



ALLIANCE GLOBAL GROUP, INC.
20th Floor, IBM Plaza
Eastwood City CyberPark
188 E. Rodriguez Jr. Avenue
Bagumbayan, 1110 Quezon City
Tel. Nos. 9112949-50/Fax No. 4210851

25 April 2008

The Philippine Stock Exchange, Inc.
4th Floor, Philippine Stock Exchange Center
Exchange Road, Ortigas Center, Pasig City

Attention: **Atty. Pete M. Malabanan**
Head, Disclosure Department

Re: Alliance Global Group, Inc. Annual Report

Gentlemen:

Please take note that there was a typographical error in Note 29.3, page 61 of the Consolidated Financial Statements in the Company's Annual Report previously submitted. Accordingly, we are submitting a complete Annual Report under SEC Form 17-A with the corrected page 61.

Thank you very much.

Very truly yours,

A handwritten signature in black ink, appearing to read 'Dina D. Inting', written over a horizontal line.

Dina D. Inting
*FVP-Finance and
Corporate Information Officer*

COVER SHEET

ALLIANCE GLOBAL GROUP, INC.

(Company's Full Name)

20th Floor IBM Plaza, Eastwood City CyberPark
188 E. Rodriguez Jr. Ave., Bagumbayan, 1110 Quezon City
Metro Manila, Philippines

(Company's Address)

(02)91129-49 to -52

(Company's Telephone Number)

DECEMBER 31

(Fiscal Year Ending)

THIRD TUESDAY OF SEPTEMBER

(Annual Meeting)

SEC FORM 17-A

ANNUAL REPORT

FOR THE YEAR ENDED DECEMBER 31, 2007

With AACFS

(Form Type)

April 22, 2008

(Report Date)

AS093-7946

S.E.C. Reg. No.

AS093-7946
S.E.C. Reg. No.

ALLIANCE GLOBAL GROUP, INC.

TABLE OF CONTENTS

Description	
SEC 17-A	2007 Annual Report
AACFS	Audited Consolidated Financial Statements with Statement of Management's Responsibility for Financial Statements and Auditors' Report
	Supplementary Schedules to the Financial Statements and Auditors' Report
	Aging Schedule of Trade and Other Receivables Under Current Assets

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. *For the fiscal year ended* **December 31, 2007**
2. *SEC Identification Number* **AS093046**
3. *BIR Tax Identification No.* **003-831-302-000**
4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**
5. **METRO MANILA, PHILIPPINES**
Province, country or other jurisdiction of incorporation or organization
6. *(SEC Use Only)*
Industry classification code
7. **20th Floor, IBM Plaza, Eastwood City CyberPark**
188 E. Rodriguez Jr. Avenue, Bagumbayan, 1110 Quezon City
Address of principal office
8. **(632) 91129-49 to -52**
Registrant's telephone number, including area code
9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

<i>Title of Each Class</i>	<i>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding As of March 31, 2008</i>
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Common	10,269,827,979
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10. *Are any or all of these securities listed on Philippine Stock Exchange.* **Yes.**
11. (a) *AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months.*
(b) *AGI has been subject to such filing requirements for the past ninety (90) days.*
12. *The aggregate market value of the voting stock held by non-affiliates of AGI, based on the closing price of its common stock of Four Pesos and Thirty-Five Centavos (P4.05) on the Philippine Stock Exchange on April 14, 2008, is P18,356,355,245.70.*

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

a. Organization and Business Development In The Past Three Years

a.1. The Company

Alliance Global Group, Inc. (“AGI” or “the Company”) was incorporated in the Philippines on October 12, 1993 and began operations in 1994 as a glass-container manufacturer after it acquired a glass manufacturing plant in Canlubang, Laguna. It first listed its shares on the Philippine Stock Exchange (“PSE”) in April 1999 and, after securing approval from the Securities and Exchange Commission (“SEC”) a few months later, broadened its primary purpose into that of a holding company. Given a wider scope of business, AGI immediately diversified into the food and beverage business, real estate development and services, and, a few years later, into the quick service restaurant (“QSR”) business.

On March 17, 2005, AGI entered into the QSR business when it purchased 49% equity in *Golden Arches Development Corporation*, the local franchisee of McDonald’s and one of the country’s largest QSR chains, from McDonald’s Restaurant Operations, Inc. (“MRO”), a subsidiary of McDonald’s Corporation, both foreign corporations incorporated in the USA.

On February 16, 2007, AGI made two major acquisitions to beef up its business portfolio. AGI acquired 100% of *Emperador Distillers, Inc.*, a leading brandy manufacturer, from The Andresons Group, Inc. (“TAGI”) and other individual stockholders. This marked the entry of AGI into the distilled spirits manufacturing business. The flagship label, Emperador Brandy, is acclaimed as the largest selling brandy in the country and in the world in terms of volume.

On the same date, AGI bolstered its presence in the real estate industry by acquiring, in a share-swap transaction with Mr. Andrew Tan, TAGI and Yorkshire Holdings, Inc., an additional 25% interest in *Megaworld Corporation* (“Megaworld”), thereby increasing its equity to 46%. Megaworld is the largest mid-income residential developer and the largest business process outsourcing (“BPO”) office developer and landlord in the country.

With these three companies consolidated into the Company, AGI has turned into a powerhouse of three winning brands that became the focal points of its business portfolio.

a.2. Business segments and subsidiaries

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

Food and Beverage (F&B)

- *Emperador Distillers, Inc.* ("EDI"), the newly acquired, wholly-owned domestic subsidiary, is the frontrunner in its business segment. It is currently the country's leading manufacturer of brandy. EDI was incorporated on June 6, 2003 and started its commercial operations immediately after it acquired the brandy manufacturing assets and related brands of Consolidated Distillers of the Far East, Inc. ("Condis") in January 2007. It has P2 billion authorized and fully subscribed capital.
- *Anglo Watsons Glass, Inc.* ("AWG"), a wholly-owned domestic subsidiary incorporated on July 22, 1999, handles the glass container manufacturing business. It substantially caters to the requirements of EDI at present. It has P400 million authorized capital, P100 million of which was subscribed and P25 million paid-up.
- *Alliance Global Brands, Inc.* ("AGB"), a wholly-owned domestic subsidiary incorporated on December 22, 1999, handles marketing and distribution of internationally-known and branded consumer food products. It has a wholly-owned foreign-based subsidiary, *McKester Pik-Nik International Limited* (MPIL), that in turn wholly owns a US corporation that produces and markets the Pik-Nik potato snack products internationally. Through the MPIL group, AGI gained entry into the global market. Another wholly-owned domestic subsidiary of AGB, *Tradewind Estates, Inc.* ("TEI"), leases the manufacturing plant and equipment to, and provides the manpower requirement of, EDI. AGB has P5 billion authorized capital and P1.25 billion subscribed and paid-up capital.

Real Estate (RE)

- *Megaworld Corporation* ("MEG" or "Megaworld"), a publicly-listed real estate domestic company incorporated on August 24, 1989 and founded by Mr. Andrew L. Tan, is owned 46% by AGI. Megaworld is one of the country's leading real estate conglomerates that specializes in the development of large-scale, mixed-use planned communities under the "live-work-play-learn" concept. It aims to pre-sell all residential developments, lease office spaces primarily to BPO companies, and lease retail spaces to commercial tenants. Megaworld is the country's largest mid-income residential developer and the largest BPO office developer and landlord. It also owns and operates The Richmonde Hotel in Ortigas Center through a wholly-owned subsidiary, *Prestige Hotels & Resorts, Inc.* Megaworld has P30.2 billion authorized capital stock and P20.641 billion paid-up capital, 46% of which is held by AGI and subsidiaries.

Quick Service Restaurant (QSR)

- *Golden Arches Development Corporation* (“GADC”) is a domestic corporation engaged in the operations and franchising of quick service restaurant business under the McDonald’s brand and in accordance with the franchise agreement with McDonald’s Corporation, a company incorporated in Delaware and with principal offices in Chicago, Illinois, USA. GADC was incorporated on July 16, 1980. It has P99.44 million authorized and paid up common capital stock, 49% of which is held by AGI and the rest by its founder, Mr. George Yang and his family.
- *Golden Arches Realty Corporation* (“GARC”) leases to GADC parcels of land where McDonald’s restaurants and warehouses are situated. It was incorporated on June 25, 2001 and, at present, has P1 million authorized capital stock and P816,400 issued and outstanding, 49% of which is held by AGI.

In April 2008, AGI has announced that it will venture into tourism-related development through its subsidiary, Travellers International Hotel Group, Inc. (“Travellers”). Travellers was recently prequalified to participate in the Philippine Amusement Gaming Corporation’s project, the \$15 billion Bagong Nayong Pilipino Manila Bay Integrated City.

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

b. Business Description

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

In 2007-8, the F&B and RE are expected to be the prime contributors to revenues and net income. The relative contributions of these two segments to net income attributable to equity holders of AGI are expected to swing between 40% and 48%. Within the next four years, the tourism-related project under Travellers is expected to contribute a sizable portion of net income, thereby establishing a fourth leg in AGI’s business portfolio.

b.1. Principal products or services and their markets

F&B. Brandy is currently being manufactured under the Emperador and Generoso labels. Emperador, at 72 proof, targets the relatively mature consumers 25 years old and above and is marketed in 1.75 liters, 750 ml and 375 ml bottles. Generoso, a lighter and sweeter brandy at 65 proof, is marketed to appeal to women and young drinkers aged 18 to 25 years. Generoso comes in 700 ml bottles and recently in 375 ml bottles introduced in October 2007. Emperador has been in the market for 18 years while Generoso was introduced in late 2006 only. Emperador has won recognition as a trusted brand. It was acclaimed as number one selling brandy in the world in terms of volume sold in 2006 by P.A.S.H. Beverage Research UK and The IWSR Drinks Record. In the Millionaires Club 2007, an annual supplement that came out with the June 2007 issue of Drinks International (UK), Emperador was recognized with the same distinction. Reader's Digest awarded Emperador as a Most Trusted Brand in 2004, 2006 and 2007.

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

Pik-Nik is an all-American fresh-fried potato snack line that includes Shoestring Potatoes, Fabulous Fries, Ketchup Fries, and other delicious potato snacks manufactured and distributed internationally from USA. Pik-Nik is the market leader in shoestring potato snack in the USA and is made with no preservatives or artificial ingredients. The products are packed in resealable, foil-lined canisters so they stay fresh and crunchy right to the bottom of the can. These canisters, along with the specialized ingredients and production process, give the products excellent shelf life. Pik-Nik has been in the market for 70 years since it was first introduced in the USA in the 1930s in San Jose, California. Now, it is being sold both in the USA and abroad, including the Philippines.

R.E. The real estate portfolio includes residential condominium units, subdivision lots and townhouses, as well as office and retail spaces. The present focus is on large-scale mixed-used communities, or townships, that integrate lifestyle convenience of having high quality residences in close proximity to office, commercial and leisure facilities. In addition, there are property-related activities such as project design, construction oversight and property management. Megaworld has been named by Superbrands as one of the Philippines' leading brands in terms of consumer loyalty and preference. For two consecutive years now, it has reaped awards for its commitment to corporate governance, management and investor relations from Asia Money Polls, IR Magazine (Singapore), Finance Asia, and Euromonitor. Euromoney counted Megaworld among Asian countries with convincing and coherent strategy in 2006 and awarded it as Philippines' No. 2 best managed company in 2007.

These are the six township projects at present and, for each development, the strategy is to lease all commercial and retail properties and sell all residential units:

1. Eastwood City, the first mixed-use project development on approximately 15 hectares of land in Quezon City, Metro Manila. It centers on the development of Eastwood City Cyberpark, the first PEZA-approved information technology ("IT") park in the country to provide offices with the infrastructure to support BPO and other technology-driven businesses. Once completed, it is expected to contain 18 high rise, towers, including residential condominiums and Grade A office buildings, dining and restaurant hubs, and beauty and lifestyle centers.
2. Forbes Town Center is a community township project on 5 hectares of land in Bonifacio Global City in Taguig, Metro Manila. The first building in this project was launched in 2002. Once completed, it will have 13 condominium towers, complemented by leisure and entertainment zone of bars, restaurants, specialty shops and cinemas.
3. McKinley Hill is a community township being developed on approximately 50 hectares of land in Fort Bonifacio, Taguig, Metro Manila. It started as a 25-hectare residential development joint venture project of Bases Conversion Development Authority ("BCDA") and AGI with MEG as the developer and exclusive marketing agent. In 2004, MEG expanded it into a mixed-use complex with the addition of 10 hectares of land it bought from BCDA intended for office rentals and 16 hectares it leases from the City of Taguig intended for use by schools, sporting facilities and other institutional uses. Development started in 2005 and, once completed, it is expected to consist of office, residential, retail, educational, entertainment and recreational properties.
4. Newport City is a 25-hectare community township project in Villamor Air Base, Pasay City, Metro Manila. The 17.5-hectare portion is in joint venture with BCDA. Its proximity to NAIA Terminal 3 is an advantage. Pre-selling began in 2005 for the first residential cluster. A PEZA special economic zone cyberpark is expected to be established at Newport City.
5. Manhattan Garden City is the first major transit-oriented residential development project and is expected to consist of 20 residential towers on a 5.25-hectare property at the Araneta Center in Cubao, Quezon City. The concept for this project is based on integrating a residential community with a major Metro Manila transportation hub that links the MRT3 and LRT2. The amenities of the Araneta Center, such as the Gateway Mall, will be available to residents of Manhattan Garden City. The first residential tower commenced presales in the third quarter of 2006.
6. Cityplace is a mixed-used development to be built on a 2.5-hectare lot in Binondo, Metro Manila. The development rights were acquired from the city government of Manila. It is expected to have residential condominium units, a shopping center, BPO office space and a boutique hotel for business travelers. The development is also expected to include new green parks, a public car parking facility, new bypass roads and pedestrian overpasses to make the project environment and pedestrian-friendly.

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

McDonald's restaurants retail a limited menu of uniform and quality products, emphasizing prompt and courteous service in a clean, wholesome atmosphere. The menu includes the McDonald's beef burgers variants (Burger McDo, Big Mac, Quarter Pounder, Cheese and Double cheese), chicken (Chicken McDo, McNuggets, McChicken sandwich), French fries, milk shakes, sundaes, beverages, and breakfast offerings. Products that cater to Philippine consumer preferences are also served, such as chicken with rice, spaghetti, and a Philippine breakfast menu. The Philippine menu is designed to appeal to a diverse target market across all ages. Demographically, the target market is AB, broad C.

b.2. Foreign sales

F&B. Pik-Nik products are being sold locally in USA and exported to other countries at a ratio of approximately 60%-40%. The domestic sales in the USA expanded by 9% in 2007 because of new accounts and increased distribution in Texas, Midwest and Southeast. Its international sales grew by 30% in 2007 because of penetration in new areas in Asia, Middle East, and Latin America. Sales to Central America and the Caribbean improved considerably by 50% in 2007.

EDI has set its eyes on foreign territories where alcohol consumption is higher than in the Philippines, particularly Thailand and China.

b.3 Distribution Methods

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

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

R.E. Property units are pre-sold prior to project completion, and often prior to start of construction, at various payment schemes, with down payment plans ranging from 50% to no money down. A typical payment scheme includes progressive payments over the period in advance of property construction, including a balloon payment to coincide with buyers' expected cash flows. Each project has an in-house marketing and sales division which is staffed by a trained group of property consultants who exclusively market the projects. There are also outside agents. Both internal and external agents work on a commission basis, but in-house personnel have an additional allowance. Marketing

services staff are also employed to provide auxiliary services for sales and promotional activities. An international marketing division based in Manila oversees a global network of sales offices which market the projects to overseas Filipino professionals and retirees throughout Asia, Europe, North America, the Middle East and Australia.

OSR. McDonald's products are sold through McDonald's restaurants nationwide. There are 273 restaurants nationwide as of end-2007, 59% of which are owned by GADC while 41%, franchised. The highest concentration is in NCR (51%), followed by Southern Tagalog region (18%). In selected areas, McDonald's products could be ordered and delivered round the clock through its "Dial8 McDo" telephone service.

b.4. New product or service

F&B. There is a plan to produce and introduce a flavored alcoholic beverage in short-term; timing will depend on market conditions. There is also a plan to acquire in 2008 the alcohol distillery assets from Condis, pending completion of valuation that is currently being undertaken by PricewaterhouseCoopers.

OSR. New McDonald's product variations and promotions are introduced every now and then which normally last for about 3-6 months only, and this is part of the normal business promotions. In 2007, vegetable salads and Happy sharing meals were introduced plus Red hot chicken McDo, twister fries, coco/oreo fudge and sprite float were offered for a limited period.

b.5. Competition

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

F&B. The Philippine spirits industry is dominated by brandy, gin and rum. Emperador Brandy tops the brandy segment while gin is dominated by Ginebra San Miguel (from San Miguel Corporation) and rum by Tanduay Rhum (Tanduay Distillers, Inc.). Popularity of these spirits is strangely delineated geographically - gin in the northern provinces, rum in Viz-Min areas and brandy in Metro Manila and urban centers nationwide. Brandy has recorded the highest consistent sales growth among all the spirits in the industry. The growing brandy consumption has even encouraged the two traditional gin and rum giants to field their own brandy labels -- Gran Matador from San Miguel, and Barcelona and Guerrero from Tanduay. There is another local brandy, Napoleon, from another long-established local company, Destileria Limtuaco & Co., Inc. Don Pedro is an imported label that is being blended locally. There are also imported labels in the domestic market, like Fundador, Soberano, Carlos I, but they are significantly more expensive than the locally-produced products. Emperador and Generoso hold the lion share in the brandy market and was acclaimed as the number 1 selling brandy by volume in the world in 2006 (please see b.1. of this section). EDI capitalizes primarily on the premium image and reputable quality of its brands and positions them in the market with such taglines as "Sa totoong tagumpay" for Emperador and "Masayang dalhin" for Generoso.

Pik-Nik has surpassed French's and Popeye potato sticks in most grocery outlets in the USA. Pik-Nik is now the best selling brand in the USA with the best selling sku – the Original shoestring potato in 9 oz cans. French's and Popeye are also being sold locally in the Philippines but Pik-Nik tops the all-natural pure potato shoestring snack market. Other US-brands are available, like Lays and Pringles in chips form and the latter is not from natural potato. A local brand, Oishi, has fielded string potato snacks from potato starch in the local market.

R.E. The real estate market in Metro Manila is principally split between the BPO office market and the residential market. Megaworld competes against a number of residential and commercial developers and real estate services companies to attract purchasers and tenants for its properties in Metro Manila. It leads the pack with nearly 40% share of BPO office supply at the same time garnering a 40% share of residential condominium supply. The principal bases of competition in the real estate development business are location, price, financing, completion, quality of construction, brand and service. Megaworld considers Ayala Land, Inc. (Ayala) to potentially be its only significant competitor with respect to community township developments. With respect to its office and retail leasing business, there are many other competitors such as Robinsons Land Corporation and SM Prime Holdings, Inc. However, Megaworld believes it has the competitive advantage due to the prime locations of its properties, innovative projects, a reputation for high quality designs, affordable pre-sales financing, after-sales service and a consistent track record of completion.

QSR. McDonald's restaurants compete with a large and diverse group of restaurant chains and individual restaurants that range from independent local operators to well-capitalized national and international companies, delicatessens, cafes, supermarkets and convenience stores. Jollibee Foods Corporation and KFC Corporation are considered as the principal competitors. Jollibee, a home-grown brand with far greater number of restaurants nationwide than McDonald's, offers Filipino-influenced dishes of chicken, burgers, spaghetti, and other Filipino dishes. KFC is a global brand from USA whose most popular product is its Original Recipe fried chicken served with side dishes. Other competitors include Wendy's, Kenny Rogers, Shakey's and Pizza Hut. Since 2005, GADC has opened 55 new restaurants and initiated marketing campaigns such as new product launches, promotions, emotive television commercials, and discount coupons. GADC competes on the basis of taste, food quality and price of products, convenience of location, and customer service

b.6. Sources and availability of raw materials

F&B. The raw materials for producing brandy are generally sourced from foreign suppliers, except for the distilled spirit or alcohol which is supplied mainly by Condis (please see Item1-b.4.). The brandy concentrate and flavoring extracts are purchased from several high quality European suppliers. Metal closures, or caps, and labels are imported from Europe and China. Brand new bottles are manufactured and supplied by AWG. Carton boxes are sourced locally and recently supplied by Boxboard Container Corporation and Twinpack Container Corporation EDI has not experienced and does not anticipate any significant difficulty in obtaining adequate supplies of distilled spirit, flavoring, bottles or packaging material at satisfactory prices under its supply arrangements and believes its relationships with suppliers are good. When AWG is

unable to manufacture enough glass bottles to meet EDI's requirements, AWG sources glass bottles from foreign manufacturers.

AWG is not dependent upon one or a limited number of suppliers for essential raw materials. It generally orders raw materials to meet its projected supply requirements for one year. It sources silica sand mainly from Vietnam, Malaysia and Australia, and limestone, feldspar and cullets are sourced from domestic suppliers. These raw materials are mainly purchased from Connell Bros Co. Pilipinas, Inc., Comeward Marketing, Inc., Rock Energy International Corporation, and EB Torres Enterprises.

