ALLIANCE GLOBAL

# Synergy for Progress

Annual Report 2008

# Corporate Vision

*We seek to be a leading conglomerate with a diversified portfolio of investments in key high-growth industries in the country. Through a market-driven strategy anchored in innovation, we deliver quality products and services that best meet the needs of the growing middle class.*

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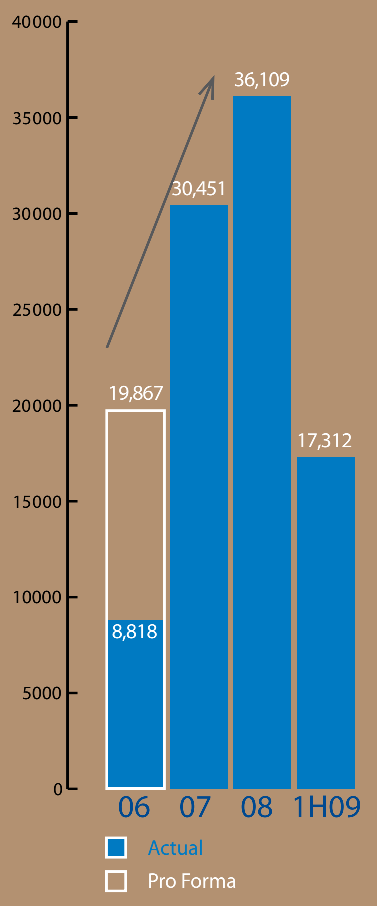
# Financial Highlights

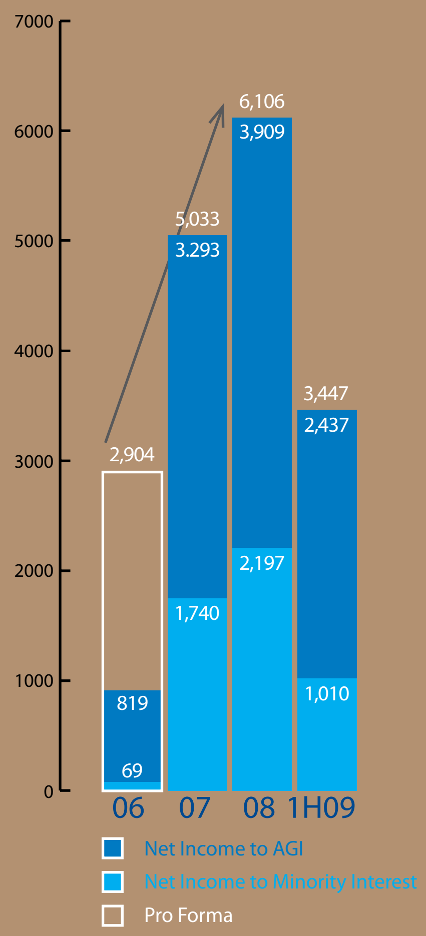
**REVENUE (in million pesos)**

CAGR: 35.3%




**NET INCOME (in million pesos)**

CAGR: 57.0% Net Income
CAGR: 61.2% Net to AGI



*"Despite what analysts forecasted to be a sluggish year, your Company, Alliance Global Group, Inc. (AGI) still came out strong and financially sound ...."*

## CHAIRMAN'S MESSAGE:

# To Our Stockholders and Friends

THE YEAR 2008 saw the country growing at a much slower pace than in the previous year. Although the Philippine economy grew at its fastest pace in 31 years in 2007 with real GDP growth at 7.3%, the economy substantially slowed to 4.6% in 2008 due to the ongoing global financial crisis. However, high government spending, a resilient service sector, a small but active trade sector, and large remittances from about ten million overseas Filipinos workers once again helped cushion the impact of the economic downturn.

Despite what analysts forecasted to be a sluggish year, your Company, Alliance Global Group, Inc. (AGI) still came out strong and financially sound, thanks to our continued prudence, hard work, and innovative spirit.

