008, respectively. Of these amounts, the balance of the interest is presented as part of Finance Costs under Interest and Other Charges - net in the consolidated statements of income (see Note 20). Interest charges capitalized in 2010 and 2009 amount to P384.1 million and P408.0 million, respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 8.29%. There were no interest charges capitalized in 2008.

15. BONDS PAYABLE

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

On August 4, 2006, the Group issued five-year term bonds totalling U.S.$100 million at a discount of U.S.$1.5 million. The bonds bear interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting on February 4, 2007. The bond will mature in August 2011. Interest expense from bonds payable is presented as part of Finance Costs under Interest and Other Charges in the consolidated statements of income (see Note 20). During 2008, RHGI bought a portion of the five-year term bonds aggregating to U.S.$22.2 million (P1.1 billion) and these were classified as financial assets at FVTPL by RHGI. The bonds' fair market value as of December 31, 2010, 2009 and 2008 amounted to U.S.$22.2 million (P972.4 million), U.S.$20.5 million (P950.3 million) and U.S.$20.5 million (P972.7 million), respectively. The effects of this transaction were eliminated in the preparation of consolidated financial statements.

16. TRADE AND OTHER PAYABLES

This account consists of:

	2010	2009	2008
Trade	**P 2,203,109,184**	P 2,141,390,249	P 1,557,670,470
Retention	**1,211,950,863**	1,022,182,625	746,002,184
Accrued interest	**285,314,152**	278,921,115	178,849,672
Accrued construction cost	**77,369,336**	119,191,945	126,320,491
Miscellaneous	**259,969,813**	100,687,324	80,179,855
	P 4,037,713,348	P 3,662,373,258	P 2,689,022,672

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

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

Miscellaneous payable consist primarily of withholding taxes payable and accrual of salaries and wages and utilities.

17. OTHER LIABILITIES

This account consists of:

	2010	2009	2008
Current:			
Unearned income	**P 939,203,207**	P 917,778,341	P 724,444,707
Deferred rent	**797,618,036**	429,664,920	203,755,106
Other payables	**4,843,817**	-	3,551,786
	P 1,741,665,060	P 1,347,443,261	P 931,751,599
Non-current:			
Deferred rent	**P 732,378,814**	P 554,608,690	P 320,518,099
Other payables	**286,744,561**	459,210,071	531,271,278
	P 1,019,123,375	P 1,013,818,761	P 851,789,377

Other payables is mainly comprised of commission payable to the Group's real estate agents.

18. OPERATING EXPENSES

Presented below are the details of this account.

	Notes		2010		2009		2008
Commission		P	**467,977,819**	P	471,837,004	P	418,549,272
Depreciation and amortization	11, 12		**443,203,639**		365,795,590		238,834,323
Salaries and employee benefits	21		**437,045,219**		343,257,217		310,302,336
Advertising and promotions			**189,619,585**		148,996,615		147,650,445
Utilities and supplies			**141,065,957**		79,752,963		118,649,476
Taxes and licenses			**110,188,073**		134,286,970		97,278,394
Transportation			**103,626,296**		100,083,640		172,123,399
Professional fees and outside services			**68,426,284**		28,773,878		30,601,649
Rent			**60,263,992**		47,103,336		94,944,445
Association dues			**51,261,055**		28,355,868		31,242,652
Miscellaneous			**67,547,715**		59,877,805		84,802,101
		P	**2,140,225,634**	P	1,808,120,886	P	1,744,978,492

19. EQUITY IN NET EARNINGS OF ASSOCIATES, INTEREST AND OTHER INCOME – Net

Presented below are the details of this account.

	Notes		2010		2009		2008
Interest income		P	**835,944,617**	P	690,238,144	P	1,486,040,236
Gain on sale of AFS financial assets			**646,720,788**		-		-
Equity in net earnings of associates	10		**442,281,307**		157,958,213		109,464,838
Construction income – net			**101,962,175**		26,473,236		216,754,914
Fair value gains – net	7		**83,500,000**		24,100,000		-
Dividend income			**40,630,134**		44,247,127		48,880,085
Foreign currency gains – net			**3,908,758**		-		-
Miscellaneous – net			**59,794,552**		32,571,224		93,802,697
		P	**2,214,742,331**	P	975,587,944	P	1,954,942,770

In 2008, RHGI entered into contracts wherein it sold certain European bond put options and knock-out put options. In consideration of these contracts, RHGI received premiums amounting to U.S.$2,094,000 (P93,129,812) in 2008, which are shown as part of Miscellaneous Income above.

20. INTEREST AND OTHER CHARGES - Net

Presented below are the details of this account.

	Notes	2010	2009	2008
Finance costs	14, 15	**P 516,440,321**	P 556,326,705	P 766,416,111
Underwriting fees		**-**	21,505,376	-
Foreign currency losses – net	7	**-**	8,464,596	176,988,434
Fair value losses – net	7	**-**	-	42,653,717
Miscellaneous – net	7	**27,960,793**	1,247,492	4,726,236
		P 544,401,114	P 587,544,169	P 990,784,498

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below (see Note 18).

	2010	2009	2008
Salaries and wages	**P 271,233,637**	P 229,301,717	P 196,098,245
Retirement benefit expense	**37,271,665**	23,547,960	34,747,913
13th month and other employee benefits	**128,539,917**	90,407,540	79,456,178
	P 437,045,219	P 343,257,217	P 310,302,336

21.2 Post-employment Benefit

The Group maintains a funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation, presented as non-current liability in the consolidated statements of financial position, are determined as follows:

	2010	2009	2008
Present value of the obligation	**P 209,714,448**	P 163,802,833	P 91,871,990
Fair value of plan assets	**(53,207,861)**	(40,427,396)	(26,200,243)
Deficiency of plan assets	**156,506,587**	123,375,437	65,671,747
Unrecognized actuarial gains (losses)	**(40,467,402)**	(32,607,917)	15,547,813
	P 116,039,185	P 90,767,520	P 81,219,560

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

	2010	2009	2008
Balance at beginning of year	**P 163,802,833**	P 91,871,990	P 128,399,196
Actuarial loss (gain)	**11,732,057**	47,992,843	(70,297,468)
Current service costs	**23,934,917**	14,995,640	23,074,609
Interest costs	**15,086,241**	10,363,160	10,695,653
Benefits paid	**(4,841,600)**	(1,420,800)	-
Balance at end of year	**P 209,714,448**	P 163,802,833	P 91,871,990

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

	2010	2009	2008
Balance at beginning of year	**P 40,427,396**	P 26,200,243	P 21,000,000
Expected return on plan assets	**2,425,644**	1,545,814	651,000
Contributions paid into the plan	**12,000,000**	14,000,000	9,000,000
Actuarial gain (loss)	**3,196,421**	102,139	(4,450,757)
Benefits paid	**(4,841,600)**	(1,420,800)	-
Balance at end of year	**P 53,207,861**	P 40,427,396	P 26,200,243

The Group's plan assets as of December 31, 2010, 2009 and 2008 are solely in the form of cash and cash equivalents which are being administered by a trustee. The contributions to the plan are made annually by the Company based on availability of funds.

The amounts of retirement benefits expense recognized in the consolidated statements of income are as follows:

	2010	2009	2008
Current service costs	**P 23,934,917**	P 14,995,640	P 23,074,609
Interest costs	**15,086,241**	10,363,160	10,695,653
Expected return on plan assets	**(2,425,644)**	(1,545,814)	(651,000)
Net actuarial losses (gains) recognized during the year	**676,151**	(265,026)	1,628,651
	P 37,271,665	P 23,547,960	P 34,747,913

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and deficiency of plan assets.

	2010	2009	2008	2007	2006
Present value of the obligation	**P 209,714,448**	P 163,802,833	P 91,871,990	P 128,399,196	P 51,601,897
Fair value of plan assets	**(53,207,861)**	(40,427,396)	(26,200,243)	(21,000,000)	(5,000,000)
Deficiency of plan assets	**P 156,506,587**	P 123,375,437	P 65,671,747	P 107,399,196	P 46,601,897

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

	2010	2009	2008
Discount rates	**9.2%**	11.3%	8.3%
Expected rate of return on plan assets	**6.0%**	5.9%	3.1%
Expected rate of salary increase	**10.0%**	10.0%	10.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the age of 65 is 29 for both males and females.

22. TAXES

22.1 Current and Deferred Tax

The components of tax expense (income) as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2010	2009	2008
Reported in consolidated statements of income:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% in 2010 and and 2009 and 35% in 2008	**P 813,802,554**	P 512,512,346	P 463,489,162
Final tax at 20% and 7.5%	**111,933,084**	86,375,275	87,996,370
Special tax rate at 5%	**19,479,041**	15,866,373	14,373,247
Minimum corporate income tax (MCIT) at 2%	**425,765**	26,324	97,773
	945,640,444	614,780,318	565,956,552
Deferred tax expense relating to origination and reversal of temporary differences	**663,461,081**	822,760,813	385,144,752
	P 1,609,101,525	P 1,437,541,131	P 951,101,304
Reported in consolidated statements of comprehensive income –			
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(P 55,967,408)**	(P 26,041,986)	P 11,728,077

A reconciliation of tax on pretax profit computed at the applicable statutory rates to income tax expense reported in the consolidated statements of income is as follows:

	2010	2009	2008
Tax on pretax profit at 30% in 2010 and 2009 and 35% in 2008	**P 2,008,384,239**	P 1,651,246,082	P 1,660,969,642
Adjustment for income subjected to lower income tax rates	**(152,228,235)**	(139,778,356)	(156,474,496)
Tax effects of:			
Non-taxable income	**(462,560,168)**	(170,042,598)	(921,295,050)
Non-deductible expenses	**214,450,368**	50,688,383	496,265,189
Dividend income	**(52,444,145)**	(1,356,764)	(45,613,386)
Non-deductible interest expense	**49,245,102**	38,308,284	60,251,011
Unrecognized deferred tax assets	**10,225,726**	3,514,346	934,000
Excess of optional standard deduction over itemized deductions	**(5,784,318)**	(3,672,931)	-
Net operating loss carry over (NOLCO)	**1,000,962**	8,483,984	11,121,784
Reduction in deferred tax rate	**-**	-	(150,082,436)
Miscellaneous	**(1,188,006)**	150,701	(4,974,954)
Tax expense	**P 1,609,101,525**	P 1,437,541,131	P 951,101,304

The deferred tax assets and liabilities relate to the following as of December 31:

	2010	2009	2008
Deferred tax assets:			
NOLCO	**P 4,141,606**	P 4,935,423	P 44,797
Retirement benefit obligation	**3,186,559**	2,585,319	1,987,731
Accrued rent expense	**68,417**	218,344	358,495
Allowance for impairment on receivables	**-**	-	24,859
Others	**463,957**	148,627	2,391
	P 7,860,539	P 7,887,713	P 2,418,273
Deferred tax liabilities:			
Uncollected gross profit	**P 2,697,434,301**	P 2,294,929,189	P 1,527,833,787
Capitalized interest	**443,717,090**	222,651,148	108,100,501
Difference between the tax reporting base and financial reporting base of:			
Investment property	**201,696,863**	148,804,564	172,865,496
Property and equipment	**(19,790,916)**	(20,050,630)	(19,478,257)
Translation adjustments	**(70,281,317)**	(14,313,909)	11,728,077
Accrued retirement cost	**(43,301,756)**	(33,170,257)	(33,095,868)
Uncollected rental income	**-**	-	32,091,485
Others	**39,556,389**	42,713,450	43,308,540
	P 3,249,030,654	P 2,641,563,555	P 1,843,353,761

The components of deferred tax expense (income) are as follows:

	Consolidated Statements of Income			Consolidated Statements of Comprehensive Income		
	2010	2009	2008	**2010**	2009	2008
Changes in deferred tax assets:						
NOLCO	**P 793,817**	(P 4,890,626)	(P 231,143)	**P -**	P -	P -
Retirement benefit obligation	**(601,240)**	(597,588)	(340,712)	**-**	-	-
Accrued rent expense	**149,927**	140,151	55,402	**-**	-	-
Allowance for impairment losses on receivables	**-**	24,859	947,948	**-**	-	-
Depreciation expense	**-**	-	(7,667)	**-**	-	-
Others	**(315,330)**	(146,236)	(425,483)	**-**	-	-
Changes in deferred tax liabilities:						
Uncollected gross profit	**402,504,512**	767,095,402	359,278,205	**-**	-	-
Capitalized interest	**221,065,942**	114,550,647	(26,071,447)	**-**	-	-
Difference between tax reporting base and financial reporting base of:						
- Investment property	**52,892,299**	(24,060,932)	32,345,673	**-**	-	-
- Property and equipment	**259,714**	(572,373)	2,592,215	**-**	-	-
Translation adjustments	**-**	-	-	**(55,967,408)**	(26,041,986)	11,728,077
Accrued retirement cost	**(10,131,499)**	(74,389)	(6,330,792)	**-**	-	-
Uncollected rental income	**-**	(32,091,485)	26,374,103	**-**	-	-
Amortization of preoperating expenses	**-**	-	30,415	**-**	-	-
Others	**(3,157,061)**	3,383,383	(3,071,965)	**-**	-	-
Deferred Tax Expense (Income)	**P 663,461,081**	P822,760,813	P 385,144,752	**(P 55,967,408)**	(P 26,041,986)	P11,728,077

No deferred tax liability has been recognized on the accumulated equity in net earnings of associates. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporation is not subject to income tax.

Majority of the entities within the Group are subject to the MCIT which is computed at 2% of gross income, as defined under the tax regulations.

The details of MCIT paid by certain subsidiaries, which can be applied as deduction from their respective future RCIT payable within three years from the year the MCIT was incurred, are shown below.

Subsidiary	Year incurred	Amount	Valid Until
MNPHI	2010	P 233,530	2013
	2009	230,427	2012
MLI	2010	37,479	2013
	2008	83,571	2011
FTPHI	2010	7,052	2013
	2009	2,386	2012
	2008	1,909	2011
		P 596,354	

Certain subsidiaries within the Group did not recognize the deferred tax assets on their MCIT.

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

Subsidiary	Year incurred	Amount	Valid Until
MCPI	2009	P 29,346,465	2012
	2008	27,347,116	2011
MLI	2010	12,118,518	2013
	2009	9,932,923	2012
	2008	4,950,545	2011
OPI	2010	4,508,189	2013
	2009	4,036,439	2012
	2008	4,169,609	2011
MNPHI	2010	227,849	2013
	2009	189,760	2012
FTPHI	2010	159,226	2013
	2009	323,508	2012
	2008	72,322	2011
PIPI	2010	81,682	2013
	2009	83,140	2012
		P 97,547,291	

Certain subsidiaries within the Group did not recognize the deferred tax assets on their NOLCO.

The aggregated amounts of assets, retained earnings (deficit), revenues and net profit (loss) of the subsidiaries which incurred NOLCO are as follows:

2010

	Assets	**Retained Earnings (Deficit)**	**Revenues**	**Net Profit (Loss)**
OPI	P 924,044,751	(P 11,869,688)	P 5,409	(P 3,231,949)
MLI	163,934,861	(59,590,765)	4,467,567	7,673,047
FTPHI	126,445,219	24,324,992	967,688	84,000,630
MNPHI	88,640,039	2,485,828	75,840,143	334,225
MCPI	73,900,576	(136,355,521)	68,714,334	(40,417,472)
PIPI	5,049,628	(16,522)	40,251	(47,949)
	P 1,382,015,074	**(P 181,021,676)**	**P 150,035,392**	**P 48,310,532**

2009

	Assets	Retained Earnings (Deficit)	Revenues	Net Profit (Loss)
OPI	P 889,329,679	(P 8,637,739)	P 23,930	(P 2,808,135)
GPMAI	658,718,614	251,993,072	2,554,950	938,907
MLI	191,642,758	(51,917,718)	2,334,341	(12,171,355)
MREI	63,360,474	814,274	1,345,935	1,030,840
MCPI	47,291,076	(96,024,989)	5,672,878	29,399,277
FTPHI	42,639,638	(59,675,638)	136,043	23,886,928
PIPI	5,094,427	31,427	49,960	(40,055)
	P 1,898,076,666	P 36,582,689	P 12,118,037	P 40,236,407

2008

	Assets	Retained Earnings (Deficit)	Revenues	Net Profit (Loss)
GPMAI	P 308,020,556	P 250,064,414	P -	P 962,384
MLI	202,369,120	242,937,331	7,258,976	(3,355,478)
MCPI	43,726,583	79,102,295	4,570,750	(27,278,908)
PIPI	5,131,482	60,000	185,846	132,358
	P 559,247,741	P 572,164,040	P 12,015,572	(P 29,539,644)

Management has assessed that the net losses incurred, as well as the related NOLCO, can be recovered through future operations and are not significant to the overall financial condition and financial performance of the Group.

22.2 Optional Standard Deduction

Effective July 2008, Republic Act (RA) 9504 was approved giving corporate taxpayers an option to claim itemized deductions or optional standard deduction (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 2010, 2009 and 2008, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD for 2010 and 2009.

22.3 Change in Applicable Tax Rate

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

23. RELATED PARTY TRANSACTIONS

The Group's related parties include associates, the Group's key management and others as described below. Transactions with related parties are also discussed below.

23.1 Rendering of Services to Related Parties and Rentals

	Amount of Transactions		
	2010	2009	2008
Associates	**P 5,289,782**	P 3,381,056	P 1,798,628
Other related parties	**13,659,040**	13,809,067	12,533,262
	P 18,948,822	P 17,190,123	P 14,331,890

Services rendered are usually on a cost-plus basis, allowing a margin ranging from 10% to 20%. The related receivables from these transactions were all settled and collected as of December 31, 2010, 2009 and 2008.

23.2 Obtaining of Services from Related Parties

	Amount of Transactions			Outstanding Balances		
	2010	2009	2008	**2010**	2009	2008
Associates	**P -**	P 2,286,178	P 3,048,237	**P -**	P -	P -
Other related parties	**126,454,782**	146,626,602	152,278,332	**84,088,445**	81,408,167	79,678,432
	P 126,454,782	P 148,912,780	P155,326,569	**P 84,088,445**	P 81,408,167	P 79,678,432

Services obtained are usually on a cost-plus basis, allowing a margin ranging from 10% to 20%. There are no outstanding payables for services obtained from the associates as of December 31, 2010, 2009 and 2008. The outstanding balances payable to other related parties pertain to unpaid commissions presented as part of Other Non-current Liabilities in the consolidated statements of financial position (see Note 17).

23.3 Advances to Associates and Other Related Parties

Associates and other related parties are granted noninterest-bearing, unsecured advances by the parent company and other entities in the Group for working capital purposes. The outstanding balances of Advances to Associates and Other Related Parties shown as part of Investments in and Advances to Associates and Other Related Parties in consolidated statements of financial position (see Note 10) are as follows:

	2010	2009	2008
Advances to Associates			
EELHI	**P 394,211,729**	P 378,888,334	P 69,356
SHDI	**338,598**	-	15,813,306
PTHDC	**1,004,986,820**	1,009,986,216	1,009,173,481
AGPL	**-**	211,708,104	-
	1,399,537,147	1,600,582,654	1,025,056,143
Advances to other related parties	**647,453,685**	411,687,922	1,045,815,762
	P 2,046,990,832	P 2,012,270,576	P 2,070,871,905

Advances to other related parties pertain to advances granted to entities under common ownership of the ultimate parent company.

23.4 Advances from Other Related Parties

Certain expenses of the entities within the Group are paid by other related parties on behalf of the former. The outstanding balances from these transactions are presented as Advances from Other Related Parties account in the consolidated statements of financial position and are broken down as follows:

	2010	2009	2008
EELHI	**P 209,116,174**	P 547,523,599	P 721,047,847
TIHGI	**12,906,530**	-	-
Others	**67,845,553**	78,412,882	115,210,399
	P 289,868,257	P 625,936,481	P 836,258,246

23.5 Key Management Personnel Compensations

The Group's key management personnel compensation includes the following:

	2010	2009	2008
Short-term benefits	**P 47,174,219**	P 42,243,477	P 38,009,337
Post-employment benefits	**4,962,292**	4,437,829	4,002,041
	P 52,136,511	P 46,681,306	P 42,011,378

24. EQUITY

Capital stock consists of:

	Shares			Amount		
	2010	2009	2008	**2010**	2009	2008
Preferred shares Series A – P0.01 par value						
Authorized	**6,000,000,000**	6,000,000,000	6,000,000,000	**P 60,000,000**	P 60,000,000	P 60,000,000
Issued and outstanding:	**6,000,000,000**	6,000,000,000	6,000,000,000	**P 60,000,000**	P 60,000,000	P 60,000,000
Common shares – P1 par value						
Authorized	**30,140,000,000**	30,140,000,000	30,140,000,000	**P 30,140,000,000**	P 30,140,000,000	P 30,140,000,000
Issued and outstanding:						
Balance at beginning of year	**25,769,203,626**	20,641,646,901	20,641,646,901	**P25,769,203,626**	P 20,641,646,901	P 20,641,646,901
Issued during the year	**-**	5,127,556,725	-	**-**	5,127,556,725	-
Balance at end of year	**25,769,203,626**	25,769,203,626	20,641,646,901	**P25,769,203,626**	P 25,769,203,626	P 20,641,646,901
Subscribed:						
Balance at beginning of year	**-**	-	-	**P -**	P	P -
Subscribed during the year	**-**	5,127,556,725	-	**-**	5,127,556,725	-
Issued during the year	**-**	(5,127,556,725)	-	**-**	(5,127,556,725)	-
Balance at end of year	**-**	-	-	**P -**	P -	P -
Total Capital Stock				**P 25,829,203,626**	P 25,829,203,626	P 20,701,646,901

24.1 Preferred Shares Series "A"

The preferred shares are voting, cumulative, non-participating, non-convertible and non-redeemable with a par value of P0.01 per share. The shares earn dividends at 1% of par value per annum cumulative from date of issue. Dividends paid on cumulative preferred shares amounted to P600,000 in 2010, 2009 and 2008.

24.2 Common Shares

On April 28, 2009, the Company offered 5,127,556,725 common shares, by way of pre-emptive stock rights offering, to eligible existing common shareholders at the rate of one right for every four common shares held as of May 4, 2009 at an exercise price of P1 per share. Moreover, shareholders were given four additional stock warrants for every five stock rights subscribed. For every stock warrant, shareholders can avail of one common share at P1 per share.

As a result of the stock rights offering, 5,127,556,725 common shares were subscribed and issued on June 1, 2009. Of the total exercise price, 50% was paid as of May 31, 2009 and the remaining 50% shall be paid within one year from issue date. Unpaid subscriptions amounted to P2.3 billion as of December 31, 2009 and are presented as Subscriptions Receivable under the current assets section of the 2009 consolidated statement of financial position. The amount was fully paid by the subscribers in 2010. Relative to the issuance of pre-emptive stock rights, 4,102,045,380 stock warrants were issued and these will be exercisable beginning on the second year until five years from issue date.

24.3 Additional Paid-in Capital

The additional paid-in capital pertains to the excess of the total proceeds received from the Company's shareholders over the total par value of the common shares. There were no movements in the Company's Additional Paid-in Capital accounts in 2010, 2009 and 2008.

24.4 Cash Dividends

The details of the Company's cash dividend declarations, both for preferred and common shares, are as follows:

	2010	2009	2008
Declaration date / date of approval by BOD	**May 18, 2010**	June 19, 2009	June 5, 2008
Date of record	**July 6, 2010**	July 17, 2009	July 4, 2008
Date paid	**July 30, 2010**	August 12, 2009	July 30, 2008
Amounts declared and paid	**P 479,885,465**	P 479,061,765	P 402,353,813

On May 18, 2010, MDC's BOD approved the declaration of cash dividends amounting to P100.0 million to stockholders of record as of said date. Out of the P100.0 million dividends declared, P60.0 million was eliminated during consolidation.

24.5 Treasury Shares

In 2008, the Company's BOD approved the buy-back of shares of up to P2.0 billion worth of common shares in the open market at prevailing market prices. The share buy-back program is made through the trading facilities of the PSE and the funds used for the buy-back were taken from internally-generated funds. As of December 31, 2008, the Company reacquired 131.4 million shares at a total cost of P118.6 million.

This account also includes the Company's common shares held and acquired by RHGI and GPMAI. The number of treasury common shares aggregated to 537.4 million as of December 31, 2009 and 2008. The changes in market values of these shares recognized as fair value gains (losses) by RHGI and GPMAI were eliminated in full and were not recognized in the consolidated financial statements. Accordingly, in 2010, the cost of the treasury held by GPMAI of P555.1 million was removed from the Treasury Stock account presented under equity. GPMAI was deconsolidated starting 2010 (see Note 10).

A portion of the Company's retained earnings is restricted up to the cost of treasury stock as of the end of the reporting period.

25. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

	2010	2009	2008
Net profit attributable to parent company's shareholders	**P 5,026,180,575**	P 4,055,401,191	P 3,771,127,007
Dividends on cumulative preferred shares series "A"	**(600,000)**	(600,000)	(600,000)
Profit available to parent company's common shareholders	**P 5,025,580,575**	P 4,054,801,191	P 3,770,527,007
Divided by weighted number of outstanding common shares	**25,130,015,061**	23,088,192,857	20,132,817,980
Basic and diluted earnings per share	**P 0.200**	P 0.176	P 0.187

There were no outstanding convertible preferred shares and bonds or other stock equivalents that may be considered as potential dilutive common shares as of December 31, 2010, 2009 and 2008.

26. COMMITMENTS AND CONTINGENCIES

26.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P2.7 billion for the consolidated balances. Future minimum lease payments receivable under these agreements are as follows:

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

26.2 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 11 years, with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to about P10.0 million for the consolidated balances. The future minimum rental payables under these non-cancelable leases as of December 31, are as follows:

	2010	2009	2008
Within one year	**P 12,247,168**	P 16,891,737	P 17,583,865
After one year but not more than five years	**19,039,825**	17,951,311	26,489,885
More than five years	**18,908,935**	23,528,646	27,886,864
	P 50,195,928	P 58,371,694	P 71,960,614

26.3 Others

There are 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS securities, bank loans, bonds, trade receivables and payables which arise directly from the Group's business operations. The financial liabilities 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.

27.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents, and bonds payable which have been used to fund new projects.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2010		2009		2008	
	U.S. Dollars	**Pesos**	U.S. Dollars	Pesos	U.S. Dollars	Pesos
Financial assets	**$ 245,812,793**	**P10,790,198,346**	$ 186,778,590	P 8,658,308,333	$ 138,542,551	P6,578,693,016
Financial liabilities	**(7,098,646)**	**(311,602,166)**	(87,449,638)	(4,053,815,436)	(90,043,539)	(4,275,717,458)
	$ 238,714,147	**P10,478,596,180**	$ 99,328,952	P 4,604,492,897	$ 48,499,012	P2,302,975,558

The following table illustrates the sensitivity of the consolidated net results for the year in regards to the Group's financial assets and financial liabilities as shown previously and the U.S. dollar – Philippine peso exchange rate:

Increase (decrease) in exchange rate	**Effect on consolidated profit before tax 2010**	2009	2008
P1	**P 238,714,147**	P 99,328,952	P 48,499,011
(P1)	**(238,714,147)**	(99,328,952)	(48,499,011)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions and only affect consolidated profit or loss of the Group. There are no exposures on foreign exchange rate that affect the Group's other comprehensive income (loss). Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

27.2 Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. These long-term borrowings and all other financial assets and liabilities are subject to variable interest rates.

The Group's ratio of fixed to floating rate debt stood at 88.12, 87.13 and 86.14 as of December 31, 2010, 2009 and 2009, respectively.

The following table illustrates the sensitivity of the consolidated net result for the year and consolidated equity to a reasonably possible change in interest rates of +1% and –1% in 2010, 2009 and 2008. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2010		2009		2008	
	+1%	**-1%**	+1%	-1%	+1%	-1%
Consolidated net results for the year	**(P 15,873,037)**	**P 15,873,037**	(P 23,850,402)	P 23,850,402	(P 30,111,330)	P 30,111,330
Consolidated equity	**(11,111,126)**	**11,111,126**	(16,695,282)	16,695,282	(19,572,364)	19,572,364

27.3 Credit Risk

Generally, the Group's credit risk is attributable to trade 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. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to consolidated financial statements), as summarized below.

	Notes	**2010**	2009	2008
Cash and cash equivalents	5	**P 22,031,584,943**	P 20,876,005,473	P 12,325,333,064
Trade and other receivables	6	**29,040,792,116**	23,713,732,228	17,699,223,385
Advances to associates and other related parties	10, 23.3	**2,046,990,832**	2,012,270,576	2,070,871,905
AFS financial assets	8	**675,467,827**	148,299,890	3,273,653,414
		P 53,794,835,718	P 46,750,308,167	P 35,369,081,768

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

(b) *Trade and Other Receivables*

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 resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by post-dated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

27.4 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, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits 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.

As at December 31, 2010, 2009 and 2008, the Group's financial liabilities have contractual maturities which are presented below.

	2010			
	Current		**Non-current**	
	Within 6 Months	**6 to 12 Months**	**1 to 5 Years**	**Later 5 Years**
Interest-bearing loans and borrowings	P 655,677,449	P 655,677,448	P 6,128,583,476	P -
Bonds payable	-	3,416,062,159	5,000,000,000	-
Trade and other payables	1,847,488,610	2,190,224,738	-	-
Advances from other related parties	-	-	289,868,257	-
	P2,503,166,059	**P 6,261,964,345**	**P 11,418,451,733**	**P -**

	2009			
	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P 192,026,776	P 658,717,253	P 5,672,557,858	P 1,776,500,000
Bonds payable	-	-	8,608,407,826	-
Trade and other payables	1,474,550,021	2,187,823,237	-	-
Advances from other related parties	-	-	625,936,481	-
	P1,666,576,797	P2,846,540,490	P14,906,902,165	P 1,776,500,000

	2008			
	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P 174,415,663	P 174,415,664	P 5,257,857,465	P 648,888,889
Bonds payable	-	-	3,696,290,569	-
Trade and other payables	1,227,141,699	1,461,880,973	-	-
Advances from other related parties	-	-	836,258,246	-
	P1,401,557,362	P1,636,296,637	P 9,790,406,280	P 648,888,889

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

27.5 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as financial assets at FVTPL and 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 corporate bonds and equity securities listed in other countries, an average volatility of 105%, 71% and 107% has been observed during 2010, 2009 and 2008, respectively. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P2.7 billion, P14.6 million, P21.7 million in 2010, 2009 and 2008, respectively.

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 Group's consolidated net profit in 2010 and consolidated equity as of December 31, 2010 are summarized as follows:

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in:						
Holding company	+51.53%	-51.53%	P 64,414,912	P 2,073,193,927	(P 64,414,912)	(P2,073,193,927)
Property company	+51.54%	-51.54%	-	71,024,936	-	(71,024,936)
			P 64,414,912	**P 2,144,218,863**	**(P 64,414,912)**	**(P2,144,218,863)**

This compares with the following volatility rates and impact on consolidated net profit in 2009 and 2008:

2009

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in:						
Holding company	+50.32%	-50.32%	P 20,883,283	P 900,762,327	(P 20,883,283)	(P 900,762,327)
Property company	+61.55%	-61.55%	-	85,613,014	-	-
			P 20,883,283	P 986,375,341	(P 20,883,283)	(P 900,762,327)

2008

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in:						
Holding company	+78.04%	-78.04%	P 240,225	P 426,127,945	(P 240,225)	(P 426,127,945)
Property company	+106.24%	-106.24%	-	145,010,939	-	(145,010,939)
Bank	+111.21%	-111.21%	-	324,464	-	(324,464)
			P 240,225	P 571,463,348	(P 240,225)	(P 571,463,348)

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 favour.

28. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

28.1 Comparison of Carrying Amounts and Fair Values

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

	2010		2009		2008	
	Carrying Values	**Fair Values**	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets						
Loans and receivables:						
Cash and cash equivalents	**P 22,031,584,943**	**P 22,031,584,943**	P 20,876,005,473	P 20,876,005,473	P 12,325,333,064	P 12,325,333,064
Trade and other receivables – net	**29,040,792,116**	**29,040,792,116**	23,713,732,228	23,713,732,228	17,699,223,385	17,699,223,385
Advances to associates and other related parties	**2,046,990,832**	**2,046,990,832**	2,012,270,576	2,012,270,576	2,070,871,905	2,070,871,905
	P 53,119,367,891	**P 53,119,367,891**	P 46,602,008,277	P 46,602,008,277	P 32,095,428,354	P 32,095,428,354
Financial assets at FVTPL	**P 125,000,000**	**P 125,000,000**	P 41,500,000	P 41,500,000	P 17,400,000	P 17,400,000
AFS financial assets:						
Equity instruments	**P 5,535,716,669**	**P 5,535,716,669**	P 2,778,231,823	P 2,778,231,823	P 1,076,571,258	P 1,076,571,258
Debt instruments	**675,467,827**	**675,467,827**	148,299,890	148,299,890	3,273,653,414	3,273,653,414
	P 6,211,184,496	**P 6,211,184,496**	P 2,926,531,713	P 2,926,531,713	P 4,350,224,672	P 4,350,224,672
Financial Liabilities						
Financial liabilities at amortized cost						
Interest-bearing loans and borrowings	**P 7,439,938,373**	**P 7,439,938,373**	P 8,299,801,887	P 8,299,801,887	P 6,255,577,681	P 6,255,577,681
Bonds payable	**8,416,062,159**	**8,416,062,159**	8,608,407,826	8,608,407,826	3,696,290,569	3,696,290,569
Trade and other payables	**4,037,713,348**	**4,037,713,348**	3,662,373,258	3,662,373,258	2,689,022,672	2,689,022,672
Advances from other related parties	**289,868,257**	**289,868,257**	625,936,481	625,936,481	836,258,246	836,258,246
	P 20,183,582,137	**P 20,183,582,137**	P 21,196,519,452	P 21,196,519,452	P 13,477,149,168	P 13,477,149,168

See Notes 2.5 and 2.9 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 27.

28.2 Fair Value Hierarchy

The Group's investments in financial assets at FVTPL and AFS financial assets are comprised of equity and debt instruments listed in foreign and local stocks exchange. Fair value measurements of these financial assets were determined directly by reference to published prices quoted in an active market (Level 1 of the fair value hierarchy).

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using the debt-to-equity ratio.

	2010	2009	2008
Interest-bearing loans and borrowings	**P 7,439,938,373**	P 8,299,801,887	P 6,255,577,681
Bonds payable	**8,416,062,159**	8,608,407,826	3,696,290,569
	P 15,856,000,532	P 16,908,209,713	P 9,951,868,250
Equity attributable to parent company's shareholders	**P 57,776,023,630**	P 49,111,847,183	P 38,980,292,755
Debt-to-equity ratio	**0.27 : 1**	0.34 : 1	0.26 : 1

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

30. OTHER MATTERS

30.1 Registration with Philippine Economic Zone Authority (PEZA)

ECOC, as operator of the Eastwood City CyberPark, is registered with PEZA. As a PEZA registered entity, it is entitled to a preferential tax rate of 5% on gross income earned from its PEZA registered activities, in lieu of all local and national taxes, and to other tax privileges.

30.2 International Organization for Standardization (ISO) Certification

The parent company was awarded a Certificate of Registration ISO 9001:1994 effective November 26, 1999 by Certification International Philippines, Inc. Effective November 21, 2002, the parent company has upgraded its Certification to ISO 9001:2000 series. The scope of the certification covers all areas of the parent company's operations, which include planning, design, project management and customer service for its real estate business. Among others, the parent company is required to undergo surveillance audits every six months.

30.3 Awards

As a testament to the Company's industry leadership, the Company was recognized by various award-giving bodies in 2009 and 2008 as follows:

2009

- Best Investor Relations by Finance Asia
- Best Managed Philippine Company by Finance Asia
- Asia's Best Managed Company by Finance Asia

2008

- Small Cap Corporate of the Year by Asia Money Polls
- Best in Investor Relations by Finance Asia
- Best Managed Philippine Company by Finance Asia

MEGAWORLD CORPORATION

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Tels: (632) 867-8826 to 40
www.megaworldcorp.com • *E-mail: infodesk@megaworldcorp.com*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Megaworld Corporation and Subsidiaries**, is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2011 and 2010, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68
b. Reconciliation of Retained Earnings Available for Dividend Declaration
c. Schedule of PFRS Effective as of December 31, 2011
d. Schedule of Financial Indicators for December 31, 2011 and 2010
e. Map Showing the Relationship Between and Among the Company and its Related Entities

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of 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 financial statements, and the additional supplementary information, and submits the same to the stockholders.

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

ANDREW L. TAN
Chairman of the Board

ANDREW L. TAN
Chief Executive Officer

FRANCISCO C. CANUTO
SVP - Treasurer

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
Date APR 10 2012 SDS
RECEIVED
CHENEE O. DEL ROSARIO

ISO 9001
2008 SERIES
CERTIFIED
CIP/2652/99/11/168

APR 0 3 2012 MAKATI CITY

SUBSCRIBED AND SWORN to before me on this ___ day of ______ at _______________, Philippines affiants exhibiting to me their Community Tax Certificate Nos. as follows:

Andrew L. Tan	03208915	January 09, 2012	Quezon City
Francisco C. Canuto	06982391	January 04, 2012	Makati City

Doc. No. 38;
Page No. 7;
Book No. 44/II;
Series of 2012

ARCHIBALD R. RELLOSA
NOTARY PUBLIC
UNTIL DEC. 31, 2013
PTR NO. 3184588, MAKATI CITY
IBP NO. 867717 PASIG CITY
APPOINTMENT NO. M-245 (2012-2013)
MCLE EXEMPTION NO. 1-003093
ROLL NO. 4375

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION 1
Date APR 1 0 2012 SDS
RECEIVED
CHENEE O. DEL ROSARIO

Punongbayan & Araullo

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION 1
Date APR 10 2012 SDS
RECEIVED
CHENEE O. DEL ROSARIO

Report of Independent Auditors

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1200 Makati City
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The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

We have audited the accompanying consolidated financial statements of Megaworld Corporation and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Megaworld Corporation and Subsidiaries as at December 31, 2011 and 2010, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Nelson J. Dinio
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 3174906, January 2, 2012, Makati City
SEC Group A Accreditation
Partner - No. 1036-A (until Sept. 29, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

March 26, 2012

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
Date APR 10 2012 SDS
RECEIVED
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MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2011	2010
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 30,324,479,180**	P 22,031,584,943
Trade and other receivables - net	6	**17,178,451,090**	14,133,801,384
Financial assets at fair value through profit or loss	7	**109,203,260**	125,000,000
Residential and condominium units for sale	3	**19,497,662,902**	6,286,477,215
Property development costs	3	**8,753,452,084**	3,798,108,537
Prepayments and other current assets - net		**1,801,123,705**	437,227,590
Total Current Assets		**77,664,372,221**	46,812,199,669
NON-CURRENT ASSETS			
Trade and other receivables	6	**20,209,042,452**	15,617,214,463
Advances to landowners and joint ventures	9	**3,888,345,313**	2,708,026,497
Land for future development	2	**4,366,523,063**	1,482,561,015
Investments in available-for-sale securities	8	**2,591,747,678**	6,211,184,496
Investments in and advances to associates and other related parties	10	**6,745,964,129**	13,671,332,490
Investment property - net	11	**12,372,290,665**	9,716,530,045
Property and equipment - net	12	**540,859,730**	360,518,201
Deferred tax assets - net	22	**7,333,579**	7,860,539
Other non-current assets	13	**609,047,834**	442,095,396
Total Non-current Assets		**51,331,154,443**	50,217,323,142
TOTAL ASSETS		**P 128,995,526,664**	P 97,029,522,811

	Notes	2011	2010
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	**P 1,879,292,646**	P 1,311,354,897
Bonds payable	15	-	3,416,062,159
Trade and other payables	16	**7,296,966,494**	4,037,713,348
Customers' deposits	2	**3,610,212,295**	1,013,053,489
Income tax payable		**36,897,538**	29,061,975
Reserve for property development	2	**5,107,725,787**	3,640,068,354
Deferred income on real estate sales	2	**3,446,835,596**	2,220,540,650
Other current liabilities	17	**1,778,496,717**	1,741,665,060
Total Current Liabilities		**23,156,427,073**	17,409,519,932
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	**5,288,591,409**	6,128,583,476
Bonds payable	15	**13,538,914,490**	5,000,000,000
Customers' deposits	2	**456,003,854**	1,222,422,709
Reserve for property development	2	**3,719,081,747**	2,487,557,735
Deferred income on real estate sales	2	**1,809,305,117**	1,588,240,851
Deferred tax liabilities - net	22	**5,112,895,527**	3,249,030,654
Advances from other related parties	23	**210,242,443**	289,868,257
Retirement benefit obligation	21	**285,421,740**	116,039,185
Other non-current liabilities	17	**2,646,537,985**	1,019,123,375
Total Non-current Liabilities		**33,066,994,312**	21,100,866,242
Total Liabilities		**56,223,421,385**	38,510,386,174
EQUITY	24		
Total equity attributable to parent company's shareholders		**60,956,151,542**	57,776,023,630
Non-controlling interests		**11,815,953,737**	743,113,007
Total Equity		**72,772,105,279**	58,519,136,637
TOTAL LIABILITIES AND EQUITY		**P 128,995,526,664**	P 97,029,522,811

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
REVENUES				
Real estate sales	6	**P 15,887,590,800**	P 13,110,567,020	P 12,574,801,962
Interest income on real estate sales	6	**1,218,788,823**	933,424,160	714,213,230
Realized gross profit on prior years' sales	2	**1,970,174,052**	1,355,982,007	1,277,434,472
Rental income	11	**3,826,341,215**	2,694,310,554	2,000,477,427
Hotel operations	2	**392,171,105**	232,757,023	216,143,646
Equity in net earnings of associates, interest and other income - net	19	**5,330,031,746**	2,214,742,331	975,587,944
		28,625,097,741	20,541,783,095	17,758,658,681
COSTS AND EXPENSES				
Real estate sales	2	**10,157,277,262**	8,606,699,164	7,940,756,662
Operating expenses	18	**4,116,225,061**	2,140,225,634	1,808,120,886
Deferred gross profit	2	**3,055,851,217**	2,431,379,388	1,815,065,914
Interest and other charges - net	20	**903,526,435**	544,401,114	587,544,169
Hotel operations	2	**223,731,697**	124,463,666	103,017,443
Tax expense	22	**1,995,469,148**	1,609,101,525	1,437,541,131
		20,452,080,820	15,456,270,491	13,692,046,205
PROFIT FOR THE YEAR BEFORE PREACQUISITION INCOME		**8,173,016,921**	5,085,512,604	4,066,612,476
PREACQUISITION INCOME OF SUBSIDIARIES	1, 10	**(17,326,952)**	-	-
NET PROFIT FOR THE YEAR		**P 8,155,689,969**	P 5,085,512,604	P 4,066,612,476
Net profit attributable to:				
Parent company's shareholders		**P 8,031,884,511**	P 5,026,180,575	P 4,055,401,191
Non-controlling interests		**123,805,458**	59,332,029	11,211,285
		P 8,155,689,969	P 5,085,512,604	P 4,066,612,476
Earnings per Share				
Basic and Diluted	25	**P 0.319**	P 0.200	P 0.176

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
NET PROFIT FOR THE YEAR		**P 8,155,689,969**	P 5,085,512,604	P 4,066,612,476
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized gains (losses) on available-for-sale (AFS) securities	8	**(690,525,167)**	4,031,843,227	1,211,879,519
Reclassification adjustments for gains (losses) on disposed AFS financial securities included in profit or loss	8	**(2,997,737,000)**	(473,319,584)	276,543,393
Reversal of unrealized losses on AFS securities of a deconsolidated subsidiary		**-**	63,656,553	-
Share in other comprehensive income (loss) of associates	10	**(147,365)**	71,176,649	-
		(3,688,409,532)	3,693,356,845	1,488,422,912
Translation adjustments		**(12,808,786)**	(186,558,030)	(86,806,621)
Less related tax	22, 2.4	**3,842,636**	55,967,408	26,041,986
		(8,966,150)	(130,590,622)	(60,764,635)
		(3,697,375,682)	3,562,766,223	1,427,658,277
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 4,458,314,287**	P 8,648,278,827	P 5,494,270,753
Total comprehensive income attributable to:				
Parent company's shareholders		**P 4,334,508,829**	P 8,588,946,798	P 5,483,059,468
Non-controlling interests		**123,805,458**	59,332,029	11,211,285
		P 4,458,314,287	P 8,648,278,827	P 5,494,270,753

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
CAPITAL STOCK	24			
Balance at beginning of year		P 25,829,203,626	P 25,829,203,626	P 20,701,646,901
Additional issuance during the year		-	-	5,127,556,725
Balance at end of year		25,829,203,626	25,829,203,626	25,829,203,626
ADDITIONAL PAID-IN CAPITAL	24	8,432,990,413	8,432,990,413	8,432,990,413
TREASURY STOCK - At Cost	24			
Balance at beginning of year		(633,721,630)	(1,188,836,744)	(1,188,836,744)
Additions during the year		(555,115,114)	-	-
Reduction representing the shares held by a deconsolidated subsidiary		-	555,115,114	-
Balance at end of year		(1,188,836,744)	(633,721,630)	(1,188,836,744)
NET UNREALIZED GAINS ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	8			
Balance at beginning of year		3,809,613,412	116,256,567	(1,372,166,345)
Other comprehensive income (loss) for the year		(3,688,409,532)	3,693,356,845	1,488,422,912
Balance at end of year		121,203,880	3,809,613,412	116,256,567
ACCUMULATED TRANSLATION ADJUSTMENTS	2.4			
Balance at beginning of year		(252,335,270)	(121,744,648)	(60,980,013)
Other comprehensive loss for the year, net of tax		(8,966,150)	(130,590,622)	(60,764,635)
Balance at end of year		(261,301,420)	(252,335,270)	(121,744,648)
RETAINED EARNINGS				
Balance at beginning of year		20,590,273,079	16,043,977,969	12,467,638,543
Net profit attributable to parent company's shareholders		8,031,884,511	5,026,180,575	4,055,401,191
Cash dividends	24	(599,265,803)	(479,885,465)	(479,061,765)
Balance at end of year		28,022,891,787	20,590,273,079	16,043,977,969
Total Equity Attributable to Parent Company's Shareholders		60,956,151,542	57,776,023,630	49,111,847,183
NON-CONTROLLING INTERESTS	10			
Balance at beginning of year		743,113,007	723,869,377	712,658,092
Additions (deductions)		10,949,035,272	(40,088,399)	-
Net profit attributable to non-controlling interests		123,805,458	59,332,029	11,211,285
Balance at end of year		11,815,953,737	743,113,007	723,869,377
TOTAL EQUITY		P 72,772,105,279	P 58,519,136,637	P 49,835,716,560

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 10,151,159,117	P 6,694,614,129	P 5,504,153,607
Adjustments for:				
Gain on sale of investments in available-for-sale securities	8	(2,178,458,080)	-	-
Interest income	19	(1,618,727,549)	(835,944,617)	(690,238,144)
Finance costs	20	884,058,862	516,440,321	556,326,705
Equity in net earnings of associates	10, 19	(597,834,536)	(442,281,307)	(157,958,213)
Depreciation and amortization	18	566,641,137	443,203,639	365,795,590
Dividend income	19	(32,661,662)	(40,630,134)	(44,247,127)
Fair value losses (gains) - net	19	7,851,631	(83,500,000)	(24,100,000)
Operating profit before working capital changes		7,182,028,920	6,251,902,031	5,509,732,418
Increase in trade and other receivables		(2,332,556,852)	(5,467,069,558)	(6,201,387,858)
Decrease (increase) in residential and condominium units for sale		(1,056,701,557)	412,044,886	127,249,526
Decrease (increase) in property development costs		(236,023,249)	(77,405,610)	112,428,459
Decrease (increase) in prepayments and other current assets		(660,103,590)	(69,471,133)	22,311,370
Decrease (increase) in advances to landowners and joint ventures		698,482,342	(1,500,000,001)	(872,978,395)
Increase in trade and other payables		2,461,337,793	204,094,188	854,376,714
Increase (decrease) in customers' deposits		(543,697,574)	382,569,679	(141,485,147)
Increase in deferred income on real estate sales		1,195,329,212	1,075,230,757	537,798,066
Increase in reserve for property development		1,535,423,535	1,636,248,793	669,276,522
Increase in other liabilities		149,045,609	424,798,078	415,691,663
Cash generated from operations		8,392,564,589	3,272,942,110	1,033,013,338
Cash paid for income taxes		(1,259,507,902)	(946,782,440)	(559,614,717)
Net Cash From Operating Activities		7,133,056,687	2,326,159,670	473,398,621
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment property	11	(2,874,137,207)	(991,266,588)	(2,261,263,607)
Land for future development		(2,803,899,896)	(213,000,015)	-
Property and equipment	12	(87,466,426)	(62,373,098)	(33,162,257)
Net increase in investments in and advances to associates and other related parties		(2,049,692,784)	(408,034,396)	(238,527,057)
Net decrease in investment in available-for-sale securities		3,880,528,366	472,360,615	2,912,115,871
Interest received		1,618,727,549	835,944,617	689,655,133
Net decrease (increase) in other non-current assets		(179,971,650)	(221,527,843)	17,607,943
Dividends received	19	32,661,662	40,630,134	44,247,127
Payments made for the subscribed common stock of an associate	10	-	-	(1,583,687,182)
Net Cash Used in Investing Activities		(2,463,250,386)	(547,266,574)	(453,014,029)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term liabilities	14, 15	9,013,788,580	-	7,400,000,000
Payments of long-term liabilities		(4,934,748,567)	(1,052,209,181)	(348,831,328)
Interest paid		(884,058,862)	(1,323,861,629)	(896,733,166)
Cash dividends paid	24	(599,265,803)	(519,885,465)	(479,061,765)
Proceeds from exercise of stock rights	24	-	2,272,642,649	2,854,914,076
Net Cash From (Used in) Financing Activities		2,595,715,348	(623,313,626)	8,530,287,817
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,265,521,649	1,155,579,470	8,550,672,409
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		1,624,146,150	-	-
PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		(596,773,562)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		22,031,584,943	20,876,005,473	12,325,333,064
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 30,324,479,180	P 22,031,584,943	P 20,876,005,473

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. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 9 and 11) .

MEGAWORLD CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2011, 2010 AND 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Megaworld Corporation (the Company or parent company) was incorporated in the Philippines on August 24, 1989, primarily to engage in the development of large scale mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The Company is presently engaged in property-related activities, such as, project design, construction and property management. The Company's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail spaces.

All of the Company's common shares of stock are listed at the Philippine Stock Exchange (PSE).

The registered office of the Company, which is also its principal place of business, is located at the 28th Floor, The World Centre Building, Sen. Gil Puyat Avenue, Makati City.

Alliance Global Group, Inc. (AGI), also a publicly listed company in the Philippines, is the Group's ultimate parent company. AGI is a holding company and is presently engaged in the food and beverage business, real estate, quick service restaurant and tourism-oriented businesses. AGI's registered office, which is also its primary place of business, is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Quezon City.

The Company holds interests in the following subsidiaries and associates:

	Explanatory	Percentage of Ownership		
Subsidiaries/Associates	Notes	**2011**	2010	2009
Subsidiaries:				
Megaworld Land, Inc. (MLI)		**100%**	100%	100%
Prestige Hotels and Resorts, Inc. (PHRI)	(a)	**100%**	100%	100%
MactanOceanview Properties and Holdings, Inc. (MOPHI)		**100%**	100%	100%
Megaworld Cayman Islands, Inc. (MCII)		**100%**	100%	100%
Richmonde Hotel Group International (RHGI)		**100%**	100%	100%
Eastwood Cyber One Corporation (ECOC)		**100%**	100%	100%
Forbes Town Properties and Holdings, Inc. (FTPHI)		**100%**	100%	100%
Megaworld Newport Property Holdings, Inc. (MNPHI)		**100%**	100%	100%
Oceantown Properties, Inc. (OPI)		**100%**	100%	100%
Piedmont Property Ventures, Inc. (PPVI)	(b)	**100%**	100%	100%
Stonehaven Land, Inc. (SLI)	(b)	**100%**	100%	100%
Streamwood Property, Inc. (SP)	(b)	**100%**	100%	100%
Suntrust Properties, Inc. (SPI)	(c)	**82.45%**	-	-
Empire East Land Holdings, Inc. and Subsidiaries (EELHI)	(d)	**61.13%**	-	-
Megaworld-Daewoo Corporation (MDC)		**60%**	60%	60%
Manila Bayshore Property Holdings, Inc. (MBPHI)	(e)	**55%**	-	-
Megaworld Central Properties, Inc. (MCPI)		**51%**	51%	51%
Megaworld Resort Estates, Inc. (MREI)	(f)	**51%**	51%	51%

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2011	2010	2009
Subsidiaries:				
Megaworld Globus Asia, Inc. (MGAI)		**50%**	50%	50%
Philippine International Properties, Inc. (PIPI)	(g)	**50%**	50%	50%
Gilmore Property Marketing Associates, Inc. (GPMAI)	(h)	**46.45%**	-	31%
Townsquare Development, Inc. (TDI)	(i)	**31%**	31%	31%
Associates:				
Suntrust Home Developers, Inc. (SHDI)		**42.48%**	42.48%	42.48%
Palm Tree Holdings and Development Corporation (PTHDC)		**40%**	40%	40%
MegaworldGlobal Estates, Inc. (MGEI)	(l)	**40%**	-	-
Alliance Global Properties Ltd. (AGPL)	(j)	**39.44%**	39.44%	44.34%
Travellers International Hotel Group, Inc. (TIHGI)	(k)	**10%**	10%	10%
EELHI	(d)	**-**	48.38%	48.38%
GPMAI	(h)	**-**	39.83%	-

Explanatory Notes:

(a) Wholly owned subsidiary of MLI.

(b) Acquired subsidiaries in 2008 but have not yet started commercial operations as of December 31, 2011.

(c) In March 2011, the Company acquired 59% ownership in SPI. On December 31, 2011, the Company held a 42.48% share in SHDI and a 61.13% share in EELHI. However, since SHDI and EELHI in turn own 8% and 33% of SPI, respectively, this results to an additional indirect ownership of 23.5%. As a result, the Company owns SPI by 82.45%.

(d) On various dates in2011,the Company acquired an additional 12.75% ownership in EELHI, thereby making EELHI a subsidiary of the Company.As of December 31, 2011, the Company's ownership in EELHI stands at 61.13%.

(e) MBPHI was incorporated in October 2011 and has not yet started commercial operations as of December 31, 2011. MBPHI is also 50% owned by TIHGI, thereby increasing the Company's ownership to 55%. TIHGI is 10% owned by the Company.

(f) MREI was incorporated in 2007. MREI owns 60% of TDI as of December 31, 2011 resulting in the Company's indirect interest of 31% of TDI.

(g) PIPI was incorporated in 2002 and acquired by the Company in 2006; has not yet started commercial operations as of December 31, 2011.

(h) In November 2007, MREI acquired 100% ownership in GPMAI which resulted in the Company's indirect interest of 51% as of December 31, 2007. In 2008, MREI's ownership in GPMAI decreased to 60%; it further decreased to 28.85% in 2010. GPMAI was consolidated starting 2007 up to 2009; in 2010, it was deconsolidated and treated as an associate of the Group. As of December 31, 2011, EELHI has a 51.92% ownership in GPMAI bringing the Company's indirect ownership to 46.45%. Consequently, GPMAI became a subsidiary of the Company through EELHI, its intermediate parent company.

(i) TDI was incorporated in 2006 and is owned by MREI at 60%. In this regard, the Company has indirect interest in TDI of 31%.

(j) In February 2009, RHGI acquired 44.34% ownership in AGPL, which resulted in the Company's indirect interest of 44.34% as of December 31, 2009. In October 2010, AGPL issued additional shares of stock which resulted in the decrease in RHGI's ownership in AGPL to 39.44%. AGPL is considered as an associate due to the Company's significant influence, but not control, on AGPL.

(k) TIHGI was incorporated in 2003 and started commercial operations in August 2009. In 2008, the Company acquired 10% ownership in TIHGI through a share swap agreement. In August 2010, the Company's investment in TIHGI was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. Subsequently, in November 2010, TIHGI redeemed the 430.0 million preferred shares held by the Company. The conversion of common shares and the redemption of preferred shares did not change the Company's ownership in TIHGI. Although the Company's percentage ownership is only 10%, TIHGI was considered as an associate due to the Company's significant influence on TIHGI.

(*l*) MGEI was registered with the Securities and Exchange Commission on March 14, 2011 and has not yet started commercial operations as of December 31, 2011.

Except for MCII, RHGI and AGPL, all the subsidiaries and associates were incorporated in the Philippines and operate within the country. MCII and AGPL were incorporated and operate in the Cayman Islands while RHGI was incorporated and operates in the British Virgin Islands.

The Company and its subsidiaries collectively, except for MBPHI, MGEI, PIPI, PPVI, SLI and SP, which are not yet in commercial operations as of December 31, 2011, are presently engaged in the real estate business, hotel operations and marketing services.

EELHI and SHDI are publicly listed companies in the Philippines.

The consolidated financial statements of the Group for the year ended December 31, 2011 (including the comparatives for the years ended December 31, 2010and 2009) were authorized for issue by the Company's Board of Directors (BOD) on March 26, 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all the years 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.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. 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 two statements: a consolidated statement of income and a consolidated statement of comprehensive income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

(c) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Company's presentation and functional 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. Functional currency is the currency of the primary economic environment in which an entity operates.

2.2 Adoption of New and Amended PFRS

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

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

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

Below is a discussion of the impact of these accounting standards.

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

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

(iii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits* that are subject to a minimum funding requirement. The adoption to the amendment did not have a material effect on its consolidated financial statements because it does not usually make substantial advance contributions to its retirement fund and the Group is not subject to a minimum funding requirement.

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

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

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

- PAS 27 (Amendment), *Consolidated and Separate Financial Statements* (effective from July 1, 2010). This amendment clarifies that the consequential amendments made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investment in Associate,* and, PAS 31, *Investment in Joint Ventures,* arising from the PAS 27 (2008) amendments apply prospectively, to be consistent with the related PAS 27 transition requirements.

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

- PFRS 3 (Amendments), *Business Combinations* (effective from July 1, 2010). The amendment clarifies that contingent consideration arrangement and balances arising from business combinations with acquisition dates prior to the entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances.

  It further clarifies that the choice of measuring non-controlling interest (NCI) at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of NCI are measured at fair value unless PFRS requires another measurement basis.

  This amendment also clarifies accounting for all share-based payment transactions that are part of a business combination, including unreplaced and voluntary replaced share-based payment awards. Specifically, this provides guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the acquisition, thus resulting to the accounting for these awards being the same as for the awards that the acquirer is obliged to replace.

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

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

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

PFRS 1 (Amendment)	:	First-Time Adoption of PFRS – Financial Instruments Disclosures
2010 Annual Improvements		
PFRS 1 (Amendment)	:	First-Time Adoption of PFRS
IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value Awards Credits

(c) Effective Subsequent to 2011 but not Adopted Early

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

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

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

(iii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and the 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 upon completion or after delivery. The Company is currently evaluating the impact of this interpretation on its financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines.

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

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

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

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

(v) Consolidation Standards

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associate, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associate, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

  The Group is currently reviewing the impact of the above consolidation standards on its financial statements in time for its adoptionin 2013.

2.3 Basis of Consolidation

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, shares of stock of the Company held by the subsidiaries are recognized as treasury stock and these are presented as deduction in the consolidated statement of changes in equity. Any changes in the market values of such shares as recognized separately by the subsidiaries are likewise eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interest as follows:

(a) *Investments in Subsidiaries*

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill (see also Note 2.10). 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 in profit or loss as gain.

(b) *Investments in Associates*

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

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as Investment in Associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the Group's carrying amount of the investment.

Changes resulting from the profit or loss generated by the associate are shown as part of Equity in Net Earnings of Associates, Interest and Other Income - net in the Group's consolidated statements of income and, therefore, affect the net results of the Group. Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Group, as applicable.

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 commitments, has incurred obligations or made payments on behalf of the associate.

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 assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in Jointly Controlled Operations

For interests in jointly controlled operations, the Group recognized in its consolidated financial statements 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. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) Transactions with Non-controlling Interests

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

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

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

Before the adoption of the revised PAS 27 in 2010, transactions with non-controlling interests were treated as transactions with parties external to the Group. As such, disposals resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Also prior to 2010, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence was lost became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

2.4 Foreign Currency Transactions

(a) Transactions and Balances

Except for MCII, RHGI and AGPL, which use the U.S. dollars as their functional currency, the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized under Interest and Other Charges – net in the consolidated statement of income.

(b) Translation of Financial Statements of Foreign Subsidiaries and an Associate

The operating results and financial position of MCII and RHGI, which are measured using the U.S. dollars, their functional currency, are translated to Philippine pesos, the Company's functional currency, as follows:

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

(ii) Income and expenses for each profit or loss account are translated at the annual average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in MCII and RHGI are recognized as Translation Adjustments in the consolidated statement of comprehensive income. As these entities are wholly owned subsidiaries, the translation adjustments are fully allocated to the parent company's shareholders.

Goodwill arising on the acquisition of a foreign entity is treated as an asset of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine pesos 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.

The Company's equity in net earnings or loss of AGPL, which is also measured in U.S. dollars, is translated to Philippine pesos using the annual average exchange rates.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

The Group's financial instruments are currently lodged in the following classifications:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meet certain conditions and are designated by the entity to be carried at fair value through profit or loss 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 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.

(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. These are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. 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 cash flows discounted at the effective interest rate.

Loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to Contractors and Suppliers), and Advances to Associates and Other Related Parties in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Trade receivables, which generally have one-year to five-year terms, are noninterest-bearing instruments recognized initially at fair value and subsequently stated at amortized cost using the effective interest method for maturities beyond one year, less accumulated impairment losses, if any. An impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(c) AFS Financial Assets

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

All AFS financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from Net Unrealized Gains (Losses) on AFS Financial Assets to profit or loss and presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Equity in Net Earnings of Associates, Interest and Other Income - net and Interest and Other Charges – net accounts in the consolidated statement of income.

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

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

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

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

2.6 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 Company, 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 incurred during the development of the real estate properties are also capitalized by the Company as part of the property development costs. Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Residential and Condominium Units for Sale. The cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are charged to the cost of residential and condominium units sold presented in the statement of income with a corresponding credit to the liability account, Reserve for Property Development account.

Property Development Costs and Residential and Condominium Units for Sale are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from a real estate project is charged to operations during the period in which the loss is determined (see also Note 2.15).

2.7 Investment Property

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property, and carried at cost, net of accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation. Depreciation of investment property is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years.

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

2.8 Property and Equipment

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expenses as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of office and land improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

Condominium units	10-25 years
Office and land improvements	5-20 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	3-5 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.17) 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 also Note 2.15).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and any impairment losses are removed from the accounts. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognized.

2.9 Financial Liabilities

Financial liabilities of the Group include Interest-bearing Loans and Borrowings, Bonds Payable, Trade and Other Payables [excluding value-added tax (VAT)] and Advances from Other Related Parties.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest related charges are recognized as expense in profit or loss under the caption Interest and Other Charges – net account in the consolidated statement of comprehensive income.

Interest-bearing Loans and Borrowings and Bonds Payable are raised for support of long-term funding of operations. These are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss except for capitalized borrowing cost, 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 are initially recognized at their fair value and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

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

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

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Company does not have an unconditional right to defer settlement of the liability for atleast twelve months after the reporting period. Otherwise, these are presented as non-current liabilities.

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

2.10 Business Combination

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (see also Note 2.15). Impairment losses on goodwill are not reversed.

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

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

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

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

2.11 Segment Reporting

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities; and,
- revenue, costs and fair value gains from investment property.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

2.12 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, probable 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.

2.13 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding VAT and trade discounts.