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

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

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

b.7. Customer dependence

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

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

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

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

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

b.9. Licenses, trademarks, franchises

F&B. EDI owns registered trademarks which are of material importance to the success of its business since they have the effect of developing brand identification and maintaining consumer loyalty. EDI's principal trademark is Emperor Brandy, which it purchased from Condis in 2007, in addition to associated patents, copyrights and goodwill and bottle designs for its brandy products. EDI's trademark for Emperor Brandy is for 10 years expiring in 2015 and renewable thereafter for a period of 10 years. Generoso is deemed registered, awaiting issuance of its certificate of registration by the Intellectual Property Office.

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

R.E. Megaworld owns the registered trademark over its name and logo which will expire in 2015 and is renewable for 10-year periods thereafter. However, although the brand is important, Megaworld does not believe that its operations or its subsidiaries' operations

depend on its trademarks or any patent, license franchise, concession or royalty agreement.

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

b.10. Government approval of principal products or services

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

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

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

Subdivision or condominium units may be sold or offered for sale only after a license to sell has been issued by the HLURB. As a requisite for the issuance of a license to sell by the HLURB, developers are required to file with the HLURB surety bond, real estate mortgage or cash bond to guarantee the construction and maintenance of the roads,

gutters, drainage, sewerage, water system, lighting systems, and full development of the subdivision or condominium project and compliance with the applicable laws, rules and regulations. Real estate dealers, brokers and salesmen are also required to register with the HLURB before they can sell lots or units in a registered subdivision or condominium project.

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

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

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

b.11. Effect of existing or probable government regulations

F&B. In addition to VAT, the distilled spirits for domestic sales or consumption are subject to excise tax. The brandy products which are produced from locally processed distilled spirits from the juice, syrup or sugar of the cane are currently levied an excise tax of ₱12.58 per proof liter. [A proof liter is a liter of proof spirits, which are liquors containing one-half of their volume of alcohol with a specific gravity of 0.7939 at 15°C]. The excise tax rate had increased by 8% from P11.65 in January 2007 and will increase by 8% every two years until January 1, 2011 when a new excise tax law is expected to be enacted.

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

Further, Republic Act No. 7279 requires developers of proposed subdivision projects to develop an area for socialized housing equivalent to at least 20% of the total subdivision area or total subdivision project cost, at the option of the developer; within the same or adjacent regions, whenever feasible, and in accordance with the standards set by the HLURB. Alternatively, the developer may opt to buy socialized housing bonds issued by various accredited government agencies or enter into joint venture arrangements with other developers engaged in socialized housing development. Meg has benefited from

providing low-income housing or projects of such types which are financially assisted by the government. These policies and programs may be modified or discontinued in the future. The Government may also adopt regulations which may have the effect of increasing the cost of doing business for real estate developers.

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

Certain investment properties are registered with PEZA, and this provides significant benefits to Megaworld's tenants. PEZA requirements for registration of an IT park or building differ depending on whether it is located in or outside Metro Manila. These requirements include clearances or certifications issued by the city or municipal legislative council, the DAR, the National Water Resources Board, and the DENR.

b.12. Research and development

The regular research and development activities of the group for the past three years have not amounted to a significant percentage of revenues. There are no new products or design being developed that would require a material amount of the group's resources except for the planned flavored alcoholic beverage project that has been funded already.

b.13. Compliance with environmental laws

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

Development projects that are classified by law as environmentally critical or projects within statutorily defined environmentally critical areas are required to obtain an Environmental Compliance Certificate ("ECC") prior to commencement. As a requisite for the issuance of an ECC, an environmentally critical project is required to submit an Environmental Impact Statement ("EIS") to the EMB while a project in an environmentally critical area are generally required to submit an Initial Environmental Examination ("IEE") to the proper DENR regional office. In the case of an environmentally critical project within an environmentally critical area, an EIS is required. The construction of major roads and bridges are considered environmentally critical projects for which EISs and ECCs are mandatory. While the EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socio-economic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC. The issuance of an ECC is a Government certification that the proposed project or undertaking will not cause a significant negative environmental impact; that the proponent has complied with all the requirements of the EIS System and that the proponent is committed to implement its approved

Environmental Management Plan in the EIS or, if an IEE was required, that it shall comply with the mitigation measures provided therein.

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

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

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

b.14. Number of employees

As of December 31, 2007, the group has a total workforce of 16,259 personnel categorized by business segment as follows:

Real Estate	620
Food and Beverage	
Distilled spirits business	901
Others	147
Quick Service Restaurant	14,591
Total	<u>16,259</u>

The Group intends to hire additional employees if the present workforce becomes inadequate to handle operations. Approximately 7,710 new employees are anticipated to be hired within the ensuing 12 months. Megaworld, EDI and GADC anticipate hiring 50, 60 and 7,600 employees within the next 12 months, respectively. None of the Company's or its subsidiaries' employees are represented by a labor union or covered by a collective bargaining agreement, other than production employees of AWG.

AWG's collective bargaining agreement provides for graduated wage increases, sick leave, vacation leave, union business leave, medical and dental services, death aid benefits, separation pay, as well as other benefits such as family planning and employee welfare services. The employees also agree to follow certain grievance procedures and to refrain from strikes during the term of the agreement, which expires on January 20, 2010.

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

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

b.15. Major Business Risks

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

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

The major risks that the present business face include:

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

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

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

- *Competition.* Each of the Company's primary business operations is subject to intense competition. Some competitors may have substantially greater financial and other resources than EDI, Megaworld or GADC, which may allow them to undertake more aggressive marketing and to react more quickly and effectively to changes in the markets and in consumer preferences. In addition, the entry of new competitors into any of the Company's primary business segments may reduce the Company's sales and profit margins.
- *Interests of joint development partners.* Megaworld obtains a significant portion of its land bank through joint development agreements with landowners, as part of its overall land acquisition strategy and intends to continue to do so. Under the terms of its joint development agreements, it takes responsibility for project development costs and project sales activities, while its joint venture partner typically supplies the project land. A joint venture involves special risks where the venture partner may have economic or business interests or goals inconsistent with or different from those of Megaworld's. The development partner may also take actions contrary to Megaworld's instructions or requests, or in direct opposition to its policies or objectives with respect to the real estate investments, or the development partner may not meet its obligations under the joint development arrangement.
- *Property portfolio concentration risks.* Substantially all of appraised value of Megaworld's assets are located in Metro Manila. The current projects are all located within Metro Manila and, in particular, within relatively short distances from the main business districts in Makati City and the Ortigas Center. A decrease in the property values or wealth in Metro Manila would have a material adverse effect on the business and results of operations of Megaworld. Megaworld, therefore, has looked out for locations outside Metro Manila and has acquired land in Iloilo in the Visayas region.
- *Philippine economic/political conditions.* The Company has derived substantially all of its revenues and operating profits from the Philippines and its businesses are highly dependent on the Philippine economy. Demand for, and prevailing prices of, developed land, house and lot units are directly related to the strength of the Philippine economy, the overall levels of business activity in the Philippines and the amount of remittances received from OFWs. The Company's branded consumer food and beverage products and quick service restaurant products are discretionary purchases by consumers, and demand for these products tend to decline during economic downturns when customers' disposable income declines. The Company's results of operations are expected to vary from period to period in accordance with fluctuations in the Philippine economy which is in turn influenced by a variety of factors, including political developments among others. Political instability in the Philippines could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material impact on the Company's business, financial condition and results of operation.

While the Philippine economy has generally registered positive economic growth in the period since 1999, with an all-time high of 7.3% in 2007, it continues to

face a significant budget deficit, limited foreign currency reserves, a volatile peso exchange rate and a relatively weak banking sector. There can be no assurance that current or future Governments will adopt economic policies conducive to sustaining economic growth.

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

Item 2. Properties

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

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

Description	Location	Owned/Leased/Limitations on Ownership
1800 Eastwood Avenue	Eastwood City, Quezon City	Owned
Eastwood Incubation Center	Eastwood City, Quezon City	Owned
CyberMall	Eastwood City, Quezon City	Owned
Hotels ⁽²⁾		
Richmonde Hotel	Pasig City	Owned

Notes:

(1) Lease terms and rental rates vary depending on the property and the lessee.

(2) The Richmonde Hotel is operated by a subsidiary of Megaworld.

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

Item 3. Legal Proceedings

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

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

a. Market Information

The Company's common shares are traded on the Philippine Stock Exchange. The closing price of the said shares as of April 14, 2008 was P4.05. The trading prices of the said shares for each quarter within the last two years and subsequent interim period are set forth below:

	2006				2007				2008
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
High	11.50	11.75	12.00	10.75	11.00	7.20	6.40	6.10	5.70
Low	11.00	10.00	9.50	7.30	3.50	5.70	3.75	4.95	3.40
High*	6.62	6.77	6.91	6.19	7.30				
Low*	6.33	5.76	5.47	4.20	3.50				

**adjusted for stock rights ex-date Feb 12, 2007*

(Source: PSE Research Dept.)

b. Shareholders

As of March 31, 2008, the Company had 1,086 stockholders holding 10,269,827,979 common shares and the Top Twenty Stockholders were as follows:

<i>Rank</i>	<i>Stockholder</i>	<i>No. of Shares Held</i>	<i>Per Cent to Total</i>
1	The Andresons Group, Inc.	3,732,008,394	36.34
2	PCD Nominee Corporation (Non-Filipino)	3,523,318,135	34.30
3	PCD Nominee Corporation (Filipino)	900,503,620	8.768
4	Altavision Resources, Inc.	451,574,334	4.397
5	Andrew L. Tan	341,684,350	3.327
6	Asiagroup Holdings, Inc.	220,004,000	2.142
7	Globaland Holdings, Inc.	220,004,000	2.142
8	Grand Bel Air Holdings, Inc.	220,004,000	2.142
9	Le Bristol Holdings, Inc.	183,679,000	1.789
10	California Orchard Growers Investments, Inc.	120,000,000	1.168
11	Yorkshire Holdings, Inc.	113,273,508	1.103
12	Eastwood Property Holdings, Inc.	112,600,000	1.096
13	Gilmore Property Marketing Associates, Inc.	105,281,765	1.025
14	Forbes Town Properties & Holdings, Inc.	10,000,000	0.097
15	Apex Management & Development Group, Inc.	6,500,000	0.063
16	Ana Go &/or Go Kim Pa	4,500,000	0.044
17	Arafor Trading and Development Corporation	1,000,000	0.010
18	Kausugan Development Corporation	1,000,000	0.010
19	Paul Gerard B. Del Rosario	600,000	0.006
20	Benilda S. Santos	260,000	0.003

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

c. Dividends in the Two Most Recent Years

It is the Company's policy to periodically declare a portion of its unrestricted retained earnings as dividend either in the form of cash or stock. The declaration of dividends depends upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends out of its unrestricted retained earnings only. Unrestricted retained earnings represent the net accumulated earnings of the Company, with its capital unimpaired which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to the approval by both the Board of Directors and at least two-thirds (2/3) of the outstanding capital stock of the stockholders at a stockholders' meeting called for such purpose. There has been no declaration of dividends in the two most recent years.

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

In March 2005, the Company offered 200,471,000 shares on a pre-emptive rights basis at P5.00 per share, or a total price of P1.00 billion. Shares not taken up by existing shareholders were purchased by two affiliates of existing shareholders. The issuance of the shares was exempted from the registration requirements of the SRC under Section 10.1(k) and 10.1(e), the sale having been made to fewer than 20 new investors and exclusively to existing stockholders, where no commission or remuneration is paid or given in connection with the sale. The Company notified SEC about the stock offer by filing SEC Form 10.1 on January 20, 2005. Fifty percent of the total subscription price was collected in March, and the other half in September 2005. The said shares were listed in PSE on March 28, 2005.

On February 16, 2007, the Company exchanged 4,059,465,979 shares (valued at P4.137 per share which represents a 6% premium over the volume weighted average price of the Company's shares with the PSE for a period of 30 trading days prior to the transaction) with 5,248,128,361 shares of Megaworld (valued at P3.20 per share which represents the closing market price on that date) owned by The Andresons Group, Inc., Yorkshire Holdings, Inc. and Andrew L. Tan. At the time of the transaction, Yorkshire Holdings, Inc. was a stockholder of the Company holding more than 10% equity share while Andrew L. Tan, the Chairman of the Company, is also the Chairman of the two selling companies. A BIR Ruling was obtained on February 20, 2007 confirming the tax-free nature of the exchange of the shares under Sec. 40(C)(2) of the NIRC. The issuance of the shares was exempted from the registration requirements of the SRC under Section 10.1(e), the sale having been made exclusively to existing stockholders where no commission or remuneration is paid or given in connection with the sale. The Company notified SEC about the stock offer by filing SEC Form 10.1 on March 2, 2007. The Company's application to list the said shares is still pending with the PSE.

From February 23, 2007 to 12:00 noon of March 1, 2007, in connection with the increase in authorized capital stock, the Company offered 2,205,181,000 common shares with a par value of P1.00 per share, to be taken from the increase in authorized capital stock of the Company, on a pre-emptive rights basis at P1.50 per share, or a total price of around P3.3 billion. Shares not taken up by existing stockholders were

purchased by five existing stockholders. Fifty percent of the total subscription price was collected from the subscribers at the time of subscription, and the other half collected either on April 23, 2007 or June 7, 2007. The issuance of the shares was exempted from the registration requirements of the SRC under Section 10.1(e), the sale having been made to exclusively to existing stockholders where no commission or remuneration is paid or given in connection with the sale. The Company notified SEC about the stock offer by filing SEC Form 10.1 on January 10, 2007. The said shares were listed in PSE on March 9, 2007.

In June 2007, the Company together with Yorkshire Holdings, Inc. as the Selling Shareholder offered for sale 1,800,000,000 new shares, taken from the unissued portion of authorized capital stock, and 1,330,435,000 common shares, respectively, as part of the follow-on public offering undertaken by the Company. 2,504,348,000 of the Offer Shares were offered and sold outside the Philippines and the United States to non-U.S. persons as part of the International Offer while 626,087,000 of the Offer Shares were offered and sold initially to PSE Brokers as part of the Domestic Offer. BDO Capital acted as the Domestic Lead Underwriter while UBS AG, acting through its business group, UBS Investment Bank, acted as Sole Global Coordinator and Sole Bookrunner. The Selling Shareholder likewise granted the Stabilizing Agent an option, which had been exercised in whole, to purchase up to 469,565,000 shares at the Offer Price on the same terms and conditions as the Offer Shares to cover any Over-allotments. The Offer Price for the Offer Shares was P5.75 per share. The SEC approved the Registration Statement filed by the Company for the Offer Shares and the Over-allotment shares on June 6, 2007. The 1,800,000,000 new shares were listed in the PSE on June 18, 2007.

Item 6. Management's Discussion and Analysis

a. Key Performance Indicators

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

	2007	2006	2005
Sales growth	210%	11%	120%
Net income growth	467%	-73%	898%
Net income growth, less extraordinary		108%	129%
Net income rate	18%	10%	42%
Net income attributable to equity holders of parent	12%	9%	20%
Return on investment	4%	5%	23%
Current ratio	4.3:1	1.6:1	3:1

- Sales growth – measures the percentage change in sales over a designated period of time. Performance is measured both in terms of amount and volume, where applicable.
- Net income growth – measures the percentage change in net income over a designated period of time.

- Net income rate– computed as percentage of net income to revenues - measures the operating efficiency and success of maintaining satisfactory control of costs
- Return on investment [or capital employed]– the ratio of net income to total assets - measures the degree of efficiency in the use of resources to generate net income.
- Current ratio – computed as current assets divided by current liabilities – measures the ability of the business to meet its current obligations. To measure immediate liquidity, quick assets [cash, marketable securities, accounts receivables] is divided by current liabilities.

b. Discussion and Analysis of Operation

Despite the typhoons, political upheavals, corruption issues and rising prices, the Philippines posted a 7.3% growth in GDP in 2007, its highest in 31 years, following the 5.4% growth in 2006 and 4.9% in 2005. The peso appreciated from P49.146 at the start of the year to P41.38 by year-end, with the weakening/slowdown of the US economy along with the fear of a US housing meltdown and recession looming in the air. Amidst this economic environment, the Company and its subsidiaries sustained remarkable positive results.

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

b.1. Results of operations:

For the Year Ended December 31, 2007 vs. 2006

The year 2007 is another record year for AGI and its subsidiaries. AGI quintupled its consolidated net income in 2007 to P5,033 million from P888 million in 2006 -- P3,293 million and P819 million of which represent net income attributable to equity holders of the parent company in 2007 and 2006, respectively. Such feat was brought about largely by the strong results from the new business acquisitions that were consolidated starting from 2007. EDI and Megaworld put in approximately P2.5 billion to net income attributable to equity holders of the parent company in 2007. Nonetheless, the existing businesses also registered impressive growth

Total revenues soared 210% to P27.3 billion in 2007 from P8.8 billion a year ago. The brandy business contributed P7.1 billion representing 26% of total revenues, while the real estate business put in P12.3 billion representing 45% of total revenues. Combined sales of QSR and Pik-Nik made up the remaining 29% of revenues. The real estate revenues from sale of residential lots, condominium and office units made up 39% of revenues. The QSR revenues expanded by 13% to P7.4 billion from P6.6 billion in 2006 primarily due to the opening of 23 new restaurants nationwide, the remodelling of 19 existing restaurants, extensive marketing campaigns and introduction of new products such as Super Salad and McShaker Side Salads, McDo sundae ice mix, barbecue beef McDo and Happy Sharing Meals (chicken pieces and nuggets in large packs). Pik-Nik sales grew by 17% this year – that is 9%, 9%, 52% and 75% more in USA, Asia, Latin America and other territories, particularly Saudi Arabia and Kuwait, than a year ago.

Cost of sales and services went up by 171% to P19.4 billion this year as compared to P7.1 billion in 2006 because of the new businesses and the increase in sales. Gross profit rate improved by 153% to 29% this year from 19% last year. The top five components of cost were from real estate sales (37%), raw materials used to produce brandy (20%) and food cost for McDonald's (12%), salaries and benefits (5%), rentals (4%) and electricity (3%).

Other operating expenses increased to P3.6 billion from P1.1 billion because of the newly-acquired businesses and sales expansion. The top five expense components were advertising and promotions (19%), salaries and employee benefits (14%), commissions (10%), royalty (9%) and taxes and licenses (8%).

Finance and other income totalled P2,923 million this year from P196 million a year ago. This came primarily from interest earned on cash and short-term investments that amounted to P26 billion at end-2007 as compared to P1.3 billion at end-2006, and the interest from real estate sales. Other income items were dividends and rentals.

The composition of costs, expenses and other income is presented in the notes to the consolidated financial statements.

Tax expense amounted to P1.3 billion from P96 million as a result of high revenues.

EBITDA amounted to P8.1 billion in 2007 as compared to P1.6 billion a year ago.

For the Year Ended December 31, 2006 vs. 2005

AGI doubled its consolidated net income in 2006 to P888 million from P427 million net income before extraordinary gain in 2005.. Such was mainly attributed to the 45% improvement in gross profit margin plus 56% increase in equity in an associate and a joint venture.

Total revenues grew by 11% to P8.8 billion from P7.9 billion a year ago. The real estate segment contributed the highest to this growth, with P1.4 billion increase in revenues coming from its rendering of developmental services and sale of land development in 2006. The quick service restaurant business (QSR) ended the year with P446 million more revenues, representing 7% growth, attributed to the opening of 22 new stores, successful promotional campaigns, particularly its couponing efforts, and introduction of new products, like the McRice Burgers, Chicken fillet, McShakers Fries and sundae ice mix, during the year. The glass container and shoestring snack manufacturing businesses also expanded by 17% and 6%, respectively. Glass production started anew in mid-July with the newly refurbished furnace and upgraded production lines. Imported bottles augmented glass sales during the year, accounting for about 20% of annual glass sales. The beginning glass bottle inventory, on the other hand, accounted for 40% of annual glass sales. (Glass bottles were stockpiled in 2005 for the anticipated planned shutdown.) The food and beverage segment, meanwhile, reported a general decline of P1 billion because the trading and distribution business operations was still held in abeyance.

Cost of sales was contained at 7% increase, thereby improving gross profit by 45%. The top cost components in the QSR remained to be food and paper (45%), personnel (13%), rent (11%), and utilities (10%) comprising 78% of total costs while in the Pik-Nik manufacture, direct materials represented 89% of its total costs. In the real estate rental business, depreciation was the biggest cost component.

Selling expenses were expected to rise with the increase in sales, but these rose by 6% only year-on-year. Royalty expense, a major component, went up by 7%, equivalent to P18 million. Administrative expenses, on the other hand, increased by 15%, primarily from the QSR and rental businesses. A 37% more spending was incurred for QSR personnel costs, a major expense account in the QSR representing 47% of its total administrative expenses. Utilities, particularly the electricity cost, caused the rise in administrative expenses of the rental business.

Equity in net earnings of an associate and a joint venture soared to P409 million in 2006, up 56% year-on-year.