As such, AGI still managed to register impressive growth on practically all areas of operations in 2008. Our three business units—real estate through Megaworld Corporation (Megaworld); food and beverage through Emperador Distillers, Inc. (EDI); and quick-service restaurants through Golden Arches Development Corporation (GADC), which franchises McDonald's fast-food restaurants in the country—all worked together to make 2008 another banner year for your Company.

As always, we let our figures speak for themselves. For 2008, our total revenues increased by 19% to P36 billion from P30 billion a year ago. Our real estate business contributed about 49% to total revenues, followed by quick-service restaurants with 24%, while the food and beverage and corporate investments contributed 27%. Your Company thus ended 2008 with a consolidated net income of P6.1 billion, 21% better than the P5 billion recorded a year ago. Net income attributable to equity holders of the parent company improved by 19% to P3.9 billion from P3.3 billion the previous year.

In the first half of 2009, AGI continued to ride on the past year's growth momentum, registering total revenues of P17.3 billion, up 12% from the P15.4 billion in the same period in 2008. Consolidated net income, in turn, amounted to P3.4 billion, up 29% year-on-year. Net income attributable to shareholders rose to P2.4 billion, 44% higher than the P1.7 billion posted a year ago.

Our solid operating performance in 2008 and in the first half of 2009 are proofs that our consistent business strategies are working. The major transformation that AGI underwent in 2007, particularly the increase in equity stake in Megaworld and the acquisition of EDI, has served us well.

Together with our productivity efforts, we are focused on investing for the long-term in key, high-growth industries in the country, particularly in the tourism sector.

In 2008, AGI, through its subsidiary, Travellers International Hotel Group, Inc. (Travellers International) entered into a joint venture with Star Cruises Limited (Star Cruises) to build the country's first 24/7 integrated tourism resort in Newport City, the only development across from Terminal 3 of the Ninoy Aquino International Airport. Star Cruises is part of the Malaysian conglomerate Genting Berhad, and is the world's third largest cruise line operator.

Travellers International will invest over US$500 million to develop the Newport City integrated tourism resort called Resorts World at Manila, which will be home to a series of hotels, namely, the all-suite Maxims Hotel, the five-star Marriott Hotel, and budget hotel called Remington. The hotel will have a total capacity of 1,574 rooms. The facility will also feature a grand mall with a piazza covered by a sky roof, world-class theater, gaming facility, and other various retail, leisure and entertainment facilities. Once completed, the entire project will generate more than 10,000 both direct and indirect jobs by 2012.

Travellers International will, likewise, build the larger Bayshore City, envisioned as a themed development with more hotels, leisure, retail and entertainment facilities. Given its scale, Bayshore City is expected to create over 100,000 direct and indirect jobs.

Although we are venturing into a new line of business, expansion activities within the three other businesses continue. We have been launching new residential projects and developing more office and retail spaces for Megaworld. EDI recently launched a new product called The Bar, a flavored alcoholic beverage in two variants. GADC is scheduled to open more McDonald's branches this year, both in Metro Manila and key cities and offer new product promotions to maintain a competitive footing.

Despite there still being hurdles to overcome in the remainder of the year, we remain committed to continue to adopt prudent measures that will ensure our financial sustainability. We will, likewise, be on the lookout for new opportunities that may further enhance the overall profitability of your Company.

ANDREW L. TAN
Chairman & CEO

# Synergy for Progress

NO SINGLE HOLDING COMPANY in the Philippines personifies the concept of synergy better than Alliance Global Group, Inc. (AGI), one of the leading conglomerates in the Philippines. AGI is composed of four separate and distinct business units which, for the past years, have been working both individually and as a group to effectively further AGI's objectives. AGI has interests in real estate, food and beverage, quick-service restaurants, and, recently, tourism.