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

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

    The sale is recognized when a certain percentage of the total contract price has already been collected. The amount of real estate sales recognized in the consolidated statement of income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

    For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by the parent company, MGAI, EELHI and ECOC, while MDC reports revenues for tax purposes based also on the percentage-of-completion method.

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

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

(c) *Rental and hotel income* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Rental income is recognized on a straight-line basis over the lease term.

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

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

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

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

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 2.17) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.6).

Operating expenses and other costs (other than costs of real estate sold) are recognized in the profit or loss upon utilization of the service or receipt of goods or at the date they are incurred.

2.14 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognized as income in 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.

2.15 Impairment of Non-financial Assets

The Group's Investments in Associates, Goodwill (included as part of Other Non-current Assets), Investment Property, Land for Future Development, and Property and Equipment are subject to impairment testing. 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 amount, 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 impairment loss.

2.16 Employee Benefits

(a) Post-employment Benefit

Post-employment benefit is provided to employees through 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 plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

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

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) 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 the Trade and Other Payables account of the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.17 Borrowing Costs

For financial reporting purposes, 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 directly 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.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.18 Income Taxes

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

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

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

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

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

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

2.19 Related Party Transactions

Related party transactions are transfers of resources, services or obligations between the entities in the Group and their 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. Related 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; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

2.20 Equity

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Treasury stock is stated at the cost of re-acquiring such shares.

Net unrealized gains (losses) on AFS securities represent gains or losses recognized due to changes in fair values of these assets.

Accumulated translation adjustments represent the translation adjustments resulting from the conversion of foreign-currency denominated financial statements of certain subsidiaries into the Group's functional and presentation currency.

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

2.21 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing consolidated 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 and reverse stock split during the current year, if any.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares. As of December 31, 2011 and 2010, the Group does not have potential dilutive common shares.

2.22 Events after the Reporting Period

Any post-year-end event that provides additional information about the Group's 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 financial statements.

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

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 Investments in AFS Securities

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and in operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's investments in AFS securities, management concluded that the assets are not impaired as of December 31, 2011 and 2010. Future changes in such information and circumstance might significantly affect the carrying amount of the assets.

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

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

(c) *Operating and Finance Leases*

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

(d) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.12 and relevant disclosures of contingencies are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

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

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

The Group uses the percentage-of-completion method in accounting for its realized gross profit on real estate sales. The use of the percentage-of-completion method requires the Group to estimate the portion completed using relevant information such as costs incurred to date as a proportion of the total budgeted cost of the project and estimates by engineers and other experts.

(b) *Determining Net Realizable Value of Residential and Condominium Units for Sale and Property Development Costs*

In determining the net realizable value of residential and condominium units for sale and property development costs, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of real estate for sale and property development costs is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation and uncertainty and may cause significant adjustments to the Group's Residential and Condominium Units for Sale and Property Development Costs within the next financial year.

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

The carrying values of the Company's Residential and Condominium Units for Sale and Property Development Costs amounted to P19.5 billion and P8.8 billion, respectively, as of December 31, 2011 andP6.3 billion and P3.8 billion, respectively, as of December 31, 2010.

(c) *Principal Assumptions for Management's Estimation of Fair Value*

Investment Property is measured using the cost model. The fair value disclosed in Note 11 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

For financial assets, fair value determination is discussed in Note 2.5.

(d) *Useful Lives of Property and Equipment and Investment Property*

The Group estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property 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. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment and investment property would increase recorded operating expenses and decrease non-current assets.

The carrying amounts of investment property and property and equipment are disclosed in Notes 11 and 12, respectively.

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

Allowance is made for specific and groups of accounts, where an objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(f) Valuation of Financial Assets Other than Trade and Other Receivables

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, 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 base of the instrument. The amount of changes in fair value would differ had the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. The carrying amounts of cash and cash equivalents, financial assets at FVTPL and AFS financial assets are disclosed in Notes 5, 7 and 8, respectively.

(g) 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. Management assessed that the balance of deferred tax assets as at December 31, 2011 and 2010 will be utilized within the next two to three years.

The carrying amount of the net deferred tax assets as of December 31, 2011 and 2010 is disclosed in Note 22.

(h) Impairment of Non-financial Assets

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. 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.

There were no impairment losses required to be recognized in 2011and 2010 based on management's assessment.

(i) Post-employment Benefit

The determination of the Group's obligation and cost of post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 21.2.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office developments. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment relates to the management of hotel business operations. The Corporate and Others segment includes marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.11. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

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, receivables, real estate inventories, property and equipment, and investment property, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

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

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2011, 2010 and 2009 and certain asset and liability information regarding segments at December 31, 2011, 2010 and 2009.

2011

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 19,076,553,675	P 3,826,341,215	P 392,171,105	P 3,023,156,092	P -	P 26,318,222,087
Intersegment sales	-	53,969,793	-	166,500,934	(220,470,727)	-
Total revenues	P 19,076,553,675	P 3,880,311,008	P 392,171,105	P 3,189,657,026	(P 220,470,727)	P 26,318,222,087
RESULTS						
Segment results	P 3,532,707,027	P 2,903,020,448	P 99,220,101	P 2,384,111,424	P 25,888,853	P 8,944,947,853
Unallocated expenses						(199,278,575)
Income from operations						8,745,669,278
Interest income	-	-	-	1,618,727,549	-	1,618,727,549
Finance costs	-	-	-	(884,058,862)	-	(884,058,862)
Equity in net earnings of associates	-	-	-	597,834,536	-	597,834,536
Foreign currency gains – net	-	-	-	65,503,537	-	65,503,537
Dividend income	-	-	-	32,661,662	-	32,661,662
Fair value gains (losses) – net	-	-	-	(7,851,631)	-	(7,851,631)
Profit before tax						10,168,486,069
Tax expense						(1,995,469,148)
Net profit before non-controlling interests and preacquisition income						8,173,016,921
Preacquisition income of a subsidiary						(17,326,952)
Non-controlling interests' share in net profit						(123,805,458)
Net profit attributable to parent company's shareholders						P 8,031,884,511
ASSETS AND LIABILITIES						
Segment assets	P 93,027,684,188	P13,098,763,945	P 261,591,040	P13,444,018,245	P -	P119,832,057,418
Investments in and advances to associates and other related parties - net	-	-	-	6,745,964,129	-	6,745,964,129
Unallocated assets	-	-	-	2,417,505,117	-	2,417,505,117
Total assets	P 93,027,684,188	P13,098,763,945	P 261,591,040	P22,607,487,491	P -	P 128,995,526,664
Segment liabilities	P 46,802,707,496	P 1,853,118,305	P 111,753,205	P 7,455,842,379	P -	P 56,223,421,385
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P19,825,843,992

2010

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 15,399,973,187	P 2,694,310,554	P 232,757,023	P 808,477,515	P -	P19,135,518,279
Intersegment sales	-	52,014,865	-	179,885,935	(231,900,800)	-
Total revenues	P 15,399,973,187	P 2,746,325,419	P 232,757,023	P 988,363,450	(P 231,900,800)	P19,135,518,279
RESULTS						
Segment results	P 3,042,478,040	P 2,062,875,628	P 38,125,649	P 752,871,759	P 25,888,853	P 5,922,239,929
Unallocated expenses						(117,450,295)
Income from operations						5,804,789,634
Interest income	-	-	-	835,944,617	-	835,944,617
Finance costs	-	-	-	(516,440,321)	-	(516,440,321)
Equity in net earnings of associates	-	-	-	442,281,307	-	442,281,307
Fair value gains – net	-	-	-	83,500,000	-	83,500,000
Dividend income	-	-	-	40,630,134	-	40,630,134
Foreign currency gains – net	-	-	-	3,908,758	-	3,908,758
Profit before tax						6,694,614,129
Tax expense						(1,609,101,525)
Net profit before non-controlling interests						5,085,512,604
Non-controlling interests' share in net profit						(59,332,029)
Net profit attributable to parent company's shareholders						P 5,026,180,575
ASSETS AND LIABILITIES						
Segment assets	P 63,241,644,678	P 5,919,037,407	P 178,376,810	P13,025,093,222	P -	P82,364,152,117
Investments in and advances to associates and other related parties - net	-	-	-	13,671,332,490	-	13,671,332,490
Unallocated assets	-	-	-	994,038,204	-	994,038,204
Total assets	P 63,241,644,678	P 5,919,037,407	P 178,376,810	P27,690,463,916	P -	P97,029,522,811
Segment liabilities	P 32,027,981,425	P 1,530,032,850	P 78,854,006	P 4,873,517,893	P -	P38,510,386,174
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P13,460,175,204

2009

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 14,566,449,663	P 2,000,477,427	P 216,143,646	P 59,044,461	P -	P16,842,115,197
Intersegment sales	-	62,047,938	-	71,112,463	(133,160,401)	-
Total revenues	P 14,566,449,663	P 2,062,525,365	P 216,143,646	P 130,156,924	(P 133,160,401)	P16,842,115,197
RESULTS						
Segment results	P 3,721,385,850	P 1,535,784,727	P 44,321,641	P 31,021,942	P 25,888,853	P 5,358,403,013
Unallocated expenses						(206,001,589)
Income from operations						5,152,401,424
Interest income	-	-	-	690,238,144	-	690,238,144
Finance costs	-	-	-	(556,326,705)	-	(556,326,705)
Equity in net earnings of associates	-	-	-	157,958,213	-	157,958,213
Dividend income	-	-	-	44,247,127	-	44,247,127
Fair value gains – net	-	-	-	24,100,000	-	24,100,000
Foreign currency loss – net	-	-	-	(8,464,596)	-	(8,464,596)
Profit before tax						5,504,153,607
Tax expense						(1,437,541,131)
Net profit before non-controlling interests						4,066,612,476
Non-controlling interests' share in net profit						(11,211,285)
Net profit attributable to parent company's shareholders						P 4,055,401,191
ASSETS AND LIABILITIES						
Segment assets	P 55,378,759,577	P 5,072,588,995	P 182,070,130	P11,172,314,788	P -	P71,805,733,490
Investments in and advances to associates and other related parties - net	-	-	-	12,665,714,849	-	12,665,714,849
Unallocated assets	-	-	-	782,324,106	-	782,324,106
Total assets	P 55,378,759,577	P 5,072,588,995	P 182,070,130	P24,620,353,743	P -	P85,253,772,445
Segment liabilities	P 28,887,111,381	P 1,102,204,707	P 51,504,125	P 5,377,235,672	P -	P35,418,055,885
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 10,700,484,872

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2011	2010
Cash on hand and in banks	**P 2,049,865,776**	P 1,109,041,947
Short-term placements	**28,274,613,404**	20,922,542,996
	P 30,324,479,180	P22,031,584,943

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods between 15 to 30 days and earn effective interest ranging from 3.5% to 4.9% in 2011and 3.5% to 4.8% in 2010(see Note 19).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2011	2010
Current:		
Trade	**P 15,414,359,792**	P 12,899,356,339
Allowance for impairment	**(18,458,087)**	(3,324,211)
	15,395,901,705	12,896,032,128
Advances to contractors and suppliers	**1,173,135,782**	710,223,731
Others	**609,413,603**	527,545,525
	17,178,451,090	14,133,801,384
Non-current:		
Trade	**20,207,201,820**	15,617,214,463
Allowance for impairment	**(12,224,936)**	-
	20,194,976,884	15,617,214,463
Others	**14,065,568**	-
	20,209,042,452	15,617,214,463
	P37,387,493,542	P 29,751,015,847

A reconciliation of the allowance for impairment at the beginning and end of 2011 and 2010 is shown below.

	2011	2010
Balance at beginning of year	**P 3,324,211**	P 7,895,021
Allowance carried from new subsidiaries (EELHI and SPI)	**26,302,376**	-
Impairment loss during the year	**1,139,783**	-
Write-off of trade receivables previously provided with allowance	**(83,347)**	(4,570,810)
Balance at end of year	**P 30,683,023**	P 3,324,211

The installment period of sales contracts averages to five years. Trade receivables are noninterest-bearing and are remeasured at amortized cost using the effective interest rate of 10%. Interest income recognized amounted to P1.2 billion in 2011, P933.4 million in 2010 and P714.2 million in 2009; these amounts are presented as Interest Income on Real Estate Sales in the consolidated statements of income.

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 resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by postdated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

The fair values of trade and other receivables are disclosed in Note 28.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of investments in marketable securities which are presented at their fair values determined directly by reference to published prices quoted in an active market as of December 31, 2011 and 2010. The changes in fair values of these financial assets are presented as Fair Value Gains - net in 2011 and 2010 under Equity in Net Earnings of Associates, Interest and Other Income - net (see Note 19).

8. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

AFS securities comprise the following as of December 31:

	2011	2010
Investments in equity instruments	**P2,030,052,709**	P5,535,716,669
Investments in debt instruments	**561,694,969**	675,467,827
	P2,591,747,678	P6,211,184,496

The fair values of AFS financial assets have been determined directly by reference to published prices in an active market.

The aggregate cost of AFS financial assets as of December 31, 2011 and 2010 amounted to P2.5 billion andP2.4 billion, respectively. The fair value gains/losses arising from these financial assets which comprised the movements in the carrying amounts of AFS, are reported as part of Net Unrealized Gains (Losses) on AFS Financial Assets in the consolidated statements of comprehensive income.

The decrease in the carrying amount of AFS securities resulted from the disposal of investments during the year. The resulting gain is presented as Gain on Sale of AFS securities under Equity in Net Earnings account in the 2011 statement of income (see Note 19).

A portion of the AFS securities are owned by RHGI and EELHI, which are subsidiaries of the Company. Hence, the movements in the AFS financial assets arising from fair value gains/losses are fully allocated to the parent company's shareholders.

9. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various projects. These are treated as jointly controlled operations; there were no separate entities created by these joint venture agreements. The joint venture agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of condominium to be constructed on the properties. Costs incurred by the Group for these projects are recorded under the Property Development Costs account in the consolidated statements of financial position (see Note 2.6). The amounts of other related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group (see Note 2.3).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint ventures under agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the agreements, 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.

Repayment of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the owner's share in saleable lots or in the form of cash to be derived from the sales of the landowner's share in the saleable lots and residential and condominium units.

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

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

	2011	2010
Total commitment for cash advances	**P 20,000,000**	P1,500,000,000
Total cash advances granted	**(20,000,000)**	(1,500,000,000)
Net Commitment	**P -**	P -

The net commitment for construction expenditures amounts to:

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

The Group's interests in jointly-controlled operations and projects range from 72% to 95% in 2011 and 2010. The listing and description of the Group's jointly controlled projects are as follows:

Parent company:

- McKinley Hills
- Newport City
- Manhattan Parkway Residences
- Greenbelt Excelsior
- Forbeswood Heights
- ForbeswoodParklane 1 & 2
- The Noble Place

EELHI:

- Pioneer Woodlands
- San Lorenzo Place
- Governor Hills
- Sta. Rosa Heights
- Various Metro Manila and Calabarzon projects

The aggregate amounts of the current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of and for the years ended December 31, 2011, 2010 and 2009related to the Group's interests in joint ventures are not presented as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.3).

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

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

10.1 Breakdown of Carrying Values

The details of investments in and advances to associates and other related parties, are as follows:

	% Interest Held (see Note 1)	2011	2010
Investments in associates – at equity			
Acquisition costs:			
SHDI	42.48%	**P 875,445,000**	P 875,445,000
PTHDC	40.00%	**64,665,000**	64,665,000
MGEI	40.00%	**5,000,000**	-
AGPL	39.44%	**2,463,056,417**	2,463,056,417
TIHGI	10.00%	**570,000,000**	570,000,000
EELHI	-	**-**	5,726,128,415
GPMAI	-	**-**	98,806,194
		3,978,166,417	9,798,101,026
Accumulated equity in net (losses) earnings:			
Balance at beginning of year		**1,826,240,632**	1,403,518,676
Reversal resulting from the consolidation of EELHI and GPMAI		**(2,216,306,527)**	-
Equity share in net earnings for the year (see Note 19)		**597,834,536**	442,281,307
Share in other comprehensive income(loss)		**(147,365)**	71,176,649
Dividends received from TIHGI		**-**	(90,736,000)
Balance at end of year		**207,621,276**	1,826,240,632
Advances to associates and other related parties (see Note 23.3)		**2,560,176,436**	2,046,990,832
		P 6,745,964,129	P13,671,332,490

In 2011, EELHI and GPMAI became subsidiaries of the Company (see Note 1).

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

At the beginning of 2010, the Company held 1.0 billion shares of TIHGI which represents 10% ownership interest. In August 2010, TIHGI amended its Articles of Incorporation to convert P9.9 billion or 99% of its common shares to redeemable, voting and participating preferred shares. This was approved by the Securities and Exchange Commission (SEC) on October 14, 2010. Consequently, the investment of the Company in TIHGI of 1.0 billion common shares was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. As this was just a conversion of shares and did not change the Company's 10% ownership in TIHGI, no gain or loss from the transaction was recorded in the Company's books. In November 2010, TIHGI redeemed 430.0 million preferred shares held by the Company at par value. There are no outstanding receivables as of December 31, 2010 arising from TIHGI's redemption of preferred shares held by the Company. Despite of the 10% ownership, the Company considers TIHGI as an associate due to the presence of significant influence over TIHGI's operations since two out of the five directors of TIHGI are also members of the Company's BOD.

In 2010, the Company received cash dividends from TIHGI amounting to P90.7 million. The amount received is considered a return on investment and is presented as deduction from the Accumulated Equity in Net Earnings shown in the previous table presented. No dividend was declared by TIHGI in 2011.

In October 2010, AGPL issued additional 57.7 million common shares. Out of the total number of shares that AGPL issued, RHGI, a 100% owned subsidiary of the Company, subscribed to only 19.1 million shares (lesser than its proportionate share) at a cost of P20.4 million. This resulted in the decline of RHGI's percentage ownership in AGPL to 39.44% in 2010. No additional shares was issued by AGPL in 2011.

Also, in October 2010, GPMAI issued additional 27.0 million shares to EELHI resulting in the decline of TDI's percentage ownership in GPMAI to 48.08% and MREI's and the Company's indirect ownership to 28.85% and 39.83%, respectively. Accordingly, GPMAI was deconsolidated and treated as an associate as of December 31, 2010. GPMAI's issuance of new shares was made at book value, hence, no dilution gain or loss was recognized.

The increase in ownership in EELHI from 48.38% to 61.13% in 2011 resulted in the consolidation of the entity and increase in non-controlling interest and also in the presentation of the amount of preacquisition income in the statement of income. In 2011, the Company's indirect ownership in GPMAI also increased to 46.45% through the Company's increased ownership interest in EELHI, which has a 52% ownership in GPMAI. Consequently, GPMAI is also treated as a subsidiary of the Company in 2011.

The balance of the Accumulated Equity in Net Earnings of P0.2 billion and P1.8 billion as of December 31, 2011 and 2010, respectively, which is mainly lodged in the Group's Retained Earnings as of those dates, is not available for dividend declaration.

10.2 Summarized Financial Information

The aggregated amounts of assets, liabilities and net profit (loss) of the associates are as follows:

	Assets	Liabilities	Revenues	Net Profit (Loss)
2011:				
SHDI	P 346,218,249	P 238,560,591	P 174,125,973	(P 3,271,785)
PTHDC	1,137,402,691	1,005,276,839	115,409	(157,289)
MGEI	12,032,991	-	34,940	(467,014)
AGPL	6,043,588,479	8,263,874	295,614,455	282,114,487
TIHGI	45,595,379,043	26,801,261,974	26,348,582,418	4,838,534,174
	P 53,134,621,453	**P 28,053,363,278**	**P 26,818,473,195**	**P 5,116,752,573**
2010:				
EELHI	P 27,802,956,436	P 8,272,469,687	P 2,252,537,377	P 250,265,682
SHDI	574,763,978	463,834,535	8,292,806	4,749,928
PTHDC	1,137,581,235	1,005,298,094	64,128	(178,157)
GPMAI	749,039,928	157,143,964	185,277,507	166,260,340
AGPL	6,352,873,392	7,846,770	205,630,984	95,518,781
TIHGI	40,779,934,827	26,822,878,282	14,876,965,463	3,220,646,817
	P 77,397,149,796	P 36,729,471,332	P 17,528,768,265	P 3,737,263,391

11. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation at the beginning and end of 2011 and 2010 are shown below.

	Land	Buildings	Condominium Units	Total
December 31, 2011				
Cost	P 1,412,634,527	P 7,960,842,147	P 4,977,714,772	P 14,351,191,446
Accumulated depreciation	-	(1,191,162,815)	(787,737,966)	(1,978,900,781)
Net carrying amount	**P 1,412,634,527**	**P 6,769,679,332**	**P 4,189,976,806**	**P 12,372,290,665**
December 31, 2010				
Cost	P 1,412,634,527	P 5,878,941,281	P 3,954,063,399	P 11,245,639,207
Accumulated depreciation	-	(930,323,176)	(598,785,986)	(1,529,109,162)
Net carrying amount	P 1,412,634,527	P 4,948,618,105	P 3,355,277,413	P 9,716,530,045
January 1, 2010				
Cost	P 1,427,094,149	P 5,621,910,029	P 3,219,937,754	P 10,268,941,932
Accumulated depreciation	-	(724,584,211)	(438,572,652)	(1,163,156,863)
Net carrying amount	P 1,427,094,149	P 4,897,325,818	P 2,781,365,102	P 9,105,785,069

A reconciliation of the carrying amounts at the beginning and end of 2011 and2010 of investment property is shown below.

	Land	Buildings	Condominium Units	Total
Balance at January 1, 2011, net of accumulated depreciation	P 1,412,634,527	P 4,948,618,105	P 3,355,277,413	P 9,716,530,045
Additions	-	1,831,474,260	1,042,662,947	2,874,137,207
Disposals	-	-	(19,011,574)	(19,011,574)
Investment property of newly-acquired subsidiaries	-	250,426,606	-	250,426,606
Depreciation charges for the year	-	(260,839,639)	(188,951,980)	(449,791,619)
Balance at December 31, 2011, net of accumulated depreciation	**P 1,412,634,527**	**P 6,769,679,332**	**P 4,189,976,806**	**P 12,372,290,665**
Balance at January 1, 2010, net of accumulated depreciation	P 1,427,094,149	P 4,897,325,818	P 2,781,365,102	P 9,105,785,069
Additions	-	257,140,943	734,125,645	991,266,588
Transfers	-	(109,691)	-	(109,691)
Investment property of a deconsolidated subsidiary	(14,459,622)	-	-	(14,459,622)
Depreciation charges for the year	-	(205,738,965)	(160,213,334)	(365,952,299)
Balance at December 31, 2010, net of accumulated depreciation	P 1,412,634,527	P 4,948,618,105	P 3,355,277,413	P 9,716,530,045

Certain properties held for lease with appraised value of P800.0 million as of December 31, 2011 and 2010 were used as collateral for ECOC's Interest-bearing Loan (see Note 14).

Rental income earned from these properties amount to P3.8 billion, P2.7 billion and P2.0 billionin 2011, 2010 and 2009, respectively, and is shown as Rental Income in the consolidated statements of income. The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amounted to P135.08 million in 2011,P91.4 million in 2010 and P94.7 million in 2009. The operating lease commitments of the Group as a lessor are fully disclosed in Note 26.1.

The fair market values of these properties are P73.8 billion and P52.9 billion as of December 31, 2011 and 2010, respectively. These are determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 10% in 2011 and 2010.

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2011 and 2010 are shown below.

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
December 31, 2011						
Cost	P 707,071,366	P 295,154,303	P 146,350,111	P 99,645,611	P 81,095,000	P 1,329,316,391
Accumulated depreciation and amortization	(463,382,815)	(180,626,286)	(82,351,477)	(62,096,083)	-	(788,456,661)
Net carrying amount	**P 243,688,551**	**P 114,528,017**	**P 63,998,634**	**P 37,549,528**	**P 81,095,000**	**P 540,859,730**
December 31, 2010						
Cost	P 629,423,370	P 208,009,574	P 125,515,520	P 73,056,949	P -	P1,036,005,413
Accumulated depreciation and amortization	(419,607,035)	(137,705,039)	(68,848,502)	(49,326,636)	-	(675,487,212)
Net carrying amount	P 209,816,335	P 70,304,535	P 56,667,018	P 23,730,313	P -	P 360,518,201
January 1, 2010						
Cost	P 636,068,482	P 164,774,710	P 110,228,731	P 68,340,932	P -	P 979,412,855
Accumulated depreciation and amortization	(384,211,287)	(112,828,976)	(62,091,448)	(39,104,161)	-	(598,235,872)
Net carrying amount	P 251,857,195	P 51,945,734	P 48,137,283	P 29,236,771	P -	P 381,176,983

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010 of property and equipment is shown below.

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 209,816,335	P 70,304,535	P 56,667,018	P 23,730,313	P -	P 360,518,201
Additions	21,209,000	49,572,739	6,886,910	9,797,777	-	87,466,426
Disposals	-	(3,613,201)	(3,026,364)	(2,383,407)	-	(9,022,972)
Property andequipment of newly-acquired subsidiaries	56,783,508	41,185,190	16,974,045	22,709,850	81,095,000	218,747,593
Depreciation and amortization charges for the year	(44,120,292)	(42,921,246)	(13,502,975)	(16,305,005)	-	(116,849,518)
Balance at December 31, 2011, net of accumulated depreciation and amortization	**P 243,688,551**	**P 114,528,017**	**P 63,998,634**	**P 37,549,528**	**P 81,095,000**	**P 540,859,730**

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2010, net of accumulated depreciation and amortization	P 251,857,195	P 51,945,734	P 48,137,283	P 29,236,771	P -	P 381,176,983
Additions	2,476,163	43,273,546	14,583,114	2,040,275	-	62,373,098
Disposals	(9,121,275)	(38,682)	703,675	2,675,742	-	(5,780,540)
Depreciation and amortization charges for the year	(35,395,748)	(24,876,063)	(6,757,054)	(10,222,475)	-	(77,251,340)
Balance at December 31, 2010 net of accumulated depreciation and amortization	P 209,816,335	P 70,304,535	P 56,667,018	P 23,730,313	P -	P 360,518,201

13. OTHER NON-CURRENT ASSETS

This account consists of:

	2011	2010
Goodwill	**P 345,053,732**	P 264,768,344
Guarantee and other deposits	**260,906,603**	174,767,810
Others	**3,087,499**	2,559,242
	P 609,047,834	P 442,095,396

Goodwill is subject to impairment testing at least annually. No impairment losses were recognized in 2011 and 2010.

Guarantee deposits pertain mainly to payments made for compliance with construction requirements in relation to the Group's real estate projects.

14. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing Loans and Borrowings account represents the following loans of the Group as of December 31:

	2011	2010
Current:		
Megaworld Corporation	**P 1,203,380,952**	P1,203,380,952
SPI	**400,000,000**	-
EELHI	**221,870,556**	-
ECOC	**54,041,138**	107,973,945
Balance brought forward	**P 1,879,292,646**	P1,311,354,897

	2011	2010
Balance forwarded	**P 1,879,292,646**	P1,311,354,897
Non-current:		
Megaworld Corporation	**4,871,214,286**	6,074,595,238
EELHI	**417,377,123**	-
ECOC	**-**	53,988,238
	5,288,591,409	6,128,583,476
	P 7,167,884,055	P7,439,938,373

14.1 Megaworld Corporation

In 2008, the Company signed a financing deal with a local bank under which the Company may avail of a P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion). The Company had availed of P4.5 billion out of the P5.0 billion facility in 2008 while the remaining P500.0 million was availed of in 2009. The proceeds of the loan were used to fund the development of the Group's 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. Interest is payable every quarter based on the Philippine Dealing System Treasury Fixing rate (PDSTF-R) plus a certain spread.

In February 2009, the Company issued unsecured corporate notes to several financial institutions in the aggregate principal amount of P1.4 billion which will mature in seven years from the issue date. The principal repayments on this loan shall commence in February 2010 and interest shall be paid semi-annually based on a 9.0% annual interest rate.

Also, in May 2009, the Company obtained an unsecured long-term loan from a local bank amounting to P500.0 million. The loan is payable for a term of seven years and interest is payable semi-annually based on a floating six-month PDSTF-R plus a certain spread, subject to semi-annual reprising.

The remaining portion of the loans payable by the Company pertains to the balance of a long-term loan obtained in 2003 from a local bank with an original amount of P950.0 million which is payable in 10 years, inclusive of a three-year grace period on principal payments. Interest is payable every quarter based on 91-day treasury bill plus a certain spread. The Company also obtained an additional loan with original amount of P403.0 million in 2006 from the same local bank subject to the same terms and conditions. Collateral for the loans consisted of a mortgage over certain investment property of the Company (see Note 11).

14.2 EELHI

EELHI has outstanding secured and unsecured loans from local banks. The loans bear annual interest rates ranging from9.5% to 10.5% in 2011. Certain properties with an estimated carrying value of P1.6 billion as of December 31, 2011, are used as collateral for the P639.2 million bank loan.

Bank loans also include amounts arising from trade receivables discountedon a with-recourse basis(see Note 6). Finance costs that are directly attributable to construction of the EELHI's projects are capitalized as part of Residential and Condominium Units for Sale. The remaining interest costs are expensed outright and are presented as part of Interest and Other Charges - net in the 2011 consolidated statement of income.

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

14.3 SPI

In 2011, SPI availed of short-term loans from a local bank amounting to P400.0 million. This loan bears an annual interest rate of 5.5% upon maturity in 2012.

14.4 ECOC

The amount payable by ECOC pertains to the balance of a long-term loan facility obtained in 2002 with an original amount of U.S.$25 million (approximately P1.3 billion) from a foreign financial institution. The proceeds of the loan were used in the construction of several information technology buildings at the Eastwood CyberPark which is operated by ECOC. The drawdown from the loan facility amounting to U.S.$20 million (P1.0 billion) was made on October 15, 2002. The loan is payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest is payable every six months at London Inter-bank Offer Rate plus certain spread. Collaterals for the loan consisted of a mortgage over ECOC's certain Investment Property (see Note 11), and a full guarantee from the parent company.

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

Total finance costs attributable to these loans amounted to P523.4 million, P620.6 million in 2011 and 2010, respectively. Of these amounts, the balance of the interest is presented as part of Finance Costs under Interest and Other Charges - net in the consolidated statements of income (see Note 20). Interest charges capitalized in 2011 and 2010 amount to P355.6 million and P384.1 million, respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 8.29%.

15. BONDS PAYABLE

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

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

On August 4, 2006, the Group issued five-year term bonds totaling U.S.$100 million at a discount of U.S.$1.5 million. The bonds bear interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting on February 4, 2007.The bond matured in August 2011. Interest expense from bonds payable is presented as part of Finance Costs under Interest and Other Charges in the consolidated statements of income (see Note 20). During 2008, RHGI bought a portion of the five-year term bonds aggregating to U.S.$22.2 million (P1.1 billion) and these were classified as financial assets at FVTPL by RHGI. The bonds' fair market value as of December 31, 2010 amounted to U.S.$22.2 million (P972.4 million). The effects of this transaction were eliminated in the preparation of consolidated financial statements.

16. TRADE AND OTHER PAYABLES

This account consists of:

	2011	2010
Trade payables	**P5,241,397,638**	P2,203,109,184
Retention payable	**1,349,444,587**	1,211,950,863
Accrued interest	**303,706,055**	285,314,152
Accrued construction cost	**64,837,800**	77,369,336
Miscellaneous	**337,580,414**	259,969,813
	P7,296,966,494	P4,037,713,348

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

Retention payable pertains to amount withheld from payments made to contractors to ensure compliance and completion of contracted projects equivalent to 10% of every billing made by the contractor. Upon completion of the contracted projects, the amounts are returned to the contractors. Miscellaneous payable consist primarily of withholding taxes payable and accrual of salaries and wages and utilities.