Income tax expense amounted to P96 million in 2006 as compared to P67 million in 2005.

b.2. Liquidity and Capital Resources

With the consolidation of the assets from the real estate and distilled spirits businesses in 2007, consolidated total assets soared to P89.1 billion from P15.8 billion as of December 31, 2007 and 2006, respectively., while consolidated liabilities amounted to P23.6 billion from P3.8 billion as of the same respective years-end. As of end-2007, Megaworld has consolidated total assets of P56.5 billion and EDI, on the other hand, has P4.1 billion.

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

The Group is awash with cash coming from the unexpended portion of proceeds from 2007 stock issuances and efficient collection of receivables. Cash and cash equivalents totaled P24.1 billion as of end-2007 as compared with P1.3 billion as of end-2006. Financial assets at FVTPL totaled P2.0 billion and P87 million at year-end 2007 and 2006, respectively. Megaworld has P13.6 billion in cash and P1.1 billion in financial assets at FVTPL while AGI has P8.0 billion in cash and P0.9 billion in financial assets at FVTPL.

Current trade and other receivables increased by P6.8 billion this year-end - with P5.8 billion and P1.4 billion ending balances in real estate and distilled spirits manufacturing businesses, respectively. Non-current receivables of P5.6 billion came from real estate business.

Inventories went up by P6.0 billion because of P5.2 billion residential units held for sale and P732 million raw materials and supplies for the distilled spirits manufacturing.

The real estate business further added P9.2 billion investments in stocks, P5.5 billion investment property, 4.4 billion available for sale financial assets, P2.2 billion land for future development, and P2.4 billion property development costs. The distilled spirits business further added P508 million property and equipment.

Intangible assets represent P10.5 billion goodwill from acquisition of investments in stocks and P1.0 trademarks as of end-2007.

Interest-bearing loans and borrowings of Megaworld added P6.3 billion, including P1.7 billion non-current bank loans and P4.1 billion bonds, to the end-2007 balance. Customer deposits, reserve for property development, deferred income on real estate sales, advances from related parties and deferred tax liabilities were liabilities incurred by Megaworld in its operations.

The changes in equity components are presented in detail in the consolidated statements of changes in equity while the sources and uses of funds could be found in the consolidated statements of cash flows.

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2007 and 2006 amounted to P44.0 billion and P3.7 billion, respectively, while current liabilities for the same respective years-end remained low at P10.3 billion and P2.3 billion, respectively. Thus, current ratios were at 4.29:1 and 1.62:1 as of respective year-ends.

Debt-to-equity ratios were kept very low at 0.5:1 and 0.3:1 in 2007 and 2006, respectively.

b.3. Prospects for the future:

The distilled spirit manufacturing and real estate businesses are expected to be the prime contributors in 2008. Funds had been raised already for the business expansion plans in the food and beverage segment, mostly to complement the requirements of the distilled spirits manufacturing business, and in the real estate segment. Real estate projects are lined up that spotlight on the live-work-play-learn community concept, plus development plans outside of Metro Manila. More McDonald stores are target to be opened and existing ones re-imaged to boost the QSR income.

Despite the conflicting signals in economy, AGI is looking at a brighter future and formidable results ahead. The Group believes that it is well prepared and well positioned to face the forthcoming business challenges. It aims to leap forward in new industries and territories. In April 2008, it was prequalified to participate in PAGCOR's \$15 billion project in Manila Bay. This marks the entry of AGI into the tourism industry.

b.4. Others

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

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

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

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

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

Item 7. Financial Statements

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

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

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

Item 8. Information on Independent Accountant and other Related Maters

a. External Audit Fees and Services

a.1. Audit and audit-related services

Punongbayan & Araullo (“P&A”) has been appointed as the principal accountant since 2003. In compliance with SEC Memorandum Circular No. 8, s. 2003 (Rotation of External Auditors), and as adopted by the Company, external auditors or engagement partners are rotated or changed every five years. Ms. Dalisay B. Duque is the lead engagement partner from 2003 to 2007, and so a new engagement partner is expected to be assigned by P&A for the ensuing year..

The aggregate fees billed by P&A for each of the last two fiscal years totaled P940,000 and P1,120,000 for the audit of 2006 and 2005 annual financial statements or services that are normally provided in connection with statutory and regulatory filings or engagements. In addition, P&A billed P6.7 million for services relating to the international offering in 2007. Aggregate fees for the audit of 2007 annual financial statements is expected to total P5.4 million, including fees for EDI and Megaworld and its subsidiaries.

a.2. Tax fees

There were no separate tax fees billed by P&A for the last two fiscal years.

a.3. All other fees

There were no products and other services provided by P&A during the last two fiscal years.

a.4. Audit Committee’s approval

All the above services have been approved by the Audit Committee through the internal policies and procedures of approval.

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

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

a. Directors, executive officers and significant employees:

<i>Name, Age Citizenship</i>	<i>Position Held, Term of Office</i>	<i>Present Directorship(s) in other companies</i>	<i>Business experience for the past five (5) years</i>
ANDREW L. TAN, 57 Filipino	Chairman of the Board, Sep 2006 – present; Director/Vice Chairman of the Board, Aug 2003 - Sep 2006	Chairman/President , Megaworld Corporation; Mactan Oceanview Properties & Holdings, Inc.; Megaworld Globus Asia, Inc.; Megaworld Land, Inc.; Megaworld Homes, Inc.; Megaworld Newport Property Holdings, Inc.; Philippine International Properties, Inc., Yorkshire Holdings, Inc.; Chairman , Emperador Distillers, Inc.; Alliance Global Brands, Inc.; Consolidated Distillers of the Far East, Inc.; Eastwood Cyber One Corporation; Empire East Properties, Inc.; Empire East Land Holdings; Inc.; Forbes Town Properties & Holdings, Inc.; Gilmore Property Marketing Associates, Inc.; Megaworld Cayman Islands, Inc.; Megaworld Central Properties, Inc.; Megaworld Foundation, Inc.; Megaworld Newport Property Holdings, Inc., Raffles & Company, Inc.; Sonoma Premier Land, Inc.; Sherman Oak Holdings, Inc.; The Andresons Group, Inc.; Townsquare Development Inc., Vice Chairman/Treasurer , Golden Arches Development Corporation; Golden Arches Realty Corporation, Director/President , Richmonde Hotel Group International Limited, Director , Emperador International Limited; Andresons Global, Inc., Choice Gourmet Banquet, Inc.; Venezia Universal Limited	Real estate; distillery; marketing
SERGIO R. ORTIZ-LUIS, JR., 64 Filipino	Vice-Chairman of the Board, Sept. 2007-present;	President , Employers Confederation of the Philippines (ECOP); Philippine Exporters Confederation, Inc., (PHILEXPORT); Commissioner , Social Security System; Honorary Chairman , Philippine Chamber of Commerce & Industry; Chairman , Integrated Concepts & Solutions, Inc.; Vice Chairman , Export Development Council; Director , Waterfront Philippines, Inc.; Manila	Organizational Development

		Exposition Complex, Inc.; Universal LRT Corp.; Holy Angel Memorial.	
KINGSON U. SIAN, 45 Filipino	Director & President, Feb 20, 2007- present	Senior Vice President & Executive Director , Megaworld Corporation; Chairman & President, Megaworld Resort Estates, Inc.; Chairman , Travellers International Hotel Group, Inc., Director/President , Asia Finest Hotels & Resorts, Inc.; Eastwood Cyber One Corporation; Eastwood Locator's Assistance Center, Inc. (non-stock, non profit) ; Forbestown Properties Holdings, Inc.; Prestige Hotels & Resorts, Inc., President & Chief Operating Officer , Megaworld Land, Inc.; Director , Asia E-Commerce, Inc.; Citywalk Building Administration, Inc.; Eastwood Corporate Plaza Building Administration, Inc.; Eastwood City Estates Association, Inc. (non-stock, non profit); (ECEA); Forbes Town Commercial Center Administration, Inc.; ICITE Building Administration, Inc.; Paseo Center Building Administration, Inc.; Techno Plaza One Building Administration, Inc.; World Café, Inc.	Real estate marketing; business development
WINSTON S. CO, 49 Filipino	Director, up to present; Vice-chairman, Nov1999-Aug2003; Chairman, 1998-October 1999	Chairman , Anglo Watsons Glass, Inc.; Director/President , Emperador Distillers, Inc.; New Town Land Partners, Inc. Director , Alliance Global Brands, Inc.; Forbes Town Properties & Holdings, Inc.; McKester Pik-Nik International Limited; Raffles & Company, Incorporated.	Finance and marketing
KATHERINE L. TAN, 56, Filipino	Director/Treasurer Feb 20, 2007- present	Director/President , Andresons Global, Inc.; Choice Gourmet Banquet, Inc., Consolidated Distillers of the Far East, Inc.; Raffles and Company, Inc., The Andresons Group, Inc., Director , Emperador International Limited; Kenrich Corporation; McKester Pik-Nik International Limited; Megaworld Corporation; Megaworld Cayman Islands, Inc.; Venezia Universal Limited; Director/Treasurer , Alliance Global Brands, Inc.; Emperador Distillers, Inc.; Newtown Land Partners, Inc.,	Finance; marketing
ALEJO L. VILLANUEVA, JR., 65, Filipino	Director, 2001- present	Director , Empire East Land Holdings, Inc., First Capital Condominium Corporation (non-stock, non-profit)	Training, organizational development, consultancy

DINA D. INTING, 47, Filipino	First Vice President - Finance, January 1996 –present	Director/Corporate Secretary , Alliance Global Brands, Inc. up to March 25, 2007	Financial management and comptrollership
DOMINIC V. ISBERTO, 33, Filipino	Corporate Secretary, September 14, 2007-present	Corporate Secretary , Eastwood City Estates Association, Inc.	Legal documentation and corporate affairs mgmt
ROLANDO D. SITATELA, 47, Filipino	Asst. Corporate Secretary, August 30, 2002-present	Director , Asia Finest Cuisine, Inc.; Corporate Secretary , ERA Real Estate Exchange, Inc.; ERA Real Estate, Inc.; Oceanic Realty Group International, Inc., Suntrust Home Developers, Inc.	Legal documentation and corporate affairs mgmt

Directors are elected annually by the stockholders to serve until the election and qualification of their successors. Two independent directors, Messrs. Sergio Ortiz-Luis, Jr. and Alejo Villanueva, Jr., were elected in the last annual stockholders' meeting on September 14, 2007.

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

b. Family Relationships

Chairman Andrew L. Tan is married to Treasurer/Director Katherine L. Tan. Their sons, Messrs. Kevin Andrew Tan and Kendrick Andrew Tan, are currently serving as directors of AWG and NTLPI. Mr. Kevin Andrew Tan is also a director in AGB and EDI.

c. Involvement in Legal Proceedings

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

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

Item 10. Executive Compensation

Name and Principal Position

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

The officers receive fixed salary on a monthly basis from the respective subsidiaries or businesses they principally handle. Hence, for years 2007 and 2006, no compensation was received from AGI, the holding company, and neither will there be for 2008, except for an allowance for Mr. Kingson Sian starting February 2007. In a board resolution passed in November 2007, members of the Company's Board of Directors receive per diem allowance for attendance in board meetings. Prior to this date, there were no compensation paid to directors for serving as such.

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) *Security Ownership of Record and Beneficial Owners owning more than 5% of the Company's outstanding common stock as of March 31, 2008:*

<i>Title of Class</i>	<i>Name and Address of Record Owner & Relationship w/ Issuer</i>	<i>Name of Beneficial Owner & Relationship w/ Record Owner</i>	<i>Citizenship</i>	<i>No. of Shares</i>	<i>Percent Owned</i>
Common	THE ANDRESONS GROUP, INC. 20/F IBM Plaza Bldg., Eastwood City Bagumbayan, Quezon City It is solely a stockholder of the issuer; its chairman is also AGI's chairman.	Mr. Andrew L. Tan, Chairman of the Board, is the principal stockholder.	Filipino	3,831,786,194 ¹	37.31
Common	HONGKONG AND SHANGHAI BANKING CORP LTD (Non- Filipino) ² 30/F Discovery Suites, ADB Avenue., Ortigas Center, Pasig City. No relationship with Issuer.	Rose Tantoco, Senior Vice President, or Nilo Dicen, Vice President, of Securities Services, is authorized to appoint proxy to vote the shares.	Non-Filipino	1,990,559,744	19.38
Common	STANDARD CHARTERED BANK (Non-Filipino) ² 6756 Ayala Avenue, Makati City No relationship with Issuer	Aileen I. Gomez, Officer - Settlements and Ronald Aguilar, AVP-Securities, are authorized to appoint proxy to vote the shares.	Non-Filipino	607,868,500	5.91

¹ Includes shares lodged with PCD.

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

(2) *Security Ownership of Record and Beneficial Owners owning more than 5% of the Company's*

<i>Title</i>	<i>Name of Beneficial Owner</i>	<i>Citizenship</i>	<i>Amount and Nature of Beneficial Ownership (all Direct Ownership)</i>	<i>Percent</i>
Common	Andrew L. Tan (<i>Chairman of the Board</i>)	Filipino	341,684,350	3.327%
Common	Sergio R. Ortiz-Luis, Jr. (<i>Director</i>)	Filipino	1	.000000%
Common	Winston S. Co (<i>Director</i>)	Filipino	2,728	.000032%
Common	Kingson U. Sian (<i>Director</i>)	Filipino	1,100	.000000%
Common	Katherine L. Tan (<i>Director</i>)	Filipino	1	.000000%
Common	Alejo L. Villanueva, Jr (<i>Director</i>).	Filipino	1	.000000%
Common	Renato M. Piezas (<i>Director</i>)	Filipino	1,100	.00005%
Common	Dina D. Inting (<i>FVP-Finance</i>)	Filipino	2,758	.00033%
Directors and Executive Officers as a Group			341,692,039	3.3274%

Item 12. Certain Relationships and Related Transactions

Except for the material related party transactions already stated in item 1 and item 5 of this report, and in the notes to the consolidated financial statements of the Company, there has been no material transaction during the last two years, nor is there any material transaction currently proposed, to which the Company was or is to be a party, in which any director or executive officer of the Company or stockholder of more than ten percent of the Company's voting shares, and any member of the immediate family (including spouse, parents, children, siblings, and in-law) of any such director or officer or stockholder of more than ten percent of the Company's voting shares had or is to have a direct or indirect material interest.

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Company adopted a Manual on Corporate Governance to institutionalize the rules and principles of good corporate governance in the entire organization in accordance with the Code of Corporate Governance promulgated by SEC. A copy of the Manual was submitted to SEC and PSE in 2002.

Pursuant to the Manual, three Board committees -namely, Nomination, Compensation and Remuneration, and Audit- were created in 2003 to aid in complying with the principles of good corporate governance. A Compliance Officer, directly reporting to the Chairman of the Board, was appointed on February 3, 2003 to monitor compliance with the provisions and requirements of the Manual, and who issues a certification every January 30 on the extent of compliance for the last completed year. A Self-Rating System on Corporate Governance was implemented and submitted to SEC and PSE in July 2003.

Among measures undertaken by the Company in order to fully comply with the provisions of the leading practices on good corporate governance adopted in its Manual on Corporate Governance are monitoring and evaluation of the internal control system for corporate governance. No sanctions have been imposed on any director, officer or employee on account of non-compliance. The Company is committed to good corporate governance and continues to improve and enhance its evaluation system for purposes of determining the level of compliance by the Company with its Manual on Corporate Governance.

PART V - EXHIBITS AND SCHEDULES

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

(b) Reports on SEC Form 17-C Filed During the Last Six Months of the Report Period (July 1 to December 31, 2007)

Date	Disclosures
2 July 2007	Appointment of Adviser for proposed stock option plan
13 July 2007	Notice of Annual Stockholders' Meeting on 14 September 2007
18 July 2007	Subscription to Megaworld Preferred shares
24 July 2007	Joint briefing with Megaworld Corporation – first half financial performance
27 July 2007	Press Release re: First Half 2007 Performance
17 August 2007	Board Approval of Executive Stock Option Plan
14 September 2007	Press Release Results of Annual Stockholders' Meeting Results of Organizational Meeting of BOD
6 November 2007	Joint briefing with Megaworld Corporation – 3 rd Quarter financial performance
9 November 2007	Press Release re: Alliance Global Hikes Q3 Revenue
29 November 2007	Expiration of voluntary lock-up shares

SIGNATURES

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

Alliance Global Group, Inc.

Issuer

By:


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


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


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



DOMINIC V. ISBERTO
Corporate Secretary

SUBSCRIBED AND SWORN to before me this **APR 22 2008** affiants exhibiting to me their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Andrew L. Tan	07595166	January 11, 2008	Quezon City
Kingson U. Sian	07605389	January 10, 2008	Quezon City
Dominic V. Isberto	19496008	January 21, 2008	Makati City
Dina D. Inting	16401190	February 5, 2008	Quezon City

Notary Public

Doc No. 50
Page No. 11
Book No. 3
Series of 2008.


IRWIN C. VIDUA JR.
Notary Public
Until December 31, 2009
PTR 0995984 1/10/08 Makati City
IBP 728987 12/28/2007 Camarines Sur

Consolidated Financial Statements and
Independent Auditors' Report

Alliance Global Group, Inc. and Subsidiaries

December 31, 2007, 2006 and 2005



ALLIANCE GLOBAL GROUP, INC.
 20th Floor, IBM Plaza
 Eastwood City CyberPark
 188 E. Rodriguez Jr. Avenue
 Bagumbayan, 1110 Quezon City
 Tel. Nos. 9112949-50
 Fax Nos. 4210851

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
 FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of *Alliance Global Group, Inc.* is responsible for all information and representations contained in the consolidated financial statements as at December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition, and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditors: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the consolidated financial statements before such statements are approved and submitted to the stockholders of the Company.

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


 Chairman : ANDREW L. TAN
 of the Board


 President : KINGSON U. SIAN


 First Vice President : DINA D. INTING
 for Finance

SUBSCRIBED AND SWORN to before me this **APR 17 2008**, affiants exhibiting to me their Community Tax Certificates, as follows:

Names	CTC	Date of Issue	Place of Issue
Andrew L. Tan	07595166	January 11, 2008	Quezon City
Kingson U. Sian	07605389	January 10, 2008	Quezon City
Dina D. Inting	16401190	February 5, 2008	Quezon City

Doc. No. 44 :
 Page No. 10 :
 Book No. 3 :
 Series of MSB


IRWIN C. BIDEA JR.
 Notary Public
 Notary Public
 Until December 31, 2009
 PTR 0995984 1/10/08 Makati City
 ID# 228097 12/28/2007



Report of Independent Auditors

**The Board of Directors and Stockholders
Alliance Global Group, Inc. and Subsidiaries**
20th Floor, IBM Plaza
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

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

We have audited the accompanying consolidated financial statements of Alliance Global Group, Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2007, and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of certain subsidiaries which statements reflect total assets representing 8% and 44% as of December 31, 2007 and 2006, respectively, and total operating income constituting 7%, 29% and 19% for the years ended December 31, 2007, 2006 and 2005, respectively, of the respective consolidated totals. The financial statements of those subsidiaries were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as they relate to the data included for the subsidiaries, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 whether the financial statements are free from material misstatement.