AGI owned 48% of Megaworld Corporation (Megaworld) as of end 2008. Megaworld is one of the leading real estate companies in the country and specializes in the development of large-scale, mixed-use integrated communities under the "live-work-play-learn" concept. It is considered as the country's largest residential developer and the largest BPO office developer and landlord.

Emperador Distillers, Inc. (EDI), in turn, is a wholly owned domestic subsidiary acquired in February 2007 and currently the frontrunner in the distilled spirits industry. Emperador Brandy is EDI's flagship product, which was ranked the world's largest-selling brandy by volume in 2006. EDI introduced in 2006 Generoso, a lighter and sweeter brandy aimed at the female market. Emperador and Generoso currently top their respective segments and together hold the largest share in the local brandy market.

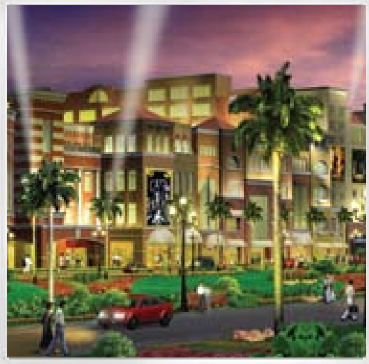
Golden Arches Development Corporation (GADC) is the master franchise holder of McDonald's in the Philippines and is 49% owned by AGI. As of the end of the first half of 2009, there were 293 McDonald's branches in strategic locations nationwide and 15 more branches to open within the current year.

Travellers International Hotel Group, Inc. (Travellers International) is AGI's tourism arm and is its fourth and newest strategic business unit. On June 2, 2008, Travellers International received the first provisional license issued by the Philippine Amusement and Gaming Corporation (PAGCOR) to participate in the latter's leisure and entertainment master plan, which includes the development of the Entertainment City Manila project, a fully integrated tourism resort complex set to rise in the Manila Bay reclamation area.

Two months later, AGI concluded a deal with Star Cruises Limited (Star Cruises ) of Hong Kong under which Star Cruises will eventually acquire 50% effective interest in Travellers International. Star Cruises is the third largest cruise operator in the world and is a member of the Malaysia-based Genting Group, one of the largest leisure and entertainment companies in the world.

Travellers is also undertaking the development of the Resorts World at Manila project within the Newport City located across from the Ninoy Aquino International Airport Terminal 3 in Pasay City.

**Tourism & Entertainment**



**Food & Beverages**

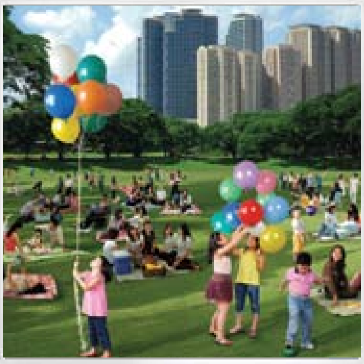
These four business units create the synergy needed to develop and provide products and services that not only cater to the growing middle-class sector but also help the country in its efforts at nation-building. In 2008, these business segments continued to perform well as AGI's consolidated revenues were pegged at P36 billion for the year, an 19% increase from P30 billion in 2007. Megaworld contributed a hefty 48% to this overall figure, followed by GADC with 24%. EDI, in turn, contributed 16%.

Real estate sales turned in by Megaworld in particular grew by 17% to P12.43 billion in 2008 from P10.61 billion the previous year. Real estate revenues came from the sale of residential lots and condominium units, as well as from the lease of office and retail space and hotel operations. Needless to say, Megaworld's vision to provide the nation with better places to "live, work, play, and learn" have been successfully achieved in the past years.

Revenues from GADC, in turn, grew by 13% to P8.4 billion in 2008 from P7.4 billion in 2007, mainly owing to the 12-store expansion of the McDonald's food chain. EDI's consumer products, however, being premium items, were affected by the changing spending habits of local consumers brought about by continuously high prices of prime commodities. As such, brandy sales slipped by 19% to P5.6 billion in 2008 from P6.8 billion one year ago.