17. OTHER LIABILITIES

This account consists of:

	2011	2010
Current:		
Unearned income	**P 1,513,744,516**	P 939,203,207
Deferred rent	**27,698,235**	797,618,036
Other payables	**237,053,966**	4,843,817
	P 1,778,496,717	P1,741,665,060
Non-current:		
Deferred rent – net	**P 1,943,654,006**	P 732,378,814
Other payables	**702,883,979**	286,744,561
	P 2,646,537,985	P1,019,123,375

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

18. OPERATING EXPENSES

Presented below are the details of this account.

	Notes		**2011**		2010		2009
Commission		**P**	**934,748,085**	P	467,977,819	P	471,837,004
Salaries and employee benefits	21		**775,558,589**		437,045,219		343,257,217
Advertising and promotions			**572,052,650**		189,619,585		148,996,615
Depreciation and amortization	11, 12		**566,641,137**		443,203,639		365,795,590
Utilities and supplies			**215,840,286**		141,065,957		79,752,963
Taxes and licenses			**196,304,569**		110,188,073		134,286,970
Professional fees and outside services			**176,664,004**		68,426,284		28,773,878
Rent			**163,714,850**		60,263,992		47,103,336
Transportation			**142,590,321**		103,626,296		100,083,640
Association dues			**103,023,327**		51,261,055		28,355,868
Miscellaneous			**269,087,243**		67,547,715		59,877,805
		P	**4,116,225,061**	P	2,140,225,634	P	1,808,120,886

19. EQUITY IN NET EARNINGS OF ASSOCIATES, INTEREST AND OTHER INCOME

Presented below are the details of this account.

	Notes		**2011**		2010		2009
Gain on sale of available-for-sale securities		**P**	**2,242,526,309**	P	646,720,788	P	-
Interest income			**1,618,727,549**		835,944,617		690,238,144
Equity in net earnings of associates	10		**597,834,536**		442,281,307		157,958,213
Construction income – net			**138,492,457**		101,962,175		26,473,236
Foreign currency gains – net			**65,503,537**		3,908,758		-
Dividend income			**32,661,662**		40,630,134		44,247,127
Fair value gains (losses) – net	7	**(**	**7,851,631)**		83,500,000		24,100,000
Miscellaneous – net			**642,137,327**		59,794,552		32,571,224
		P	**5,330,031,746**	P	2,214,742,331	P	975,587,944

20. INTEREST AND OTHER CHARGES

Presented below are the details of this account.

	Notes	2011	2010	2009
Finance costs	14, 15	**P 884,058,862**	P 516,440,321	P 556,326,705
Foreign currency losses – net	7	**-**	-	8,464,596
Underwriting fees		**-**	-	21,505,376
Miscellaneous – net		**19,467,573**	27,960,793	1,247,492
		P 903,526,435	P 544,401,114	P 587,544,169

Finance costs pertain to interest expense incurred from the bonds payable and interest-bearing loans.

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below (see Note 18).

	2011	2010	2009
Salaries and wages	**P 562,075,202**	P 271,233,637	P 229,301,717
Retirement benefit expense	**77,666,352**	37,271,665	23,547,960
13th month and other employee benefits	**135,817,035**	128,539,917	90,407,540
	P 775,558,589	P 437,045,219	P 343,257,217

21.2 Post-employment Benefit

The Group maintains a funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation, presented as non-current liability in the consolidated statements of financial position, are determined as follows:

	2011	2010
Present value of the obligation	**P 557,555,467**	P 209,714,448
Fair value of plan assets	**(76,027,689)**	(53,207,861)
Deficiency of plan assets	**481,527,778**	156,506,587
Unrecognized past service costs	**(3,656,813)**	-
Unrecognized actuarial losses	**(192,449,225)**	(40,467,402)
	P 285,421,740	P 116,039,185

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

	2011	2010
Balance at beginning of year	**P 209,714,448**	P 163,802,833
Actuarial loss	**150,015,737**	11,732,057
Balance carried from new subsidiaries (EELHI and SPI)	**121,158,535**	-
Current service costs	**54,081,117**	23,934,917
Interest costs	**25,966,462**	15,086,241
Benefits paid	**(3,380,832)**	(4,841,600)
Balance at end of year	**P 557,555,467**	P 209,714,448

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

	2011	2010
Balance at beginning of year	**P 53,207,861**	P 40,427,396
Contributions paid into the plan	**13,900,000**	12,000,000
Expected return on plan assets	**3,316,664**	2,425,644
Additions due to consolidation of EELHI and SPI	**3,104,807**	-
Actuarial gain	**5,879,189**	3,196,421
Benefits paid	**(3,380,832)**	(4,841,600)
Balance at end of year	**P 76,027,689**	P 53,207,861

The Group's plan assets as of December 31, 2011 and 2010 are solely in the form of cash and cash equivalents which are being administered by a trustee. The contributions to the plan are made annually by the Group based on availability of funds.

The amounts of retirement benefits expense recognized in the consolidated statements of income are as follows:

	2011	2010	2009
Current service costs	**P 54,081,117**	P 23,934,917	P 14,995,640
Interest costs	**25,966,462**	15,086,241	10,363,160
Expected return on plan assets	**(3,316,764)**	(2,425,644)	(1,545,814)
Past service cost	**199,580**	-	-
Net actuarial losses (gains) recognized during the year	**735,957**	676,151	(265,026)
	P 77,666,352	P 37,271,665	P 23,547,960

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and deficiency of plan assets.

	2011	2010	2009	2008	2007
Present value of the obligation	**P 557,555,467**	P209,714,448	P 163,802,833	P 91,871,990	P 128,399,196
Fair value of plan assets	**(76,027,689)**	(53,207,861)	(40,427,396)	(26,200,243)	(21,000,000)
Deficiency of plan assets	**P 481,527,778**	P 156,506,587	P 123,375,437	P 65,671,747	P 107,399,196

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

	2011	2010
Discount rates	**8.0%**	9.2%
Expected rate of return on plan assets	**6.0%**	6.0%
Expected rate of salary increases	**10.0%**	10.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the age of 65 is 29 for both males and females.

22. CURRENT AND DEFERRED TAXES

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2011	2010	2009
Reported in consolidated statements of income:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 1,054,538,463**	P 813,802,554	P 512,512,346
Final tax at 20% and 7.5%	**181,904,031**	111,933,084	86,375,275
Special tax rate at 5%	**18,802,816**	19,479,041	15,866,373
Minimum corporate income tax (MCIT) at 2%	**1,029,759**	425,765	26,324
	1,256,275,069	945,640,444	614,780,318
Deferred tax expense relating to origination and reversal of temporary differences	**739,194,079**	663,461,081	822,760,813
	P 1,995,469,148	P 1,609,101,525	P1,437,541,131
Reported in consolidated statements of comprehensive income –			
Deferred tax income relating to origination and reversal of temporary differences	**(P 3,842,636)**	(P 55,967,408)	(P 26,041,986)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to income tax expense reported in the consolidated statements of income is as follows:

	2011	2010	2009
Tax on pretax profit at 30%	**P 3,045,347,735**	P 2,008,384,239	P 1,651,246,082
Adjustment for income subjected to lower income tax rates	**(310,945,790)**	(152,228,235)	(139,778,356)
Tax effects of:			
Non-taxable income	**(1,215,511,134)**	(462,560,168)	(170,042,598)
Non-deductible expenses	**461,886,444**	214,450,368	50,688,383
Net operating loss carry over (NOLCO)	**10,266,270**	1,000,962	8,483,984
Non-deductible interest expense	**5,576,527**	49,245,102	38,308,284
Excess of optional standard deduction over itemized deductions	**(4,906,889)**	(5,784,318)	(3,672,931)
Unrecognized deferred tax assets	**2,789,101**	10,225,726	3,514,346
Dividend income	**(1,858,980)**	(52,444,145)	(1,356,764)
Miscellaneous	**2,825,864**	(1,188,006)	150,701
Tax expense	**P 1,995,469,148**	P 1,609,101,525	P 1,437,541,131

The deferred tax assets and liabilities relate to the following as of December 31:

	2011	2010
Deferred tax assets:		
Retirement benefit obligation	**P 3,818,787**	P 3,186,559
NOLCO	**2,881,547**	4,141,606
Accrued rent expense	**35,829**	68,417
Others	**597,416**	463,957
	P 7,333,579	P 7,860,539
Deferred tax liabilities:		
Uncollected gross profit	**P4,184,468,051**	P2,697,434,301
Capitalized interest	**785,595,394**	443,717,090
Difference between the tax reporting base and financial reporting base of:		
- Investment property	**163,048,030**	201,696,863
- Property and equipment	**(19,520,145)**	(19,790,916)
Uncollected rental income	**76,840,485**	-
Accrued retirement cost	**(55,361,532)**	(43,301,756)
Translation adjustments	**(31,481,851)**	(70,281,317)
Bond issuance cost	**23,908,448**	-
Others	**(14,601,353)**	39,556,389
	P5,112,895,527	P3,249,030,654

The components of deferred tax expense (income) are as follows:

	Consolidated Statements of Income			Consolidated Statements of Comprehensive Income		
	2011	2010	2009	**2011**	2010	2009
Changes in deferred tax assets:						
NOLCO	**P 1,260,059**	P 793,817	(P 4,890,626)	**P -**	P -	P -
Retirement benefit obligation	**(632,228)**	(601,240)	(597,588)	**-**	-	-
Accrued rent expense	**32,588**	149,927	140,151	**-**	-	-
Allowance for impairment losses on receivables	**-**	-	24,859	**-**	-	-
Others	**(133,459)**	(315,330)	(146,236)	**-**	-	-
Changes in deferred tax liabilities:						
Uncollected gross profit	**1,487,033,750**	402,504,512	767,095,402	**-**	-	-
Capitalized interest	**341,878,304**	221,065,942	114,550,647	**-**	-	-
Uncollected rental income	**76,840,485**	-	(32,091,485)	**-**	-	-
Difference between tax reporting base and financial reporting base of:						
- Investment property	**(38,648,833)**	52,892,299	(24,060,932)	**-**	-	-
- Property and equipment	**270,771**	259,714	(572,373)	**-**	-	-
Bond issuance cost	**23,908,448**	-	-	**-**	-	-
Accrued retirement cost	**(12,059,776)**	(10,131,499)	(74,389)	**-**	-	-
Translation adjustments	**-**	-	-	**(3,842,636)**	(55,967,408)	(26,041,986)
Others	**(11,171,036)**	(3,157,061)	3,383,383	**-**	-	-
	1,868,579,073	663,461,081	822,760,813	**(3,842,636)**	(55,967,408)	(P26,041,986)
Effect of consolidation of EELHI, SPI and GPMAI	**(1,129,384,994)**	-	-	**-**	-	-
Deferred Tax Expense (Income)	**P 739,194,079**	P663,461,081	P 822,760,813	**(P 3,842,636)**	(P 55,967,408)	(P26,041,986)

No deferred tax liability has been recognized on the accumulated equity in net earnings of associates. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporation is not subject to income tax.

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

Subsidiary	Year incurred	Amount	Valid Until
MNPHI	2011	P 133,459	2014
	2010	233,530	2013
	2009	230,427	2012
MLI	2011	308,076	2014
	2010	37,479	2013
	2009	83,571	2012
FTPHI	2011	4,556	2014
	2010	7,052	2013
	2009	2,386	2012
		P 1,040,536	

Certain subsidiaries within the Group did not recognize the deferred tax assets on their MCIT.

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

Subsidiary	Year incurred	Amount	Valid Until
MCPI	2011	P 11,471,042	2014
	2010	39,698,367	2013
	2009	29,346,465	2012
MLI	2010	12,118,518	2013
	2009	9,932,923	2012
OPI	2010	4,508,189	2013
	2009	4,036,439	2012
FTPHI	2010	159,226	2013
	2009	320,405	2012
PIPI	2010	81,682	2013
	2009	83,140	2012
		P 111,756,396	

Certain subsidiaries within the Group did not recognize the deferred tax assets on their NOLCO.

The aggregated amounts of assets, retained earnings (deficit), revenues and net profit (loss) of the subsidiaries which incurred NOLCO are as follows:

	Assets	**Retained Earnings (Deficit)**	**Revenues**	**Net Profit (Loss)**
2011				
OPI	P 1,083,452,864	(P 12,564,220)	P 6,023,863	(P 718,719)
MLI	135,872,604	(54,422,304)	20,304,951	5,206,285
MNPHI	115,434,685	3,263,008	102,240,730	1,052,383
MCPI	107,535,283	(148,029,736)	76,280,512	(9,690,045)
FTPHI	106,476,993	6,389,513	3,848,171	(17,932,137)
PIPI	5,113,748	42,252	178,147	58,774
	P 1,553,886,177	**(P 205,321,487)**	**P 208,876,374**	**(P 22,023,459)**
2010				
OPI	P 924,044,751	(P 11,869,688)	P 5,409	(P 3,231,949)
MLI	163,934,861	(59,590,765)	4,467,567	7,673,047
FTPHI	126,445,219	24,324,992	967,688	84,000,630
MNPHI	88,640,039	2,485,828	75,840,143	334,225
MCPI	73,900,576	(136,355,521)	68,714,334	(40,417,472)
PIPI	5,049,628	(16,522)	40,251	(47,949)
	P 1,382,015,074	(P 181,021,676)	P 150,035,392	P 48,310,532

Management has assessed that the net losses incurred, as well as the related NOLCO, can be recovered through future operations and are not significant to the overall financial condition and financial performance of the Group.

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

23. RELATED PARTY TRANSACTIONS

The Group's related parties include associates, the Group's key management and other related parties under common ownership as described below. Transactions with related parties are also discussed below.

23.1 Sale of Goods and Rendering of Services to Related Parties

	Amount of Transactions		
	2011	2010	2009
Associates	**P 1,626,503,151**	P 5,289,782	P 3,381,056
Other related parties under common ownership	**14,085,487**	13,659,040	13,809,067
	P 1,640,588,638	P 18,948,822	P 17,190,123

Sale of Goods and Services rendered are usually on a cost-plus basis, allowing a certain margin agreed upon by the parties.

23.2 Obtaining Services from Related Parties

	Amount of Transactions			Outstanding Balances		
	2011	2010	2009	**2011**	2010	2009
Associates	**P -**	P -	P 2,286,178	**P -**	P -	P -
Other related parties under common ownership	**109,239,723**	126,454,782	146,626,602	**89,006,474**	84,088,445	81,408,167
	P 109,239,723	P 126,454,782	P148,912,780	**P 89,006,474**	P 84,088,445	P 81,408,167

Services obtained are usually on a cost-plus basis, allowing a margin ranging from 10% to 20%. There are no outstanding payables for services obtained from the associates as of December 31, 2011 and 2010. The outstanding balances of payable to other related parties pertain to unpaid commissions presented as part of Other Liabilities in the consolidated statements of financial position (see Note 17).

23.3 Advances to Associates and Other Related Parties

Associates and other related parties are granted noninterest-bearing, unsecured advances by the parent company and other entities in the Group for working capital purposes. The outstanding balances of Advances to Associates and Other Related Parties shown as part of Investments in and Advances to Associates and Other Related Parties in consolidated statements of financial position (see Note 10) are as follows:

	2011	2010
Advances to associates:		
PTHDC	**P 1,004,987,335**	P 1,004,986,820
SHDI	**18,164,964**	338,598
EELHI	**-**	394,211,729
	1,023,152,299	1,399,537,147
Advances to other related parties	**1,537,024,137**	647,453,685
	P 2,560,176,436	P 2,046,990,832

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

	2011	2010
Balance at beginning of year	**P2,046,990,832**	P2,012,270,576
Net additions	**513,185,604**	34,720,256
Balance at end of year	**P2,560,176,436**	P2,046,990,832

Advances to other related parties pertain to advances granted to entities under common ownership of the ultimate parent company.

23.4 Advances from Other Related Parties

Certain expenses of the entities within the Group are paid by other related parties on behalf of the former. The advances are non-interest bearing and unsecured. The outstanding balances from these transactions are presented as Advances from Other Related Parties account in the consolidated statements of financial position and are broken down as follows:

	2011	2010
TIHGI	**P 3,049,847**	P 12,906,530
EELHI	**-**	209,116,174
Other related parties under common control	**207,192,596**	67,845,553
	P 210,242,443	P 289,868,257

The details of advances from other related parties are as follows:

	2011	2010
Balance at beginning of year	**P 289,868,257**	P 625,936,481
Net repayments	**(79,625,814)**	(336,068,224)
Balance at end of year	**P 210,242,443**	P 289,868,257

23.5 Key Management Personnel Compensations

The Group's key management personnel compensation includes the following:

	2011	2010	2009
Short-term benefits	**P 91,539,715**	P 47,174,219	P 42,243,477
Post-employment benefits	**10,793,002**	4,962,292	4,437,829
	P 102,332,717	P 52,136,511	P 46,681,306

24. EQUITY

Capital stock consists of:

	Shares			Amount		
	2011	2010	2009	**2011**	2010	2009
Preferred shares Series A						
– P0.01 par value						
Authorized	**6,000,000,000**	6,000,000,000	6,000,000,000	**P 60,000,000**	P 60,000,000	P 60,000,000
Issued and outstanding	**6,000,000,000**	6,000,000,000	6,000,000,000	**P 60,000,000**	P 60,000,000	P 60,000,000
Common shares – P1 par value						
Authorized	**30,140,000,000**	30,140,000,000	30,140,000,000	**P 30,140,000,000**	P 30,140,000,000	P 30,140,000,000
Issued and outstanding:						
Balance at beginning of year	**25,769,203,626**	25,769,203,626	20,641,646,901	**P 25,769,203,626**	P 25,769,203,626	P 20,641,646,901
Issued during the year	**-**	-	5,127,556,725	**-**	-	5,127,556,725
Balance at end of year	**25,769,203,626**	25,769,203,626	25,769,203,626	**P 25,769,203,626**	P 25,769,203,626	P 25,769,203,626
Subscribed:						
Balance at beginning of year	**-**	-	-	**P -**	P -	P -
Subscribed during the year	**-**		5,127,556,725	**-**	-	5,127,556,725
Issued during the year	**-**	-	(5,127,556,725)	**-**	-	(5,127,556,725)
Balance at end of year	**-**	-	-	**P -**	P -	P -
				P 25,829,203,626	P 25,829,203,626	P 25,829,203,626

On June 15, 1994, the SEC approved the listing of the Company's shares totaling 140,333,333. The shares were initially issued at an offer price of P4.8 per share. As of December 31, 2011, there are 2,854 holders of the listed shares, which closed at P1.7 per share as of that date.

24.1 Preferred Shares Series "A"

The preferred shares are voting, cumulative, non-participating, non-convertible and non-redeemable with a par value of P0.01 per share. The shares earn dividends at 1% of par value per annum cumulative from date of issue. Dividends paid on cumulative preferred shares amounted to P600,000 in 2011 and 2010.

24.2 Common Shares

On April 28, 2009, the Company offered 5,127,556,725 common shares, by way of pre-emptive stock rights offering, to eligible existing common shareholders at the rate of one right for every four common shares held as of May 4, 2009 at an exercise price of P1 per share. Moreover, shareholders were given four additional stock warrants for every five stock rights subscribed. For every stock warrant, shareholders can avail of one common share at P1 per share.

As a result of the stock rights offering, 5,127,556,725 common shares were subscribed and issued on June 1, 2009. Of the total exercise price, 50% was paid as of May 31, 2009 and the remaining 50% shall be paid within one year from issue date. Unpaid subscriptions amounting to P2.3 million as of December 31, 2009 were fully paid by the subscribers in 2010. Relative to the issuance of pre-emptive stock rights, 4,102,045,380 stock warrants were issued and these will be exercisable beginning on the second year until the fifth year from issue date.

24.3 Additional Paid-in Capital

The additional paid-in capital pertains to the excess of the total proceeds received from the Company's shareholders over the total par value of the common shares. There were no movements in the Company's Additional Paid-in Capital accounts in 2011, 2010 and 2009.

24.4 Cash Dividends

The details of the Company's cash dividend declarations, both for preferred and common shares, are as follows:

	2011	2010	2009
Declaration date / date of approval by BOD	**June 16, 2011**	May 18, 2010	June 19, 2009
Date of record	**July 6, 2011**	July 6, 2010	July 17, 2009
Date paid	**July 29, 2011**	July 30, 2010	August 12, 2009
Amounts declared and paid	**P 599,265,803**	P 519,885,465	P 479,061,765

On May 18, 2010, MDC's BOD approved the declaration of cash dividends amounting to P100.0 million to stockholders of record as of said date. Out of the P100.0 million dividends declared, P60.0 million was eliminated during consolidation.

24.5 Treasury Shares

In 2008, the Company's BOD approved the buy-back of shares of up to P2.0 billion worth of common shares in the open market at prevailing market prices. The share buy-back program is made through the trading facilities of the PSE and the funds used for the buy-back were taken from internally-generated funds. As of December 31, 2008, the Company reacquired 131.4 million shares at a total cost of P118.6 million.

This account also includes the Company's common shares held and acquired by RHGI and GPMAI. The number of treasury common shares aggregated to 537.4 million as of December 31, 2009. The changes in market values of these shares recognized as fair value gains (losses) by RHGI and GPMAI were eliminated in full and were not recognized in the consolidated financial statements. GPMAI was deconsolidated starting 2010 (see Note 10). Accordingly, in 2010, the cost of the treasury held by GPMAI of P555.1 million was removed from the Treasury Stock account presented under equity. In 2011, GPMAI is consolidated back and, accordingly, the cost of the treasury held by GPMAI amounting to P555.1 million is included as part of the Treasury Stock account presented under equity.

A portion of the Company's retained earnings is restricted for dividend declaration up to the cost of treasury stock as of the end of the reporting period.

25. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

	2011	2010	2009
Net profit attributable to parent company's shareholders	**P 8,031,884,511**	P 5,026,180,575	P 4,055,401,191
Dividends on cumulative preferred shares series "A"	**(600,000)**	(600,000)	(600,000)
Profit available to parent company's common shareholders	**P 8,031,284,511**	P 5,025,580,575	P 4,054,801,191
Divided by weighted number of outstanding common shares	**25,149,519,186**	25,130,015,061	23,088,192,857
Basic and diluted earnings per share	**P 0.319**	P 0.200	P 0.176

There were no outstanding convertible preferred shares and bonds or other stock equivalents that may be considered as potential dilutive common shares as of December 31, 2011, 2010 and 2009.

26. COMMITMENTS AND CONTINGENCIES

26.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P3.8 billion for the consolidated balances. Future minimum lease payments receivable under these agreements are as follows:

	2011	2010	2009
Within one year	**P 4,144,019,854**	P 3,145,772,222	P 3,000,082,437
After one year but not more than five years	**21,253,587,459**	14,998,070,516	10,809,294,660
More than five years	**6,704,886,317**	4,731,453,360	3,410,016,874
	P 32,102,493,630	P 22,875,296,098	P 17,219,393,971

26.2 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 11 years, with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to about P14.4 million for the consolidated balances. The future minimum rental payables under these non-cancelable leases as of December 31, are as follows:

	2011	2010	2009
Within one year	**P 19,395,713**	P 12,247,168	P 16,891,737
After one year but not more than five years	**41,710,168**	19,039,825	17,951,311
More than five years	**11,093,022**	18,908,935	23,528,646
	P 72,198,903	P 50,195,928	P 58,371,694

26.3 Others

There are commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS securities, bank loans, bonds, trade receivables and payables which arise directly from the Group's business operations. The financial liabilities 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.

27.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents, and bonds payable which have been used to fund new projects and to refinance certain indebtedness for general corporate purposes.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2011		2010	
	U.S. Dollars	**Pesos**	U.S. Dollars	Pesos
Financial assets	**$ 196,929,685**	**P 8,749,989,037**	$ 245,812,793	P10,790,198,346
Financial liabilities	**(195,759,303)**	**(8,599,314,640)**	(7,098,646)	(311,602,166)
	$ 1,170,382	**P 150,674,397**	$ 238,714,147	P 10,478,596,180

The following table illustrates the sensitivity of the consolidated net results for the year in regards to the Group's financial assets and financial liabilities as shown previously and the U.S. dollar – Philippine peso exchange rate:

Increase (decrease) in exchange rate	Effect on consolidated profit before tax 2011	2010
P 1	P 1,170,382	P 238,714,147
(P 1)	(1,170,382)	(238,714,147)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions and only affect consolidated profit or loss of the Group. There are no exposures on foreign exchange rate that affect the Group's other comprehensive income (loss). Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

27.2 Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. These long-term borrowings and all other financial assets and liabilities are subject to variable interest rates.

The Group's ratio of fixed to floating rate debt stood at 88.12 as of December 31, 2011 and 2010and 87.13 as of December 31, 2009.

The following table illustrates the sensitivity of the consolidated net result for the year and consolidated equity to a reasonably possible change in interest rates of +1% and –1% in 2011, 2010 and 2009. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2011		2010	
	+1%	**-1%**	+1%	-1%
Consolidated net results for the year	**(P 17,638,794)**	**P 17,638,794**	(P 15,873,037)	P 15,873,037
Consolidated equity	**(12,347,156)**	**12,347,156**	(11,111,126)	11,111,126

27.3 Credit Risk

Generally, the Group's credit risk is attributable to trade 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. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to consolidated financial statements), as summarized below.

	Notes	**2011**	2010
Cash and cash equivalents	5	**P 30,324,479,180**	P 22,031,584,943
Trade and other receivables	6	**36,214,357,760**	29,040,792,116
Advances to subsidiaries, associates and other related parties	10, 23.3	**2,560,176,436**	2,046,990,832
AFS financial securities	8	**561,694,969**	675,467,827
		P 69,660,708,345	P 53,794,835,718

(a) *Cash and Cash Equivalents*

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

(b) *Trade and Other Receivables*

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 resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by post-dated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

27.4 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, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits 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.

As at December 31, 2011 and 2010, the Group's financial liabilities have contractual maturities which are presented below.

	2011			
	Current		**Non-current**	
	Within 6 Months	**6 to 12 Months**	**1 to 5 Years**	**Later 5 Years**
Interest-bearing loans and borrowings	P 1,166,666,892	P 712,625,754	P 5,288,591,409	P -
Bonds payable	-	-	5,000,000,000	8,538,914,490
Trade and other payables	2,590,019,174	4,706,947,320	-	-
Advances from other related parties	-	-	210,242,443	-
	P 3,756,686,066	**P 5,419,573,074**	**P 10,498,833,852**	**P 8,538,914,490**

	2010			
	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P 655,677,449	P 655,677,448	P 6,128,583,476	P -
Bonds payable	-	3,416,062,159	5,000,000,000	-
Trade and other payables	1,847,488,610	2,190,224,738	-	-
Advances from other related parties	-	-	289,868,257	-
	P 2,503,166,059	P 6,261,964,345	P 11,418,451,733	P -

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

27.5 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as financial assets at FVTPL and 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 corporate bonds and equity securities listed in other countries, an average volatility of 54%, 105% and 71% has been observed during 2011, 2010 and 2009, respectively. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by nil in 2011, P2.7billion in 2010, and P14.6 million in 2009.

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 Group's consolidated net profit in 2010 and 2009 and consolidated equity as of December 31, 2010 and 2009 are summarized as follows:

2010

	Observed Volatility Rates		**Impact of Increase**		**Impact on Decrease**	
	Increase	**Decrease**	**Net Profit**	**Equity**	**Net Profit**	**Equity**
Investment in equity securities in:						
Holding company	+51.53%	-51.53%	P 64,414,912	P 2,073,193,927	(P 64,414,912)	(P2,073,193,927)
Property company	+51.54%	-51.54%	-	71,024,936	-	(71,024,936)
			P 64,414,912	P 2,144,218,863	(P 64,414,912)	(P2,144,218,863)

2009

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in:						
Holding company	+50.32%	-50.32%	P 20,883,283	P 900,762,327	(P 20,883,283)	(P 900,762,327)
Property company	+61.55%	-61.55%	-	85,613,014	-	-
			P 20,883,283	P 986,375,341	(P 20,883,283)	(P 900,762,327)

There are no listed equity securities held by the Company in 2011.

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.

28. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

28.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	2011		2010	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	**P30,324,479,180**	**P30,324,479,180**	P22,031,584,943	P22,031,584,943
Trade and other receivables - net	6	**36,214,357,760**	**36,214,357,760**	29,040,792,116	29,040,792,116
Advances to associates and other related parties	10	**2,560,176,436**	**2,560,176,436**	2,046,990,832	2,046,990,832
		P69,099,013,376	**P69,099,013,376**	P53,119,367,891	P53,119,367,891
Financial assets at fair value through profit or loss	7	**P 109,203,260**	**P 109,203,260**	P 125,000,000	P 125,000,000
Available-for-sale financial securities:	8				
Equity instruments		**P 2,030,052,709**	**P 2,030,052,709**	P 5,535,716,669	P 5,535,716,669
Debt instruments		**561,694,969**	**561,694,969**	675,467,827	675,467,827
		P 2,591,747,678	**P 2,591,747,678**	P 6,211,184,496	P 6,211,184,496
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	14	**P 7,167,884,055**	**P 7,167,884,055**	P 7,439,938,373	P 7,439,938,373
Bonds payable	15	**13,538,914,490**	**13,538,914,490**	8,416,062,159	8,416,062,159
Trade and other payables	16	**7,296,966,494**	**7,296,966,494**	4,037,713,348	4,037,713,348
Advances from other related parties		**210,242,443**	**210,242,443**	289,868,257	289,868,257
		P28,214,007,482	**P28,214,007,482**	P20,183,582,137	P20,183,582,137

See Notes 2.5 and 2.9 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 27.

28.2 Fair Value Hierarchy

The Group's investments in financial assets at FVTPL and AFS financial assets are comprised of equity and debt instruments listed in foreign and local stocks exchange. Fair value measurements of these financial assets were determined directly by reference to published prices quoted in an active market (Level 1 of the fair value hierarchy).

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using the debt-to-equity ratio.

	2011	2010
Interest-bearing loans and borrowings	**P 7,167,884,055**	P 7,439,938,373
Bonds payable	**13,538,914,490**	8,416,062,159
	P20,706,798,545	P 15,856,000,532
Equity attributable to parent company's shareholders	**P60,956,151,542**	P 57,776,023,630
Debt-to-equity ratio	**0.34 : 1:00**	0.27 : 1:00

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

30. OTHER MATTERS

30.1 Registration with Philippine Economic Zone Authority (PEZA)

ECOC, as operator of the Eastwood City CyberPark, is registered with PEZA. As a PEZA registered entity, it is entitled to a preferential tax rate of 5% on gross income earned from its PEZA registered activities, in lieu of all local and national taxes, and to other tax privileges.

30.2 International Organization for Standardization (ISO) Certification

The parent company was awarded a Certificate of Registration ISO 9001:1994 effective November 26, 1999 by Certification International Philippines, Inc. Effective November 21, 2002, the parent company has upgraded its Certification to ISO 9001:2000 series. The scope of the certification covers all areas of the parent company's operations, which include planning, design, project management and customer service for its real estate business. Among others, the parent company is required to undergo surveillance audits every six months.