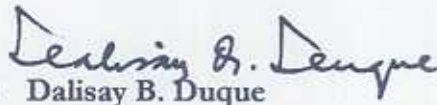
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Alliance Global Group, Inc. and subsidiaries as of December 31, 2007 and 2006, and of their financial performance and cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO


By: **Dalisay B. Duque**
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 0986655, January 4, 2008, Makati City
SEC Accreditation No. 0012-AR-1
BIR AN 08-002511-9-2005 (Dec. 27, 2005 to 2008)

April 2, 2008

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
<u>A S S E T S</u>			
CURRENT ASSETS			
Cash and cash equivalents	5	P 24,066,590,081	P 1,289,597,395
Trade and other receivables - net	6	7,948,280,652	1,166,434,752
Financial assets at fair value through profit or loss	7	1,975,897,931	86,802,438
Inventories	8	6,482,232,000	418,327,491
Property development costs	9	2,737,375,575	358,053,580
Prepayments and other current assets	10	839,675,257	380,846,442
		<u>44,050,051,496</u>	<u>3,700,062,098</u>
NON-CURRENT ASSETS			
Trade and other receivables - net	6	5,610,614,884	26,196,144
Advances to landowners and joint ventures	11	169,383,639	-
Land for future development		2,199,780,902	-
Available-for-sale financial assets - net	12	4,171,234,628	54,911,419
Investments in associates and interest in a joint venture	13	9,220,058,258	5,355,200,798
Property, plant and equipment - net	14	5,050,957,339	2,146,765,903
Investment property - net	15	6,005,410,045	2,138,767,025
Deferred tax assets - net	27	241,470,542	154,215,062
Intangible assets - net	16	11,530,112,856	1,653,165,188
Other non-current assets - net	17	890,451,720	599,097,454
		<u>45,089,474,813</u>	<u>12,128,318,993</u>
TOTAL ASSETS		<u>P 89,139,526,309</u>	<u>P 15,828,381,091</u>

Forward

	Notes	2007	2006
<u>LIABILITIES AND EQUITY</u>			
CURRENT LIABILITIES			
Trade and other payables	18	P 4,919,472,043	P 2,193,418,613
Interest-bearing loans and borrowings	19	510,982,742	-
Customers' deposits		789,059,627	-
Advances from related parties		92,023,859	78,326,360
Income tax payable		282,440,590	9,216,803
Reserve for property development		1,658,763,404	-
Deferred income on real estate sales		802,714,242	-
Other current liabilities	20	<u>1,212,811,608</u>	<u>7,625,370</u>
Total Current Liabilities		<u>10,268,268,115</u>	<u>2,288,587,146</u>
NON-CURRENT LIABILITIES			
Interest-bearing loans and borrowings	19	6,657,089,323	906,468,118
Customers' deposits		1,603,157,590	-
Reserve for property development		934,753,482	-
Deferred income on real estate sales		521,657,596	-
Redeemable preferred shares		261,271,803	231,445,636
Retirement benefit obligations	26	232,629,468	109,201,576
Advances from related parties		647,083,981	-
Deferred tax liabilities	27	1,446,479,277	-
Other non-current liabilities	21	<u>1,045,289,228</u>	<u>244,111,961</u>
Total Non-current Liabilities		<u>13,349,411,748</u>	<u>1,491,227,291</u>
Total Liabilities		<u>23,617,679,863</u>	<u>3,779,814,437</u>
EQUITY			
Equity attributable to equity holders of the parent company			
Capital stock	29.1	10,269,827,979	2,205,181,000
Additional paid-in capital	29.2	27,157,647,455	5,232,877,999
Subscriptions receivable		-	(986,612,492)
Treasury shares	29.3	(1,143,508,487)	-
Accumulated translation adjustments		(528,101,377)	(46,544,619)
Share in net unrealized gain on available-for-sale financial assets of an associate	12	-	11,595,904
Dilution gain (loss)	13	45,023,383	(307,137,911)
Revaluation reserves		(284,374,735)	12,261,215
Retained earnings	13	<u>8,354,349,181</u>	<u>5,061,762,565</u>
		43,870,863,399	11,183,383,661
Minority interest		<u>21,650,983,047</u>	<u>865,182,993</u>
Total Equity		<u>65,521,846,446</u>	<u>12,048,566,654</u>
TOTAL LIABILITIES AND EQUITY		<u>P 89,139,526,309</u>	<u>P 15,828,381,091</u>

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
REVENUES				
Sale of goods		P 14,556,248,321	P 6,992,457,558	P 7,549,170,811
Real estate sales		10,606,609,442	623,718,000	5,164,646
Rendering of services	22	1,660,379,217	1,201,640,065	389,113,021
Realized gross profit on prior years' real estate sales		472,578,943	-	-
		<u>27,295,815,923</u>	<u>8,817,815,623</u>	<u>7,943,448,478</u>
COST OF GOODS SOLD AND SERVICES				
	23			
Cost of goods sold		10,641,147,511	5,990,926,339	6,627,860,551
Cost of real estate sales		7,238,595,819	379,867,208	7,699,258
Cost of services		406,427,740	773,618,593	62,466,294
Deferred gross profit on real estate sales		1,072,330,683	-	-
		<u>19,358,501,753</u>	<u>7,144,412,140</u>	<u>6,698,026,103</u>
GROSS PROFIT				
		<u>7,937,314,170</u>	<u>1,673,403,483</u>	<u>1,245,422,375</u>
OTHER OPERATING INCOME (EXPENSES)				
Finance and other income	25	2,922,951,886	195,897,615	188,286,214
Equity in net earnings of associates and a joint venture	13	46,857,739	409,417,490	261,507,483
Administrative expenses	24	(1,706,174,923)	(477,504,382)	(415,442,555)
Selling expenses	24	(1,347,571,090)	(696,637,645)	(644,350,887)
Others	24	(562,353,395)	(648,194)	(2,475,087)
		<u>(646,289,783)</u>	<u>(569,475,116)</u>	<u>(612,474,832)</u>
OPERATING INCOME				
		<u>7,291,024,387</u>	<u>1,103,928,367</u>	<u>632,947,543</u>
OTHER INCOME (CHARGES)				
Finance costs	19, 28	(754,398,568)	(144,800,781)	(123,053,887)
Foreign currency gains (losses) - net		(218,782,843)	49,481,363	(3,108,976)
Excess of carrying value of advances over fair value of preferred shares	28.1	-	-	3,294,992,293
Others - net	7, 8	185,719,587	(24,002,421)	(13,353,047)
		<u>(787,461,824)</u>	<u>(119,321,839)</u>	<u>3,155,476,383</u>
INCOME BEFORE TAX AND PREACQUISITION INCOME				
		6,503,562,563	984,606,528	3,788,423,926
TAX EXPENSE				
	27	1,295,243,438	96,592,434	66,721,935
INCOME BEFORE PREACQUISITION INCOME				
		5,208,319,125	888,014,094	3,721,701,991
PREACQUISITION INCOME				
	1.3	(175,815,400)	-	(408,201,530)
NET INCOME				
		<u>P 5,032,503,725</u>	<u>P 888,014,094</u>	<u>P 3,313,500,461</u>
Attributable to:				
Equity holders of the parent company		P 3,292,586,616	P 819,038,830	P 1,613,001,601
Minority interest		1,739,917,109	68,975,264	1,700,498,860
		<u>P 5,032,503,725</u>	<u>P 888,014,094</u>	<u>P 3,313,500,461</u>
Earnings Per Share for the Net Income Attributable to the Equity Holders of the Parent Company				
	30	P 0.3768	P 0.3714	P 0.7485

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock				
	29.1			
Balance at beginning of year		P 2,205,181,000	P 2,205,181,000	P 2,004,710,000
Additional issuance during the year		<u>8,064,646,979</u>	<u>-</u>	<u>200,471,000</u>
Balance at end of year		<u>10,269,827,979</u>	<u>2,205,181,000</u>	<u>2,205,181,000</u>
Additional Paid-in Capital				
	29.2			
Balance at beginning of year		5,232,877,999	5,232,877,999	4,448,131,367
Additional issuance during the year		<u>21,924,769,456</u>	<u>-</u>	<u>784,746,632</u>
Balance at end of year		<u>27,157,647,455</u>	<u>5,232,877,999</u>	<u>5,232,877,999</u>
Subscriptions Receivable				
Balance at beginning of year		(986,612,492)	(986,612,492)	(999,999,992)
Collections during the year		<u>986,612,492</u>	<u>-</u>	<u>13,387,500</u>
Balance at end of year		<u>-</u>	<u>(986,612,492)</u>	<u>(986,612,492)</u>
Treasury Shares - at cost				
	29.3			
		(1,143,508,487)	<u>-</u>	<u>-</u>
Accumulated Translation Adjustments				
Balance at beginning of year		(46,544,619)	5,951,829	67,666,585
Currency translation adjustments during the year		<u>(481,556,758)</u>	<u>(52,496,448)</u>	<u>(61,714,756)</u>
Balance at end of year		<u>(528,101,377)</u>	<u>(46,544,619)</u>	<u>5,951,829</u>

Forward

	Notes	2007	2006	2005
Share in Net Unrealized Gain on				
Available-for-Sale Financial Assets of an Associate				
	12			
Balance at beginning of year		11,595,904	-	-
Unrealized gain recognized during the year		-	11,595,904	-
Transferred to revaluation reserve		(11,595,904)	-	-
Balance at end of year		-	11,595,904	-
Dilution Gain (Loss)				
	13			
Balance at beginning of year		(307,137,911)	-	-
Dilution gain (loss) recognized during the year		352,161,294	(307,137,911)	-
Balance at end of year		45,023,383	(307,137,911)	-
Revaluation Reserves				
Balance at beginning of year		12,261,215	3,895,661	998,792
Revaluation reserve of a newly acquired subsidiary		11,595,904	-	-
Fair value gains (losses) - net	12	(308,231,854)	8,365,554	2,896,869
Balance at end of year		(284,374,735)	12,261,215	3,895,661
Retained Earnings				
	13			
Balance at beginning of year		5,061,762,565	4,242,723,735	2,772,884,803
Cash dividends		-	-	(143,162,669)
Net income		3,292,586,616	819,038,830	1,613,001,601
Balance at end of year		8,354,349,181	5,061,762,565	4,242,723,735
		43,870,863,399	11,183,383,661	10,704,017,732
MINORITY INTEREST				
Balance at beginning of year		865,182,993	870,761,153	(826,836,811)
Collection of subscriptions receivable		93,750	3,125,000	450,000
Dividends from investee		(304,258,042)	(77,678,424)	(3,350,896)
Minority interest in a newly acquired consolidated entity		20,849,428,265	-	-
Sale of interest in a subsidiary		(9,459,333,774)	-	-
Exercise of stock rights		7,959,952,746	-	-
Share in consolidated net income		1,739,917,109	68,975,264	1,700,498,860
Balance at end of year		21,650,983,047	865,182,993	870,761,153
TOTAL EQUITY		P 65,521,846,446	P 12,048,566,654	P 11,574,778,885
Net Losses Directly Recognized in Equity		P 437,627,318	P 339,672,901	P 58,817,887

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax and preacquisition income		P 6,503,562,563	P 984,606,528	P 3,788,423,926
Adjustments for:				
Finance costs	19, 28	754,398,568	144,800,781	123,053,887
Depreciation and amortization	23, 24	737,176,477	444,573,465	341,929,467
Unrealized foreign currency losses (gains)		218,782,843	(48,720,000)	(12,360,000)
Amortization of trademarks	23	91,672,731	-	-
Impairment losses	14	40,000,000	20,453,346	43,356,743
Interest income	25	(2,248,315,582)	(141,596,145)	(139,366,450)
Gain on sale of investment		(225,749,349)	-	-
Equity in net earnings of associates and a joint venture	13	(46,857,739)	(409,417,490)	(261,507,483)
Dividend income	25	(12,295,840)	-	-
Losses (gains) from restaurant closings		(2,663,842)	52,807,512	46,572,887
Gain on disposal of property, plant and equipment		-	(118,549)	-
Excess of carrying value of advances over fair value of preferred shares	28	-	-	(3,294,992,293)
Operating income before working capital changes		5,809,710,830	1,047,389,448	635,110,684
Decrease (increase) in property development costs		283,966,144	388,337,544	(3,159,973)
Decrease (increase) in trade and other receivables		(4,544,051,224)	417,260,787	(219,440,447)
Decrease (increase) in inventories		(4,064,111,933)	157,518,442	(259,792,253)
Decrease (increase) in financial assets at fair value through profit or loss		(635,305,622)	10,840,627	12,896,117
Decrease (increase) in prepayments and other current assets		(375,499,167)	10,566,797	(115,407,893)
Increase in trade and other payables		889,200,740	980,948,137	1,322,452,309
Increase in reserve for property development		874,879,989	-	-
Increase in other current liabilities		570,727,506	-	-
Increase in deferred income on real estate sales		243,038,738	-	-
Increase (decrease) in other non-current liabilities		234,007,464	(129,142,990)	223,441,710
Increase in retirement benefit obligations		123,427,892	22,515,992	80,687,890
Decrease in customers' deposits		(1,544,157,165)	-	-
Cash generated from (used in) operations		(2,134,165,808)	2,906,234,784	1,676,788,144
Cash paid for taxes		(688,734,402)	(53,614,502)	(82,440,811)
Net Cash From (Used in) Operating Activities		(2,822,900,210)	2,852,620,282	1,594,347,333
Balance carried forward		(P 2,822,900,210)	P 2,852,620,282	P 1,594,347,333

	Notes	2007	2006	2005
Balance brought forward		(P 2,822,900,210)	P 2,852,620,282	P 1,594,347,333
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received		741,967,590	141,596,145	139,366,450
Net decrease (increase) in investments in and advances to associates and other related party		480,934,484	(1,488,122,615)	-
Net decrease in land for future development		408,504,530	-	-
Proceeds from sale of investment		320,000,000	-	-
Proceeds from sale of property, plant and equipment		277,673,381	29,209,401	39,152,216
Net decrease in advances to land owners and joint ventures		12,721,508	-	-
Cash dividend received	25	12,295,840	45,676,260	-
Additions to:				
Available-for-sale financial assets	12	(4,317,273,779)	-	-
Property, plant and equipment and investment property	14, 15	(1,899,619,555)	(1,303,009,347)	(2,272,610,243)
Acquisition of trademarks	16	(1,000,072,767)	-	-
Decrease (increase) in other non-current assets		(743,409,997)	(199,651,244)	632,856,971
Payments made for the subscribed common stocks of an associate		(655,952,266)	-	-
Payment made as a result of store closing		-	(21,093,939)	(10,645,116)
Net Cash Used in Investing Activities		(6,362,231,031)	(2,795,395,339)	(1,471,879,722)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from issuance of capital stock		21,111,389,798	-	985,217,632
Collections of subscriptions receivable		986,612,492	3,125,000	13,387,500
Advances from related parties		469,975,686	4,122,276	74,204,084
Acquisition of treasury shares		(1,143,508,487)	-	-
Net decrease in interest-bearing loans and borrowings		(1,087,928,398)	-	-
Interest paid		(667,093,993)	(144,800,781)	(71,258,000)
Cash dividends paid		-	(77,678,424)	(143,162,669)
Net Cash From (Used in) Financing Activities		19,669,447,098	(215,231,929)	858,388,547
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		10,484,315,857	(158,006,986)	980,856,158
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		12,292,676,829	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,289,597,395	1,447,604,381	466,748,223
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 24,066,590,081	P 1,289,597,395	P 1,447,604,381

Supplemental Information on Non-Cash Investing Activity

On February 16, 2007, the Company acquired 5,248,128,261 additional shares of stock of Megaworld Corporation representing 25% ownership interest, in exchange for 4,059,465,979 shares of stock of the Company taken from its unissued shares through a share swap transaction. The total cost of the investment amounted to P16,794,010,755 (see Note 1.1).

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

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

Currently, the Company operates primarily as a holding company with ownership interests in the following subsidiaries, associates and a controlled entity (collectively referred to as “the Group”):

Subsidiaries/Associates/Controlled Entity	Explanatory Notes	Percentage of Effective Ownership	
		2007	2006
Food and Beverage			
Emperor Distillers, Inc. (EDI)	(a)	100%	-
Anglo Watsons Glass, Inc. (AWGI)		100%	100%
Alliance Global Brands, Inc. (AGBI)	(b)	100%	100%
McKester Pik-Nik International Limited (MPIL)	(c)	100%	100%
Tradewind Estates, Inc. (TEI)	(c)	100%	100%
Great American Foods, Inc. (GAFI)	(d)	100%	100%
McKester America, Inc. (MAI)	(d)	100%	100%
Emperor International Ltd. (EIL)	(e)	100%	-
Real Estate			
Megaworld Corporation (Megaworld)	(f)	46%	20.02%
First Centro, Inc. (FCI)		100%	100%
New Town Land Partners, Inc. (NTLPI)	(c)	100%	100%
Megaworld Land, Inc. (MLI)	(g)	46%	-
Prestige Hotels and Resorts, Inc.	(g)	46%	-
Mactan Oceanview Properties and Holdings, Inc.	(g)	46%	-
Megaworld Cayman Islands, Inc. (MCII)	(g)	46%	-
Richmonde Hotel Group International (RHGI)	(g)	46%	-
Eastwood Cyber One Corporation (ECOC)	(g)	46%	-
Forbes Town Properties and Holdings, Inc.	(g)	46%	-
Megaworld Newport Property Holdings, Inc.	(g)	46%	-
Oceantown Properties, Inc.	(g)	46%	-
Megaworld-Daewoo Corporation	(g)	28%	-
Townsquare Development, Inc.	(g)	23%	-
Megaworld Central Properties, Inc.	(g)	23%	-
Gilmore Property Marketing Associates Inc.	(g)	23%	-

Subsidiaries/Associates/Controlled Entity	Explanatory Notes	Percentage of Effective Ownership	
		2007	2006
Megaworld Globus Asia, Inc.	(g)	23%	-
Philippine International Properties, Inc.	(g)	23%	-
Megaworld Resort Estates, Inc.	(h)	72%	-
First Oceanic Property Management, Inc (FOPMI)	(i)	100%	-
Galleria Corsinni Holdings, Inc.	(i)	80%	-
Travellers International Hotel Group, Inc. (Travellers)	(i, p)	100%	-
Citylink Coach Services, Inc.	(j)	100%	-
Quick Service Restaurant			
Golden Arches Development Corporation (GADC)	(k)	49%	49%
Golden Arches Realty Corporation (GARC)	(k)	49%	49%
Clark Mac Enterprises, Inc.	(l)	49%	49%
Advance Foods Concepts Manufacturing, Inc.	(l)	49%	49%
Davao City Food Industries, Inc. (Davao Food)	(l)	37%	37%
Golden Laoag Foods Corporation (Golden Laoag)	(l)	34%	34%
First Golden Laoag Ventures	(l)	34%	34%
Retiro Golden Foods, Inc. (Retiro Foods)	(l)	34%	34%
Corporate and Others			
Venezia Universal Ltd. (Venezia)	(m)	100%	-
Associates			
Empire East Land Holdings, Inc. (EELHI)	(n)	27%	-
Suntrust Home Developers, Inc. (SHDI)	(n)	20%	-
Palm Tree Holdings and Development Corporation (PTHDC)	(n)	18%	-
Controlled entity			
Golden City Food Industries, Inc. (GCFII)	(o)	24%	24%

- (a) Subsidiary acquired on February 16, 2007
- (b) Formerly Alliance Growers Holdings, Inc. (AGHI)
- (c) Wholly owned subsidiary of AGBI
- (d) Wholly owned subsidiary of MPIL
- (e) Wholly owned subsidiary of EDI
- (f) Formerly an associate of AGI that became a subsidiary on February 16, 2007; AGI's percentage of ownership includes direct interest of FCI and NTLPI of 0.8546% and 20.0844% in 2007, respectively (see Note 1.1)
- (g) Subsidiary of Megaworld
- (h) Megaworld owns 51% while AGI owns 49% ownership interest; percentage ownership represents effective interest of AGI
- (i) Subsidiary of FCI in 2007
- (j) Wholly owned subsidiary of FOPMI
- (k) Subsidiary acquired in 2005
- (l) Subsidiary of GADC; percentage ownership represents effective interest of AGI
- (m) Subsidiary acquired in July 2007
- (n) Associate of Megaworld
- (o) Joint venture of GADC
- (p) AGI subscribed to additional shares in 2008

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

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

The Company's registered office and primary place of business, is located at the 20th Floor, IBM Plaza, Eastwood City CyberPark, 188 E. Rodriguez, Jr. Avenue, Bagumbayan, Quezon City.

The consolidated financial statements for the year ended December 31, 2007 (including comparatives for the years ended December 31, 2006 and 2005) were authorized for issue by Board of Directors (BOD) on April 2, 2008.

1.1 Acquisition of Megaworld

On February 16, 2007, in a share swap transaction with TAGI and certain other related parties, the Company acquired 5,248,128,261 additional shares of stock of Megaworld, representing 25% ownership interest, in exchange for 4,059,465,979 unissued shares of stock of the Company (see Note 29.1). The total cost of the investment of P16,794,010,755 is based on the closing market price of Megaworld's shares as of date of acquisition, which is P3.20 per share, and the 30-day volume weighted average price of the Company's shares as of date of exchange plus a 6% premium, which is P4.137 per share. The acquisition brings the total ownership of the Company in Megaworld to 46%, which gives the Company the management control over the financial and operating policies of Megaworld. The acquisition of the additional interest in Megaworld was accounted for as a business combination under the purchase method of accounting. The excess of the acquisition cost over the Company's equity in the fair value of the net assets of Megaworld at the date of acquisition amounting to P7.6 billion was recognized as goodwill (see Note 16).

A portion of the net income of Megaworld in the first quarter of 2007 amounting to P100.4 million, which is allocated to the period before the acquisition date of the additional investments, is presented as part of Preacquisition Income in the 2007 consolidated income statement. Megaworld is consolidated effective February 2007.

On November 7, 2006, Megaworld offered for subscription new common shares by way of pre-emptive stock rights offering to existing stockholders at a ratio of two rights shares for every five common shares held as of December 15, 2006 at an offering price of P1.83 per rights share. During the offering period in January 2007, NTLPI and FCI, subsidiaries of the Company that hold a total 21% ownership in Megaworld, exercised their rights to maintain their percentages of ownership in Megaworld. The exercise of the stock rights resulted also in the recognition of goodwill amounting to P1.1 billion (see Note 16).

Megaworld is presently engaged in real estate business, hotel operations and marketing services.

1.2 Acquisition of EDI

On February 16, 2007, the Company purchased 100% ownership interest in EDI from TAGI and individual shareholders, representing 1,002.5 million shares, for a total cost of P1,002.5 million, which acquisition was fully paid by the Company. On the same date, the Company subscribed to an additional 997.5 million unissued shares of EDI for a total cost of P1,997.5 million. The acquisition of EDI was accounted for as a business combination under the purchase method of accounting. As of December 31, 2007, the Company has outstanding subscription payable amounting to P857.7 million relating to its investment in EDI.

EDI is engaged primarily in the manufacturing and trading of any brandy, wine or other similar alcoholic beverage products.