Nonetheless, AGI's net income for the year grew by a substantial 21%, from P5 billion in 2007 to P6.1 billion in 2008, manifesting the continued viability and profitability of the company's businesses despite the ongoing economic crunch.


## Quick Service Restaurant



## Real Estate

Net income attributable to equity holders of the parent company improved 19% year-on-year to P3.9 billion from P3.3 billion the year before. Such were attributed to the strong results from Megaworld and investment gains.

The remarkable overall performance of AGI in 2008 was carried over to the first half of 2009 as the conglomerate registered consolidated revenues of P17.3 billion, while turning in a consolidated net income of P3.4 billion, up year-on-year by 12% and 29%, respectively. Again, the continued strong showing of Megaworld contributed to the increases, allowing AGI to stay on track towards its revenue targets for 2009.

AGI looks forward to another banner year, despite the current economic conditions. For one, Megaworld launched 16 new projects in 2008 alone and will continue to launch more in 2009. The projects include One Central, Megaworld's most prestigious high-rise residential project to date; The Venice Luxury Residences; and the Manhattan Parkview Residences, a three-tower residential project in Araneta Center. Moreover, some 100,000 square meters of BPO office space are expected to be completed by year-end.

GADC, in turn, will be opening 13 more branches in the remaining months of the year, as well as refurbishing existing ones. EDI, on the other hand, will try to overcome the general slackening of consumer spending on premium goods by enhancing its marketing efforts, launching new products, and continuing to expand its distribution network particularly in the Visayas and Mindanao. In April 2009, EDI launched The Bar, a new flavored alcoholic beverage in gin and vodka variants.

As the economy is seen to improve in the coming months and with the continued formulation and implementation of the Company's plans for new products and projects, AGI has more than enough reasons to be optimistic. More than anything else, however, what makes AGI look to the future with keen anticipation are the bright prospects of the two aforementioned projects participated in by Travellers International at Entertainment City Manila and Newport City.

For one thing, the US$15-billion Entertainment City Manila is envisioned to be a world-class integrated complex of luxury hotels, restaurants, malls, theaters, convention centers, and entertainment facilities, among others. For its part, Travellers International will turn an area of Entertainment City Manila into a themed developement, which will be called Bayshore City. It will include, among others, a landmark structure to symbolize the rich cultural heritage of the Philippines; residential developments; several hotels with an aggregate room count of at least 3,400; and gaming, leisure, and entertainment facilities.

However, what AGI is particularly enthusiastic about nowadays is the ongoing 7.8-hectare Resorts World at Manila project in Pasay City. Resorts World at Manila is situated right next to the newly opened Terminal 3 of the Ninoy Aquino International Airport. The complex will be the first of its kind in Southeast Asia and will include a world-class mall, various leisure and entertainment facilities, and three hotels: the 342-room Marriott Hotel; Maxims Hotel, the country's first all-suites hotel with 172 rooms; and a 1,060-room budget hotel called Remington Hotel.

Resorts World at Manila will also feature a world-class gaming facility and will cater to both the local and regional markets.

The two aforementioned projects are aligned with the government's thrust to boost tourism in the country and are envisioned to put the Philippines on the global tourism map. Moreover, the projects, along with projects of the other proponents, aim to change the landscape of Philippine tourism, making it comparable to that of Singapore, Las Vegas, and other international tourist destinations.

It is expected that the Resorts World at Manila and Bayshore City will contribute to nation-building, not only through the taxes that will be paid to the government but, more importantly, through the amount of investments that the company will put in for both projects, approximately $1.55 billion, as well as the thousands of jobs that will be created within the next several years.

In the next few years, Travellers International's projects are expected to start generating revenues and contributing substantially to AGI's net income, thereby fully establishing a profitable fourth leg in AGI's business portfolio. Indeed, the inclusion of Travellers International is a welcome development for AGI as the Company continually expands and diversifies into industries with tremendous growth potential. In 2009 and beyond, AGI's profitable segments are expected to continue combining their respective strengths and drive the Company to greater heights.