30.3 Awards

As a testament to the Company's industry leadership, the Company was recognized by various award-giving bodies in 2011:

- Alpha Southeast Asia Most Organized Investor Relations and Strong Adherence to Corporate Governance
- World HRD Congress Best Employer
- Asia's Best Managed Company by Finance Asia
- Best in Investor Relations by Finance Asia

Megaworld Corporation and Subsidiaries
List of Supplementary Information
December 31, 2011

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Megaworld Corporation and Subsidiaries
Schedule A - Financial Assets (Financial Assets at fair VaLue Through Profit or Loss)
December 31, 2011

Name of issuing entity and association of each issue	*Number of shares or principal amount of bonds or notes*		*Amount shown on the balance sheet*		*Valued based on the market quotation at balance sheet date*		*Income received and accrued*
Alliance Global Inc.	10,000,000	P	103,400,000	P	103,400,000		3,600,000
Global Estate Resorts, Inc.	1,983,000		5,803,260		5,803,260		-
	11,983,000	P	109,203,260	P	109,203,260	P	3,600,000

Megaworld Corporation and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2011

			Deductions		Ending Balance		
Name and designation of debtor[1]	*Balance at beginning of period*	*Additions*	*Amounts collected*	*Amounts written off*	*Current*	*Not current*	*Balance at end of period*
Advances to Officers and Employees:							
Philipps Cando First VP - Operations	622,033		(135,716)		486,317		486,317
Garry V. de Guzman First VP - Legal Affairs	225,463		(142,316)	-	83,147	-	83,147
Monica Salomon First VP - Corporate Management	327,024		(130,810)	-	196,214	-	196,214
	P 1,174,520	-	(P 408,842)	-	P 765,678	-	P 765,678
Loans to Directors:	-	-	-	-	-	-	-

Megaworld Corporation and Subsidiaries
Schedule C - Indebtedness of Unconsolidated Subsidiaries and Related Parties (Other than Affiliates)
December 31, 2011

Name of Related Parties		*Balance at beginning of period*		*Balance at end of period*
Unconsolidated Subsidiary:				
Empire East Land holdings, Inc.	P	394,211,729		-
Suntrust Home Developers, Inc.*		338,598		18,164,964
Palm Tree Holdings, Inc.		1,004,986,820		1,004,987,335
Other Related Parties:				
Suntrust Properties, Inc.		156,959,179		-
Asia's Finest Cuisine, Inc.		55,028,018		111,946,376
Eastwood Cinema		7,698,925		7,717,302
First Oceanic Property Management		6,364,604		5,127,839
Eastwood Property Holdings, Inc.		124,873,829		-
Eastwoood Locator		151,065		-
Adams Properties, Inc.		-		
Alliance Global Group, Inc.		54,664		213,545
Others		296,323,401		1,412,019,076
	P	2,046,990,832	P	2,560,176,437

**Formerly Fairmont Holdings, Inc.*

Megaworld Corporation and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2011

			Deduction			
Description	***Beginning balance***	***Additions at cost***	***Charged to cost and expenses***	***Charged to other accounts***	***Other changes additions (deductions)***	***Ending balance***
Goodwill	P 264,768,344	P 80,285,388	P -	P -	P -	P 345,053,732

Megaworld Corporation and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2011

Title of issue and type of obligation		*Amount authorized by indenture*		*Amount shown under caption"Current portion of long-term debt" in related balance sheet*		*Amount shown under caption"Long-Term Debt" in related balance sheet*
Long -term loan	P	14,679,247,679		1,825,251,508		10,288,591,409
Foreign borrowings		9,417,474,490		54,041,138		8,538,914,490
	P	24,096,722,169	P	1,879,292,646	P	18,827,505,899

Megaworld Corporation

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2011

Standards and Interpretations		Adoption	Remarks
Philippine Financial Reporting Standards (PFRS)			
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	Adopted	
PFRS 2	Share-based Payment	Adopted	
PFRS 3	Business Combinations	Adopted	
PFRS 4	Insurance Contracts	Not Applicable	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Not Applicable	
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable	
PFRS 7	Financial Instruments: Disclosures	Adopted	
PFRS 8	Operating Segments	Adopted	
Philippine Accounting Standards (PAS)			
PAS 1	Presentation of Financial Statements	Adopted	
PAS 2	Inventories	Adopted	
PAS 7	Statement of Cash Flows	Adopted	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted	
PAS 10	Events after the Reporting Period	Adopted	
PAS 11	Construction Contracts	Adopted	
PAS 12	Income Taxes	Adopted	
PAS 16	Property, Plant and Equipment	Adopted	
PAS 17	Leases	Adopted	
PAS 18	Revenue	Adopted	
PAS 19	Employee Benefits	Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable	
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted	
PAS 23	Borrowing Costs	Adopted	
PAS 24	Related Party Disclosures	Adopted	
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Not Applicable	
PAS 27	Consolidated and Separate Financial Statements	Adopted	
PAS 28	Investments in Associates	Adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable	
PAS 31	Interests in Joint Ventures	Adopted	
PAS 32	Financial Instruments: Presentation	Adopted	
PAS 33	Earnings per Share	Adopted	
PAS 34	Interim Financial Reporting	Adopted	
PAS 36	Impairment of Assets	Adopted	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted	
PAS 38	Intangible Assets	Adopted	
PAS 39	Financial Instruments: Recognition and Measurement	Adopted	
PAS 40	Investment Property	Adopted	
PAS 41	Agriculture	Not Applicable	

Megaworld Corporation

Schedule of Philippine Financial Reporting Standards
Effective as of December 31, 2011

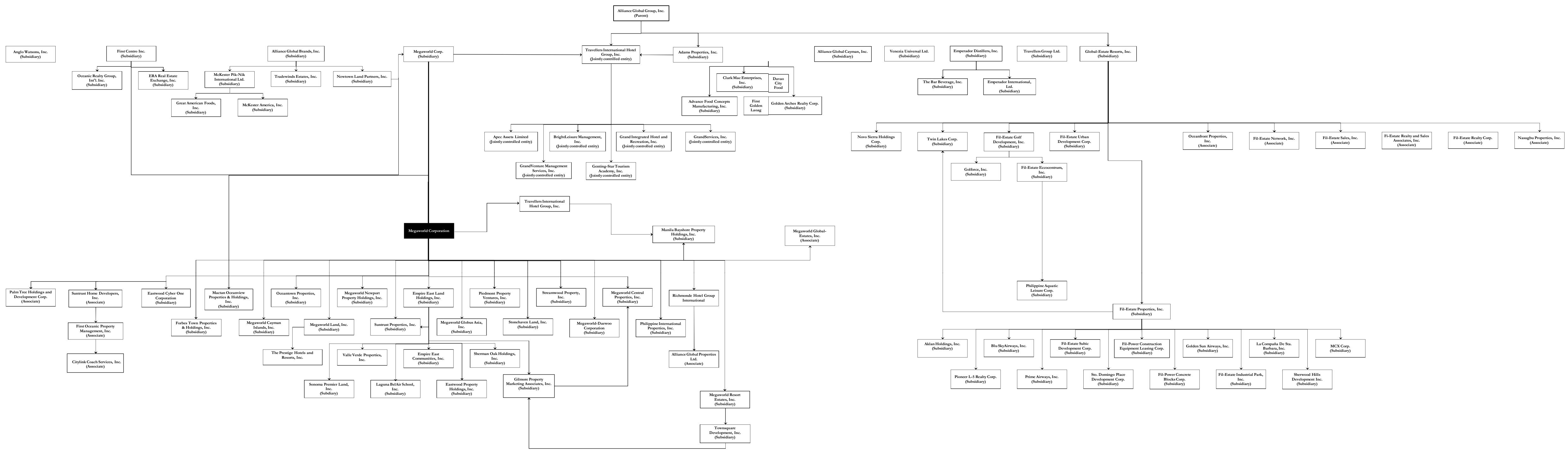
Standards and Interpretations		Adoption	Remarks

Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)

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

Philippine Interpretations - Standing Interpretations Committee (SIC)

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



Alliance Global Group, Inc. (Parent)
Anglo Watsons, Inc. (Subsidiary)
First Centro Inc. (Subsidiary)
Oceanic Realty Group, Int'l. Inc. (Subsidiary)
ERA Real Estate Exchange, Inc. (Subsidiary)
Alliance Global Brands, Inc. (Subsidiary)
McKester Pik-Nik International Ltd. (Subsidiary)
Great American Foods, Inc. (Subsidiary)
McKester America, Inc. (Subsidiary)
Tradewinds Estates, Inc. (Subsidiary)
Newtown Land Partners, Inc. (Subsidiary)
Megaworld Corp. (Subsidiary)
Travellers International Hotel Group, Inc. (Jointly contrilled entity)
Adams Properties, Inc. (Subsidiary)
Clark Mac Enterprises, Inc. (Subsidiary)
Davao City Food
Advance Food Concepts Manufacturing, Inc. (Subsidiary)
First Golden Laoag
Golden Arches Realty Corp. (Subsidiary)
Apec Assets Limited (Jointly controlled entity)
BrightLeisure Management, Inc. (Jointly controlled entity)
Grand Integrated Hotel and Recreation, Inc. (Jointly controlled entity)
GrandServices, Inc. (Jointly controlled entity)
GrandVenture Management Services, Inc. (Jointly controlled entity)
Genting-Star Tourism Academy, Inc. (Jointly controlled entity)
Alliance Global Cayman, Inc. (Subsidiary)
Venezia Universal Ltd. (Subsidiary)
Emperador Distillers, Inc. (Subsidiary)
The Bar Beverage, Inc. (Subsidiary)
Emperador International, Ltd. (Subsidiary)
Travellers Group Ltd. (Subsidiary)
Global-Estate Resorts, Inc. (Subsidiary)
Novo Sierra Holdings Corp. (Subsidiary)
Twin Lakes Corp. (Subsidiary)
Fil-Estate Golf Development, Inc. (Subsidiary)
Golforce, Inc. (Subsidiary)
Fil-Estate Ecocentrum, Inc. (Subsidiary)
Philippine Aquatic Leisure Corp. (Subsidiary)
Fil-Estate Urban Development Corp. (Subsidiary)
Oceanfront Properties, Inc. (Associate)
Fil-Estate Network, Inc. (Associate)
Fil-Estate Sales, Inc. (Associate)
Fi-Estate Realty and Sales Associates, Inc. (Associate)
Fil-Estate Realty Corp. (Associate)
Nasugbu Properties, Inc. (Associate)
Fil-Estate Properties, Inc. (Subsidiary)
Aklan Holdings, Inc. (Subsidiary)
Blu SkyAirways, Inc. (Subsidiary)
Fil-Estate Subic Development Corp. (Subsidiary)
Fil-Power Construction Equipment Leasing Corp. (Subsidiary)
Golden Sun Airways, Inc. (Subsidiary)
La Compaña De Sta. Barbara, Inc. (Subsidiary)
MCX Corp. (Subsidiary)
Pioneer L-5 Realty Corp. (Subsidiary)
Prime Airways, Inc. (Subsidiary)
Sto. Domingo Place Development Corp. (Subsidiary)
Fil-Power Concrete Blocks Corp. (Subsidiary)
Fil-Estate Industrial Park, Inc. (Subsidiary)
Sherwood Hills Development Inc. (Subsidiary)
Megaworld Corporation
Travellers International Hotel Group, Inc.
Manila Bayshore Property Holdings, Inc. (Subsidiary)
Megaworld Global-Estates, Inc. (Associate)
Palm Tree Holdings and Development Corp. (Associate)
Suntrust Home Developers, Inc. (Associate)
First Oceanic Property Management, Inc. (Associate)
Citylink Coach Services, Inc. (Associate)
Eastwood Cyber One Corporation (Subsidiary)
Mactan Oceanview Properties & Holdings, Inc. (Subsidiary)
Forbes Town Properties & Holdings, Inc. (Subsidiary)
Megaworld Cayman Islands, Inc. (Subsidiary)
Oceantown Properties, Inc. (Subsidiary)
Megaworld Land, Inc. (Subsidiary)
The Prestige Hotels and Resorts, Inc.
Megaworld Newport Property Holdings, Inc. (Subsidiary)
Suntrust Properties, Inc. (Subsidiary)
Empire East Land Holdings, Inc. (Subsidiary)
Valle Verde Properties, Inc.
Empire East Communities, Inc. (Subsidiary)
Sherman Oak Holdings, Inc. (Subsidiary)
Sonoma Premier Land, Inc. (Subdiary)
Laguna BelAir School, Inc. (Subsidiary)
Eastwood Property Holdings, Inc. (Subsidiary)
Megaworld Globus Asia, Inc. (Subsidiary)
Piedmont Property Ventures, Inc. (Subsidiary)
Stonehaven Land, Inc. (Subsidiary)
Streamwood Property, Inc. (Subsidiary)
Megaworld-Daewoo Corporation (Subsidiary)
Megaworld Central Properties, Inc. (Subsidiary)
Gilmore Property Marketing Associates, Inc. (Subsidiary)
Philippine International Properties, Inc. (Subsidiary)
Richmonde Hotel Group International
Alliance Global Properties Ltd. (Associate)
Megaworld Resort Estates, Inc. (Subsidiary)
Townsquare Development, Inc. (Subsidiary)

MEGAWORLD CORPORATION

28/F The World Centre, 330 Sen. Gil Puyat Avenue, Makati City 1200, Philippines
Tels: (632) 867-8826 to 40
www.megaworldcorp.com • *E-mail: infodesk@megaworldcorp.com*

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Megaworld Corporation and Subsidiaries**, is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information filed separately from the basic financial statements:

a. Supplementary Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68
b. Reconciliation of Retained Earnings Available for Dividend Declaration
c. Schedule of PFRS Effective as of December 31, 2012
d. Schedule of Financial Indicators for December 31, 2012 and 2011
e. Map Showing the Relationship Between and Among the Company and its Related Entities

Management's responsibility on the consolidated financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of 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, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Group 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

ANDREW L. TAN
Chief Executive Officer

FRANCISCO C. CANUTO
SVP and Treasurer
(Chief Financial Officer)

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
Date APR 03 2013 SDS
RECEIVED
ELMER B. TANAY

Signed this 1st day of March 2013

ISO 9001
2008 SERIES
CERTIFIED
CIP/2652/99/11/168

SUBSCRIBED AND SWORN to before me on this 21 day of MAR 2013 at **CITY OF MAKATI** Philippines affiants exhibiting to me their Community Tax Certificate Nos. as follows:

Andrew L. Tan	13755402	January 12, 2013	Quezon City
Francisco C. Canuto	22014326	January 07, 2013	Makati City

ATTY. GERVACIO B. ORTIZ JR.
Notary Public City of Makati
Until December 31, 2014
IBP No. 656155-Lifetime Member
MCLE Compliance No. III-0014282
Appointment No. M-199-(2013-2014)
PTR No. 3664330 Jan. 2, 2013
Makati City Roll No. 40091
101 Urban Ave., Brgy. Pio del Pilar,
Makati City

Doc. No. 319;
Page No. 65;
Book No. XV;
Series of 2013

BUREAU OF INTERNAL REVENUE
LARGE TAXPAYERS SERVICE
LARGE TAXPAYERS ASSISTANCE DIVISION I
Date APR 03 2013 SDS
RECEIVED
ELMER B. TANAY

Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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

The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
(A Subsidiary of Alliance Global Group, Inc.)
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

We have audited the accompanying consolidated financial statements of Megaworld Corporation and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of income, 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, 2012, 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 Megaworld Corporation and Subsidiaries as at December 31, 2012 and 2011, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Nelson J. Dinio
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 3671455, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 1036-A (until Sept. 29, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 1, 2013

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 26,826,715,439**	P 30,324,479,180
Trade and other receivables - net	6	**15,345,700,853**	17,178,451,090
Financial assets at fair value through profit or loss	7	**167,600,000**	109,203,260
Residential and condominium units for sale	3	**28,889,616,581**	19,497,662,902
Property development costs	3	**8,618,320,424**	8,753,452,084
Prepayments and other current assets - net	2	**1,884,456,257**	1,801,123,705
Total Current Assets		**81,732,409,554**	77,664,372,221
NON-CURRENT ASSETS			
Trade and other receivables	6	**23,916,156,834**	20,209,042,452
Advances to landowners and joint ventures	9	**3,782,781,280**	3,888,345,313
Land for future development	2	**4,324,634,536**	4,366,523,063
Investments in available-for-sale securities	8	**3,256,786,619**	2,591,747,678
Investments in and advances to associates and other related parties	10	**7,782,205,062**	6,745,964,129
Investment property - net	11	**16,632,035,663**	12,372,290,665
Property and equipment - net	12	**596,965,678**	540,859,730
Deferred tax assets - net	22	**42,259,622**	7,333,579
Other non-current assets	13	**657,972,598**	609,047,834
Total Non-current Assets		**60,991,797,892**	51,331,154,443
TOTAL ASSETS		**P 142,724,207,446**	P 128,995,526,664

	Notes	2012	2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	**P 1,587,594,400**	P 1,950,115,400
Trade and other payables	16	**7,900,017,312**	7,296,966,494
Customers' deposits	2	**4,193,247,506**	3,610,212,295
Income tax payable		**12,560,956**	36,897,538
Reserve for property development	2	**6,231,192,522**	5,107,725,787
Deferred income on real estate sales	2	**4,126,291,119**	3,446,835,596
Other current liabilities	17	**1,712,794,842**	1,707,673,963
Total Current Liabilities		**25,763,698,657**	23,156,427,073
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	14	**4,910,569,450**	5,991,475,388
Bonds payable	15	**13,556,628,075**	13,538,914,490
Customers' deposits	2	**1,741,951,677**	456,003,854
Reserve for property development	2	**4,094,681,043**	3,719,081,747
Deferred income on real estate sales	2	**2,311,173,838**	1,809,305,117
Deferred tax liabilities - net	22	**5,814,797,077**	5,112,895,527
Advances from other related parties	23	**692,604,550**	210,242,443
Retirement benefit obligation	21	**390,201,956**	285,421,740
Other non-current liabilities	17	**2,058,307,552**	1,943,654,006
Total Non-current Liabilities		**35,570,915,218**	33,066,994,312
Total Liabilities		**61,334,613,875**	56,223,421,385
EQUITY	24		
Total equity attributable to the company's shareholders		**71,504,234,954**	60,956,151,542
Non-controlling interests		**9,885,358,617**	11,815,953,737
Total Equity		**81,389,593,571**	72,772,105,279
TOTAL LIABILITIES AND EQUITY		**P 142,724,207,446**	P 128,995,526,664

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
REVENUES AND INCOME				
Real estate sales	6	**P 18,173,071,093**	P 15,887,590,800	P 13,110,567,020
Interest income on real estate sales	6	**1,327,541,711**	1,218,788,823	933,424,160
Realized gross profit on prior years' sales	2	**2,007,159,684**	1,970,174,052	1,355,982,007
Rental income	11	**4,994,769,197**	3,826,341,215	2,694,310,554
Hotel operations	2	**462,313,446**	392,171,105	232,757,023
Equity in net earnings of associates	10	**794,347,508**	597,834,536	442,281,307
Interest and other income - net	19	**2,792,225,642**	4,732,197,210	1,772,461,024
		30,551,428,281	28,625,097,741	20,541,783,095
COSTS AND EXPENSES				
Real estate sales	2	**11,491,174,383**	10,157,277,262	8,606,699,164
Deferred gross profit	2	**3,188,317,305**	3,055,851,217	2,431,379,388
Hotel operations	2	**235,441,633**	223,731,697	124,463,666
Operating expenses	18	**4,934,193,655**	4,116,225,061	2,140,225,634
Interest and other charges - net	20	**1,044,391,039**	903,526,435	544,401,114
Tax expense	22	**2,250,736,998**	1,995,469,148	1,609,101,525
		23,144,255,013	20,452,080,820	15,456,270,491
PROFIT FOR THE YEAR BEFORE PREACQUISITION INCOME		**7,407,173,268**	8,173,016,921	5,085,512,604
PREACQUISITION INCOME OF SUBSIDIARIES	1, 10	**-**	(17,326,952)	-
NET PROFIT FOR THE YEAR		**P 7,407,173,268**	P 8,155,689,969	P 5,085,512,604
Net profit attributable to:				
Company's shareholders		**P 7,294,070,482**	P 8,031,884,511	P 5,026,180,575
Non-controlling interests		**113,102,786**	123,805,458	59,332,029
		P 7,407,173,268	P 8,155,689,969	P 5,085,512,604
Earnings per Share:	25			
Basic		**P 0.281**	P 0.319	P 0.200
Diluted		**P 0.275**	P 0.319	P 0.200

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
CAPITAL STOCK	24			
Balance at beginning of year		P 25,829,203,626	P 25,829,203,626	P 25,829,203,626
Additional issuances during the year		3,109,659,359	-	-
Balance at end of year		28,938,862,985	25,829,203,626	25,829,203,626
ADDITIONAL PAID-IN CAPITAL	24	8,432,990,413	8,432,990,413	8,432,990,413
TREASURY STOCK - At Cost	24			
Balance at beginning of year		(1,188,836,744)	(633,721,630)	(1,188,836,744)
Reduction representing the shares held by a deconsolidated subsidiary		555,115,114	-	555,115,114
Additions during the year		-	(555,115,114)	-
Balance at end of year		(633,721,630)	(1,188,836,744)	(633,721,630)
NET UNREALIZED GAINS ON AVAILABLE-FOR-SALE SECURITIES	8			
Balance at beginning of year		121,203,880	3,809,613,412	116,256,567
Other comprehensive income (loss) for the year		593,620,712	(3,688,409,532)	3,693,356,845
Balance at end of year		714,824,592	121,203,880	3,809,613,412
ACCUMULATED TRANSLATION ADJUSTMENTS	2.4			
Balance at beginning of year		(261,301,420)	(252,335,270)	(121,744,648)
Other comprehensive loss for the year, net of tax		(165,188,492)	(8,966,150)	(130,590,622)
Balance at end of year		(426,489,912)	(261,301,420)	(252,335,270)
RETAINED EARNINGS				
Balance at beginning of year		28,022,891,787	20,590,273,079	16,043,977,969
Net profit attributable to the company's shareholders		7,294,070,482	8,031,884,511	5,026,180,575
Cash dividends	24	(839,193,763)	(599,265,803)	(479,885,465)
Balance at end of year		34,477,768,506	28,022,891,787	20,590,273,079
Total Equity Attributable to the Company's Shareholders		71,504,234,954	60,956,151,542	57,776,023,630
NON-CONTROLLING INTERESTS	10			
Balance at beginning of year		11,815,953,737	743,113,007	723,869,377
Additions (deductions)		(2,043,697,906)	10,949,035,272	(40,088,399)
Net profit attributable to non-controlling interests		113,102,786	123,805,458	59,332,029
Balance at end of year		9,885,358,617	11,815,953,737	743,113,007
TOTAL EQUITY		P 81,389,593,571	P 72,772,105,279	P 58,519,136,637

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
NET PROFIT FOR THE YEAR		**P 7,407,173,268**	P 8,155,689,969	P 5,085,512,604
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized gains (losses) on available-for-sale (AFS) securities	8	**592,528,177**	(690,525,167)	4,031,843,227
Share in other comprehensive income (loss) of associates	10	**1,092,535**	(147,365)	71,176,649
Reclassification adjustments for gains on disposed AFS securities included in profit or loss	8	-	(2,997,737,000)	(473,319,584)
Reversal of unrealized losses on AFS securities of a deconsolidated subsidiary		-	-	63,656,553
		593,620,712	(3,688,409,532)	3,693,356,845
Translation adjustments		**(235,983,560)**	(12,808,786)	(186,558,030)
Less related tax	22, 2.4	**70,795,068**	3,842,636	55,967,408
		(165,188,492)	(8,966,150)	(130,590,622)
		428,432,220	(3,697,375,682)	3,562,766,223
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 7,835,605,488**	P 4,458,314,287	P 8,648,278,827
Total comprehensive income attributable to:				
Company's shareholders		**P 7,722,502,702**	P 4,334,508,829	P 8,588,946,798
Non-controlling interests		**113,102,786**	123,805,458	59,332,029
		P 7,835,605,488	P 4,458,314,287	P 8,648,278,827

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 9,657,910,266	P 10,151,159,117	P 6,694,614,129
Adjustments for:				
Interest income	19	(1,840,964,871)	(1,618,727,549)	(835,944,617)
Finance costs	20	887,476,458	818,237,019	516,440,321
Equity in net earnings of associates	10	(794,347,508)	(597,834,536)	(442,281,307)
Depreciation and amortization	18	752,578,923	566,641,137	443,203,639
Donation expense		95,491,514	-	-
Fair value losses (gains) - net	19	(64,200,000)	7,851,631	(83,500,000)
Dividend income	19	(53,887,430)	(32,661,662)	(40,630,134)
Gain on sale of investments in available-for-sale securities	8, 19	-	(2,242,526,309)	(646,720,788)
Operating profit before working capital changes		8,640,057,352	7,052,138,848	5,605,181,243
Increase in trade and other receivables		(1,904,743,617)	(2,332,556,852)	(5,467,069,558)
Decrease (increase) in residential and condominium units for sale		(9,372,972,184)	(1,056,701,557)	412,044,886
Decrease (increase) in property development costs		725,377,207	(236,023,249)	(77,405,610)
Increase in prepayments and other current assets		(77,529,292)	(660,103,590)	(69,471,133)
Decrease (increase) in advances to landowners and joint ventures		105,564,033	698,482,342	(1,500,000,001)
Increase in trade and other payables		624,802,137	2,461,337,793	204,094,188
Increase (decrease) in customers' deposits		1,868,983,034	(543,697,574)	382,569,679
Increase in deferred income on real estate sales		1,181,324,244	1,195,329,212	1,075,230,757
Increase in reserve for property development		1,499,066,031	1,535,423,535	1,636,248,793
Increase in other liabilities		461,175,874	149,045,609	424,798,078
Cash generated from operations		3,751,104,819	8,262,674,517	2,626,221,322
Cash paid for income taxes		(1,773,286,565)	(1,259,507,902)	(946,782,440)
Net Cash From Operating Activities		1,977,818,254	7,003,166,615	1,679,438,882
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment property	11	(4,871,545,620)	(2,874,137,207)	(991,266,588)
Property and equipment	12	(201,938,395)	(87,466,426)	(62,373,098)
Land for future development		(53,602,987)	(2,803,899,896)	(213,000,015)
Increase in investments in and advances to associates and other related parties		(422,898,535)	(2,049,692,784)	(408,034,396)
Decrease (increase) in investments in available-for-sale securities		(71,418,229)	3,944,596,595	1,119,081,403
Interest received		1,768,082,480	1,618,727,549	835,944,617
Proceeds from redemption of preferred shares held	10	428,410,000	-	-
Payment for acquisition of shares of stock of an associate	10	(1,248,571,429)	-	-
Increase in other non-current assets		(48,924,764)	(179,971,650)	(221,527,843)
Dividends received	19	53,887,430	32,661,662	40,630,134
Net Cash From (Used in) Investing Activities		(4,668,520,049)	(2,399,182,157)	99,454,214
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from exercise of stock rights and warrants	24	3,109,659,359	-	2,272,642,649
Payments of long-term liabilities		(1,889,072,723)	(4,934,748,567)	(1,052,209,181)
Interest paid		(1,518,454,819)	(818,237,019)	(1,323,861,629)
Cash dividends paid	24	(839,193,763)	(599,265,803)	(519,885,465)
Proceeds from availments of long-term liabilities	14, 15	330,000,000	9,013,788,580	-
Net Cash From (Used in) Financing Activities		(807,061,946)	2,661,537,191	(623,313,626)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(3,497,763,741)	7,265,521,649	1,155,579,470
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		-	1,624,146,150	-
PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		-	(596,773,562)	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		30,324,479,180	22,031,584,943	20,876,005,473
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 26,826,715,439	P 30,324,479,180	P 22,031,584,943

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. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 9 and 11) .

See Notes to Consolidated Financial Statements.

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

Megaworld Corporation (the Company) was incorporated in the Philippines on August 24, 1989, primarily to engage in the development of large scale mixed-use planned communities or townships that integrate residential, commercial, leisure and entertainment components. The Company is presently engaged in property-related activities, such as, project design, construction and property management. The Company's real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office projects and retail spaces.

All of the Company's common shares of stock are listed at the Philippine Stock Exchange (PSE).

The registered office of the Company, which is also its principal place of business, is located at the 28th Floor, The World Centre Building, Sen. Gil Puyat Avenue, Makati City.

Alliance Global Group, Inc. (AGI or parent company), also a publicly listed company in the Philippines, is the ultimate parent company of Megaworld Corporation and its subsidiaries (the Group). AGI is a holding company and is presently engaged in the food and beverage business, real estate, quick service restaurant and tourism-oriented businesses. AGI's registered office, which is also its primary place of business, is located at the 7th Floor, 1880 Eastwood Avenue, Eastwood City CyberPark, 188 E. Rodriguez Jr. Avenue, Quezon City.

The Company holds interests in the following subsidiaries and associates:

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2012	2011	2010
Subsidiaries:				
Megaworld Land, Inc. (MLI)		**100%**	100%	100%
Prestige Hotels and Resorts, Inc. (PHRI)		**100%**	100%	100%
Mactan Oceanview Properties and Holdings, Inc. (MOPHI)		**100%**	100%	100%
Megaworld Cayman Islands, Inc. (MCII)		**100%**	100%	100%
Richmonde Hotel Group International (RHGI)		**100%**	100%	100%
Eastwood Cyber One Corporation (ECOC)		**100%**	100%	100%
Forbes Town Properties and Holdings, Inc. (FTPHI)		**100%**	100%	100%
Megaworld Newport Property Holdings, Inc. (MNPHI)		**100%**	100%	100%
Oceantown Properties, Inc. (OPI)		**100%**	100%	100%
Piedmont Property Ventures, Inc. (PPVI)	(a)	**100%**	100%	100%
Stonehaven Land, Inc. (SLI)	(a)	**100%**	100%	100%
Streamwood Property, Inc. (SP)	(a)	**100%**	100%	100%

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2012	2011	2010
Subsidiaries:				
Suntrust Properties, Inc. (SPI)	(b)	**88.20%**	82.45%	-
Empire East Land Holdings, Inc. and Subsidiaries (EELHI)	(c)	**78.59%**	61.13%	-
Megaworld Central Properties, Inc. (MCPI)	(d)	**75.90%**	51%	51%
Megaworld-Daewoo Corporation (MDC)		**60%**	60%	60%
Manila Bayshore Property Holdings, Inc. (MBPHI)	(e)	**55%**	55%	-
Megaworld Resort Estates, Inc. (MREI)	(f)	**51%**	51%	51%
Megaworld Globus Asia, Inc. (MGAI)		**50%**	50%	50%
Philippine International Properties, Inc. (PIPI)	(g)	**50%**	50%	50%
Townsquare Development, Inc. (TDI)	(f)	**31%**	31%	31%
Gilmore Property Marketing Associates, Inc. (GPMAI)	(h)	**-**	46.45%	-
Associates:				
Suntrust Home Developers, Inc. (SHDI)		**42.48%**	42.48%	42.48%
Megaworld Global Estates, Inc. (MGEI)	(i)	**40.00%**	40.00%	-
Palm Tree Holdings and Development Corporation (PTHDC)		**40%**	40%	40%
Alliance Global Properties Ltd. (AGPL)	(j)	**39.44%**	39.44%	39.44%
GPMAI	(h)	**37.23%**	-	39.83%
Twin Lakes Corporation (TLC)	(k)	**19%**	-	-
Travellers International Hotel Group, Inc. (TIHGI)	(l)	**10%**	10%	10%
EELHI	(c)	**-**	-	48.38%

Explanatory Notes:

(a) These were acquired subsidiaries in 2008 but have not yet started commercial operations as of December 31, 2012.

(b) In March 2011, the Company acquired 58.80% direct ownership in SPI. The Company also held an indirect ownership in SPI of 29.40% through SHDI and EELHI. In 2012, as a result of the Company's increase in ownership in EELHI, the Company's ownership in SPI also increased to 88.20%.

(c) On various dates in 2011, the Company acquired additional shares of EELHI, increasing its ownership to 61.13% and thereby making EELHI a subsidiary of the Company. In 2012, the Company acquired additional shares of EELHI, resulting in an increase in ownership interest in EELHI to 78.59% as of December 31, 2012.

(d) The Company held indirect ownership in MCPI of 51% through EELHI and GPMAI. As a result of the Company's increase in ownership in EELHI, the Company's ownership in MCPI also increased to 75.90%.

(e) MBPHI was incorporated in October 2011 and started commercial operations on January 1, 2012. The Company holds 50% direct ownership in MBPHI; the latter is also 50% owned by TIHGI, thereby increasing the Company's ownership to 55%.

(f) MREI was incorporated in 2007 while TDI was incorporated in 2006. MREI owns 60% of TDI resulting in the Company's indirect interest of 31% of TDI.

(g) PIPI was incorporated in 2002 and acquired by the Company in 2006 but has not yet started commercial operations as of December 31, 2012.

(h) GPMAI was an associate of the Group in 2010. In 2011, GPMAI became a subsidiary of the Company through EELHI, its intermediate parent company. In 2012, GPMAI was deconsolidated and treated as an associate of both the Company and EELHI, as EELHI lost its control due to the decrease in ownership interest, but has retained significant influence, over GPMAI.