1.3 Acquisition of GADC and GARC

On March 17, 2005, the Company acquired 49% of the outstanding common shares of GADC and 49% of the outstanding common shares of GARC held by McDonald's Restaurant Operations, Inc. (MRO), a subsidiary of McDonald's Corporation (McDonald's), both incorporated in the USA, for US\$15.05 million (about P832.57 million). The acquisition of GADC and GARC was accounted for as a business combination under the purchase method of accounting. The excess of the acquisition cost over the Company's equity in the fair value of the net assets of the entities acquired at the date of acquisition was recognized as goodwill in the amount of P1.24 billion (see Note 16).

GADC and its subsidiaries are engaged in the operations of quick service restaurant business under the McDonald's brand in accordance with the franchise agreement with McDonald's.

The income of GADC and GARC in 2005 of P408.2 million, which is allocated to the period before the acquisition date, is presented as Preacquisition Income in the 2005 consolidated income statement.

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 (PFRSs)

The consolidated financial statements of the Group have been prepared in accordance with the PFRSs. PFRSs 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) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.19)

(c) Reclassification of Accounts

Certain accounts in 2006 and 2005 were reclassified to conform with the 2007 financial statement presentation and classification.

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) Effective in 2007 that are relevant to the Group

In 2007, the Group adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

Discussed below are the effects on the financial statements of these new accounting standards.

- (i) Philippine Accounting Standards (PAS) 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Group's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 33.
- (ii) PFRS 7, *Financial Instruments: Disclosures*. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:
 - a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments; and,
 - a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Group availed of the transitional relief granted by the FRSC and presented only the relevant new disclosures required by PFRS 7 in 2007 in Note 32.

- (iii) Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*. This Philippine Interpretation prohibits the reversal through profit and loss at a subsequent balance sheet date of any impairment losses recognized on goodwill and financial assets carried at cost at an interim period. The Group has not recognized impairment losses on its 2007 interim consolidated financial statements. Accordingly, adoption of this Philippine Interpretation has no impact on the Group's current financial statements.

The first time application of these standards, amendments and interpretations did not result in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) *Effective in 2007 but not relevant to the Group*

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, <i>Financial Reporting in Hyper Inflationary Economies</i>
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives

(c) *Effective Subsequent to 2007*

There are new and amended standards and Philippine Interpretations that are effective for periods subsequent to 2007. The following new standards, amendments and interpretation are relevant to the Group which it will apply in accordance with their transitional provisions.

2008

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
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2009

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 8	:	Operating Segments

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

- (i) Philippine Interpretation IFRIC 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Group based on the set-up of the pension trust fund, the Group determined that adoption of this Philippine Interpretation will not materially affect its consolidated financial statements.

- (ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The consolidated income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 2009 consolidated financial statements.
- (iii) PAS 23 (Revised 2007), *Borrowing Costs* (effective from January 1, 2009). Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of qualifying asset shall be capitalized as part of the cost of the asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Group has initially determined that adoption of this new standard will not have significant effects on the consolidated financial statements for 2009, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets.
- (iv) PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports, adoption of this new standard will not have a material impact on the Group's consolidated financial statements.

2.3 Consolidated Financial Statements, Investment in Associates, Interests in Joint Ventures and Minority Interests

The Group's consolidated financial statements comprise the financial statements of the Company and its subsidiaries as enumerated in Note 1 as of December 31, 2007, 2006 and 2005. All intercompany balances and transactions with these companies, 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, unless cost cannot be recovered. In addition, shares of stocks of the Company acquired by any of these companies are considered as re-acquisitions, recognized as treasury stocks and are presented as deduction in the consolidated statements of changes in equity at cost. Any changes in their market values that have been recognized by the subsidiaries are likewise eliminated in full.

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

The Group accounts for its investments in subsidiaries and associates, interests in joint venture and minority interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are those entities over which the Group has the power to control the financial and operating policies. The Group mainly obtains and exercises control through voting rights.

Control also exists when the parent owns half or less the voting power of an entity when there is power over more than half of the voting rights by virtue of an agreement with other investors; power to govern the financial and operating policies of the entity under a statute or an agreement; power to appoint or remove the majority of the members of the board of directors or equivalent governing body and control of the entity is by that board or body; or power to cast the majority votes at meetings of the board of directors or equivalent governing body and control of the entity is by that board or body.

Acquired subsidiaries are subject to application of the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. The difference between the acquisition cost and the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition is accounted for as goodwill or negative goodwill (see Note 2.11).

(b) Investments in Associates

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

Acquired 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 lodged in Equity in Net Earnings (Losses) in the Group's consolidated income statements and therefore affect the net results of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of the associate's assets and liabilities. Items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale financial assets, are recognized in consolidated equity of the Group. Any non-income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments 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 asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) Interests in Joint Ventures

In accounting for jointly controlled assets, the Group recognizes its share of: the jointly controlled assets; any liabilities which it has incurred; its share of any liabilities incurred jointly with the other venturers in relation to the joint venture; any income from the sale or use of its share of the output of the joint venture, together with its share of any expenses incurred by the joint venture; and any expenses which it has incurred in respect of its interest in the joint venture.

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

(d) Transactions with Minority Interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

2.4 Financial Assets

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

Regular purchase 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 transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the income statement.

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.

The categories of *financial instruments* are more fully described below.

(a) *Financial Assets at Fair Value through Profit or Loss (FVTPL)*

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

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

The Group's financial assets included in this category consist mainly of investments in bonds and marketable equity securities.

(b) *Loans and Receivables*

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

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

The Group's loans and receivables are presented under Trade and Other Receivables and Other Non-current Assets in the consolidated balance sheet.

(c) *Available-for-sale (AFS) Financial Assets*

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in the Non-current Assets account in the consolidated balance sheet unless management intends to dispose of the investment within 12 months after the balance sheet date.

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

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the consolidated income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the consolidated income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in consolidated income statement, the impairment loss is reversed through the consolidated income statement.

The Group's AFS financial assets mainly include investments in shares of stock where the Group held no significant influence and whose shares are not listed in the stock exchange.

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 at the balance sheet date. 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. All income and expense relating to financial assets recognized in profit or loss are presented in the consolidated income statement line item Finance Income and Finance Costs, respectively.

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

2.5 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method, except for food, paper and promotional items which use first-in, first-out method. Finished goods and work-in-process include the cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity. The cost of raw materials includes all costs directly attributable to acquisition.

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

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 in the consolidated balance sheet. These costs are reclassified to the Property Development Costs account in the consolidated balance sheet 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 account. The costs of completed projects are transferred from Property Development Costs to Residential and Condominium Units Held for Sale included as part of the Inventories account in the consolidated balance sheet.

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 with a corresponding credit to Reserve for Property Development account in the consolidated balance sheet.

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

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

2.7 Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

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

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

Buildings and improvements	5 to 40 years
Machinery and equipment	2 to 12 years
Transportation equipment	5 years
Fixtures and other equipment	3 to 7 years

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

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

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

An asset's carrying amount is written-down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

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

2.8 Asset Retirement Obligations

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

2.9 Investment Property

Investment property is carried at cost less accumulated depreciation and any impairment in value.

Depreciation on depreciable investment property is computed on the straight-line basis over the estimated useful life of 5 to 25 years.

An investment property's carrying amount is written down immediately to its recoverable amount if the property's carrying amount is greater than its estimated recoverable amount (see Note 2.20).

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made in respect of those assets.

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 income statement in the year of retirement or disposal.

2.10 Intangible Assets

Intangible assets include goodwill from acquisition of investments and acquired licenses, trademarks and franchises used in the production and administration, which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs of the assets, except for goodwill (see Note 2.11) are amortized on a straight-line basis over the estimated useful lives of 10 years as the lives of these intangible assets are considered limited. In addition, intangible assets are subject to impairment testing as described in Note 2.20.

2.11 Goodwill

Goodwill represents the excess of the cost of acquisition of investments over the fair value of the Group's share in the net identifiable assets of the investee at the date of acquisition (see Note 2.3.a). Goodwill is measured at cost less accumulated impairment losses, if any. Goodwill is reviewed for impairment at least annually or when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The excess of the Group's share in the net identifiable assets of the investee over the cost of the acquisition is treated as negative goodwill. Any negative goodwill that resulted from the acquisition is included in income in determining the investor's share of the investee's profit or loss in the period in which the investment is acquired.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arises.

2.12 Leasehold Rights

Leasehold rights, which are included under Other Non-current Assets, are stated at cost less accumulated amortization and any impairment in value. Leasehold rights are amortized on a straight-line basis over the term of the lease.

2.13 Financial Liabilities

Financial liabilities include interest-bearing loans and borrowings, trade and other payables, advances from related parties, and other liabilities.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as expense in the consolidated income statement under the caption Finance Costs.

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

Interest-bearing loans and borrowings are recognized at the amount of proceeds received. Finance charges are recognized in profit or loss on an accrual basis using the effective interest method and are accreted to the carrying amount of the instrument to the extent that they are not settled in the period which they arise.

Finance lease liabilities are recognized at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments, at the inception of the lease (see Note 2.18).

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

Financial liabilities are derecognized from the consolidated balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

2.14 Redeemable Preferred Shares

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

2.15 Share-based Payment Transactions

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

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

2.16 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, where 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 each balance sheet date 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 financial statements.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.17 Revenue and Expense Recognition

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

(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. Advances made to contractors and suppliers are treated as actual cost incurred in determining the stage of development of the properties. For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used by certain subsidiaries.

Revenue and cost relative to forfeited or back-out sales are reversed 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) *Sale of goods* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

(d) *Franchise fees* – Revenue from franchised restaurants (including the restaurant operated by a joint venture) include continuing rental, royalty and management fees as well as initial fees. Continuing fees are recognized in the period earned. Initial fees are recognized upon opening of a restaurant when the subsidiary has substantially performed all services required by the franchise agreement.

- (e) *Rental and hotel income* – Revenue is recognized when the performance of mutually agreed tasks has been performed. Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Rental income is recognized on a straight-line basis over the lease terms.
- (f) *Interest* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).
- (g) *Dividends* – Revenue is recognized when the stockholders' right to receive the payment is established.

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding value-added tax (VAT) and trade discounts.

Cost and expenses are recognized in the consolidated income statement upon utilization of the service or at the date they are incurred. Except for borrowing cost attributable to qualifying assets, all finance costs are reported on an accrual basis (see Note 2.22).

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

2.18 Leases

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

(a) Group as Lessee

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

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

Group as Lessor

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

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

2.19 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

Except for MPIL, GAFI, MAI, EIL, Venezia, RHGI and MCII, 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 in the consolidated income statement.

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

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

- (i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) Income and expenses for each income statement are translated at 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 foreign entities are taken to equity under Accumulated Translation Adjustments. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the gain or loss on sale. Goodwill arising on the acquisition of a foreign entity are treated as assets 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.

2.20 Impairment of Non-financial Assets

The Group's investments in associates and interest in a joint venture, property, plant and equipment, investment property and intangible assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units 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, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset 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 the other assets in the cash generating unit.

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

Employee Benefits

(a) Defined Benefit Plan Obligations

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

A defined benefit plan is a pension plan that defines an amount of pension 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 pension plan remains with an entity, even if plan assets for funding the defined benefit plan have been acquired.

The liability recognized in the consolidated balance sheet for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated 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 approximate to the terms of the related pension liability.

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

(b) Defined Contribution Plan Expense

The Group also contributes to a retirement benefit plan maintained by the Social Security System, which is considered a defined contribution plan. Under a defined contribution plan, an entity has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due.

Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) *Termination Benefits*

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

2.22 *Borrowing Costs*

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

2.23 *Income Taxes*

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 balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date 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, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date. Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement. 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.

2.24 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 initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related income tax benefits.

Subscriptions receivable pertain to uncollected amounts arising from capital stock subscriptions and are presented as a deduction in the consolidated statement of changes in equity.

Treasury shares are Company's own stock reacquired but not canceled which are carried at cost (see Note 2.3).

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

Share in net unrealized gain on AFS financial assets of an associate represents the gains or losses recognized due to the changes in fair value of an associate's AFS.

Dilution gain or loss arises when an investor exercises its pre-emptive rights to maintain its ownership interest in an investee. This represents the difference between the book value per share in an investee versus the investee's offer price at the time the rights are exercised.

Revaluation reserves comprise gains and losses recognized on certain financial assets.

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

2.25 Earnings Per Share (EPS)

EPS is computed by dividing net income attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current year.

The Company has no dilutive potential common shares, hence, no information on diluted earnings per share is presented.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the 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 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) Functional Currency

The Group has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Group operates.

(b) Impairment of AFS Financial Assets

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

(c) Distinction Between Investment Properties and Owner-occupied Properties

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

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 production and supply of goods and services 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 an investment property only if an insignificant portion is held for use in the production or supply of goods or services 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.

(d) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. 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.

(e) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.16 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, 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 to date as a proportion of the total budgeted cost of the project.

(b) Fair Value of Investment Property

Investment Property is measured using the cost model. The fair value disclosed in 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 balance sheet date.

The principal assumptions underlying management's estimation of fair value are those related to: 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.

(c) Determining the Net Selling Prices of Inventories

In determining the net selling prices of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is subject to changes brought about by certain factors which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

(d) Estimated Allowance for Impairment Loss on Inventory

The amounts of impairment loss made by management is based on a number of factors, which include, among others, age and status of inventories and the Group's past experience.

(e) Useful Lives of Property, Plant and Equipment and Investment Property

The Group estimates the useful lives of property, plant 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, plant 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, plant and equipment 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 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, plant and equipment and investment property would increase recorded operating expenses and decrease non-current assets.

(f) Asset Retirement Obligation

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

(g) Estimated Allowance for Impairment Loss on Receivables

The Group maintains an allowance for impairment loss on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with the customer, the customer's payment behavior and known market factors. The Group identifies and provides for specific accounts that are doubtful of collection and reviews the age and status of the remaining receivables, and establishes a provision considering, among others, historical collection and write-off experience.

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

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amount of changes in fair value would differ if the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

(i) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at each balance sheet date 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.

(j) 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 2.20. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(k) Retirement and Other Benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 26 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.

4. SEGMENT INFORMATION

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 *Food and Beverage* segment includes the manufacture and distribution of distilled spirits, glass containers and potato snacks products. The *Real Estate* segment is engaged in the development of real estate, leasing of properties, and hotel operations. The *Quick Service Restaurant* includes operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement with McDonald's Corporation, USA. Segment accounting policies are the same as the policies described in Note 2. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2007, 2006 and 2005 and certain asset and liability information regarding segments at December 31, 2007, 2006 and 2005 (amounts in millions).

	<u>Food and Beverage</u>	<u>Real Estate</u>	<u>Quick Service Restaurant</u>	<u>Corporate and others</u>	<u>Consolidated</u>
2007					
SALES OF GOODS AND SERVICES					
	P <u>7,554</u>	P <u>12,335</u>	P <u>7,407</u>	P <u>-</u>	P <u>27,296</u>
RESULTS					
Segment results	P <u>2,169</u>	P <u>4,426</u>	P <u>461</u>	P <u>235</u>	P <u>7,291</u>
Finance costs					(754)
Foreign currency gains (losses) - net					(219)
Others - net					<u>186</u>
Income before tax and preacquisition income					6,504
Tax expense					(<u>1,295</u>)
Income before preacquisition income					5,209
Preacquisition income					(<u>176</u>)
Net income					<u>P 5,033</u>
ASSETS AND LIABILITIES					
Total assets	P <u>7,776</u>	P <u>65,845</u>	P <u>5,958</u>	P <u>9,560</u>	P <u>89,139</u>
Total liabilities	P <u>1,454</u>	P <u>19,296</u>	P <u>2,867</u>	P <u>1</u>	P <u>23,618</u>
OTHER SEGMENT INFORMATION					
Capital expenditures	P 10	P 185	P 547	P -	P 742
Depreciation and amortization	180	226	329	2	737
Impairment losses	-	-	40	-	40

	<u>Food and Beverage</u>	<u>Real Estate</u>	<u>Quick Service Restaurant</u>	<u>Corporate and others</u>	<u>Consolidated</u>
2006					
SALES OF GOODS AND SERVICES	P <u>803</u>	P <u>1,445</u>	P <u>6,570</u>	P <u>-</u>	P <u>8,818</u>
RESULTS					
Segment results	P <u>542</u>	P <u>269</u>	P <u>297</u>	(P <u>4</u>)	P <u>1,104</u>
Finance costs					(144)
Foreign currency gain (losses) - net					49
Others - net					(24)
Income before tax					985
Tax expense					(97)
Net income					P <u>888</u>
ASSETS AND LIABILITIES					
Total assets	P <u>1,839</u>	P <u>7,971</u>	P <u>5,459</u>	P <u>559</u>	P <u>15,828</u>
Total liabilities	P <u>185</u>	P <u>1,031</u>	P <u>2,554</u>	P <u>10</u>	P <u>3,780</u>
OTHER SEGMENT INFORMATION					
Capital expenditures	P 662	P -	P 641	P -	P 1,303
Depreciation and amortization	129	1	311	3	444
Impairment losses	-	-	20	-	20
2005					
SALES OF GOODS AND SERVICES	P <u>1,762</u>	P <u>57</u>	P <u>6,124</u>	P <u>-</u>	P <u>7,943</u>
RESULTS					
Segment results	P <u>177</u>	P <u>250</u>	P <u>200</u>	P <u>6</u>	P <u>633</u>
Finance costs					(123)
Foreign currency gains (losses) - net					(3)
Others - net					3,281
Income before tax and preacquisition income					3,788
Tax expense					(67)
Income before preacquisition income					3,721
Preacquisition income					(408)
Net income					P <u>3,313</u>
ASSETS AND LIABILITIES					
Total assets	P <u>1,701</u>	P <u>6,900</u>	P <u>5,474</u>	P <u>452</u>	P <u>14,527</u>
Total liabilities	P <u>193</u>	P <u>199</u>	P <u>2,546</u>	P <u>14</u>	P <u>2,952</u>
OTHER SEGMENT INFORMATION					
Capital expenditures	P 159	P -	P 399	P -	P 558
Depreciation and amortization	46	1	292	3	342
Impairment losses	40	3	-	-	43

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Cash on hand and in banks	P 1,127,004,568	P 395,942,372
Short-term placements	<u>22,939,585,513</u>	<u>893,655,023</u>
	<u>P 24,066,590,081</u>	<u>P 1,289,597,395</u>

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

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Current:			
Trade	28	P 7,419,015,763	P 815,630,531
Others		<u>572,753,543</u>	<u>383,041,104</u>
		7,991,769,306	1,198,671,635
Allowance for impairment		<u>(43,488,654)</u>	<u>(32,236,883)</u>
		<u>P 7,948,280,652</u>	<u>P 1,166,434,752</u>
Non-current:			
Trade		P 5,581,706,385	P 26,196,144
Others		<u>28,908,499</u>	<u>-</u>
		<u>P 5,610,614,884</u>	<u>P 26,196,144</u>

A reconciliation of the allowance for impairment at beginning and end of 2007 and 2006 is shown below.

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year		P 32,236,883	P 50,907,912
Addition from newly acquired subsidiary		6,863,132	-
Reversal due to collection of accounts		(15,452,167)	(21,246,575)
Impairment loss during the year	24	<u>19,840,806</u>	<u>2,575,546</u>
		<u>P 43,488,654</u>	<u>P 32,236,883</u>

Trade receivables are usually due within 30 to 60 days and do not bear any interest. All trade receivables are subject to credit risk exposure.

Certain receivables from real estate customers are covered by postdated checks. The installment period of real estate sales contracts ranges from one 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 P382.5 million in 2007 and is presented as part of Finance and Other Income in the consolidated income statements (see Note 25).

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 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. For real estate receivables, the title to the real estate properties remains with the Group until the receivables are fully collected.

The carrying amounts of these short term financial assets are a reasonable approximation of their fair values.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

As of December 31, 2007 and 2006, the portfolio consists of investments in bonds and marketable equity securities which are presented at fair values as of those dates. Investments in bonds and marketable securities earn interest based on coupon rates ranging from 5.00% to 9.38%.

In 2007, a portion of the investments of RHGI placed with a certain bank is covered by compensating loans from the same bank; the related contracts include a right to set-off provision.

The carrying amounts of these short-term financial assets are a reasonable approximation of their fair values.

The net fair value gains or losses on these financial assets are presented as Others-net under Other Income (Charges) in the 2007 consolidated income statement.

The Group sold several marketable securities in 2007 and recognized a net gain, which is presented as part of Others-net under Other Income (Charges) in the 2007 consolidated income statement.

8. INVENTORIES

The details of inventories are shown below.

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Finished goods		P 274,605,594	P 211,831,678
Work-in process		1,381,200	1,862,007
Raw materials		620,847,116	19,434,603
Supplies and other consumables		375,433,634	206,550,001
Residential and condominium units held for sale	9	<u>5,231,733,608</u>	<u>16,438,250</u>
		6,504,001,152	456,116,539
Allowance for impairment		<u>(21,769,152)</u>	<u>(37,789,048)</u>
		<u>P 6,482,232,000</u>	<u>P 418,327,491</u>

The Residential and Condominium Units Held for Sale account includes the cost of repossessed units and additional costs incurred to improve such units. The Group's management has assessed that the net realizable values of these assets are higher than their carrying values.

A reconciliation of the allowance for impairment is shown below.

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Balance at beginning of year		P 37,789,048	P 39,206,075
Reversal of write-down		(25,048,717)	(12,351,848)
Impairment loss during the year	24	<u>9,028,821</u>	<u>10,934,821</u>
		<u>P 21,769,152</u>	<u>P 37,789,048</u>

Impairment losses on inventories of P9.0 million in 2007, P10.9 million in 2006 and P13.9 million in 2005 were recognized by GADC to write down the inventories of paper and promotional items, restaurant equipment and construction materials shown under Supplies and other Consumables to their net realizable value. Also, reversals of inventory write-down amounting to P25.0 million and P12.4 million in 2007 and 2006 were recognized by GADC due to disposal to third parties of items previously written down. The reversals are shown as part of Others-net under Other Income (Charges) in the consolidated income statements.

9. PROPERTY DEVELOPMENT COSTS

The Company has an existing Joint Venture Agreement (the Agreement) with the Bases Conversion Development Authority (BCDA) for the development of a parcel of land that is currently part of McKinley Hill Project (the Project) predominantly for residential purposes.

In this regard, the Company executed a Memorandum of Understanding (MOU) with Megaworld, for the joint development of the Project. As stated in the MOU, each shall be entitled to the Company's share in the Project as determined by the terms of the Agreement with BCDA.

As of December 31, 2007, the total accumulated disbursements for the Project funded by the Group amounted to P945.9 million; of this amount, P565.2 million has been transferred to Residential and Condominium Units Held for Sale under Inventories in the 2007 consolidated balance sheet (see Note 8). The remaining P380.7 million is presented as part of Property Development Costs in the 2007 consolidated balance sheet.

10. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of this account are shown below.

	<u>2007</u>	<u>2006</u>
Prepayments	P 281,350,119	P 82,285,199
Creditable withholding tax	221,446,324	117,722,990
Input VAT	215,870,296	141,191,170
Others	<u>121,008,518</u>	<u>39,647,083</u>
	<u>P 839,675,257</u>	<u>P 380,846,442</u>

11. ADVANCES TO LANDOWNER AND JOINT VENTURES

Megaworld grants 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, Megaworld, 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.

The commitment for cash advances under the joint venture agreements has been fully granted by Megaworld. The net commitment as of December 31, 2007 for construction expenditures amounted to:

Total commitment	P 5,673,848,677
Expenditures incurred	(3,065,838,608)
Net Commitment	<u>P 2,608,010,069</u>

Megaworld enters into numerous joint venture agreements for the joint development of various projects. Total amount of advances made by Megaworld for these projects are recorded under the Property Development Costs account in the consolidated balance sheets.

12. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets pertain to investments of certain subsidiaries in shares of stock composed mainly of equity securities of companies listed at the PSE. Fair value is determined directly by reference to published prices in an active market.

In 2007, Megaworld acquired equity security investments amounting to P3.2 billion which consist of government and corporate bonds classified as AFS financial assets. The fair value gains arising from the equity security investments, are reported as part of Fair value gains (losses) - net under Revaluation Reserves in the equity section of the 2007 consolidated balance sheet.

The changes in the carrying amounts of AFS, as presented in the consolidated balance sheets as of December 31, 2007 and 2006, are summarized as follows:

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 54,911,419	P 43,749,460
Beginning balance of Megaworld Group	1,250,789,771	-
Additions	3,173,765,292	6,896,405
Return of investment	-	(4,100,000)
Fair value gains (losses) - net	(308,231,854)	<u>8,365,554</u>
	<u>P 4,171,234,628</u>	<u>P 54,911,419</u>

13. INVESTMENTS IN ASSOCIATES AND INTEREST IN A JOINT VENTURE

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

	<u>2007</u>	<u>2006</u>
Investment of the Company in Megaworld at equity in 2006; consolidated in 2007	<u>P -</u>	<u>P 5,341,274,400</u>
Investments of Megaworld in associates at equity		
Acquisition costs:		
EELHI	6,896,782,126	-
SHDI	875,445,000	-
PTHDC	<u>64,665,000</u>	<u>-</u>
	7,836,892,126	-
Less: Subscription payable to EELHI	<u>(1,948,900,176)</u>	<u>-</u>
	<u>5,887,991,950</u>	<u>-</u>
Accumulated equity in net earnings of associates:		
Balance at beginning of year	1,103,646,026	-
Equity in net earnings	<u>44,500,674</u>	<u>-</u>
Balance at end of year	<u>1,148,146,700</u>	<u>-</u>
	<u>7,036,138,650</u>	<u>-</u>
Investment of GADC in GCFII, a joint venture		
Acquisition cost	<u>10,000,000</u>	<u>10,000,000</u>
Accumulated equity in net earnings		
Balance at acquisition date	3,926,398	2,418,847
Equity in net earnings	<u>2,357,065</u>	<u>1,507,551</u>
Balance at end of year	<u>6,283,463</u>	<u>3,926,398</u>
	<u>16,283,463</u>	<u>13,926,398</u>
Advances to associates and other related parties (see Note 28.4)	<u>2,167,636,145</u>	<u>-</u>
	<u>P 9,220,058,258</u>	<u>P 5,355,200,798</u>

All of the associates are incorporated in the Philippines. The common shares of EELHI and SHDI are listed in the PSE. The total fair value of investments in the listed associates amounted to P5.5 billion as of December 31, 2007. The carrying value of these associates and a joint venture as of December 31, 2007 as shown in the preceding page amounting to P7.0 billion and P16.3 million respectively, are less than their market values, hence, no impairment loss was recognized in 2007.

In November 2007, Megaworld subscribed to additional shares of EELHI representing 14.53% equity, at P1 par value or for a total subscription price of P2.62 billion, of which P655.95 million had been paid as of December 31, 2007. The additional equity resulted in 59.75% equity interest of Megaworld in EELHI as of December 31, 2007 and a nominal good will of P466.08 million. Notwithstanding Megaworld's majority ownership in EELHI, the financial statements of EELHI were not consolidated since the increased interest obtained from the additional stock subscriptions is considered temporary, as it is the management's intention to dispose of such additional investment in 2008 and only retain about 45% interest in EELHI.

During 2006, the Company's ownership interest in Megaworld was diluted when Megaworld undertook an international stock offering. The issuance of new shares of stock by Megaworld during the stock offering increased its net assets but reduced the Company's percentage ownership interest and share on such net assets. The decrease in the Company's share in Megaworld's net assets was recorded directly in equity amounting to P307.1 million presented as Dilution Loss in the equity section of the consolidated balance sheets. In September and October 2006, the Company made additional investments in the shares of Megaworld to restore its ownership interest to approximate the previous level. The total cost of the additional investments amounted to P1.44 billion.

The total balance of the Equity in Net Earnings of P1.15 billion as of December 31, 2007 which is lodged in the Group's Retained Earnings as of that date, is not available for declaration as dividend.

The Group's share in the results of operations of the associates and joint venture and in their assets and liabilities are as follows (in thousands):

	<u>Assets</u>		<u>Liabilities</u>		<u>Equity</u>		<u>Net</u>
							<u>Income</u>
2007:							
EELHI	P	13,418,608	P	4,528,317	P	8,890,291	P 161,363
SHDI		1,107,861		1,003,379		104,482	(118,874)
PTHDC		456,571		403,861		52,710	2,011
GCFII		<u>37,977</u>		<u>5,430</u>		<u>32,547</u>	<u>2,357</u>
		<u>P 15,021,017</u>		<u>P 5,940,987</u>		<u>P 9,080,030</u>	<u>P 46,857</u>
2006:							
Megaworld	P	8,909,728	P	3,724,925	P	5,184,803	P 407,909
GCFII		<u>31,897</u>		<u>4,044</u>		<u>27,853</u>	<u>1,508</u>
		<u>P 8,941,625</u>		<u>P 3,728,969</u>		<u>P 5,212,656</u>	<u>P 409,417</u>

14. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment at the beginning and end of 2007 and 2006 are shown below.

	<u>Land and</u>	<u>Buildings</u>	<u>Machinery</u>	<u>Transportation</u>	<u>Fixtures</u>	<u>Construction</u>	<u>Total</u>
	<u>Land</u>	<u>and</u>	<u>and</u>	<u>Equipment</u>	<u>and Other</u>	<u>in</u>	
	<u>Improvement</u>	<u>Leasehold</u>	<u>Equipment</u>	<u>Equipment</u>	<u>Equipment</u>	<u>Progress</u>	
December 31, 2007							
Cost	P 352,821,464	P4,205,231,243	P2,592,913,912	P 144,106,571	P 442,900,790	P 86,092,583	P7,824,066,563
Accumulated depreciation amortization and impairment	(7,142,604)	(1,237,153,132)	(1,336,282,882)	(55,903,553)	(136,627,053)	-	(2,773,109,224)
Net carrying amount	<u>P 345,678,860</u>	<u>P2,968,078,111</u>	<u>P1,256,631,030</u>	<u>P 88,203,018</u>	<u>P 306,273,737</u>	<u>P 86,092,583</u>	<u>P5,050,957,339</u>
December 31, 2006							
Cost	P 161,750,000	P2,008,849,830	P1,905,712,839	P 66,344,616	P 91,230,548	P 74,058,990	P4,307,946,823
Accumulated depreciation amortization	(1,125,634)	(971,187,727)	(1,078,732,989)	(32,597,675)	(77,536,895)	-	(2,161,180,920)
Net carrying amount	<u>P 160,624,366</u>	<u>P1,037,662,103</u>	<u>P 826,979,850</u>	<u>P 33,746,941</u>	<u>P 13,693,653</u>	<u>P 74,058,990</u>	<u>P2,146,765,903</u>
January 1, 2006							
Cost	P 161,750,000	P1,819,685,446	P1,599,205,801	P 59,084,819	P 103,082,808	P 196,180,217	P3,938,989,091
Accumulated depreciation and amortization	(1,022,567)	(915,058,159)	(999,015,333)	(30,197,538)	(86,485,387)	-	(2,031,778,984)
Net carrying amount	<u>P 160,727,433</u>	<u>P 904,627,287</u>	<u>P 600,190,468</u>	<u>P 28,887,281</u>	<u>P 16,597,421</u>	<u>P 196,180,217</u>	<u>P1,907,210,107</u>

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of property, plant and equipment is shown below.

	<u>Land and Land Improvement</u>	<u>Buildings and Leasehold Improvement</u>	<u>Machinery and Equipment</u>	<u>Transportation Equipment</u>	<u>Fixtures and Other Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
Balance at January 1, 2007, net of accumulated depreciation and amortization	P 160,624,366	P1,037,662,103	P 826,979,850	P 33,746,941	P 13,693,653	P 74,058,990	P2,146,765,903
Additions	191,971,464	389,350,762	669,824,948	78,210,111	352,789,529	15,804,884	1,697,951,698
Reclassifications – net	-	1,810,933,453	21,516,457	(186,633)	(1,023,470)	(3,771,291)	1,827,468,516
Disposals – net	(900,000)	(3,902,802)	(4,140,332)	(261,523)	(95,817)	-	(9,300,474)
Impairment	-	(9,471,009)	(30,528,991)	-	-	-	(40,000,000)
Depreciation and amortization charges for the year	(6,016,970)	(256,494,396)	(227,020,902)	(23,305,878)	(59,090,158)	-	(571,928,304)
Balance at December 31, 2007, net of accumulated depreciation amortization and impairment	<u>P 345,678,860</u>	<u>P2,968,078,111</u>	<u>P1,256,631,030</u>	<u>P 88,203,018</u>	<u>P 306,273,737</u>	<u>P 86,092,583</u>	<u>P5,050,957,339</u>
Balance at January 1, 2006, net of accumulated depreciation and amortization	P 160,727,433	P 904,627,287	P 600,190,468	P 28,887,281	P 16,597,421	P 196,180,217	P1,907,210,107
Additions	-	265,671,351	280,421,041	17,586,562	8,988,760	105,604,920	678,272,634
Reclassifications – net	-	21,876,898	185,857,143	399,177	1,115,661	(227,726,147)	(18,477,268)
Disposals – net	-	(51,383,584)	(35,438,529)	(1,561,912)	(1,118,800)	-	(89,502,825)
Depreciation and amortization charges for the year	(103,067)	(103,129,849)	(204,050,273)	(11,564,167)	(11,889,389)	-	(330,736,745)
Balance at December 31, 2006, net of accumulated depreciation and amortization	<u>P 160,624,366</u>	<u>P1,037,662,103</u>	<u>P 826,979,850</u>	<u>P 33,746,941</u>	<u>P 13,693,653</u>	<u>P 74,058,990</u>	<u>P2,146,765,903</u>

15. INVESTMENT PROPERTY

The Group's investment property includes mainly Megaworld's investment property consisting of condominium units, buildings and building improvements and several pieces of land which are either held for lease, investment purposes or future development.

The gross carrying amounts and the accumulated depreciation as of December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Cost	P 6,822,981,934	P 2,393,413,920
Accumulated depreciation	(817,571,889)	(254,646,895)
Net carrying amount	<u>P 6,005,410,045</u>	<u>P 2,138,767,025</u>

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 is shown below.

	<u>2007</u>	<u>2006</u>
Balance at beginning of year - net of accumulated depreciation	P 2,138,767,025	P 2,012,894,706
Beginning balance of Megaworld Group	4,740,148,835	-
Additions	201,667,857	624,736,713
Reclassifications	(913,302,021)	(375,036,357)
Disposal - net	-	(13,455,475)
Depreciation charges for the year	(161,871,651)	(110,372,562)
Net carrying amount	<u>P 6,005,410,045</u>	<u>P 2,138,767,025</u>

Certain properties held for lease by Megaworld with a net book value of P2.0 billion as of December 31, 2007 are used as collateral for ECOC's Interest-bearing Loan (see Note 19).

The fair market values of Megaworld's investment property including those used as collateral totaled P14.79 billion as of December 31, 2007. These are determined by calculating the present value of the cash inflows anticipated until the end of the life of the investment property using an interest rate of 10% in 2007. As the investment property does not have an active market, the underlying interest rates were determined by reference to the market interest rate of comparable financial instrument.

Rental income earned from the investment property amounted to P1.3 billion in 2007, P206.0 million in 2006 and P203.9 million 2005, and shown as part of revenues from Rendering of Services in the consolidated income statements (see Note 22).

There is no active market or a recent market transaction for the other investment property, hence, no fair value disclosure is made.

16. INTANGIBLE ASSETS

Intangible assets consist of goodwill which arose from the acquisitions of investments in shares of stock of subsidiaries and controlled entities, as well as trademarks acquired by EDI to manufacture and sell distilled spirits including the brand names “Emperor Brandy” and “Generoso Brandy.” Details are presented below:

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Goodwill from acquisitions of investments -			
by AGI in:			
GADC	1.3	P 1,236,536,374	P 1,236,536,374
Megaworld	1.1	7,586,424,694	-
GARC		<u>2,063,678</u>	<u>2,063,678</u>
		<u>8,825,024,746</u>	<u>1,238,600,052</u>
by AGBI in:			
MPIL		312,126,500	312,126,500
TEI		100,000,000	100,000,000
NTPLI		<u>2,438,636</u>	<u>2,438,636</u>
		<u>414,565,136</u>	<u>414,565,136</u>
by NTLPI and FCI in:			
Megaworld	1.1	<u>1,117,354,593</u>	-
by Megaworld in certain associates:			
MLI		255,083,968	-
RHGI		<u>9,684,376</u>	-
		<u>264,768,344</u>	-
Trademarks - net of amortization		<u>908,400,037</u>	-
		<u>P 11,530,112,856</u>	<u>P 1,653,165,188</u>

Based on the Group’s assessment, no impairment loss is required to be recognized on the carrying value of the Group’s intangible assets as of December 31, 2007, 2006 and 2005.

17. OTHER NON-CURRENT ASSETS

Other non-current assets consist of:

	<u>2007</u>	<u>2006</u>
Deposits	P 331,865,135	P 269,149,330
Claim for tax refund	168,517,399	168,517,399
Input VAT	158,890,127	-
Prepaid rent	49,855,938	44,411,304
Leasehold rights – net of accumulated amortization and impairment loss	31,006,668	30,644,872
Others - net	<u>150,316,453</u>	<u>86,374,549</u>
	<u>P 890,451,720</u>	<u>P 599,097,454</u>

The amortization for leasehold rights amounted to P3.4 million both in 2007 and 2006 and P3.5 million in 2005, and is shown as part of Depreciation and Amortization under Cost of Goods Sold and Services in the consolidated income statements (see Note 23).

18. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Trade	28.3	P 3,057,558,290	P 1,552,675,830
Accrued expenses		876,396,998	442,794,890
Others		<u>985,516,755</u>	<u>197,947,893</u>
		<u>P 4,919,472,043</u>	<u>P 2,193,418,613</u>

The fair values of trade and other payables have not been disclosed as, due to their short duration, management considers the carrying amounts recognized in the consolidated balance sheets to be a reasonable approximation of their fair values.

19. INTEREST-BEARING LOANS AND BORROWINGS

This account includes the remaining balance of the following loans:

	<u>Note</u>	<u>2007</u>	<u>2006</u>
Current:			
Foreign		P 324,404,111	P -
Local		<u>186,578,631</u>	<u>-</u>
		<u>P 510,982,742</u>	<u>P -</u>
Non-current:			
Local		P 1,347,001,781	P -
Related parties	28.1	813,468,118	906,468,118
Foreign		<u>356,519,424</u>	<u>-</u>
		<u>2,516,989,323</u>	<u>906,468,118</u>
Bonds Payable		<u>4,140,100,000</u>	<u>-</u>
		<u>P 6,657,089,323</u>	<u>P 906,468,118</u>

The balances as of December 31, 2007 of foreign borrowings include the following:

- (a) Loans obtained by RHGI, consisting of various secured and unsecured loans, from commercial banks. The loans bear annual interest rates that are subject to monthly repricing. The total outstanding balance of the loans as of December 31, 2007 amounted to P222.5 million (\$5,375,275).
- (b) Loans obtained by ECOC from a US\$25 million (approximately P1.3 billion) long-term loan facility obtained from a foreign financial institution. The drawdown from the loan facility amounting to US\$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 LIBOR rate plus certain spread. Collaterals for the loan consisted of a mortgage over ECOC's certain Investment Property (see Note 15) and a full guarantee from Megaworld. The current portion and non-current portions of the loan as of December 31, 2007 amounted to P101.9 million and P356.5 million, respectively.

Loans were obtained by Megaworld from a local bank amounting to P950.0 million in 2003 and P403.0 million in 2006. The loans are payable for a term of 10 years, inclusive of a three-year grace period on principal payments. Interest is payable every quarter based on 91-day treasury bill plus certain spread. The current and non-current portions amounted to P185.3 million and P1.347 billion, respectively, as of December 31, 2007.

ECOC and Megaworld are required to comply with certain loan covenants, including maintenance of certain financial ratios at the end of every financial year.

Total finance costs attributable to these interest-bearing loans and borrowings amounted to P219.2 million in 2007 and is presented as part of Finance Costs under Other Income (Charges) in the 2007 consolidated income statement.