(i) MGEI was incorporated on March 14, 2011 but has not yet started commercial operation as of December 31, 2012.

(j) In February 2009, RHGI acquired 44.34% ownership in AGPL, which resulted in the Company's indirect interest of 44.34% as of December 31, 2009. In October 2010, AGPL issued additional shares of stock which resulted in the decrease in RHGI's ownership in AGPL to 39.44%. AGPL is considered as an associate due to the Company's significant influence, but not control, over AGPL.

(k) TLC was incorporated in 2011 and has started commercial operation in June 2012. In September 2012, the Company acquired ownership in TLC which stands at 19% as of December 31, 2012. TLC is considered as an associate due to the Company's significant influence over TLC.

(l) TIHGI was incorporated in 2003 and started commercial operations in August 2009. In 2008, the Company acquired 10% ownership in TIHGI through a share swap agreement. In August 2010, the Company's investment in TIHGI was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. Subsequently, TIHGI redeemed 430.0 million in November 2010 and 428.41 million in March 2012 preferred shares held by the Company. The conversion of common shares and the redemption of preferred shares did not change the Company's ownership in TIHGI. Although the Company's percentage ownership is only 10%, TIHGI was considered as an associate due to the Company's significant influence over TIHGI.

Except for MCII, RHGI and AGPL, all the subsidiaries and associates were incorporated in the Philippines and operate within the country. MCII and AGPL were incorporated and operate in the Cayman Islands while RHGI was incorporated and operates in the British Virgin Islands.

The Company and its subsidiaries collectively, except for entities which have not yet started commercial operations as of December 31, 2012, are presently engaged in the real estate business, hotel operations and marketing services.

EELHI and SHDI are publicly listed companies in the Philippines.

The consolidated financial statements of the Group for the year ended December 31, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Company's Board of Directors (BOD) on March 1, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these consolidated financial statements are summarized below. The policies have been consistently applied to all the years 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. These consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. 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 two statements: a consolidated statement of income and a consolidated statement of comprehensive income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

(c) *Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine pesos, the Company's presentation and functional 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. Functional currency is the currency of the primary economic environment in which an entity operates.

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2012 that are Relevant to the Group*

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for its consolidated financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012.

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Taxes: Recovery of Underlying Assets

Below is a discussion of the impact of these accounting standards.

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

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets.* The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should reflect the tax consequence of recovering the carrying amount of the asset entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee (SIC) 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated in PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment,* should always be measured on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements as the Group's investment property and land classified as property and equipment are measured at cost.

(b) Effective in 2012 that is not Relevant to the Group

PFRS 1, *First-time Adoption of PFRS*, was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) Effective Subsequent to 2012 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2012. 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 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other 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 Group's management expects that this will change the current presentation of items in other comprehensive income (i.e., unrealized fair value gains and losses on AFS Securities and share in other comprehensive income (loss) of associates).

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

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

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

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

Currently, the Group is using the corridor approach and its unrecognized actuarial losses as of December 31, 2012 amounted to P221.0 million which will be retrospectively recognized as losses in other comprehensive income in 2013 (see Note 21.3).

(iii) Consolidation Standards

The Company is currently reviewing the impact on its consolidated financial statements of the following consolidation standards which will be effective from January 1, 2013:

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

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

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

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

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

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms 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.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting 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 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 will 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 financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

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

(vi) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate.* This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and the 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 upon completion 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.

(vii) 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 includes an example of a gross settlement system with characteristics 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.

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

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

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

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the Group's consolidated financial statements and is committed to conduct a comprehensive study of the potential impact of this standard in the last quarter of 2014 before its adoption in 2015 to assess the impact of all changes.

(ix) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. 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:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If 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 statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) 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, *Income Taxes.* 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.

2.3 Basis of Consolidation

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Company and its subsidiaries as enumerated in Note 1, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, shares of stock of the Company held by the subsidiaries are recognized as treasury stock and these are presented as deduction in the consolidated statement of changes in equity. Any changes in the market values of such shares as recognized separately by the subsidiaries are likewise eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

(a) Investments in Subsidiaries

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

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

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

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the identifiable net assets acquired is recognized as goodwill (see also Note 2.12). 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 in profit or loss as gain.

(b) Investments in Associates

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

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as Investment in Associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the Group's carrying amount of the investment.

Changes resulting from the profit or loss generated by the associate are shown as Equity in Net Earnings of Associates in the Group's consolidated statements of income and, therefore, affect the net results of the Group. Changes resulting from other comprehensive income of the associates or items recognized directly in the associates' equity are recognized in other comprehensive income or equity of the Group, as applicable.

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 commitments, has incurred obligations or made payments on behalf of the associate.

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 assets transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in Jointly Controlled Operations

For interests in jointly controlled operations, the Group recognized in its consolidated financial statements 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. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) Transactions with Non-controlling Interests

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

When the Company ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amount previously recognized in other comprehensive income in respect of that entity is 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.

2.4 Foreign Currency Transactions and Translation

(a) Transactions and Balances

Except for MCII, RHGI and AGPL, which use the U.S. dollars as their functional currency, the accounting records of the Company and its subsidiaries are maintained in Philippine pesos. Foreign currency transactions during the year 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized under Interest and Other Income – net in the consolidated statement of income.

(b) Translation of Financial Statements of Foreign Subsidiaries and an Associate

The operating results and financial position of MCII and RHGI, which are measured using the U.S. dollars, their functional currency, are translated to Philippine pesos, the Company's functional currency, as follows:

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

(ii) Income and expenses for each profit or loss account are translated at the annual average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in MCII and RHGI are recognized as Translation Adjustments in the consolidated statement of comprehensive income. As these entities are wholly owned subsidiaries, the translation adjustments are fully allocated to the Company's shareholders.

Goodwill arising on the acquisition of a foreign entity is recognized as an asset of the foreign entity and translated at the closing rate.

The translation of the financial statements into Philippine pesos 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.

The Company's equity in net earnings or loss of AGPL, which is also measured in U.S. dollars, is translated to Philippine pesos using the annual average exchange rates.

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instruments. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity investments and available-for-sale (AFS) financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

The Group's financial assets are currently categorized 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 fair value through profit or loss 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 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.

(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. These are included in current assets, except for maturities greater than 12 months after the reporting period which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss is provided when there is an 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 cash flows discounted at the effective interest rate.

Loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to Contractors and Suppliers), Guarantee and other deposits (presented as part of Other Non-current Assets), and Advances to Associates and Other Related Parties (presented as part of Investments in and Advances to Associates and Other Related Parties) in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Trade receivables, which generally have one-year to five-year terms, are noninterest-bearing instruments recognized initially at fair value and subsequently stated at amortized cost using the effective interest method for maturities beyond one year, less accumulated impairment losses, if any. An impairment loss is provided when there is an objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired.

(c) AFS Securities

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

All AFS Securities are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired, the cumulative gain or loss recognized in other comprehensive income is reclassified from Net Unrealized Gains (Losses) on AFS Securities to profit or loss and presented as reclassification adjustment within other comprehensive income.

Reversal of impairment loss is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Interest and Other Income - net and Interest and Other Charges – net accounts in the consolidated statement of income.

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

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

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

2.6 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 incurred during the development of the real estate properties are also capitalized by the Group as part of the property development costs (see Note 2.20). Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Residential and Condominium Units for Sale. The cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined by the project engineers, are charged to the Cost of Real Estate Sales presented in the consolidated statement of income with a corresponding credit to a liability account, Reserve for Property Development.

Costs of properties and projects accounted for as Land for Future Development, Property Development Costs and Residential and Condominium Units for Sale are assigned using specific identification of their individual costs. These properties and projects are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale.

The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known.

2.7 Prepayments and Other Current Assets

Prepayments and other current assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, 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), are classified as non-current assets.

2.8 Investment Property

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property, and carried at cost, net of accumulated depreciation and any impairment in value, except for land which is not subjected to depreciation. Depreciation of investment property, excluding land, is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years. Investment property is subject to impairment testing as described in Note 2.17.

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

2.9 Property and Equipment

Property and equipment are carried at acquisition or construction cost less subsequent depreciation, amortization and any impairment losses, if any.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expenses as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the assets. Amortization of office and land improvements is recognized over the estimated useful lives of improvements or the term of the lease, whichever is shorter. The depreciation and amortization periods for property and equipment, based on the above policies, are as follows:

Condominium units	10-25 years
Office and land improvements	5-20 years
Transportation equipment	5 years
Office furniture, fixtures and equipment	3-5 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.20) 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 also Note 2.17).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and any impairment losses are removed from the accounts. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss in the year the item is derecognized.

2.10 Financial Liabilities

Financial liabilities of the Group include Interest-bearing Loans and Borrowings, Bonds Payable, Trade and Other Payables [excluding value-added tax (VAT) and other tax-related payables] and Advances from Other Related Parties.

Financial liabilities are recognized when the Group becomes a party to the contractual terms of the instrument. All interest related charges are recognized as expense in profit or loss under the caption Interest and Other Charges – net account in the consolidated statement of income.

Interest-bearing Loans and Borrowings and Bonds Payable are raised for support of long-term funding of operations. These are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss except for capitalized borrowing cost, 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 and Advances from Other Related Parties are initially recognized at their fair value and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

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

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least twelve months after the reporting period. Otherwise, these are presented as non-current liabilities.

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

2.11 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported 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.

2.12 Business Combination

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses (see also Note 2.17). Impairment losses on goodwill are not reversed.

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

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

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

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

2.13 Segment Reporting

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses;
- expenses relating to share-based payments;
- research costs relating to new business activities; and,
- revenue, costs and fair value gains from investment property.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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

2.14 Provisions and Contingencies

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

2.15 Revenue and Expense Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding VAT and trade discounts.

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

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

    The sale is recognized when a certain percentage of the total contract price has already been collected. The amount of real estate sales recognized in the consolidated statement of income is equal to the total contract price, net of day-one loss related to the discounting of noninterest-bearing receivables. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statements of financial position. Revenues and costs relative to forfeited or back out sales are reversed in the current year as they occur.

    For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by the Company, MGAI, EELHI and ECOC, while MDC reports revenues for tax purposes based also on the percentage-of-completion method.

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

(c) *Rental income, commission income and hotel operations* – Revenue is recognized when the performance of contractually agreed tasks has been substantially rendered. Rental income is recognized on a straight-line basis over the lease term. Advance rentals received are recorded as deferred rental income. Unearned Revenues pertain to advanced collections from real estate customers. For tax purposes, rental income is recognized based on the contractual terms of the lease.

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

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

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

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 2.20) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.6).

Operating expenses and other costs (other than costs of real estate sold) are recognized in profit or loss upon utilization of the service or receipt of goods or at the date they are incurred.

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease income is recognized as income in 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.

2.17 Impairment of Non-financial Assets

The Group's Investments in Associates, Goodwill (included as part of Other Non-current Assets), Investment Property and Property and Equipment are subject to impairment testing. 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 amount, 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 impairment loss.

2.18 Employee Benefits

(a) Defined Benefit Plan

Post-employment benefit is provided to employees through 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 plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The liability recognized in the consolidated statements of financial position for defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from interest rates of zero coupon agreement bonds published by the Philippine Dealing 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.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) Termination Benefits

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

(c) 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 the Trade and Other Payables account of the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.19 Share-based Employee Remuneration

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

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

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

2.20 Borrowing Costs

For financial reporting purposes, 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 directly 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.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

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

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

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset 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 to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

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

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 Related Party Relationships and Transactions

Related party transactions are transfers of resources, services or obligations between the entities in the Group and their 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. Related parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

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

2.23 Equity

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Treasury stock are stated at the cost of re-acquiring such shares and are deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of.

Net unrealized gains (losses) on AFS securities represent gains or losses recognized due to changes in fair values of these assets.

Accumulated translation adjustments represent the translation adjustments resulting from the translation of foreign-currency denominated financial statements of certain foreign subsidiaries into the Group's functional and presentation currency.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared.

2.24 Earnings Per Share

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive common shares. Potential dilutive common shares as of December 31, 2012 refer to stock warrants not yet exercised. The Group does not have potential dilutive common shares as of December 31, 2011 and 2010.

2.25 Events after the Reporting Period

Any post-year-end event that provides additional information about the Group's 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 ESTIMATES AND JUDGMENTS

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 Investments in AFS Securities

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

Based on the recent evaluation of information and circumstances affecting the Group's investments in AFS securities, management concluded that the assets are not impaired as of December 31, 2012 and 2011. Future changes in such information and circumstance might significantly affect the carrying amount of the assets.

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independently of the other assets held by an entity. Owner-occupied properties generates cash flows that are attributable not only to 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.

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. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Accounting policies on recognition and disclosure of provision are discussed in Note 2.14 and disclosures on relevant provisions and contingencies are presented in Note 26.

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 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. Should the proportion of the percentage of completed projects differ by 5% from management's estimates, the amount of revenue recognized in 2012 would have increased by P371.85 million or would have decreased by P352.93 million if the proportion performed decreased. There were no changes in the assumptions or basis for estimation during the year.

(b) Determining Net Realizable Value of Residential and Condominium Units for Sale, Property Development Costs and Land for Future Development

In determining the net realizable value of residential and condominium units for sale, property development costs and land for future development, management takes into account the most reliable evidence available at the times the estimates are made. The future realization of the carrying amounts of real estate for sale and property development costs is affected by price changes in the different market segments as well as the trends in the real estate industry. These are considered key sources of estimation and uncertainty and may cause significant adjustments to the Group's Residential and Condominium Units for Sale, Property Development Costs and Land for Future Development within the next financial year.

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

The carrying values of the Group's Residential and Condominium Units for Sale, Property Development Costs, and Land for Future Development amounted to P28.9 billion, P8.6 billion and P4.3 billion, respectively, as of December 31, 2012 and P19.5 billion, P8.8 billion and P4.4 billion, respectively, as of December 31, 2011.

(c) Fair Value Measurement of Investment Property

Investment Property is measured using the cost model. The fair value disclosed in Note 11 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each reporting period, such as: the receipt of contractual rentals; expected future market rentals; void periods; maintenance requirements; and appropriate discount rates. These valuations are regularly compared to actual market yield data and actual transactions by the Group and those reported by the market. The expected future market rentals are determined on the basis of current market rentals for similar properties in the same location and condition.

(d) Estimating Useful Lives of Property and Equipment and Investment Property

The Group estimates the useful lives of property and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment property 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. In addition, estimation of the useful lives of property and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The carrying amounts of Investment Property and Property and Equipment are disclosed in Notes 11 and 12, respectively. Based on management's assessment as at December 31, 2012 and 2011, there is no change in the estimated useful lives of these assets during those years. Actual results, however may vary due to changes in estimates brought by changes in factors mentioned above.

(e) Impairment of Trade and Other Receivables

Adequate amount of allowance is provided for specific and groups of accounts, where an objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(f) Valuation of Financial Assets Other than Trade and Other Receivables

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, 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 base of the instrument. The amount of changes in fair value would differ had the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. The carrying amounts of cash and cash equivalents, financial assets at FVTPL and AFS Securities and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 5, 7 and 8, respectively.

(g) Determining 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. Management assessed that the balance of deferred tax assets as at December 31, 2012 and 2011 will be utilized within the next two to three years.

The carrying amount of the net deferred tax assets as of December 31, 2012 and 2011 is disclosed in Note 22.

(h) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainties relates to assumptions about future operating results and the determination of suitable discount rate. Also, the Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.17. 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.

There were no impairment losses required to be recognized in 2012 and 2011 based on management's assessment.

(i) Valuation of Post-employment Benefit

The determination of the Group's obligation and cost of post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.3 and include, among others, discount rates, expected return on plan assets, employee turnover and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and, therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation are presented in Note 21.3.

(j) 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 profit or loss in the subsequent period.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group is engaged in the development of residential and office units including urban centers integrating office, residential and commercial components. The Real Estate segment pertains to the development and sale of residential and office developments. The Rental segment includes leasing of office and commercial spaces. The Hotel Operations segment relates to the management of hotel business operations. The Corporate and Others segment includes marketing services, general and corporate income and expense items. Segment accounting policies are the same as the policies described in Note 2.13. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

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, receivables, real estate inventories, property and equipment, and investment property, net of allowances and provisions. Similar to segment assets, segment liabilities are also allocated based on their use or direct association with a specific segment. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

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

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2012, 2011 and 2010 and certain asset and liability information regarding segments at December 31, 2012, 2011 and 2010.

2012

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 21,507,772,488	P 4,994,769,197	P 462,313,446	P 886,134,955	P -	P 27,850,990,086
Intersegment sales	-	110,085,770	-	222,831,481	(332,917,251)	-
Total revenues	P 21,507,772,488	P 5,104,854,967	P 462,313,446	P 1,108,966,436	(P 332,917,251)	P 27,850,990,086
RESULTS						
Segment results	P 3,936,964.620	P 3,848,300,987	P 122,321,275	P 4,097,830	P 17,601,370	P 7,929,286,082
Unallocated expenses						(84,337,571)
Interest income						1,840,964,871
Finance costs						(887,476,458)
Equity in net earnings of associates						794,347,508
Fair value gains – net						64,200,000
Dividend income						53,887,430
Foreign currency losses – net						(52,961,596)
Profit before tax						9,657,910,266
Tax expense						(2,250,736,998)
Net profit before non-controlling interests						7,407,173,268
Non-controlling interests' share in net profit						(113,102,786)
Net profit attributable to Company's shareholders						P 7,294,070,482
ASSETS AND LIABILITIES						
Segment assets	P104,426,551,477	P16,424,538,688	P 259,410,181	P13,831,502,038	P -	P 134,942,002,384
Investments in and advances to associates and other related parties - net	-	-	-	7,782,205,062	-	7,782,205,062
Total assets	P 104,426,551,477	P16,424,538,688	P 259,410,181	P 21,613,707,100	P -	P 142,724,207,446
Segment liabilities	P 52,847,673,565	P 2,203,461,213	P 121,671,842	P 6,161,807,255	P -	P 61,334,613,875
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 24,001,473,831

2011

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 19,076,553,675	P 3,826,341,215	P 392,171,105	P 3,023,156,092	P -	P26,318,222,087
Intersegment sales	-	53,969,793	-	166,500,934	(220,470,727)	-
Total revenues	P 19,076,553,675	P 3,880,311,008	P 392,171,105	P 3,189,657,026	(P 220,470,727)	P26,318,222,087
RESULTS						
Segment results	P 3,532,707,027	P 2,903,020,448	P 99,220,101	P 2,184,832,849	P 25,888,853	P 8,745,669,278
Unallocated expenses						(65,821,843)
Interest income						1,618,727,549
Finance costs						(818,237,019)
Equity in net earnings of associates						597,834,536
Foreign currency gains – net						65,503,537
Dividend income						32,661,662
Fair value gains (losses) – net						(7,851,631)
Profit before tax						10,168,486,069
Tax expense						(1,995,469,148)
Net profit before non-controlling interests and preacquisition income						8,173,016,921
Preacquisition income of a subsidiary						(17,326,952)
Non-controlling interests' share in net profit						(123,805,458)
Net profit attributable to Company's shareholders						P 8,031,884,511
ASSETS AND LIABILITIES						
Segment assets	P 93,027,684,187	P13,098,763,945	P 261,591,040	P 15,861,523,363	P -	P122,249,562,535
Investments in and advances to associates and other related parties - net	-	-	-	6,745,964,129	-	6,745,964,129
Total assets	P 93,027,684,187	P13,098,763,945	P 261,591,040	P22,607,487,492	P -	P128,995,526,664
Segment liabilities	P 46,802,707,496	P 1,853,118,305	P 111,753,205	P 7,455,842,379	P -	P 56,223,421,385
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 19,825,843,992

2010

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 15,399,973,187	P 2,694,310,554	P 232,757,023	P 808,477,515	P -	P19,135,518,279
Intersegment sales	-	52,014,865	-	179,885,935	(231,900,800)	-
Total revenues	P 15,399,973,187	P 2,746,325,419	P 232,757,023	P 988,363,450	(P 231,900,800)	P 19,135,518,279
RESULTS						
Segment results	P 3,042,478,040	P 2,062,875,628	P 38,125,649	P 635,421,436	P 25,888,854	P 5,804,789,634
Interest income						835,944,617
Finance costs						(516,440,321)
Equity in net earnings of associates						442,281,307
Fair value gains – net						83,500,000
Dividend income						40,630,134
Foreign currency gains – net						3,908,758
Profit before tax						6,694,614,129
Tax expense						(1,609,101,525)
Net profit before non-controlling interests						5,085,512,604
Non-controlling interests' share in net profit						(59,332,029)
Net profit attributable to Company's shareholders						P 5,026,180,575
ASSETS AND LIABILITIES						
Segment assets	P 63,241,644,678	P 5,919,037,407	P 178,376,810	P14,019,131,426	P -	P83,358,190,321
Investments in and advances to associates and other related parties - net-	-	-	-	13,671,332,490	-	13,671,332,490
Total assets	P 63,241,644,678	P 5,919,037,407	P 178,376,810	P27,690,463,916	P -	P97,029,522,811
Segment liabilities	P 32,027,981,425	P1,530,032,850	P 78,854,006	P 4,873,517,893	P -	P38,510,386,174
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P13,460,175,204

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2012	2011
Cash on hand and in banks	**P 1,807,234,630**	P 2,049,865,776
Short-term placements	**25,019,480,809**	28,274,613,404
	P 26,826,715,439	P 30,324,479,180

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods between 15 to 30 days and earn effective interest ranging from 3.66% to 4.13% in 2012 and 3.5% to 4.9% in 2011 (see Note 19).

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	2012	2011
Current:		
Trade	**P 13,228,178,001**	P 15,414,359,792
Allowance for impairment	**(18,364,972)**	(18,458,087)
	13,209,813,029	15,395,901,705
Advances to contractors and suppliers	**1,399,294,183**	1,173,135,782
Others	**736,593,641**	609,413,603
	15,345,700,853	17,178,451,090
Non-current:		
Trade	**23,924,555,970**	20,207,201,820
Allowance for impairment	**(12,224,936)**	(12,224,936)
	23,912,331,034	20,194,976,884
Others	**3,825,800**	14,065,568
	23,916,156,834	20,209,042,452
	P 39,261,857,687	P 37,387,493,542

A reconciliation of the allowance for impairment at the beginning and end of 2012 and 2011 is shown below.

	2012	2011
Balance at beginning of year	**P 30,683,023**	P 3,324,211
Allowance carried from new subsidiaries (EELHI and SPI)	**-**	26,302,376
Impairment loss during the year	**18,300**	1,139,783
Write-off of trade receivables previously provided with allowance	**(111,415)**	(83,347)
Balance at end of year	**P 30,589,908**	P 30,683,023

The installment period of sales contracts averages to five years. Trade receivables are noninterest-bearing and are remeasured at amortized cost using the effective interest rate of 10%. Interest income recognized amounted to P1.3 billion in 2012, P1.2 billion in 2011 and P933.4 million in 2010; these amounts are presented as Interest Income on Real Estate Sales in the consolidated statements of income.

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. Most receivables from trade customers are covered by postdated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The titles to the real estate properties remain with the Group until the receivables are fully collected.

The fair values of trade and other receivables are disclosed in Note 28.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of investments in equity securities which are presented at their fair values determined directly by reference to published prices quoted in the PSE as of December 31, 2012 and 2011. The changes in fair values of these financial assets are presented as Fair Value Gains (Losses) - net under Interest and Other Income - net account in the consolidated statements of income (see Note 19).

8. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

AFS securities comprise the following as of December 31:

	2012	2011
Equity securities	**P 2,704,469,578**	P 2,030,052,709
Debt securities	**552,317,041**	561,694,969
	P 3,256,786,619	P 2,591,747,678

The reconciliation of the carrying amounts of AFS securities are as follows:

	2012	2011
Balance at the beginning of year	**P 2,591,747,678**	P 6,211,184,496
Disposals	**(138,241,416)**	(2,997,737,000)
Gains (losses)	**803,280,357**	(621,699,818)
Balance at end of year	**P 3,256,786,619**	P 2,591,747,678

Equity securities significantly pertain to investments in a publicly-listed holding company with fair values determined directly by reference to published prices in the PSE while debt securities consist of U.S. dollar-denominated corporate bonds quoted in a foreign active market.

A portion of the Group's AFS equity securities amounting to P189.2 million as of December 31, 2012 and 2011 refers to unquoted equity securities of certain investee companies. These AFS equity securities have no quoted market price; hence, are carried at cost.

The aggregate cost of AFS Securities as of December 31, 2012 and 2011 amounted to P2.6 billion and P2.5 billion, respectively. The fair value gains or losses arising from these financial assets which comprised the movements in the carrying amounts of AFS, are reported as part of Net Unrealized Gains (Losses) on AFS Securities in the consolidated statements of comprehensive income.

The resulting gain from sale of investments in 2011 is presented as Gain on Sale of AFS Securities under Interest and Other Income - net account in the 2011 statement of income (see Note 19). There was no gain or loss on disposals made in 2012.

A portion of the AFS securities are owned by RHGI and EELHI, which are subsidiaries of the Company. Hence, the movements in the AFS Securities arising from fair value gains or losses are allocated to the Company's shareholders.

9. ADVANCES TO LANDOWNERS AND JOINT VENTURES

The Group enters into numerous joint venture agreements for the joint development of various projects. These are treated as jointly controlled operations; there were no separate entities created under these joint venture agreements. The joint venture agreements stipulate that the Group's joint venturer shall contribute parcels of land and the Group shall be responsible for the planning, conceptualization, design, demolition of existing improvements, construction, financing and marketing of residential and condominium units to be constructed on the properties. Costs incurred by the Group for these projects are recorded under the Property Development Costs account in the consolidated statements of financial position (see Note 2.6). The amounts of other related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group (see Note 2.3).

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint ventures under agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the agreements, 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.

Repayment of these advances shall be made upon completion of the project development either in the form of the developed lots corresponding to the owner's share in saleable lots or in the form of cash to be derived from the sales of the landowner's share in the saleable lots and residential and condominium units.

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

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

	2012	2011
Total commitment for cash advances	**P -**	P 20,000,000
Total cash advances granted	**-**	(20,000,000)
Net Commitment	**P -**	P -

The net commitment for construction expenditures amounts to:

	2012	2011
Total commitment for construction expenditures	**P 9,580,606,292**	P 7,973,154,005
Total expenditures incurred	**(6,797,658,256)**	(5,732,041,177)
Net commitment	**P 2,782,948,036**	P 2,241,112,828

The Group's interests in jointly-controlled operations and projects range from 73% to 95% in 2012 and 2011. The listing and description of the Group's jointly controlled projects are as follows:

Company:

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

EELHI:

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

SPI:

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

The aggregate amounts of the current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 related to the Group's interests in joint ventures are not presented or disclosed as the joint ventures in which the Group is involved are not jointly-controlled entities (see Note 2.3).

As of December 31, 2012 and 2011, the Group either 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.

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

10.1 Breakdown of Carrying Values

The details of investments in and advances to associates and other related parties, are as follows:

	% Interest Held (see Note 1)	2012	2011
Investments in associates – at equity			
Acquisition costs:			
SHDI	42.48%	**P 875,445,000**	P 875,445,000
MGEI	40.00%	**5,000,000**	5,000,000
PTHDC	40.00%	**64,665,000**	64,665,000
AGPL	39.44%	**2,463,056,417**	2,463,056,417
GPMAI	37.23%	**86,830,455**	-
TLC	19.00%	**1,248,571,429**	-
TIHGI	10.00%	**141,590,000**	570,000,000
		4,885,158,301	3,978,166,417
Accumulated equity in net earnings:			
Balance at beginning of year		**207,621,276**	1,826,240,632
Equity share in net earnings for the year		**794,347,508**	597,834,536
Share in other comprehensive income (loss)		**1,092,535**	(147,365)
Reversal resulting from the consolidation of EELHI and GPMAI		**-**	(2,216,306,527)
Balance at end of year		**1,003,061,319**	207,621,276
Advances to associates and other related parties (see Note 23.3)		**1,893,985,442**	2,560,176,436
		P 7,782,205,062	P6,745,964,129

In 2012, the Company acquired 19% ownership in TLC. TLC became an associate as the Company is able to exert significant influence over TLC's operations through the 4 out of the 10 directors of TLC who are also members of the BOD of the Company.

In 2012, TIHGI redeemed 428.41 million preferred shares held by the Company at a par value of P1 per share. There are no outstanding receivables as of December 31, 2012 arising from TIHGI's redemption of preferred shares held by the Company. There was no change in the Group's share of ownership in TIHGI as a result of the said redemption. Despite the 10% ownership, the Company considers TIHGI as an associate as it is able to exert significant influence over TIHGI through the two out of the five directors of TIHGI who are also members of the Company's BOD.

In 2011, EELHI, SPI and GPMAI became subsidiaries of the Company (see Note 1). The increase in ownership in EELHI from 48.38% to 61.13% in 2011 resulted in the consolidation of the entity and increase in non-controlling interests and also in the presentation of the amount of preacquisition income in the consolidated statement of income. In 2011, the Company's indirect ownership in GPMAI also increased to 46.45% through the Company's increased ownership interest in EELHI, which has a 52% ownership in GPMAI. Consequently, GPMAI is also treated as a subsidiary of the Company in 2011. In 2012, however, GPMAI ceased to be a subsidiary of both EELHI and the Company (see Note 1).

The shares of stock of SHDI are listed in the PSE. The total quoted or market value of investments in this associate amounted to P516.1 million and P498.0 million as of December 31, 2012 and 2011, respectively, compared to its carrying value of P123.7 million and P124.5 million, respectively. The related book values of the Group's holdings in all other associates are in excess of their carrying values; hence, management deemed that the recognition of impairment loss is not necessary. The fair values of all other investments in associates are not available.

The balance of the Accumulated Equity in Net Earnings of P1.0 billion and P207.6 million as of December 31, 2012 and 2011, respectively, which is mainly lodged in the Group's Retained Earnings as of those dates, is not available for dividend declaration.

10.2 Summarized Financial Information

The aggregated amounts of assets, liabilities and net profit (loss) of the associates are as follows:

	Assets	Liabilities	Revenues	Net Profit (Loss)
2012:				
SHDI	P 153,559,159	P 45,232,263	P 1,318,257	(P 1,838,513)
MGEI	12,275,979	50,582	392,240	192,136
PTHDC	1,136,626,722	1,004,828,741	71,301	(327,871)
AGPL	6,380,453,088	6,848,129	431,546,120	404,975,974
GPMAI	632,627,552	12,044,026	-	(93,998,746)
TLC	5,525,542,334	1,394,926,449	13,734,389	(43,885,015)
TIHGI	47,996,781,321	26,710,158,052	29,078,020,445	6,734,216,200
	P 61,837,866,155	**P 29,174,088,242**	**P 29,525,082,752**	**P 6,999,334,165**
2011:				
SHDI	P 155,088,710	P 44,923,301	P 14,595,786	P 10,651,117
PTHDC	1,137,402,691	1,005,276,839	115,409	(157,289)
MGEI	12,032,991	-	34,940	(467,014)
AGPL	6,043,588,479	8,263,874	295,614,455	282,114,487
TIHGI	45,595,379,043	26,801,261,974	26,348,582,418	4,838,534,174
	P 52,943,491,914	P 27,859,725,988	P 26,658,943,008	P 5,130,675,475

11. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation of investment property at the beginning and end of 2012 and 2011 are shown below.

	Land	Buildings	Condominium Units	Total
December 31, 2012				
Cost	P 1,412,634,527	P 8,115,587,002	P 9,694,515,537	P 19,222,737,066
Accumulated depreciation	-	(1,518,791,093)	(1,071,910,310)	(2,590,701,403)
Net carrying amount	**P 1,412,634,527**	**P 6,596,795,909**	**P 8,622,605,227**	**P 16,632,035,663**
December 31, 2011				
Cost	P 1,412,634,527	P 7,960,842,147	P 4,977,714,772	P 14,351,191,446
Accumulated depreciation	-	(1,191,162,815)	(787,737,966)	(1,978,900,781)
Net carrying amount	P 1,412,634,527	P 6,769,679,332	P 4,189,976,806	P 12,372,290,665
January 1, 2011				
Cost	P 1,412,634,527	P 5,878,941,281	P 3,954,063,399	P 11,245,639,207
Accumulated depreciation	-	(930,323,176)	(598,785,986)	(1,529,109,162)
Net carrying amount	P 1,412,634,527	P 4,948,618,105	P 3,355,277,413	P 9,716,530,045

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 of investment property is shown below.