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

20. OTHER CURRENT LIABILITIES

The breakdown of this account is as follows:

	<u>2007</u>	<u>2006</u>
Accrued rent	P 1,201,895,968	P -
Advances from customers	3,747,270	4,329,139
Obligation under finance lease	3,700,608	3,296,231
Others	<u>3,467,762</u>	<u>-</u>
	<u>P 1,212,811,608</u>	<u>P 7,625,370</u>

21. OTHER NON-CURRENT LIABILITIES

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2007</u>	<u>2006</u>
Accrued rent		P 947,276,371	P 153,794,629
Guarantee deposits		51,617,023	42,953,546
Security deposits		21,000,000	21,000,000
Payable to MRO under stock option plan	26	10,697,935	10,209,538
Asset retirement obligation (ARO)	2.8	12,740,727	10,420,802
Obligation under finance lease		<u>1,957,172</u>	<u>5,733,446</u>
		<u>P 1,045,289,228</u>	<u>P 244,111,961</u>

The movement in ARO is as follows:

	<u>2007</u>		<u>2006</u>
Balance at beginning of year	P 10,420,802	P	8,369,459
ARO capitalized to property, plant and equipment during the year	1,210,775		1,168,623
Accretions during the year	1,828,220		1,502,951
Disposals during the year	(719,070)	(	( 620,231)
	<u>P 12,740,727</u>	P	<u>10,420,802</u>

22. REVENUES FROM RENDERING OF SERVICES

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

	<u>Note</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Revenue from franchised McDonald's restaurants:				
Rentals	31.1	P 416,174,057	P 371,160,032	P 325,429,505
Royalty		10,212,748	9,330,809	8,510,651
Management fees		40,000	122,438	173,790
Initial fees		-	-	<u>2,499,075</u>
		<u>426,426,805</u>	<u>380,613,279</u>	<u>336,613,021</u>
Rental and development of properties		930,717,843	821,026,786	52,500,000
Hotel operations		247,677,952	-	-
Management fees		<u>55,556,617</u>	<u>-</u>	<u>-</u>
		<u>P1,660,379,217</u>	<u>P1,201,640,065</u>	<u>P 389,113,021</u>

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

23. COST OF GOODS SOLD AND SERVICES

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

	Notes	2007	2006	2005
<i>Cost of Goods Sold</i>				
Direct materials used	8	P 3,974,986,563	P 38,581,345	P 88,065,627
Cost of food	8	2,659,515,096	2,543,972,042	3,459,364,387
Salaries and employee benefits	26	916,934,943	767,318,466	731,789,948
Rentals	31.2	701,026,738	636,232,968	583,111,187
Utilities		655,571,140	589,539,087	617,314,106
Cost of paper	8	404,266,022	391,818,467	366,456,311
Depreciation and amortization	14,15,17	361,625,910	292,189,548	306,637,695
Professional fees		170,363,831	129,252,230	100,718,279
Repairs and maintenance		121,055,511	84,863,307	82,501,696
Taxes and licenses		116,576,177	109,958,621	108,611,035
Indirect materials and other consumables		97,267,313	38,955,314	106,983,813
Change in work in process and finished goods	8	93,470,595	162,910,767	(87,582,094)
Amortization of trademarks	16	91,672,731	-	-
Supplies		81,750,710	59,019,128	3,646,348
Insurance expense		27,395,883	31,130,047	-
Transportation and travel		21,659,222	15,015,880	516,739
Direct labor	26	18,753,610	12,306,456	17,337,141
Moulds and dies		4,823,287	4,339,060	-
Freight		1,423,785	3,706,219	-
Other direct and overhead costs		121,008,444	79,817,387	142,388,333
		<u>10,641,147,511</u>	<u>5,990,926,339</u>	<u>6,627,860,551</u>
<i>Cost of Services</i>				
Hotel operations		190,264,667	-	-
Depreciation and amortization	14,15	120,577,896	95,166,253	3,409,379
Salaries and employee benefits	26	89,094,281	25,228,841	17,208,052
Contract cost		-	649,300,029	41,848,863
Other direct and overhead costs		6,490,896	3,923,470	-
		<u>406,427,740</u>	<u>773,618,593</u>	<u>62,466,294</u>
<i>Cost of real estate sales</i>		<u>7,238,595,819</u>	<u>379,867,208</u>	<u>7,699,258</u>
<i>Deferred gross profit on real estate sales</i>		<u>1,072,330,683</u>	<u>-</u>	<u>-</u>
		<u>P 19,358,501,753</u>	<u>P 7,144,412,140</u>	<u>P 6,698,026,103</u>

24. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

	Notes	2007	2006	2005
Advertising and promotions	28.3	P 695,301,548	P 383,079,865	P 366,011,283
Salaries and employee benefits	26	498,173,964	167,158,905	154,259,814
Commissions		369,906,854	8,522,709	9,307,852
Royalty		323,776,582	284,868,123	267,059,963
Taxes and licenses		293,235,953	14,505,604	20,241,238
Depreciation and amortization	14, 15	254,972,671	57,217,663	31,882,393
Freight and handling		91,268,870	6,554,632	5,609,507
Rental		89,064,407	47,298,892	43,379,998
Management fees	28.3	76,142,635	-	-
Professional fees and outside services		54,793,008	26,076,061	32,815,669
Purchases and supplies		38,824,835	-	-
Transportation and travel		36,513,038	23,851,716	21,238,625
Repairs and maintenance		32,611,392	10,046,542	6,667,604
Representation and entertainment		26,598,221	11,273,807	2,643,445
Communication and office expenses	28.3	26,515,980	18,138,023	13,641,687
Impairment loss on receivables	6	19,840,806	2,575,546	12,792,420
Utilities	28.3	18,644,385	18,216,154	5,767,089
Impairment loss on inventories	8	9,028,821	10,934,821	13,940,383
Insurance		8,073,349	4,045,548	7,109,780
Others	28.3	652,812,089	80,425,610	47,899,779
		<u>P 3,616,099,408</u>	<u>P 1,174,790,221</u>	<u>P 1,062,268,529</u>

These are classified in the consolidated income statements as follows:

	2007	2006	2005
Administrative expenses	P 1,706,174,923	P 477,504,382	P 415,442,555
Selling expenses	1,347,571,090	696,637,645	644,350,887
Others	562,353,395	648,194	2,475,087
	<u>P 3,616,099,408</u>	<u>P 1,174,790,221</u>	<u>P 1,062,268,529</u>

GADC was granted by McDonald's the nonexclusive right to adopt and use the McDonald's System in restaurant operations in the Philippines. The license agreement, as renewed in March 2005 for another 25 years, provides for payment of royalty fee, presented as Royalty expense (see above), based on certain percentage of net sales from the operations of all GADC's restaurants, including those operated by the franchisees. The balance of royalty fees and other advances payable to McDonald's as of December 31, 2007 and 2006 amounted to P53.1 million and P54.3 million, respectively, and is shown as part of Advances from Related Parties in the consolidated balance sheets.

25. FINANCE AND OTHER INCOME

	Note	<u>2007</u>	<u>2006</u>	<u>2005</u>
Interest income		P 2,248,315,582	P 141,596,145	P 139,366,450
Interest income on real estate sales	6	382,487,377	-	-
Gain on sale of investment		225,749,349	-	-
Rental income		54,020,589	52,807,512	46,572,887
Dividend income		12,295,840	-	-
Others		<u>83,149</u>	<u>1,493,958</u>	<u>2,346,877</u>
		<u>P 2,922,951,886</u>	<u>P 195,897,615</u>	<u>P 188,286,214</u>

26. SALARIES AND EMPLOYEE BENEFITS

Expenses recognized for salaries and employee benefits (see Notes 23 and 24) are presented below.

	Note	<u>2007</u>	<u>2006</u>	<u>2005</u>
Salaries and wages		P 1,150,702,241	P 916,342,738	P 873,866,316
Retirement benefits		102,201,360	33,566,592	19,863,027
Social security costs		75,577,392	2,845,194	3,244,712
Bonuses		70,955,372	4,103,542	4,223,575
Short-term medical benefits		8,512,608	5,404,649	7,032,790
Stock option benefits	21	4,692,035	7,687,548	10,663,798
Other short-term benefits		<u>110,315,790</u>	<u>2,062,405</u>	<u>1,700,737</u>
		<u>P 1,522,956,798</u>	<u>P 972,012,668</u>	<u>P 920,594,955</u>

GADC, TEI, AWGI and Megaworld obtained updated actuarial valuations as of January 1, 2004 to ascertain the transitional liability as of that date in accordance with PAS 19, *Employee Benefits*. EDI, FOPMI, TEI and AWGI also obtained actuarial valuation reports for the year ended December 31, 2007 to properly accrue their respective retirement benefit obligations as of that date. The retirement benefit obligations of newly acquired subsidiaries (Megaworld, EDI and FOPMI) are included in the 2007 consolidated balance sheet. Actuarial valuations are generally made every two years to update the retirement benefit costs and the amount of contributions.

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

The amounts of retirement benefit obligation pertaining to GADC, TEI, AWGI, and the newly acquired subsidiaries recognized in the consolidated balance sheets are determined as follows (only GADC and Megaworld have funded retirement plans; the other retirement plans are unfunded):

	<u>2007</u>	<u>2006</u>
Present value of the obligation	P 487,806,326	P 411,838,479
Present value of the obligation of newly acquired subsidiaries	140,908,699	-
Fair value of plan assets of GADC	(110,290,152)	(88,797,700)
Fair value of plan assets of Megaworld Group	(21,000,000)	-
Deficiency of plan assets	497,424,873	323,040,779
Unrecognized actuarial losses	(264,795,405)	(213,839,203)
Retirement benefits obligation	<u>P 232,629,468</u>	<u>P 109,201,576</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 411,838,479	P 166,726,187
Balance of newly acquired subsidiaries	56,756,247	-
Current service cost and interest cost	100,953,005	40,020,192
Actuarial losses	60,134,161	205,993,300
Benefits paid by the plan	(966,867)	(901,200)
Balance at end of year	<u>P 628,715,025</u>	<u>P 411,838,479</u>

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

	<u>2007</u>	<u>2006</u>
Balance at beginning of year	P 88,797,700	P 64,904,900
Balance of newly acquired subsidiaries	5,000,000	-
Contributions paid into the plan	28,501,539	10,149,400
Actuarial gains	111,113	7,252,900
Expected return on plan assets	8,879,800	6,490,500
Balance at end of year	<u>P 131,290,152</u>	<u>P 88,797,700</u>

The plan assets of Megaworld and GADC as of December 31, 2007 consist of the following:

Cash and cash equivalents	P	32,690,756
Loans and receivables		3,110,182
Investments in:		
Unit investment trust fund		62,898,474
Other securities and debt instruments		23,778,557
Long-term equity investments		7,896,775
Preferred shares		<u>915,408</u>
	P	<u>131,290,152</u>

Actual returns on plan assets amounted to P9.0 million in 2007 and P13.7 million in 2006.

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current service costs	P 59,077,982	P 21,526,885	P 12,570,808
Interest costs	41,875,023	18,493,307	12,740,101
Expected return on plan assets	(8,879,800)	(6,490,500)	(4,226,200)
Net actuarial gains (losses) recognized during the year	<u>10,128,155</u>	<u>36,900</u>	<u>(1,221,682)</u>
	<u>P 102,201,360</u>	<u>P 33,566,592</u>	<u>P 19,863,027</u>

The amounts of retirement and other long-term employee benefits are allocated as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Cost of sales	P 51,558,669	P 1,167,430	P 1,007,524
Operating expenses	<u>50,642,691</u>	<u>32,399,162</u>	<u>18,855,503</u>
	<u>P 102,201,360</u>	<u>P 33,566,592</u>	<u>P 19,863,027</u>

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

	<u>2007</u>	<u>2006</u>
Discount rates	7.31% - 12%	8.08% - 11%
Expected rate of return on plan assets	0% - 10%	0% - 10%
Expected rate of salary increases	4% - 10%	4% - 10%

27. TAXES

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Current tax expense:			
Regular corporate income tax (RCIT) at 35% in 2007 and 2006, 35% and 32% in 2005	P 1,050,879,038	P 48,718,889	P 34,141,217
Minimum corporate income tax (MCIT) at 2%	2,539,954	297,132	29,163,763
Special tax rate at 5%	10,562,953	-	-
Final tax at 20%	184,095,901	8,170,290	11,214,314
Capital gains tax	21,995,000	-	-
Others	491,145	41,040	14,000
	<u>1,270,563,991</u>	<u>57,227,351</u>	<u>74,533,294</u>
Deferred tax expense (income):			
Deferred tax relating to origination and reversal of temporary differences	24,493,101	33,465,634	(15,369,390)
Deferred tax resulting from an increase in RCIT rate	186,346	(470,108)	(1,206,957)
Derecognition of deferred tax assets	-	6,369,557	8,764,988
	<u>24,679,447</u>	<u>39,365,083</u>	<u>(7,811,359)</u>
Tax expense reported in the consolidated income statements	<u>P 1,295,243,438</u>	<u>P 96,592,434</u>	<u>P 66,721,935</u>

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

	<u>2007</u>		<u>2006</u>		<u>2005</u>
Tax on consolidated pretax income (at 35% in 2007 and 2006, 35% and 32% in 2005)	P 2,400,163,522	P	345,813,260	P	1,231,237,776
Adjustment for income subjected to different tax rate	(171,895,574)	(	1,105,137)	(	27,240,880)
Tax effects of:					
Income not subject to RCIT	(1,100,708,207)	(	7,780,070)	(	1,066,824,505)
Non-deductible expenses	256,337,781		160,043,120		12,856,511
Unrecognized deferred tax asset on net operating loss carryover (NOLCO)	189,532,757		44,550		-
Expenses directly charged to APIC	(161,828,037)	(	-	(	5,569,645)
Non-deductible interest expense	104,571,397		-		-
Dividend income not subject to RCIT	(89,321,088)	(	25,724,176)		-
Gross profit subject to 5% special tax regime	(68,368,221)		-		-
Recognized deferred tax asset on NOLCO	(38,742,033)		-		-
Recovery in market value of marketable securities	(31,280,354)		-		-
Interest income subjected to final tax	7,409,102	(	5,575,675)		-
Net deferred tax assets derecognized	2,950,155	(	5,848,045)		10,575,912
Income generated from PEZA-registered activities	(2,678,142)	(	1,555,461)	(	1,154,842)
Day one loss on discounting security deposit for financial reporting purposes	1,824,735		-		-
Increase in RCIT rate	(1,425,780)		-	(	2,168,460)
Applied NOLCO and MCIT without deferred tax asset recognized in prior years	(865,272)		-		-
Equity in net earnings of associates and a joint venture	(824,973)	(	143,296,122)	(	84,989,932)
Gain on sale of marketable securities	-	(	218,301,300)		-
Others	391,670	(	122,510)		-
Tax expense reported in the consolidated income statements	<u>P 1,295,243,438</u>	P	<u>96,592,434</u>	P	<u>66,721,935</u>

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

	<u>Consolidated Balance Sheets</u>	
	<u>2007</u>	<u>2006</u>
Deferred tax assets - net		
Retirement benefits	P 135,689,993	P 95,025,063
Accrued rent	57,084,377	60,451,601
NOLCO	50,067,243	11,198,953
Unrealized foreign currency gains-net	(48,268,715)	-
Rent receivable	(37,466,212)	(38,672,319)
Allowance for impairment losses	34,088,915	48,564,437
Provision for contingency	3,045,000	3,750,600
Fair value gain on marketable securities	3,184,445	-
Unrealized gross profit from gross estate sales	(2,834,066)	-
Unamortized preoperating expenses (for tax purposes)	1,879,838	3,393,151
Unearned interest income	1,282,861	-
Unrealized income - net	1,237,345	(29,376,267)
MCIT	960,460	336,892
Undepreciated capitalized interest and asset retirement obligation	(180,588)	(457,049)
Others	41,699,646	-
Deferred tax assets - net	<u>P 241,470,542</u>	<u>P 154,215,062</u>

Consolidated Balance Sheets

	<u>2007</u>	<u>2006</u>
Deferred tax liabilities		
Uncollected gross profit	P 1,168,555,582	P -
Difference between the tax reporting base and financial reporting base of leased assets	140,519,823	-
Capitalized interest	134,171,948	-
Accrued retirement cost	(26,765,076)	-
Difference between the tax reporting base and financial reporting base of property, plant and equipment	(22,070,472)	-
Uncollected rental income	5,717,382	-
Others	<u>46,350,090</u>	<u>-</u>
Deferred tax liabilities	<u>P 1,446,479,277</u>	<u>P -</u>

Consolidated Income Statements

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Deferred income tax:			
Difference between the tax reporting base and financial reporting base of leased assets	P 61,533,948	P -	P -
Retirement benefits	(39,698,021)	(9,458,336)	(83,681,982)
NOLCO	(38,868,290)	(704,098)	(16,841,377)
Difference between the tax reporting base and financial reporting base of property and equipment	23,221,845	-	-
Derecognition of deferred tax assets		6,369,557	-
Unrealized foreign currency gains-net	18,989,436	-	-
Allowance for impairment losses	15,120,504	(6,464,467)	(41,571,082)
Accrued retirement cost	(9,075,870)	-	-
Uncollected gross profit	(7,890,268)	-	-
Uncollected rental income	5,717,382	-	-
Capitalized interest	(3,852,344)	-	-
Accrued rent	3,632,499	3,567,191	(64,018,792)
Fair value gain on marketable securities	(3,184,445)	-	-
Rent receivable	(1,206,107)	(72,188)	38,744,507
Unamortized preoperating expenses (for tax purposes)	1,059,013	1,028,598	12,536,331
Unrealized gross profit from gross estate sales	(778,399)	-	-
Provision for contingency	705,600	-	(321,480)
Unrealized income – net	735,113	23,768,469	5,607,798
Undepreciated capitalized interest and asset retirement obligation	(276,461)	(1,049,597)	1,506,646
MCIT	(623,568)	22,379,954	(22,716,846)
Unearned interest income	260,158	-	-
Realized gross profit from real estate sales (for tax purposes)	-	-	(5,857,413)
Deferred tax assets of GADC prior to acquisition	-	-	168,839,006
Others	<u>(842,278)</u>	<u>-</u>	<u>(36,675)</u>
Deferred Tax Expense (Income)	<u>P 24,679,447</u>	<u>P 39,365,083</u>	<u>(P 7,811,359)</u>

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

<u>Year Incurred</u>		<u>Amount</u>	<u>Valid Until</u>
2007	P	200,132,690	2010
2006		29,284,841	2009
2005		<u>22,487,484</u>	2008
	P	<u>251,905,015</u>	

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

<u>Year Incurred</u>		<u>Amount</u>	<u>Valid Until</u>
2007	P	315,544	2010
2006		447,080	2009
2005		<u>611,439</u>	2008
	P	<u>1,374,063</u>	

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2007, 2006 and 2005 for which the related deferred tax assets have not been recognized by certain entities within the Group:

	<u>2007</u>		<u>2006</u>		<u>2005</u>	
	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>	<u>Amount</u>	<u>Tax Effect</u>
NOLCO	P 545,304,998	P 190,856,749	P 1,582,687	P 553,940	P 2,942,013	P 959,224
Allowance for doubtful accounts	35,460,599	12,411,210	30,584,108	10,704,438	49,255,137	17,239,298
Accrued rent	7,211,572	2,524,050	-	-	-	-
Accrued retirement	420,000	147,000	7,520,543	2,632,190	7,544,743	2,640,660
MCIT	277,114	277,114	877,061	877,061	501,730	501,730
ARO	205,520	71,932	-	-	-	-
Allowance for inventory obsolescence	116,944	40,930	126,583	44,304	192,499	67,375
	<u>P 588,996,747</u>	<u>P 206,328,985</u>	<u>P 40,690,982</u>	<u>P 14,811,933</u>	<u>P 60,436,122</u>	<u>P 21,408,287</u>

28. RELATED PARTY TRANSACTIONS

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

28.1 Long-Term Notes Payable to Related Parties

The breakdown of the outstanding long-term borrowings obtained from related parties as of December 31, shown under Interest-bearing Loans and Borrowings in the consolidated balance sheets, are as follows (see Note 19):

	<u>2007</u>		<u>2006</u>
MRO, a stockholder holding preferred shares of GADC	P 495,360,000	P	588,360,000
McDonald's Philippines Realty Corporation (MPRC), a related party owned by MRO	<u>318,108,118</u>		<u>318,108,118</u>
	<u>P 813,468,118</u>	P	<u>906,468,118</u>

GADC has a loan agreement with MRO. The principal amount of the loan of US\$12.0 million is payable in full on March 17, 2025, and bears annual interest at 10% or US\$1.2 million, payable every six months. In 2005, the advances from MRO were deemed extinguished when these were assigned and conveyed to GADC in payment of MRO's subscription to GADC's preferred shares. The difference between the original advances from MRO and the fair value of GADC's preferred shares amounted to P3,295.0 million and was recognized as Excess of Carrying Value of Advances over Fair Value of Preferred Shares in the 2005 consolidated income statement.

GADC also has two interest-bearing notes with MPRC amounting to P57.4 million and P366.7 representing unpaid advances prior to 2005 on land and equipment purchased and unpaid rentals and interest due to MPRC, respectively. The loans are payable in full on March 17, 2009 with an interest rate of 8.4375% from March 1, 2005 to March 17, 2006; thereafter, interest shall accrue at six-month PHIBOR rate plus 2%, which MPRC will reset on March 18 of each year. Total interest charged by MPRC on these loans amounted to P25.5 million in 2007 and P30.8 million in 2006 and was shown as part of Finance Costs in the consolidated income statements. GADC paid a total amount of P107.0 million to MPRC on April 24, 2006, representing principal and interest payments amounting to P106.0 million and P1.0 million, respectively.

Rentals and interest payable to MPRC (included under the Advances from Related Parties account in the consolidated balance sheets) amounted to P38.9 million and P25.1 million as of December 31, 2007 and 2006, respectively.

28.2 Joint Venture Operating under Joint Venture Agreement

GADC has a 50% interest in GCFII operating under joint venture agreement. GCFII was granted by GADC the right to adopt and use the McDonald's System of restaurant operations. GADC supplies restaurant equipment, food, paper and promotional items to all franchised restaurants through a third party service provider. Receivables from GCFII, included as part of the Trade and Other Receivables account in the consolidated balance sheets, consisting of rental, royalty fees, management fees and inventories supplied amounted to P3.4 million and P2.8 million as of December 31, 2007 and 2006, respectively (see Note 6).

Megaworld also entered into numerous joint venture agreements for the joint development of various projects (see Note 11).

28.3 Sale and Purchase of Goods, Real Estate, Services and Rentals

The following data pertain to sales and purchases of goods, real estate, services and rentals to related parties during 2007.

	<u>Sale</u>	<u>Purchase</u>
Sales and purchases of goods	P 6,852,954,507	P 3,587,225,117
Rendering of services and rentals		
Associates	364,801	5,372,805
Other related parties	<u>11,540,250</u>	<u>655,682,452</u>
	<u>P 6,864,859,558</u>	<u>P 4,248,280,374</u>

The related receivables arising from sales of goods to another related party under common ownership by certain stockholders of AGI amounted to P1.47 billion and is shown as part of Trade and Other Receivables in the 2007 consolidated balance sheet (see Note 6). The same related party also renders services which include marketing, sales, services and logistics. In exchange for these services, the related party is reimbursed in full for the actual expenses incurred by such related party. Actual expenses billed in 2007 amounted to P516.4 million and is shown as part of other operating expenses in the 2007 consolidated income statement (see Note 24).

EDI sources portions of its raw and packaging materials from other related parties outside the Group. The related payable amounting to P193.6 million is shown as part of Trade payables under the Trade and Other Payables account in the 2007 consolidated balance sheet.

The related outstanding payables for properties purchased and services obtained in 2007 from associates are presented as part of Trade Payables under the Trade and Other Payables account in the 2007 consolidated balance sheet.

Real estate properties are sold to and bought from related parties on the basis of the price lists in force with non-related parties. Services rendered are usually on a cost-plus basis, allowing a margin ranging from 20% to 30%. There were no real estate sales and purchases between Megaworld and related parties outside the Group or with its associates in 2007 and 2006.

The related outstanding payables for services obtained from associates in 2007 and 2006 are presented in the Advances from Related Parties account in the consolidated balance sheets.

28.4 Advances to/from Associates and Other Related Parties

Entities within the Group grant advances to associates and other entities for working capital purposes. The outstanding balances of Advances to Associates and Other Related Parties which is shown as part of Investments in Associates and Interest in a Joint Venture account in the 2007 consolidated balance sheets are as follows (these mainly represent advances granted by Megaworld) (see Note 13):

Advances to Associates:		
EELHI	P	179,760,466
SHDI		14,111,301
PTHDC		<u>1,006,803,619</u>
		1,200,675,386
Advances to other related parties		<u>966,960,759</u>
	P	<u>2,167,636,145</u>

28.5 Key Management Personnel Compensation

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

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Short-term employee benefits	P 100,332,243	P 45,909,500	P 40,780,000
Retirement benefits	7,111,500	4,117,500	3,350,000
Other long-term employee benefits	<u>4,335,030</u>	<u>739,200</u>	<u>740,000</u>
	<u>P 111,778,773</u>	<u>P 50,766,200</u>	<u>P 44,870,000</u>

29. EQUITY

29.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2007	2006	2005	2007	2006	2005
Common shares – P1 par value						
Authorized						
Balance at beginning of year	5,000,000,000	5,000,000,000	5,000,000,000			
Increase during the year	<u>7,950,000,000</u>	-	-			
Balance at end of year	<u>12,950,000,000</u>	<u>5,000,000,000</u>	<u>5,000,000,000</u>			
Issued and outstanding:						
Balance at beginning of year	2,045,181,000	2,045,181,000	1,844,710,000	P 2,045,181,000	P 2,045,181,000	P 1,844,710,000
Issued during the year	<u>8,224,646,979</u>	-	200,471,000	<u>8,224,646,979</u>	-	200,471,000
Balance at end of year	<u>10,269,827,979</u>	2,045,181,000	2,045,181,000	<u>10,269,827,979</u>	2,045,181,000	2,045,181,000
Subscribed	-	160,000,000	160,000,000	-	160,000,000	160,000,000
Total outstanding	<u>10,269,827,979</u>	<u>2,205,181,000</u>	<u>2,205,181,000</u>	<u>P 10,269,827,979</u>	<u>P 2,205,181,000</u>	<u>P 2,205,181,000</u>
Subscriptions receivable:						
Balance at beginning of year				(P 986,612,492)	(P 986,612,492)	(P 999,999,992)
Collections during the year				<u>986,612,492</u>	-	13,387,500
Balance at end of year				<u>P -</u>	<u>(P 986,612,492)</u>	<u>(P 986,612,492)</u>

The Company's BOD and stockholders, approved the increase in the Company's authorized capital stock on November 7, 2006 and January 5, 2007, respectively, from P5 billion divided into 5 billion shares, to P12.9 billion divided into 12.9 billion shares, both with par value of P1 per share. On February 5, 2007, the Company obtained SEC approval of such increase.

In connection with the said increase, on December 6, 2006, the BOD approved the offering for subscription of 2,205,181,000 common shares from the increase in authorized capital stock by way of 1:1 stock rights offering to existing stockholders as of February 15, 2007 at an offer price of P1.50. The said offering took place between February 23 to March 1, 2007. Fifty percent of the subscription price was paid upon subscription and the balance paid in full on April 23 or June 7, 2007. The full amount of subscription was fully paid on June 30, 2007.

On February 16, 2007, the Company issued 4,059,465,979 new shares in a share-swap transaction (see Note 1.1).

In the first semester of 2007, the Company offered 1.8 billion primary shares to international investors at an offer price of P5.75 per share. Such 1.8 billion common shares taken from the 7.95 billion shares increase in authorized capital stock were listed and first traded on June 18, 2007.

29.2 Additional Paid-in Capital (APIC)

The following transactions gave rise to APIC:

- (a) The January 19, 2005 offering of 200,471,000 common shares from unissued authorized capital stock of the Company to all stockholders as of the record date of March 3, 2005 on a pro-rata basis at an offer price of P5.00 per share amounting to P784.7 million, net of P17.1 million direct issue costs.
- (b) The 2007 stock rights offering, share swap transaction and international offering resulted in APIC of P21.9 billion, net of P462.4 million direct costs pertaining to issuance, legal and underwriting fees.

29.3 Treasury Shares

This account represents the Company's outstanding common shares held and acquired by certain subsidiaries totaling about 201.9 million shares. The changes in market values of these shares recognized as fair value gains (losses) by subsidiaries in their respective financial statements were eliminated in full and were not recognized in the consolidated income statements.

30. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Net income attributable to equity holders of the parent company	P3,292,586,616	P 819,038,830	P1,613,001,601
Divided by the weighted average number of subscribed and outstanding common shares	<u>8,737,510,045</u>	<u>2,205,181,000</u>	<u>2,155,063,250</u>
	<u>P 0.3768</u>	<u>P 0.3714</u>	<u>P 0.7485</u>

There were no dilutive potential common shares as of December 31, 2007, 2006 and 2005, hence, no information on diluted earnings per share is presented.

31. COMMITMENTS AND CONTINGENCIES

31.1 Operating Lease Commitments – Group as Lessor

Megaworld is a lessor under several operating leases covering real estate properties for commercial use. The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P707.3 million for the consolidated balances.

Future minimum lease payments under this lease as of December 31, 2007 are as follows:

Within one year	P 1,412,736,875
After one year but not more than five years	4,915,438,500
More than five years	<u>1,757,917,808</u>
	<u>P 8,086,093,183</u>

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

Lease income from franchisees amounted to P416.2 million in 2007, P371.2 million in 2006 and 325.4 million shown as part of Rendering of Services in the consolidated income statements (see Note 22).

Future minimum rentals receivable under existing sublicense agreements as of December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Within one year	P 139,700,944	P 145,660,190
After one year but not more than five years	412,548,641	482,298,573
More than five years	<u>314,837,749</u>	<u>450,764,336</u>
	<u>P 867,087,334</u>	<u>P 1,078,723,099</u>

31.2 Operating Lease Commitments – Group as Lessee

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

Lease expense including variable rent amounted to P701.0 million in 2007, P636.2 million in 2006 and P583.1 million in 2005 shown as part of Cost of Goods Sold in the consolidated income statements (see Note 23).

Future minimum rentals payable under non-cancellable operating leases as of December 31 are as follows:

	<u>2007</u>	<u>2006</u>
Within one year	P 161,634,365	P 166,255,223
After one year but not more than five years	349,968,670	464,825,709
More than five years	<u>141,443,371</u>	<u>319,491,622</u>
	<u>P 653,046,406</u>	<u>P 950,572,554</u>

31.3 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 their consolidated financial statements.

32. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS financial assets, banks loans, bonds, trade receivables and payables which arise directly from the Group's business operation. The financial debts were issued to raise funds for the Group's capital expenditures.

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

32.1 Foreign Currency Sensitivity

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

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

	2007	
	<u>U.S. Dollars</u>	<u>Peso</u>
Financial assets	\$ 423,018,250	P 17,619,467,283
Financial liabilities	(354,134,529)	(14,659,837,099)
Net foreign currency denominated assets	<u>\$ 68,883,721</u>	<u>P 2,959,630,184</u>

If the Philippine peso had strengthened against the U.S. dollar, then this would have increased income before tax for the year by P623.6 million. If the Philippine peso had weakened against the U.S. dollar, then this would have decreased income before tax for the year by the same amount. This sensitivity of the result for the year assumes a +/- 14% changes of the Philippine peso/U.S. dollar exchange rate for the year ended December 31, 2007. This percentage has been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months estimated at 95% level of confidence. The sensitivity analysis is based on the Group's foreign currency financial instruments held at December 31, 2007, with effect estimated from the beginning of the year.

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

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

32.2 Interest Rate Sensitivity

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

The sensitivity of the net result for the year to a reasonably possible change in interest rates +/-2.98% for Philippine peso and +/-2.63% for US dollar with effect from the beginning of the year for cash and cash equivalents. These percentages have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 95% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at

December 31, 2007, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 2.98% for Philippine peso and 2.63% for US dollar, the income before tax for the year would have increased by P643.7 million. Conversely, if the interest rates decreased by the same percentage, income before tax would have been lower by the same amount.

All interest rate risks exposure attributable to loans pertains to Megaworld and GADC, as the other entities within the Group do not have significant interest-bearing loans with floating rates.

Megaworld assumes a reasonably possible change in interest rates of +1% and -1% in 2007 for its interest bearing loans. All other variables held constant, if the interest rate increased by 1%, the subsidiary's income before tax for the year would have increased by P16.1 million. Conversely, if the interest rates decreased by 1% income before tax would have been lower by the same amount.

GADC assumes a +/-75 basis point on its loan payable to MPRC. The increase or decrease in the basis point will result in an increase or decrease in income before tax for 2007 by P2.4 million.

32.3 Credit Risk

Generally, the Group's credit risk is attributable to accounts receivable arising mainly from transactions with approved franchisees, installment receivables, rental receivables and other financial assets.

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

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

32.4 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 basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of loans, preferred shares and finance leases.

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

As at December 31, 2007, the Group's financial liabilities have contractual maturities which are presented below:

	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 5 Years
Trade and other payables	P1,308,221,789	P2,491,473,179	P 21,000,000	P -
Interest-bearing loans and borrowings	342,806,268	166,931,176	1,516,854,538	186,666,667
Obligation under finance lease	-	3,682,800	669,600	-
Long term notes payable	-	73,394,109	516,252,118	1,114,560,000
Redeemable preferred shares	-	-	-	1,574,159,348
Guaranty deposits	-	3,093,636	25,266,996	28,798,512
Payable to MRO stock option	-	12,509,244	24,217,696	-
Bonds payable	-	-	4,140,100,000	-
Due to affiliates	-	92,023,859	647,083,981	-
	<u>P1,651,028,057</u>	<u>P2,843,108,003</u>	<u>P6,891,444,929</u>	<u>P2,904,184,527</u>

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

33. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated balance sheets.

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

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

	<u>2007</u>	<u>2006</u>
Total liabilities	P23,617,679,863	P 3,779,814,437
Equity attributable to equity holders of the parent company	<u>43,870,863,399</u>	<u>11,183,383,661</u>
Debt-to-equity ratio	<u>0.54:1</u>	<u>0.34:1</u>

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



Punongbayan & Araullo

Report of Independent Certified Public Accountants to Accompany SEC Schedules Filed Separately from the Basic Financial Statements

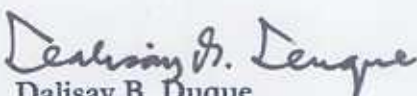
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The Board of Directors and Stockholders
Alliance Global Group, Inc. and Subsidiaries
20th Floor, IBM Plaza
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

We have audited the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries (the Group) for the year ended December 31, 2007, on which we have rendered our report dated April 2, 2008. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary schedules (see table of contents) of the Group as at December 31, 2007 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic consolidated financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statement and, in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: 
Dalisay B. Duque

Partner

CPA Reg. No. 0022692

TIN 140-240-854

PTR No. 0986655, January 4, 2008, Makati City

SEC Accreditation No. 0012-AR-1

BIR AN 08-002511-9-2005 (Dec. 27, 2005 to 2008)

April 2, 2008

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
SEC Supplementary Schedules
December 31, 2007

Table of Contents

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

Alliance Global Group, Inc. and Subsidiaries
Schedule A - Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)
December 31, 2007

Name of Banks	Amount	Interest Income
Cash - Short Term Placements		
Banco de Oro	P 6,309,057,403	P 203,226,821
GE Money Bank	10,076,666.00	5,465,895.00
ING Bank	2,030,396,410.00	43,147,643.00
UBP	3,340,804.00	66,335.00
Citibank	55,218,020.00	1,168,024.00
HSBC - HK	3,723,028,065.00	237,961.00
Deutsche	1,034,710,808.00	25,423.00
BPI	7,539,546,952.00	275,176,815.00
Equitable	507,013,455.00	49,854,627.00
Planters Bank	247,260,475.00	16,062,323.00
RCBC	119,458,140.00	39,774,010.00
MBTC	185,575,722.00	5,227,127.00
Union Bank	2,360,254.00	1,147,580.00
Asiitrust	48,398,535.00	796,855.00
Bank of Commerce	20,307,445.00	868,094.00
HSBC	-	551,507.00
PS Bank	76,050,335.00	5,214,344.00
Security Bank	27,235.00	1,157,575.00
Others - foreign	1,027,758,789.00	188,307,251.00
Financial Assets at Fair Value Through Profit or Loss		
HSBC HK	1,054,832,165.00	31,094,145.00
UBS AG	713,839,478.00	1,174,228.00
Equitable	207,226,288.00	325,000.00
Total	P 24,915,483,444.00	P 870,069,583.00

Alliance Global Group, Inc. and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2007

<i>Name and Designation of Debtor</i>	<i>Balance at the beginning of period</i>		<i>Additions</i>		<i>Amounts collected</i>		<i>Amounts written off</i>		<i>Current</i>		<i>Not current</i>		<i>Balance at the end of period</i>	
Advances to Officers and Employees:														
Lourdes G. Clemente	P	31,870	P	617,780	P	(108,275)	P	-	P	541,375	P	-	P	541,375
SVP - Finance and Admin of Megaworld		-		-		-		-		-		-		-
Garry V. De Guzman		38,246		681,578		(68,200)		-		651,623		-		651,623
Vice President - Corporate Management of Megaworld		-		-		-		-		-		-		-
	P	<u>70,116.00</u>	P	<u>1,299,358.00</u>	P	<u>(176,475.00)</u>	P	<u>-</u>	P	<u>1,192,998.00</u>	P	<u>-</u>	P	<u>1,192,998.00</u>
		<i>1</i>												
Loans to Directors:		-		-		-		-		-		-		-

1 This column pertains to beginning balances at Megaworld Corporation; such were considered as additions during the year in the consolidated balance sheet.

Alliance Global Group, Inc. and Subsidiaries
Schedule C - Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments
December 31, 2007

Name of Issuing entity and description of Investee	Percentage of Ownership	Beginning Balance		Additions		Deductions		Ending Balance		Dividends received from investments not accounted for by the equity method	
		Number of shares or principal amount of bonds and notes	Amount in Peso	Equity in earnings (losses) of investee for the period	Other	Distribution of earnings by investees	Other	Number of shares or principal amount of bonds and notes	Amount in Peso		
Investment in an Associate:											
Megaworld Corporation			P 5,341,274,400	P -	P -	P -	P -	P (5,341,274,400)	P -	-	
Empire East Land Holdings, Inc.	27.49%	3,143,758,655		161,363,179	6,655,539,191	-	-	-	3,824,090,921	6,816,902,370	-
Suntrust Home Developers, Inc.	19.54%	705,744,901		(118,873,961)	268,294,676	-	-	-	705,744,901	149,420,715	-
Palm Tree Holdings and Development Corp.	18.40%	47,559,995		2,011,456	67,804,109	-	-	-	47,559,995	69,815,565	-
			<u>P 5,341,274,400</u>	<u>P 44,500,674</u>	<u>P 6,991,637,976</u>	<u>P -</u>	<u>(P 5,341,274,400)</u>		<u>P 7,036,138,650</u>		
Interest in Joint Venture and Other Long-Term Investments:											
Interest in Joint Venture											
Golden City Food Industries, Inc. (At equity)	24.5%		<u>P 13,926,398</u>	<u>P 2,357,065</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>		<u>P 16,283,463</u>		
Total			<u>P 5,355,200,798</u>	<u>P 46,857,739</u>	<u>P 6,991,637,976</u>	<u>-</u>	<u>(P 5,341,274,400)</u>		<u>P 7,052,422,113</u>		

Note: Megaworld Corporation became a consolidated subsidiary in 2007.

Alliance Global Group, Inc. and Subsidiaries
Schedule D - Indebtedness of Unconsolidated Subsidiaries and Related Parties (Other than Affiliates)
December 31, 2007

<i>Name of Related Parties</i>	Balance at beginning	<i>Balance at the end of period</i>
<i>Associates</i>		
Empire East Land Holdings, Inc.	P -	P 179,760,466
Suntrust Home Developers, Inc.*	-	14,111,301
Palm Tree Holdings, Inc.	-	1,006,803,619
<i>Other Related Parties:</i>		
Empire east Properties, Inc.	-	402,360,692
Asia Finest Cuisine, Inc.	-	50,478,653
Eastwood Cinema	-	1,380,259
Eastwood Property Holdings, Inc.	-	82,974,251
Eastwood Locator	-	139,431
Others	-	429,627,473
	<u>P -</u>	<u>P 2,167,636,145</u>

Alliance Global Group, Inc. and Subsidiaries
Schedule E - Intangible Assets - Other Assets
December 31, 2007

<i>Description</i>	<i>Beginning balance</i>	<i>Additions at cost</i>	<i>Deduction</i>			<i>Ending balance</i>
			<i>Charged to cost and expenses</i>	<i>Charged to other accounts</i>	<i>Other changes additions (deductions)</i>	
Intangible Assets						
Goodwill	P 1,653,165,188	P 8,968,547,631	P -	P -	P -	P 10,621,712,819
Trademarks	-	1,000,072,768	(91,672,731)	-	-	908,400,037
	<u>P 1,653,165,188</u>	<u>P 9,968,620,399</u>	<u>(P 91,672,731)</u>	<u>P -</u>	<u>P -</u>	<u>P 11,530,112,856</u>
Other non-current assets						
Deposits	P 269,149,330	P 62,715,805	P -	P -	P -	331,865,135
Input VAT	-	158,890,127	-	-	-	158,890,127
Leasehold rights - net of accumulated amortization	30,644,872	3,738,318	(3,376,522)	-	-	31,006,668
Prepaid rent	44,411,304	5,444,634	-	-	-	49,855,938
Claim for tax refund	168,517,399	-	-	-	-	168,517,399
Others	86,374,549	63,941,904	-	-	-	150,316,453
	<u>P 599,097,454</u>	<u>P 294,730,788</u>	<u>(P 3,376,522)</u>	<u>P -</u>	<u>P -</u>	<u>P 890,451,720</u>

Alliance Global Group, Inc. and Subsidiaries
Schedule F - Long-Term Debt
December 31, 2007

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related balance sheet</i>	<i>Amount shown under caption "Long-Term Debt" in related balance sheet</i>
Loans:			
McDonald's Restaurant Operations, Inc. ¹	\$ 12,000,000	P -	P 495,360,000
McDonald's Philippines Realty Corporation ²	P 424,144,157	-	318,108,118
Interest bearing loans ³	P 1,532,000,000	186,578,631	1,347,001,781
Foreign borrowings ⁴	P 2,777,120,904	324,404,111	356,519,424
Bonds Payable ⁵	-	-	4,140,100,000
		<u>P 510,982,742</u>	<u>P 6,657,089,323</u>

¹ Payable in full on March 17, 2025, and bears interest at 10%, payable every six months.

² Payable in full on March 17, 2009 with an interest rate of 8.4375% from March 1, 2005 to March 17, 2006; thereafter, interest shall accrue at six-month PHIBOR rate plus 2%, which MPRC will reset on March 18 of each year.

³ Payable in semi-annual installments to commence at the 42nd month from the date of initial borrowing for a term of ten years. Interest is payable every quarter based on 91-day treasury bill plus spread.

⁴ Libor plus spread interest rate, 15 semi-annual payments of U. S. \$1,230,193.98

⁵ Represents five year term bond issued by Megaworld on August 4, 2006 totalling US\$100 million. It bears annual interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting February 4, 2007.

Alliance Global Group, Inc. and Subsidiaries
Schedule I - Capital Stock
December 31, 2007

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value	12,950,000,000	10,269,827,979	-	5,316,570,235	341,692,039	4,611,565,705

Alliance Global Group, Inc. and Subsidiaries
AGING SCHEDULE OF TRADE AND OTHER RECEIVABLES
UNDER CURRENT ASSETS
December 31, 2007
(Amounts in Philippine Pesos)

Trade Receivables		
Current	P	5,625,611,369
1 to 30 days		934,012,637
31 to 60 days		579,495,243
Over 60 days		<u>279,896,514</u>
Total		7,419,015,763
Others		<u>572,753,543</u>
TOTAL		7,991,769,306
Less: Allowance for Impairment		<u>43,488,654</u>
Balance at end of year	P	<u>7,948,280,652</u>