	Land	Buildings	Condominium Units	Total
Balance at January 1, 2012, net of accumulated depreciation	P 1,412,634,527	P 6,769,679,332	P 4,189,976,806	P 12,372,290,665
Additions	-	154,744,855	4,716,800,765	4,871,545,620
Depreciation charges for the year	-	(327,628,278)	(284,172,344)	(611,800,622)
Balance at December 31, 2012, net of accumulated depreciation	**P 1,412,634,527**	**P 6,596,795,909**	**P 8,622,605,227**	**P 16,632,035,663**
Balance at January 1, 2011, net of accumulated depreciation	P 1,412,634,527	P 4,948,618,105	P 3,355,277,413	P 9,716,530,045
Additions	-	1,831,474,260	1,042,662,947	2,874,137,207
Transfers	-	-	(19,011,574)	(19,011,574)
Investment property of a deconsolidated subsidiary	-	250,426,606	-	250,426,606
Depreciation charges for the year	-	(260,839,639)	(188,951,980)	(449,791,619)
Balance at December 31, 2011, net of accumulated depreciation	P 1,412,634,527	P 6,769,679,332	P 4,189,976,806	P 12,372,290,665

Investment property with carrying values of P0.9 billion and P2.2 billion as of December 31, 2012 and 2011, respectively, are used as collateral by the Group for its various loans obtained from local banks (see Note 14).

Rental income earned from these properties amount to P5.0 billion, P3.8 billion and P2.7 billion in 2012, 2011 and 2010, respectively, and is shown as Rental Income in the consolidated statements of income. The direct operating costs, exclusive of depreciation, incurred by the Group relating to these investment property amounted to P174.31 million in 2012, P135.08 million in 2011 and P91.4 million in 2010. The operating lease commitments of the Group as a lessor are fully disclosed in Note 26.1.

The fair market values of these properties are P85.5 billion and P73.8 billion as of December 31, 2012 and 2011, respectively. These are determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using a discount rate of 10% in 2012 and 2011.

12. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of property and equipment at the beginning and end of 2012 and 2011 are shown below.

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
December 31, 2012						
Cost	P 786,366,715	P 364,319,866	P 161,106,262	P 133,312,797	P 81,095,000	P 1,526,200,640
Accumulated depreciation and amortization	(522,192,653)	(222,366,914)	(97,063,452)	(87,611,943)	-	(929,234,962)
Net carrying amount	**P 264,174,062**	**P 141,952,952**	**P 64,042,810**	**P 45,700,854**	**P 81,095,000**	**P 596,965,678**
December 31, 2011						
Cost	P 707,071,366	P 295,154,303	P 146,350,111	P 99,645,611	P 81,095,000	P 1,329,316,391
Accumulated depreciation and amortization	(463,382,815)	(180,626,286)	(82,351,477)	(62,096,083)	-	(788,456,661)
Net carrying amount	P 243,688,551	P 114,528,017	P 63,998,634	P 37,549,528	P 81,095,000	P 540,859,730
January 1, 2011						
Cost	P 629,423,370	P 208,009,574	P 125,515,520	P 73,056,949	P -	P 1,036,005,413
Accumulated depreciation and amortization	(419,607,035)	(137,705,039)	(68,848,502)	(49,326,636)	-	(675,487,212)
Net carrying amount	P 209,816,335	P 70,304,535	P 56,667,018	P 23,730,313	P -	P 360,518,201

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 of property and equipment is shown below.

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 243,688,551	P 114,528,017	P 63,998,634	P 37,549,528	P 81,095,000	P 540,859,730
Additions	79,295,349	69,142,747	14,784,675	38,715,624	-	201,938,395
Reclassification		28,524	(28,524)			-
Disposals	-	(5,708)		(5,048,438)	-	(5,054,146)
Depreciation and amortization charges for the year	(58,809,838)	(41,740,628)	(14,711,975)	(25,515,860)	-	(140,778,301)
Balance at December 31, 2012, net of accumulated depreciation and amortization	**P 264,174,062**	**P 141,952,952**	**P 64,042,810**	**P 45,700,854**	**P 81,095,000**	**P 596,965,678**
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 209,816,335	P 70,304,535	P 56,667,018	P 23,730,313	P -	P 360,518,201
Additions	21,209,000	49,572,739	6,886,910	9,797,777	-	87,466,426
Disposals	-	(3,613,201)	(3,026,364)	(2,383,407)	-	(9,022,972)
Property and equipment of newly-acquired subsidiaries	56,783,508	41,185,190	16,974,045	22,709,850	81,095,000	218,747,593
Depreciation and amortization charges for the year	(44,120,292)	(42,921,246)	(13,502,975)	(16,305,005)	-	(116,849,518)
Balance at December 31, 2011, net of accumulated depreciation and amortization	P 243,688,551	P 114,528,017	P 63,998,634	P 37,549,528	P 81,095,000	P 540,859,730

Depreciation and amortization is presented as part of operating expenses account (see Note 18).

The Group's fully depreciated assets that are still being used amounted to P354.0 million and P322.0 million as of December 31, 2012 and 2011, respectively.

None of the Group's Property and Equipment are used as collateral for its interest-bearing loans and borrowings.

13. OTHER NON-CURRENT ASSETS

This account consists of:

	2012	2011
Goodwill	**P 343,095,101**	P 343,095,101
Guarantee and other deposits	**295,356,231**	251,854,749
Miscellaneous	**19,521,266**	14,097,984
	P 657,972,598	P 609,047,834

Goodwill is subject to impairment testing at least annually. No impairment losses were recognized in 2012 and 2011.

Guarantee deposits pertain mainly to payments made for compliance with construction requirements in relation to the Group's real estate projects.

14. INTEREST-BEARING LOANS AND BORROWINGS

Interest-bearing Loans and Borrowings account represents the following loans of the Group as of December 31:

	2012	2011
Current:		
Company	**P 1,203,380,952**	P1,203,380,952
EELHI	**152,989,611**	221,870,556
SPI	**231,223,837**	470,822,754
ECOC	**-**	54,041,138
	1,587,594,400	1,950,115,400
Non-current:		
Company	**3,667,833,333**	4,871,214,286
SPI	**1,005,842,266**	702,883,979
EELHI	**236,893,851**	417,377,123
	4,910,569,450	5,991,475,388
	P 6,498,163,850	P7,941,590,788

14.1 Company

In 2008, the Company signed a financing deal with a local bank under which the Company may avail of a P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion). The Company had availed of P4.5 billion out of the P5.0 billion facility in 2008 while the remaining P500.0 million was availed of in 2009. The proceeds of the loan were used to fund the development of the Group's 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. Interest is payable every quarter based on the Philippine Dealing System Treasury Fixing rate (PDSTF-R) plus a certain spread. The outstanding balance pertaining to these loans amounted to P2.62 billion and P3.57 billion as of December 31, 2012 and 2011, respectively.

In February 2009, the Company issued unsecured corporate notes to several financial institutions in the aggregate principal amount of P1.4 billion which will mature in seven years from the issue date. The principal repayments on this loan commenced in February 2010 and interest is paid semi-annually based on a fixed 9.0% annual interest rate. The outstanding balance pertaining to this loan amounted to P1.35 billion and P1.37 billion as of December 31, 2012 and 2011, respectively.

Also, in May 2009, the Company obtained an unsecured long-term loan from a local bank amounting to P500.0 million. The loan is payable for a term of seven years and interest is payable semi-annually based on a floating six-month PDSTF-R plus a certain spread, subject to semi-annual reprising. The outstanding balance pertaining to this loan amounted to P482.5 million and P487.5 million as of December 31, 2012 and 2011, respectively.

The remaining portion of the loans payable by the Company pertains to the balance of a long-term loan obtained in 2003 from a local bank with an original amount of P950.0 million which is payable in 10 years, inclusive of a three-year grace period on principal payments. Interest is payable every quarter based on 91-day treasury bill plus a certain spread. The Company also obtained an additional loan with original amount of P387 million in 2005 and P403.0 million in 2006 from the same local bank subject to the same terms and conditions. The outstanding balance pertaining to this loan amounted to P418.7 million and P650.7 million as of December 31, 2012 and 2011, respectively. Collateral for the loans consisted of a mortgage over certain investment property of the Company with carrying value of P43.5 million and P46.7 million as of December 31, 2012 and 2011, respectively (see Note 11).

14.2 EELHI

EELHI has outstanding secured and unsecured loans from local banks amounting to 389.9 million. The loans bear annual interest rates ranging from 7.8% to 9.5% in 2012 and 7.9% to 10.5% in 2011. Certain investment property with an estimated carrying value of P861.1 million and P1.6 billion as of December 31, 2012 and 2011, respectively, are used as collateral for these bank loans (see Note 11).

Bank loans of EELHI al so include amounts arising from trade receivables discounted on a with-recourse basis amounting to 332.7 million (see Note 6). Included also in the balance is the portion of a P400.0 million loan obtained in 2006. This loan bears annual interest of 10.5%. The principal amount is payable in seven equal annual amortization beginning March 15, 2007. Outstanding balances relating to these loans amounted to P389.9 million and P639.2 million as of December 31, 2012 and 2011, respectively.

14.3 SPI

In 2011, SPI availed of a short-term loan from a local bank amounting to P400.0 million with an annual interest rate of 5.5% payable upon maturity in 2012. The loan was fully settled in 2012. In 2012, the Company also availed of long-term loans from a local bank amounting to P330.0 million. These unsecured loans, which will mature in 2016, bear an annual interest of 5.5%.

SPI partially manages its cash flows for use in operations through discounting its trade receivables on a with-recourse basis with certain local banks. The outstanding loans to the banks arising from receivables assigned as of 31, 2012 and 2011 amounted to P907.1 million and P773.7 million, respectively, and is shown as part of Interest-bearing Loans and Borrowings account in the statements of financial position.

14.4 ECOC

The amount payable by ECOC pertains to the balance of a long-term loan facility obtained in 2002 with an original amount of U.S.$25 million (approximately P1.3 billion) from a foreign financial institution. The proceeds of the loan were used in the construction of several information technology buildings at the Eastwood CyberPark which is operated by ECOC. The drawdown from the loan facility amounting to U.S.$20 million (P1.0 billion) was made on October 15, 2002. The loan was payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest was payable every six months at London Inter-bank Offer Rate plus certain spread. Collaterals for the loan consisted of a mortgage over ECOC's certain Investment Property amounting to P553.1 million, and a full guarantee from the Company. The said loan was fully settled in 2012 and the related mortgage was released.

Finance costs arising from the above loans and borrowings that are directly attributable to construction of the Group's projects are capitalized as part of Residential and Condominium Units for Sale and Property Development Costs. The remaining interest costs are expensed outright.

Total finance costs attributable to all the loans of the Group amounted to P509.18 million and P596.8 million in 2012 and 2011, respectively. Of these amounts, portion expensed is presented as part of Finance Costs under Interest and Other Charges - net in the consolidated statements of income (see Note 20). Interest capitalized in 2012 and 2011 amounted to P183.0 million and P355.6 million, respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 6.73% in 2012 and 8.29% in 2011.

15. BONDS PAYABLE

On April 15, 2011, the Group issued seven-year term bonds totaling U.S.$200 million. The bonds bear interest at 6.75% per annum payable semi-annually in arrears every April 15 and October 15 each year starting October 15, 2011. The bonds will mature on April 15, 2018. Also, on November 18, 2009, the Group issued P5.0 billion fixed rate unsecured bonds with a term of five years and six months which bear an interest of 8.46% per annum. The bonds were issued at par and will be redeemed at 100% of the face value on maturity date. The proceeds received are being used by the Group to finance its capital expenditures from 2009 up to 2013 mainly for the development of its real estate projects.

On August 4, 2006, the Group issued five-year term bonds totaling U.S.$100 million at a discount of U.S.$1.5 million. The bonds bear interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting on February 4, 2007. The bond matured and was fully settled in August 2011.

Total interest incurred on these bonds amounted to P984.3 million in 2012 and P1.0 billion in 2011, of which portions capitalized amounted to P423 million in 2012 and 2011. The remaining amounts are expensed and presented as part of Finance Costs under Interest and Other Charges in the consolidated statement of income (see Note 20). Capitalization rate used in determining the amount of interest charges qualified for capitalization is 8.46% both in 2012 and 2011.

16. TRADE AND OTHER PAYABLES

This account consists of:

	2012	2011
Trade payables	**P 5,081,234,403**	P 5,241,397,638
Retention payable	**2,084,707,464**	1,349,444,587
Accrued interest	**292,296,901**	303,706,055
Accrued construction cost	**72,057,733**	64,837,800
Miscellaneous	**369,720,811**	337,580,414
	P 7,900,017,312	P 7,296,966,494

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

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

Miscellaneous payable consist primarily of withholding taxes payable and accrual of salaries and wages and utilities.

17. OTHER LIABILITIES

This account consists of:

	2012	2011
Current:		
Unearned revenues	**P 1,463,820,018**	P1,601,422,726
Deferred rental income	**246,307,507**	27,698,235
Other payables	**2,667,317**	78,553,002
	1,712,794,842	1,707,673,963
Non-current -		
Deferred rental income	**2,058,307,552**	1,943,654,006
	P 3,771,102,394	P3,651,327,969

18. OPERATING EXPENSES

Presented below are the details of this account.

	Notes	2012	2011	2010
Salaries and employee benefits	21	**P 940,407,850**	P 775,558,589	P P437,045,219
Commission		**940,106,924**	934,748,085	467,977,819
Depreciation and amortization	11, 12	**752,578,923**	566,641,137	443,203,639
Advertising and promotions		**643,939,022**	572,052,650	189,619,585
Utilities and supplies		**338,239,281**	215,840,286	141,065,957
Rent		**264,382,431**	163,714,850	60,263,992
Professional fees and outside services		**225,648,686**	176,664,004	68,426,284
Transportation		**223,735,372**	142,590,321	103,626,296
Taxes and licenses		**172,504,165**	196,304,569	110,188,073
Association dues		**188,226,417**	103,023,327	51,261,055
Miscellaneous		**244,424,584**	269,087,243	67,547,715
		P 4,934,193,655	P 4,116,225,061	P 2,140,225,634

19. INTEREST AND OTHER INCOME

Presented below are the details of this account.

	2012	2011	2010
Interest income from cash and cash equivalents and others	**P 1,840,964,871**	P 1,618,727,549	P 835,944,617
Construction income	**130,162,337**	138,492,457	101,962,175
Commission income	**112,417,366**	73,432,592	352,578
Fair value gains (losses) – net	**64,200,000**	(7,851,631)	83,500,000
Dividend income	**53,887,430**	32,661,662	40,630,134
Foreign currency gains (losses) – net	**(52,961,596)**	65,503,537	3,908,758
Gain on sale of AFS securities	**-**	2,242,526,309	646,720,788
Miscellaneous – net	**643,555,234**	568,704,735	59,441,974
	P 2,792,225,642	P 4,732,197,210	P 1,772,461,024

Miscellaneous income refers to forfeited deposits, collections, marketing fees and others.

20. INTEREST AND OTHER CHARGES

Presented below are the details of this account.

	2012	2011	2010
Finance costs	**P 887,476,458**	P 818,237,019	P 516,440,321
Loss on write-off and impairment of property development cost	**61,518,212**	-	-
Miscellaneous – net	**95,396,369**	85,289,416	27,960,793
	P 1,044,391,039	P 903,526,435	P 544,401,114

Finance costs mainly pertain to interest incurred from the bonds payable and interest-bearing loans and borrowings (see Notes 14 and 15).

Miscellaneous pertains to amortization of discounts on security deposits, bank charges and other related fees.

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below (see Note 18).

	2012	2011	2010
Short-term benefits	**P 819,561,121**	P 697,892,237	P 399,773,554
Post-employment benefits	**120,846,729**	77,666,352	37,271,665
	P 940,407,850	P 775,558,589	P 437,045,219

21.2 Employee Stock Option Plan

On November 27, 2012 and December 21, 2012, the Company granted stock options to qualified employees of the Group, giving them the right to subscribe to a total of 190 million and 55 million common shares of the Company at the exercise price of P1.77 and P1.89 per share, respectively. The employee stock options shall generally vest on the 60th birthday of the option holder and may be exercised until the date of his or her retirement from the Group. Based on management assessment, the amount of employee benefits relative to the stock option is not significant to the consolidated financial statements in 2012; hence, the Group will accrue for such granted employee benefits starting 2013 and throughout the vesting period of the stock options granted.

21.3 Post-employment Benefit

The Group maintains a funded, tax-qualified, non-contributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit obligation, presented as non-current liability in the consolidated statements of financial position, are determined as follows:

	2012	2011
Present value of the obligation	**P 716,070,125**	P 557,555,467
Fair value of plan assets	**(89,869,629)**	(76,027,689)
Deficiency of plan assets	**626,200,496**	481,527,778
Unrecognized past service costs	**(14,971,655)**	(3,656,813)
Unrecognized actuarial losses	**(221,026,885)**	(192,449,225)
	P 390,201,956	P 285,421,740

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

	2012	2011
Balance at beginning of year	**P 557,555,467**	P 209,714,448
Current service costs	**85,607,785**	54,081,117
Actuarial losses	**40,829,191**	150,015,737
Balance carried from new subsidiaries (EELHI and SPI)	**-**	121,158,535
Interest costs	**33,193,412**	25,966,462
Benefits paid	**(1,115,730)**	(3,380,832)
Balance at end of year	**P 716,070,125**	P 557,555,467

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

	2012	2011
Balance at beginning of year	**P 76,027,689**	P 53,207,861
Contributions paid into the plan	**12,000,000**	13,900,000
Benefits paid	**(1,115,730)**	(3,380,832)
Expected return on plan assets	**4,243,265**	3,316,664
Additions due to consolidation of EELHI and SPI	**-**	3,104,807
Actuarial gain (loss)	**(1,285,595)**	5,879,189
Balance at end of year	**P 89,869,629**	P 76,027,689

The Group's plan assets as of December 31, 2012 and 2011 are solely in the form of cash and cash equivalents which are being administered by a trustee. The contributions to the plan are made annually by the Group based on availability of funds. The Group expects to pay P12.0 million in contributions to the retirement benefit plans in 2013.

The amounts of retirement benefits expense recognized in the consolidated statements of income are as follows:

	2012	2011	2010
Current service costs	**P 85,607,785**	P 54,081,117	P 23,934,917
Net actuarial losses recognized during the year	**6,089,217**	735,957	676,151
Interest costs	**33,193,412**	25,966,462	15,086,241
Expected return on plan assets	**(4,243,265)**	(3,316,764)	(2,425,644)
Past service cost	**199,580**	199,580	-
	P 120,846,729	P 77,666,352	P 37,271,665

Presented below are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and deficiency of plan assets.

	2012	2011	2010	2009	2008
Present value of the obligation	**P 716,070,125**	P 557,555,467	P 209,714,448	P 163,802,833	P 91,871,990
Fair value of plan assets	**(89,869,629)**	(76,027,689)	(53,207,861)	(40,427,396)	(26,200,243)
Deficiency of plan assets	**P 626,200,496**	P481,527,778	P 156,506,587	P 123,375,437	P 65,671,747

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

	2012	2011
Discount rates	**5.6 %**	8.0%
Expected rate of return on plan assets	**8.0 %**	6.0%
Expected rate of salary increases	**10.0 %**	10.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the age of 65 is 29 for both males and females.

22. TAXES

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2012	2011	2010
Reported in consolidated statements of income:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 1,341,243,457**	P 1,054,538,463	P 813,802,554
Final tax at 20% and 7.5%	**171,404,904**	181,904,031	111,933,084
Minimum corporate income tax (MCIT) at 2%	**318,062**	1,029,759	425,765
Special tax rate at 5%	**-**	18,802,816	19,479,041
	1,512,966,423	1,256,275,069	945,640,444
Deferred tax expense relating to origination and reversal of temporary differences	**737,770,575**	739,194,079	663,461,081
	P2,250,736,998	P 1,995,469,148	P1,609,101,525
Reported in consolidated statements of comprehensive income –			
Deferred tax income relating to origination and reversal of temporary differences	**(P 70,795,068)**	(P 3,842,636)	(P 55,967,408)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to income tax expense reported in the consolidated statements of income is as follows:

	2012	2011	2010
Tax on pretax profit at 30%	**P 2,897,373,080**	P 3,045,347,735	P 2,008,384,239
Adjustment for income subjected to lower income tax rates	**(528,127,818)**	(310,945,790)	(152,228,235)
Tax effects of:			
Non-taxable income	**(526,514,475)**	(1,215,511,134)	(462,560,168)
Non-deductible expenses	**386,505,896**	461,886,444	214,450,368
Non-deductible interest expense	**18,208,891**	5,576,527	49,245,102
Excess of optional standard deduction over itemized deductions	**(11,665,340)**	(4,906,889)	(5,784,318)
Unrecognized deferred tax assets	**6,666,883**	2,789,101	10,225,726
Net operating loss carry over (NOLCO)	**5,058,368**	10,266,270	1,000,962
Dividend income	**(11,445)**	(1,858,980)	(52,444,145)
Miscellaneous	**3,242,958**	2,825,864	(1,188,006)
Tax expense	**P 2,250,736,998**	P 1,995,469,148	P 1,609,101,525

The deferred tax assets and liabilities relate to the following as of December 31:

	2012	2011
Deferred tax assets:		
Accrued rental expense	**P 15,703,397**	P 35,829
Allowance for impairment of receivables	**9,176,972**	-
Retirement benefit obligation	**7,591,689**	3,818,787
MCIT	**651,213**	-
NOLCO	**-**	2,881,547
Others	**9,136,351**	597,416
	P 42,259,622	P 7,333,579
Deferred tax liabilities:		
Uncollected gross profit	**P4,745,139,010**	P4,184,468,051
Capitalized interest	**967,478,399**	785,595,394
Difference between the tax reporting base and financial reporting base of:		
- Investment property	**219,416,534**	163,048,030
- Property and equipment	**(19,249,915)**	(19,520,145)
Uncollected rental income	**126,978,198**	76,840,485
Accrued retirement cost	**(116,694,851)**	(55,361,532)
Translation adjustments	**(102,276,919)**	(31,481,851)
Bond issuance cost	**20,754,688**	23,908,448
Others	**(26,748,067)**	(14,601,353)
	P5,814,797,077	P 5,112,895,527

The components of deferred tax expense (income) are as follows:

	Consolidated Statements of Income 2012	2011	2010	Consolidated Statements of Comprehensive Income 2012	2011	2010
Changes in deferred tax assets:						
Accrued rent expense	(P 15,667,568)	P 32,588	P 149,927	P -	P -	P -
Allowance for impairment of receivables	(9,176,972)	-	-	-	-	-
Retirement benefit obligation	(3,772,902)	(632,228)	(601,240)	-	-	-
NOLCO	2,881,547	1,260,059	793,817	-	-	-
MCIT	(651,213)	-	-	-	-	-
Others	(8,538,935)	(133,459)	(315,330)	-	-	-
Changes in deferred tax liabilities:						
Uncollected gross profit	560,670,959	1,487,033,750	402,504,512	-	-	-
Capitalized interest	181,883,005	341,878,304	221,065,942	-	-	-
Accrued retirement cost	(61,333,319)	(12,059,776)	(10,131,499)	-	-	-
Difference between tax reporting base and financial reporting base of:						
- Investment property	56,368,504	(38,648,833)	52,892,299	-	-	-
- Property and equipment	270,230	270,771	259,714	-	-	-
Uncollected rental income	50,137,713	76,840,485	-	-	-	-
Bond issuance cost	(3,153, 760)	23,908,448	-	-	-	-
Translation adjustments	-	-	-	(70,795,068)	(3,842,636)	(55,967,408)
Others	(12,146,714)	(11,171,036)	(3,157,061)	-	-	-
	737,770,575	1,868,579,073	663,461,081	(70,795,068)	(3,842,636)	(55,967,408)
Effect of consolidation of EELHI, SPI and GPMAI	-	(1,129,384,994)	-	-	-	-
Deferred Tax Expense (Income)	P 737,770,575	P 739,194,079	P 663,461,081	(P70,795,068)	(P 3,842,636)	(P55,967,408)

No deferred tax liability has been recognized on the accumulated equity in net earnings of associates. The Group has no liability for tax should the amounts be declared as dividends since dividend income received from domestic corporation is not subject to income tax.

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

Subsidiary	Year incurred	Amount	Valid Until
SPI	2011	P 10,025,324	2014
	2010	7,679,761	2013
MNPHI	2011	187,256	2014
	2010	233,530	2013
MREI	2012	5,019	2015
	2011	9,286	2014
	2010	9,898	2013
MLI	2012	312,872	2015
	2011	308,076	2014
	2010	37,824	2013
FTPHI	2011	4,556	2014
	2010	7,052	2013

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

Subsidiary	Year incurred	Amount	Valid Until
MCPI	2011	P 11,471,042	2014
	2010	39,698,367	2013
MBPHI	2012	9,873,462	2015
	2011	10,100,510	2014
MLI	2010	12,118,518	2013
OPI	2010	4,508,189	2013
FTPHI	2010	159,226	2013
PIPI	2010	81,682	2013

Certain subsidiaries within the Group did not recognize the deferred tax assets on their MCIT and NOLCO as realization of such amounts is uncertain.

The aggregated amounts of assets, retained earnings (deficit), revenues and net profit (loss) of the subsidiaries which incurred NOLCO are as follows:

	Assets	**Retained Earnings (Deficit)**	**Revenues**	**Net Profit (Loss)**
2012				
OPI	P 1,105,941,029	(P 12,437,575)	P 8,410,743	P 126,645
MBPHI	360,666,527	(10,063,266)	6,920,603	37,244
MLI	138,408,082	(41,605,727)	29,819,809	12,816,577
MCPI	147,946,743	(135,021,288)	115,980,789	11,933,398
FTPHI	174,607,368	74,461,814	68,342,651	68,072,301
PIPI	5,176,884	101,814	173,892	59,562
	P 1,932,746,633	**(P 124,564,228)**	**P 229,648,487**	**P 93,045,727**
2011				
OPI	P 1,086,365,526	(P 12,564,220)	P 6,048,050	(P 694,531)
MBPHI	312,500,000	(10,100,510)	-	(10,100,510)
MLI	135,872,604	(54,422,304)	20,306,444	5,206,285
MCPI	107,535,282	(116,465,030)	73,844,321	(11,811,530)
FTPHI	106,476,993	6,389,515	3,844,829	(17,935,479)
PIPI	5,113,748	42,252	178,147	58,774
	P 1,753,864,153	(P 187,120,297)	P 104,221,791	(P 35,276,991)

Except for certain subsidiaries, management has assessed that the net losses incurred, as well as the related NOLCO, can be recovered through future operations and are not significant to the overall financial condition and financial performance of the Group.

In 2012, 2011 and 2010, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD in those years.

ECOC, as the developer and operator of Eastwood City Cyberpark, is registered with PEZA pursuant to Presidential Proclamation No. 191, dated October 6, 1999. As a PEZA-registered entity, ECOC is entitled to a preferential tax rate of 5% on gross income earned 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 shall be 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.

23. RELATED PARTY TRANSACTIONS

The Group's related parties include the parent company, associates, the Group's key management and other related parties under common ownership as described below. Transactions with related parties are also discussed below.

The summary of the Group's transactions with its related parties as of and for the years ended December 31, 2012 and 2011 are as follows:

		2012		2011	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Parent Company:					
Exercise of stock rights	24.2	**P2,585,362,642**	**P -**	P -	P -
Investment in equity securities:					
FVTPL	7	**-**	**167,600,000**	-	103,400,000
AFS	8	**-**	**2,515,228,241**	-	1,840,811,372
Dividend income	19	**53,549,026**	**-**	26,463,662	-
Dividends paid	24.4	**(299,741,330)**	**-**	(201,996,002)	-
Associates:					
Sale of land	23.1	**2,100,814,973**	**1,168,739,781**	1,605,212,930	561,843,281
Rendering of services	23.1	**28,655,442**	**1,991,972**	21,290,221	21,321,394
Granting (collection) of advances	23.3	**37,288,275**	**1,060,440,574**	(376,384,848)	1,023,152,299
Obtaining (payment) of advances	23.4	**47,509,568**	**50,559,415**	(218,972,857)	3,049,847
Related Parties Under Common Ownership:					
Obtaining of services	23.2	**141,474,682**	**96,390,635**	109,239,723	89,006,474
Lease of property		**21,283,194**	**1,123,111**	14,085,487	1,173,045
Granting (collection) of advances	23.3	**(703,479,269)**	**833,544,868**	889,590,452	1,537,024,137
Obtaining of advances	23.4	**434,852,539**	**642,045,135**	139,347,043	207,192,596

The Group's outstanding receivables from and payables to related parties arising from the above transactions are unsecured and noninterest-bearing.

None of the companies under the Group is a joint venture. The Company is not subject to joint control and none of its related parties exercise significant influence over it.

23.1 Sale of Land and Rendering of Services to Related Parties

	Amount of Transactions		
	2012	2011	2010
Associates	**P 2,129,470,415**	P 1,626,503,151	P 5,289,782
Other related parties under common ownership	**21,283,194**	14,085,487	13,659,040
	P 2,150,753,609	P 1,640,588,638	P 18,948,822

Sale of Land and Rendering of Services to Related Parties are usually on a cost-plus basis, allowing a certain margin agreed upon by the parties.

In 2012, the Company sold to an associate parcels of land with a total contract price of P2.2 billion collectible in installments. Outstanding balance related to these transactions amounted to P1.0 billion as of December 31, 2012.

In 2010, the same associate entered into a Management Agreement with the Company, who will provide management services for the overall administration of the associate's leasing operations for a fee, which is based on certain rates of collection plus commission. Total payments received from the associate amount to P42.0 million in 2012 and P17.2 million in 2011.

There were no impairment losses recognized on the trade and other receivables resulting from the above transactions.

23.2 Obtaining Services from Related Parties

	Amount of Transactions			Outstanding Balances		
	2012	2011	2010	**2012**	2011	2010
Other related parties under common ownership	**P 141,474,682**	P 109,239,723	P126,454,782	**P 96,390,635**	P 89,006,474	P 84,088,445

Services obtained are usually on a cost-plus basis, allowing a margin ranging from 10% to 20%. There are no outstanding payables for services obtained from the associates as of December 31, 2012 and 2011. The outstanding balances of payable to other related parties under common ownership pertain to unpaid commissions presented as part of Advances from Other Related Parties in the consolidated statements of financial position (see Note 23.4).

23.3 Advances to Associates and Other Related Parties

Associates and other related parties under common ownership are granted noninterest-bearing, unsecured advances by the Company and other entities in the Group with no repayment terms for working capital purposes. The outstanding balances of Advances to Associates and Other Related Parties shown as part of Investments in and Advances to Associates and Other Related Parties in consolidated statements of financial position (see Note 10) are as follows:

	2012	2011
Advances to associates:		
PTHDC	**P 1,004,534,615**	P 1,004,987,335
TLC	**37,415,119**	-
SHDI	**18,490,840**	18,164,964
	1,060,440,574	1,023,152,299
Advances to other related parties:		
Asia's Finest Cuisine, Inc.	**117,080,720**	111,946,376
Citylink Coach Services, Inc.	**26,285,973**	26,013,600
Global-Estate Resorts Inc.	**6,449,325**	28,693,918
Twin Lakes Corporation	**-**	373,331,075
Other related parties under common ownership	**683,728,850**	997,039,168
	833,544,868	1,537,024,137
	P 1,893,985,442	P 2,560,176,436

The movements in advances to associates and other related parties are as follows:

	2012	2011
Balance at beginning of year	**P2,560,176,436**	P 2,046,990,832
Additions	**26,969,408**	1,087,794,342
Repayments	**(693,160,402)**	(574,608,738)
Balance at end of year	**P1,893,985,442**	P 2,560,176,436

Advances to other related parties pertain to advances granted to entities under common ownership of the parent company. No impairment losses on the advances to associates and other related parties were recognized in 2012 and 2011.

23.4 Advances from Associates and Other Related Parties

Certain expenses of the entities within the Group are paid by other related parties on behalf of the former. The advances are non-interest bearing, unsecured and with no repayment terms. The outstanding balances from these transactions are presented as Advances from Other Related Parties account in the consolidated statements of financial position and are broken down as follows:

	2012	2011
TIHGI	P 50,559,415	P 3,049,847
Other related parties under common ownership	642,045,135	207,192,596
	P 692,604,550	P 210,242,443

The movements in advances from other related parties are as follows:

	2012	2011
Balance at beginning of year	P 210,242,443	P 289,868,257
Additions	482,362,107	139,347,043
Repayments	-	(218,972,857)
Balance at end of year	P 692,604,550	P 210,242,443

23.5 Key Management Personnel Compensations

The Group's key management personnel compensation includes the following:

	2012	2011	2010
Short-term benefits	P 93,436,092	P 78,370,241	P 47,174,219
Post-employment benefits	14,893,828	9,974,137	4,962,292
	P 108,329,920	P 88,344,378	P 52,136,511

24. EQUITY

Capital stock consists of:

	Shares			Amount		
	2012	2011	2010	2012	2011	2010
Preferred shares Series A – P0.01 par value						
Authorized	6,000,000,000	6,000,000,000	6,000,000,000	P 60,000,000	P 60,000,000	P 60,000,000
Issued and outstanding	6,000,000,000	6,000,000,000	6,000,000,000	P 60,000,000	P 60,000,000	P 60,000,000
Common shares – P1 par value						
Authorized	30,140,000,000	30,140,000,000	30,140,000,000	P 30,140,000,000	P 30,140,000,000	P 30,140,000,000
Issued and outstanding:						
Balance at beginning of year	25,769,203,626	25,769,203,626	25,769,203,626	P25,769,203,626	P 25,769,203,626	P 25,769,203,626
Issued during the year	3,109,659,359	-	-	3,109,659,359	-	
Balance at end of year	28,878,862,985	25,769,203,626	25,769,203,626	P28,878,862,985	P 25,769,203,626	P 25,769,203,626

On June 15, 1994, the SEC approved the listing of the Company's common shares totaling 140,333,333. The shares were initially issued at an offer price of P4.8 per common share. As of December 31, 2012, there are 2,756 holders of the listed shares, which closed at P2.77 per share as of that date.

The following also illustrates the additional listings made by the Company: May 23, 1996 – 1.6 billion; January 8, 1997 - 2.1 billion; November 23, 1998 - 2.0 billion; August 19, 1999 - 3.0 billion; October 12, 2005 - 7.0 billion; November 21, 2006 - 10.0 billion; and, July 17, 2007- 3.9 billion.

24.1 Preferred Shares Series "A"

The preferred shares are voting, cumulative, non-participating, non-convertible and non-redeemable with a par value of P0.01 per share. The shares earn dividends at 1% of par value per annum cumulative from date of issue. Dividends paid on cumulative preferred shares amounted to P600,000 in 2012 and 2011.

24.2 Common Shares

On April 28, 2009, the Company offered 5,127,556,725 common shares, by way of pre-emptive stock rights offering, to eligible existing common shareholders at the rate of one right for every four common shares held as of May 4, 2009 at an exercise price of P1 per share. Moreover, shareholders were given four additional stock warrants for every five stock rights subscribed. For every stock warrant, shareholders can avail of one common share at P1 per share.

As a result of the stock rights offering, 5,127,556,725 common shares were subscribed and issued on June 1, 2009. Of the total exercise price, 50% was paid as of May 31, 2009 and the remaining 50% was payable within one year from issue date. Unpaid subscriptions amounting to P2.3 million as of December 31, 2009 were fully paid by the subscribers in 2010. Relative to the stock subscription, 4,102,045,380 stock warrants were issued and these will be exercisable beginning on the second year until the fifth year from issue date.

In 2012, out of the Company's 4,102,045,380 stock warrants, 3,109,659,359 warrants were exercised at P1 per share. The remaining warrants are exercisable until 2015.

24.3 Additional Paid-in Capital

The APIC pertains to the excess of the total proceeds received from the Company's shareholders over the total par value of the common shares. There were no movements in the Company's Additional Paid-in Capital accounts in 2012, 2011 and 2010.

24.4 Cash Dividends

The details of the Company's cash dividend declarations, both for preferred and common shares, are as follows:

	2012	2011	2010
Declaration date / date of approval by BOD	**June 14,2012**	June 16, 2011	May 18, 2010
Date of record	**June 29,2012**	July 6, 2011	July 6, 2010
Date paid	**July 25,2012**	July 29, 2011	July 30, 2010
Amounts declared and paid	**P 839,193,763**	P 599,265,803	P 519,885,465

24.5 Treasury Shares

In 2008, the Company's BOD approved the buy-back of shares of up to P2.0 billion worth of common shares in the open market at prevailing market prices. The share buy-back program is made through the trading facilities of the PSE and the funds used for the buy-back were taken from internally-generated funds. As of December 31, 2012, the Company reacquired 131.4 million shares at a total cost of P118.6 million.

This account also includes the Company's common shares held and acquired by RHGI and GPMAI. The number of treasury common shares aggregated to 537.4 million as of December 31, 2009. The changes in market values of these shares recognized as fair value gains (losses) were eliminated in full and not recognized in the consolidated financial statements.

In 2010, when GPMAI was deconsolidated, the cost of the treasury shares held by GPMAI of P555.1 million was removed from the Treasury Stock account presented under equity. In 2011, GPMAI was consolidated back through EELHI and, accordingly, the cost of the treasury shares held by GPMAI as of December 31, 2011 amounting to P555.1 million was included back to Treasury Stock. In 2012, however, GPMAI was deconsolidated by EELHI and, thus, became an associate of both the Company and EELHI in that year; hence, the same cost of the treasury shares held by GPMAI was deducted from the balance of Treasury Stock account.

A portion of the Company's retained earnings is restricted for dividend declaration up to the cost of treasury stock as of the end of the reporting period.

25. EARNINGS PER SHARE

Earnings per share (EPS) amounts were computed as follows:

	2012	2011	2010
Net profit attributable to Company's shareholders	**P 7,294,070,482**	P 8,031,884,511	P 5,026,180,575
Dividends on cumulative preferred shares series "A"	**(600,000)**	(600,000)	(600,000)
Profit available to Company's common shareholders	**P 7,293,470,482**	P 8,031,284,511	P 5,025,580,575
Divided by weighted number of outstanding common shares	**25,970,748,295**	25,149,519,186	25,130,015,061
Basic	**P 0.281**	P 0.319	P 0.200
Diluted	**P 0.275**	P 0.319	P 0.200

There were no outstanding convertible preferred shares and bonds or other stock equivalents that may be considered as potential dilutive common shares as of December 31, 2011 and 2010. In 2012, the potential dilutive common shares relating to the unexercised stock warrants were considered in the computation of diluted EPS totaling 992,386,021(see Note 24.2).

26. COMMITMENTS AND CONTINGENCIES

26.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P6.1 billion for the consolidated balances. Future minimum lease payments receivable under these agreements are as follows:

	2012	2011	2010
Within one year	**P 5,043,673,839**	P 4,144,019,854	P 3,145,772,222
After one year but not more than five years	**25,817,849,759**	21,253,587,459	14,998,070,516
More than five years	**8,144,777,814**	6,704,886,317	4,731,453,360
	P 39,006,301,412	P 32,102,493,630	P 22,875,296,098

26.2 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 11 years, with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to about P18.3 million for the consolidated balances. The future minimum rental payables under these non-cancelable leases as of December 31, are as follows:

		2012		2011		2010
Within one year	**P**	**35,901,531**	P	19,395,713	P	12,247,168
After one year but not more than five years		**58,183,558**		41,710,168		19,039,825
More than five years		**7,395,348**		11,093,022		18,908,935
	P	**101,480,437**	P	72,198,903	P	50,195,928

26.3 Others

As of December 31, 2012 and 2011, the Group does not have unused credit lines.

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 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.

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS securities, interest-bearing loans and borrowings, bonds payable, trade receivables and payables which arise directly from the Group's business operations. The financial liabilities 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.

27.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise mainly from the Group's U.S. dollar-denominated cash and cash equivalents and bonds payable which have been used to fund new projects and to refinance certain indebtedness for general corporate purposes.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2012		2011	
	U.S. Dollars	**Pesos**	U.S. Dollars	Pesos
Financial assets	**$ 172,024,451**	**P 7,443,028,714**	$ 196,929,685	P 8,749,989,037
Financial liabilities	**(207,848,467)**	**(8,561,694,049)**	(195,759,303)	(8,599,314,640)
	($ 35,824,016)	**(P 1,118,665,335)**	$ 1,170,382	P 150,674,397

The following table illustrates the sensitivity of the consolidated net results for the year with regards to the Group's financial assets and financial liabilities as shown previously and the U.S. dollar – Philippine peso exchange rate:

Increase (decrease) in exchange rate	Effect on consolidated profit before tax 2012	2011
P 1	(P 35,824,016)	P 1,170,382
(P 1)	35,824,016	(1,170,382)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions and mainly affect consolidated profit or loss of the Group. There are no material exposures on foreign exchange rate that affect the Group's other comprehensive income (loss). Nonetheless, the analysis above is considered to be representative of the Group's currency risk.

27.2 Interest Rate Sensitivity

The Group interest risk management policy is to minimize interest rate cash flow risk exposures to changes in interest rates. The Group maintains a debt portfolio unit of both fixed and floating interest rates. These long-term borrowings and all other financial assets and liabilities are subject to variable interest rates.

The Group's ratio of fixed to floating rate debt stood at 16.24:1.00, 12.85:1.00, and 7.68:1.00 as of December 31, 2012, 2011 and 2010, respectively.

The following table illustrates the sensitivity of the consolidated net result for the year and consolidated equity to a reasonably possible change in interest rates of +1% and –1% in 2012 and 2011. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2012		2011	
	+1%	**-1%**	+1%	-1%
Consolidated net results for the year	**(P 9,438,380)**	**P 9,438,380**	(P 17,638,794)	P 17,638,794
Consolidated equity	**(6,606,866)**	**6,606,866**	(12,347,156)	12,347,156

27.3 Credit Risk

Generally, the Group's credit risk is attributable to trade 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 incorporates 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. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the consolidated statements of financial position (or in the detailed analysis provided in the notes to consolidated financial statements), as summarized below.

	Notes	**2012**	2011
Cash and cash equivalents	5	**P 26,826,715,439**	P 30,324,479,180
Trade and other receivables	6	**37,862,563,504**	36,214,357,760
Advances to associates and other related parties	10, 23.3	**1,893,985,442**	2,560,176,436
AFS securities	8	**552,317,041**	561,694,969
		P 67,135,581,426	P 69,660,708,345

None of the Company's financial assets are secured by collateral or other credit enhancements, except for cash and cash equivalents as described below.

(a) Cash and Cash Equivalents

The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

(b) Trade and Other Receivables

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 resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by post-dated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

Some of the unimpaired trade receivables are past due as at the end of the reporting period. The trade receivables that are past due but not impaired are as follows:

	2012	2011
Not more than 3 months	**P 841,118,917**	P 880,160,167
More than 3 months but not more than 6 months	**670,846,015**	469,684,169
More than 6 months but not more than one year	**207,286,843**	182,748,702
More than one year	**45,793,567**	35,707,777
	P1,765,045,342	P1,568,300,815

27.4 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, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits 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.

As at December 31, 2012 and 2011, the Group's financial liabilities have contractual maturities which are presented below.

	2012			
	Current		**Non-current**	
	Within 6 Months	**6 to 12 Months**	**1 to 5 Years**	**Later 5 Years**
Interest-bearing loans and borrowings	P 793,797,200	P 793,797,200	P 4,910,569,540	P -
Trade and other payables	2,662,082,166	5,237,935,146	-	-
Bonds payable	-	-	5,000,000,000	8,556,628,075
Advances from other related parties	-	-	692,604,550	-
	P 3,455,879,366	**P 6,031,732,346**	**P 10,603,174,090**	**P 8,556,628,075**

	2011			
	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P 1,202,078,269	P 748,037,131	P 5,991,475,388	P -
Trade and other payables	2,590,019,174	4,706,947,320	-	-
Bonds payable	-	-	5,000,000,000	8,538,914,490
Advances from other related parties	-	-	210,242,443	-
	P 3,792,097,443	P 5,454,984,451	P 11,201,717,831	P 8,538,914,490

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

27.5 Other Price Risk Sensitivity

The Group's market price risk arises from its investments carried at fair value (financial assets classified as FVTPL and AFS). 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 Group's consolidated net profit and consolidated equity as of December 31, 2012, 2011 and 2010 are summarized as follows:

2012

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in a holding company	+49.09%	-49.09%	P 82,274,840	P 1,234,725,543	(P 82,274,840)	(P1,234,725,543)

2011

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in a holding company	+47.56%	-47.56%	P 51,937,070	P 875,489,889	(P 51,937,070)	(P 875,489,889)

2010

	Observed Volatility Rates		Impact of Increase		Impact on Decrease	
	Increase	Decrease	Net Profit	Equity	Net Profit	Equity
Investment in equity securities in:						
Holding company	+51.53%	-51.53%	P 64,414,912	P 2,073,193,927	(P 64,414,912)	(P2,073,193,927)
Property company	+51.54%	-51.54%	-	71,024,936	-	(71,024,936)
			P 64,414,912	P 2,144,218,863	(P 64,414,912)	(P2,144,218,863)

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.

28. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

28.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	2012		2011	
		Carrying Values	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	**P26,826,715,439**	**P26,826,715,439**	P 30,324,479,180	P 30,324,479,180
Trade and other receivables - net	6	**37,862,563,504**	**37,862,563,504**	36,214,357,760	36,214,357,760
Advances to associates and other related parties	10	**1,893,985,442**	**1,893,985,442**	2,560,176,436	2,560,176,436
		P66,583,264,385	**P66,583,264,385**	P 69,099,013,376	P 69,099,013,376
Financial assets at fair value through profit or loss	7	**P 167,600,000**	**P 167,600,000**	P 109,203,260	P 109,203,260
Available-for-sale financial securities:	8				
Equity securities		**P 2,704,469,578**	**P 2,704,469,578**	P 2,030,052,709	P 2,030,052,709
Debt securities		**552,317,041**	**552,317,041**	561,694,969	561,694,969
		P 3,256,786,619	**P 3,256,786,619**	P 2,591,747,678	P 2,591,747,678

	Notes	2012 Carrying Values	2012 Fair Values	2011 Carrying Values	2011 Fair Values
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing loans and borrowings	14	**P 6,498,163,850**	**P6,498,163,850**	P 7,941,590,788	P 7,941,590,788
Bonds payable	15	**13,556,628,075**	**13,556,628,075**	13,538,914,490	13,538,914,490
Trade and other payables	16	**7,900,017,312**	**7,900,017,312**	7,296,966,494	7,296,966,494
Advances from other related parties		**692,604,550**	**692,604,550**	210,242,443	210,242,443
		P28,647,413,787	**P28,647,413,787**	P28,987,714,215	P 28,987,714,215

See Notes 2.5 and 2.10 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 27.

28.2 Fair Value Hierarchy

The Group's investments in financial assets at FVTPL and AFS Securities are comprised of equity and debt instruments listed in foreign and local stock exchanges. Fair value measurements of these financial assets were determined directly by reference to published prices quoted in an active market (Level 1 of the fair value hierarchy).

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objective is to ensure its ability to continue as a going concern and to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. It monitors capital using the debt-to-equity ratio.

	2012	2011
Interest-bearing loans and borrowings	**P 6,498,163,850**	P 7,941,590,788
Bonds payable	**13,556,628,075**	13,538,914,490
	P20,054,791,925	P 21,480,505,278
Total equity	**P81,389,593,571**	P 72,772,105,279
Debt-to-equity ratio	**0.25 : 1:00**	0.30 : 1:00

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

30. OTHER MATTERS

30.1 Registration with Philippine Economic Zone Authority (PEZA)

ECOC, as operator of the Eastwood City CyberPark, is registered with PEZA. As a PEZA registered entity, it is entitled to a preferential tax rate of 5% on gross income earned from its PEZA registered activities, in lieu of all local and national taxes, and to other tax privileges.

30.2 International Organization for Standardization (ISO) Certification

The Company was awarded a Certificate of Registration ISO 9001:1994 effective November 26, 1999 by Certification International Philippines, Inc. Effective November 21, 2002, the Company has upgraded its Certification to ISO 9001:2000 series. The scope of the certification covers all areas of the Company's operations, which include planning, design, project management and customer service for its real estate business. Among others, the Company is required to undergo surveillance audits every six months.

30.3 Awards

As a testament to the Company was recognized by various award-giving bodies in 2012 and 2011 as follows:

2012

- Finance Asia's Best Managed Philippine Company, Best in Investor Relations and Best Mid-Cap Company;
- Corporate Governance Asia's 2nd Asian Excellence Awards- Best Investor Relations;
- Corporate Governance Asia's 8th Corporate Governance Asia Recognition Awards;
- Alpha Southeast Asia 2nd Annual Southeast Asia's Institutional Investor Corporate Poll- Most Organized Investor Relations and Strong Adherence to Corporate Governance.

2011

- Alpha Southeast Asia Most Organized Investor Relations and Strong Adherence to Corporate Governance;
- World HRD Congress Best Employer;
- Asia's Best Managed Company by Finance Asia;
- Best in Investor Relations by Finance Asia.

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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1200 Makati City
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The Board of Directors and Stockholders
Megaworld Corporation and Subsidiaries
(A Subsidiary of Alliance Global Group, Inc.)
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Megaworld Corporation and Subsidiaries (the Group) for the year ended December 31, 2012, on which we have rendered our report dated March 1, 2013. 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 consolidated 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: Nelson J. Dinio
Partner

CPA Reg. No. 0097048
TIN 201-771-632
PTR No. 3671455, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 1036-A (until Sept. 29, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-32-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

March 1, 2013

Megaworld Corporation and Subsidiaries
List of Supplementary Information
December 31, 2012

Schedule	Content	Page No.
Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68		
A	Financial Assets	
	Financial Assets at Fair Value Through Profit or Loss	1
	Held-to-maturity Investments	N/A
	Available-for-sale Financial Assets	1
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	2
C	Amounts Receivable/Payable from/to Related Parties which are Eliminated during the Consolidation of Financial Statements	3
D	Intangible Assets - Other Assets	4
E	Long-term Debt	5
F	Indebtedness to Related Parties	N/A
G	Guarantees of Securities of Other Issuers	N/A
H	Capital Stock	6
Other Required Information		
	Summary of Philippine Financial Reporting Standards and Interpretations Adopted by Securities and Exchange Commission and the Financial Reporting Standards Council as of as of December 31, 2012	
	Map Showing the Relationship Between the Company and its Related Entities	
	Schedule of Financial Soundness Indicator	
	Reconciliation of Retained Earnings Available for Dividend Declaration	

Megaworld Corporation and Subsidiaries
Schedule A - Financial Assets
December 31, 2012

Name of issuing entity and association of each issue	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet*	*Valued based on the market quotation at balance sheet date*	*Income received and accrued*
Alliance Global Group Inc.	159,953,200	P 2,682,828,241	P 2,682,828,241	P 53,549,026
Shui on Land Ltd.	P 44,424,007	45,092,017	45,092,017	76,461
Shui on Development Hold	P 126,925,692	129,012,437	129,012,437	241,084
Shimao Property Holdings Ltd.	P 206,268,940	238,151,548	238,151,548	550,000
Yanlord Land Group Ltd.	P 123,699,576	140,061,038	140,061,038	318,750
Asia E-Commerce, Inc.	12,500,000	3,425,000	3,425,000	
Bonifacio West Development Corp.	4,611	185,816,338	185,816,338	
		P 3,424,386,619	P 3,424,386,619	P 54,735,321

Megaworld Corporation and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2012

			Deductions		Ending Balance		
Name and designation of debtor [1]	*Balance at beginning of period*	*Additions*	*Amounts collected*	*Amounts written off*	*Current*	*Not current*	*Balance at end of period*
Advances to Officers and Employees:							
Philipps Cando	486,317		(135,717)		350,600		350,600
First VP - Operations							
Garry V. de Guzman	83,147		(83,147)	-	-	-	-
First VP - Legal Affairs							
Monica Salomon	196,214		(130,810)	-	65,404	-	65,404
First VP - Corporate Management							
Rolando D. Siatela	-	463,210	-	-	463,210	-	463,210
Assistant Corporate Secretary							
	P 765,678	P 463,210	(P 349,674)	-	P 879,214	-	P 879,214
Loans to Directors:	-	-	-	-	-	-	-

MEGAWORLD CORPORATION AND SUBSIDIARIES
SCHEDULE C- Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31, 2012

Name and designation of debtor	Balance at beginning of period	Additions	Deductions				
			Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Due from Related Parties:							
Megaworld Land Inc. (MLI)	189,413,422	-	10,752,638	-	-	178,660,784	178,660,784
Megaworld Newport Property Holdings, Inc. (MNPHI)	91,771,977	989,091	-	-	-	92,761,068	92,761,068
Oceantown Properties, Inc. (OPI)	217,244,113	41,594,023	-	-	-	258,838,136	258,838,136
Piedmont Property Ventures, Inc. (PPVI)	92,080	24,801	-	-	-	116,880	116,880
Stonehaven Land, Inc.(SLI)	92,080	24,801	-	-	-	116,880	116,880
Streamwood Property, Inc. (SP)	117,620	24,470	-	-	-	142,089	142,089
Richmonde Hotel Group International, Ltd. (RHGI)	6,844,261,846	-	4,714,186,269	-	-	2,130,075,576	2,130,075,576
Suntrust Properties Inc. (SPI)	326,116,391	284,016,293	-	-	-	610,132,684	610,132,684
Empire East Landholdings Inc. (EELHI)	653,659,919	1,569,814,244	-	-	-	2,223,474,163	2,223,474,163
Eastwood Property Holdings, Inc.	160,175,472	-	59,221,453	-	-	100,954,019	100,954,019
Due to Related Parties:							
Prestige Hotels, Inc.(PHRI)	-	22,456,427	-	-	-	22,456,427	22,456,427
Megaworld Daewoo Corporation (MDC)	236,472,977	-	5,322,138	-	-	231,150,840	231,150,840
Megaworld Central Properties, Inc. (MCPI)	37,395,882	30,106,519	-	-	-	67,502,401	67,502,401
Townsquare Development Inc. (TDI)	832,863,205	-	63,287,452	-	-	769,575,753	769,575,753
Mega Globus Asia, Inc. (MGAI)	206,579,082	32,000,000	-	-	-	238,579,082	238,579,082
Philippine International Properties, Inc. (PIPI)	4,028,804	-	273,972	-	-	3,754,831	3,754,831

Megaworld Corporation and Subsidiaries
Schedule D - Intangible Assets - Other Assets
December 31, 2012

			Deduction			
Description	***Beginning balance***	***Additions at cost***	***Charged to cost and expenses***	***Charged to other accounts***	***Other changes additions (deductions)***	***Ending balance***
Goodwill	P 343,095,101	-	-	-	-	P 343,095,101

Megaworld Corporation and Subsidiaries
Schedule E - Long-Term Debt
December 31, 2012

Title of issue and type of obligation	*Amount authorized by indenture*	*Amount shown under caption"Current portion of long-term debt" in related balance sheet*	*Amount shown under caption"Long-Term Debt" in related balance sheet*
Long -term loan	P 17,274,202,511	P 1,587,594,400	P 9,910,569,450
Foreign borrowings	8,556,628,075	-	8,556,628,075
	P 25,830,830,586	P 1,587,594,400	P 18,467,197,525

Megaworld Corporation and Subsidiaries
Schedule H - Capital Stock
December 31, 2012

				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	30,140,000,000	28,747,442,985	992,386,005	18,784,521,882	99,068,543	9,863,852,560
Preferred shares - P.01 par value	6,000,000,000	6,000,000,000		6,000,000,000		

MEGAWORLD CORPORATION AND SUBSIDIARIES
(A Subsidiary of Alliance Global Group, Inc.)

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, 2012

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			✓
	Amendments to PFRS 1: Government Loans* *(effective January 1, 2013)*			✓
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* *(effective January 1, 2013)*			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)*			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments *(effective January 1, 2015)*			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)*			✓
PFRS 10	Consolidated Financial Statements* *(effective January 1, 2013)*			✓
	Amendments to PFRS 10: Transition Guidance* *(effective January 1, 2013)*			✓
	Amendments to PFRS 10: Investment Entities* *(effective January 1, 2013)*			✓
PFRS 11	Joint Arrangements* *(effective January 1, 2013)*			✓
	Amendments to PFRS 11: Transition Guidance* *(effective January 1, 2013)*			✓
PFRS 12	Disclosure of Interests in Other Entities* *(effective January 1, 2013)*			✓
	Amendments to PFRS 12: Transition Guidance* *(effective January 1, 2013)*			✓
	Amendments to PFRS 12: Investment Entities* *(effective January 1, 2013)*			✓
PFRS 13	Fair Value Measurement* *(effective January 1, 2013)*			✓

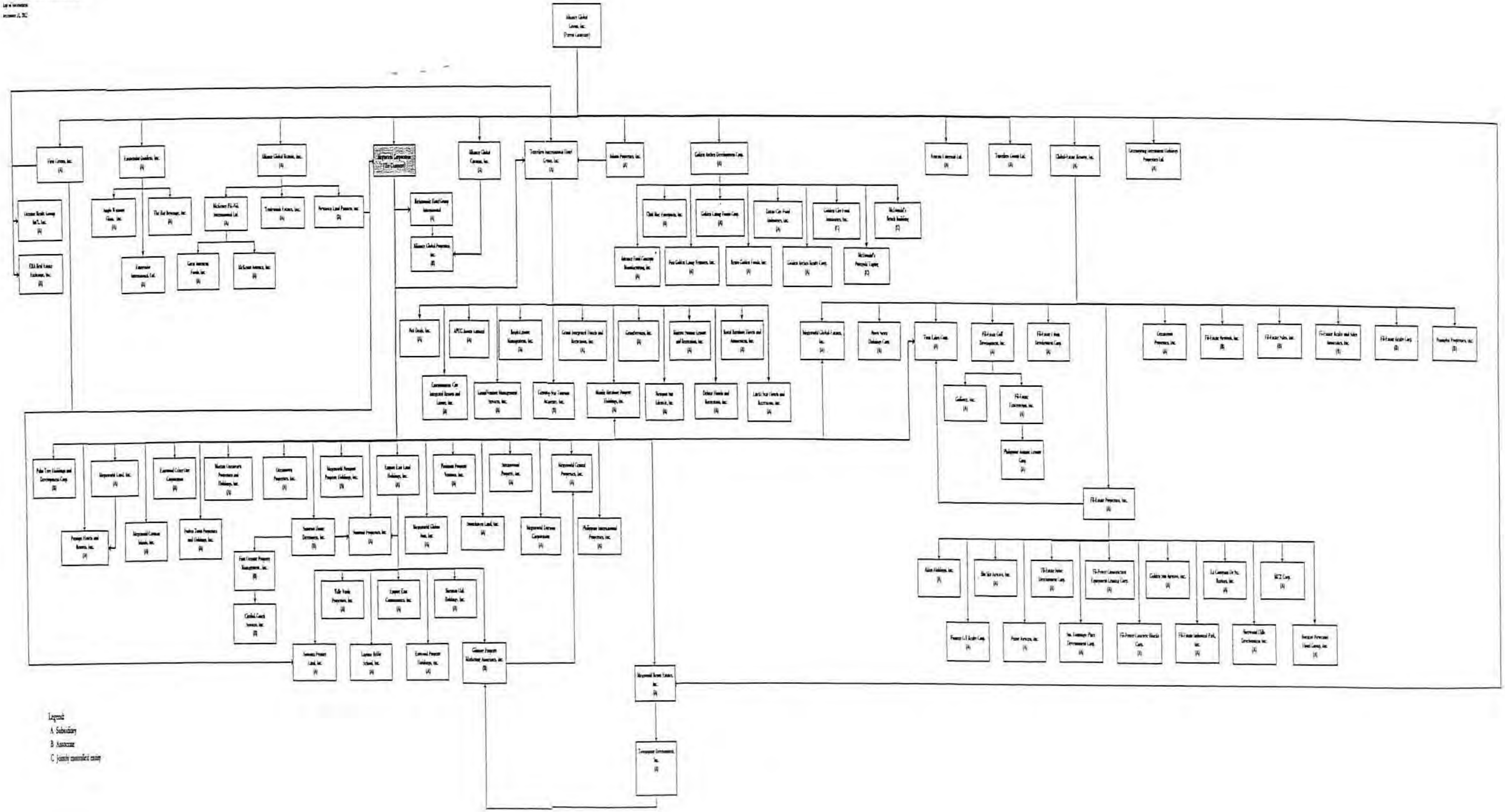
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
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	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Revised)	Employee Benefits* *(effective January 1, 2013)*			✓
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	Consolidated and Separate Financial Statements	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	✓		
PAS 27 (Amended)	Separate Financial Statements* *(effective January 1, 2013)*			✓
	Amendments to PAS 27 (Amended): Investment Entities* *(effective January 1, 2013)*			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures* *(effective January 1, 2013)*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures	✓		
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)*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting			✓
PAS 36	Impairment of Assets	✓		
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	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
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* *(effective January 1, 2013)*			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
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 2012 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.



Legend:
A. Subsidiary
B. Associate
C. Jointly controlled entity

MEGAWORLD CORPORATION AND SUBSIDIARIES
SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS
DECEMBER 31, 2012 AND DECEMBER 31, 2011

	DECEMBER 31, 2012	DECEMBER 31, 2011
Current ratio	3.17 :1.00	3.35 :1.00
Quick ratio	1.04 :1.00	1.31 :1.00
Debt-to-equity ratio	0.25 :1.00	0.30 :1.00
Interest-bearing debt to total capitalization	0.22 :1.00	0.26 :1.00
Asset-to-equity ratio	1.75 :1.00	1.77 :1.00
Interest rate coverage ratio	706%	551%
Net profit margin	24.24%	28.49%
Return on assets	5.45%	7.22%
Return on equity/investment	9.10%	11.21%
Return on equity/investment of owners	10.20%	13.18%

LIQUIDITY RATIOS measure the business' ability to pay short-term debt.
Current ratio – computed as current assets divided by current liabilities
Quick ratio – computed as cash and cash equivalents divided by current liabilities

SOLVENCY RATIOS measure the business' ability to pay all debts, particularly long-term debt.
Debt to equity ratio – computed as interest bearing loans and borrowings and bonds payable divided by total stockholders' equity.
Interest-bearing debt to total capitalization ratio – computed as interest-bearing debt divided by interest-bearing debt+stockholders' equity attributable to the company's shareholders.

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 total stockholders' equity.

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

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

MEGAWORLD CORPORATION
(A Subsidiary of Alliance Global Group Inc.)
28th Floor, The World Centre Building
Sen. Gil Puyat Avenue, Makati City

Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2012

Unappropriated Retained Earnings at Beginning of Year		P 20,143,175,348
Prior Years' Outstanding Reconciling Items, net of tax		
Deferred tax income	(55,361,532)	
Day-one gain on initial measurement of security deposits at amortized cost	(152,963,442)	(208,324,974)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		19,934,850,374
Net Profit Realized during the Year		
Net profit per audited financial statements		5,230,989,653
Non-actual/unrealized income, net of tax		
Deferred tax income	(25,452,694)	
Day-one gain on initial measurement of security deposits at amortized cost	(65,630,604)	(91,083,298)
		5,139,906,355
Other Transactions During the Year		
Dividends declared		(853,146,163)
Retained Earnings Restricted for Treasury Shares		(118,555,453)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		**P 24,103,055,113**