# TRAVELLERS
INTERNATIONAL


ALLIANCE GLOBAL

TRAVELLERS INTERNATIONAL HOTEL GROUP, INC.:

# A Little Closer to the Dream

ALTHOUGH THE GLOBAL TOURISM industry has been greatly weighed down by the worldwide economic downturn, the Philippines continued to experience an increase in tourist arrivals, particularly in 2008. In fact, according to studies, the annual average growth rate of tourist arrivals in the country has been 10.8% in the last four years. This clearly shows that the Philippines and its tourist destinations continue to muster a strong tourist demand, particularly from the European and Asian markets.

Considering this, the move of Alliance Global Group, Inc. (AGI) to diversify into the tourism industry is both wise and timely and could not have come at a more appropriate time. Not only will this move capitalize on the continued influx of tourists to the country, it will also bolster the country's international image and consequently serve as a catalyst for even more tourist arrivals in the years to come.

In June of 2008, AGI, through its subsidiary Travellers International Hotel Group, Inc. (Travellers International), was given the green light for its planned venture into tourism-oriented real estate development as Travellers received the first provisional license issued by the Philippine Amusement and Gaming Corporation (PAGCOR) to participate in the latter's leisure and entertainment master plan. Such plan includes a couple of major projects that aim to help boost the local tourism industry and move the Philippines a little closer to the dream of making it a prime tourist spot in Asia.

One such undertaking is the Bagong Nayong Pilipino Entertainment City Manila project (Entertainment City Manila), a fully integrated resort complex set to rise in the Manila Bay reclamation area. This US$15 billion landmark project is specifically envisioned to change the landscape of Philippine tourism, making it comparable to that of Singapore, Las Vegas, and other international tourist destinations.

Entertainment City Manila will be put up on a 90-hectare reclaimed property in the Manila Bay area and will be developed over the next 10 years. It will feature world-class hotels, malls, restaurants, modern theaters, convention halls, sports coliseums, cultural centers, and residential subdivisions.

For its part, Travellers International will develop Bayshore City on approximately 40 hectares of the Entertainment City Manila. Bayshore City is envisioned to be a themed leisure and entertainment destination that will include an iconic structure to symbolize the country's culture and heritage, residential developments, several hotels with an aggregate room count of about 3,400, as well as leisure, entertainment, and gaming facilities.

In a bid to further strengthen its tourism-related operations, AGI forged a deal with Star Cruises Limited (Star Cruises) a few months after receiving the PAGCOR provisional license. With the deal, Star Cruises, the third largest cruise line operator in the world and a member of the Malaysian conglomerate Genting Group, acquired a 50% effective interest in Travellers International. This partnership between AGI and Star Cruises ensures that Travellers International will be run by two world-class companies that are leaders in their own respective fields.

Travellers International is currently developing Resorts World Manila at Newport City. This property is located across from the Terminal 3 of the Ninoy Aquino International Airport in Pasay City and, like Entertainment City Manila, is envisioned to be a game changer. Resorts World at Manila is designed to be the Philippines' gateway to tourism and entertainment.

Touted as "The Place to Play", Resorts World at Manila will be the Philippines' first integrated tourism resort. The 7.8-hectare complex will feature world-class entertainment and leisure facilities.

At completion, Resorts World at Manila will feature three hotels, namely, a 342-room five star Marriott Hotel; Maxims Hotel, the country's first all-suites hotel with 172 suites; and 1,060-room Remington Hotel.

Visitors at the complex will have a wide-array of choices for entertainment, including a gaming facility, a world-class theater for both foreign and local acts, cinemas, and a grand mall.

The mall will house state-of-the art cinemas, various shops that offer world-renowned fashion and accessories, specialty boutiques, and an extensive range of local and international restaurants that encircle an air-conditioned indoor piazza with a glass skyline.

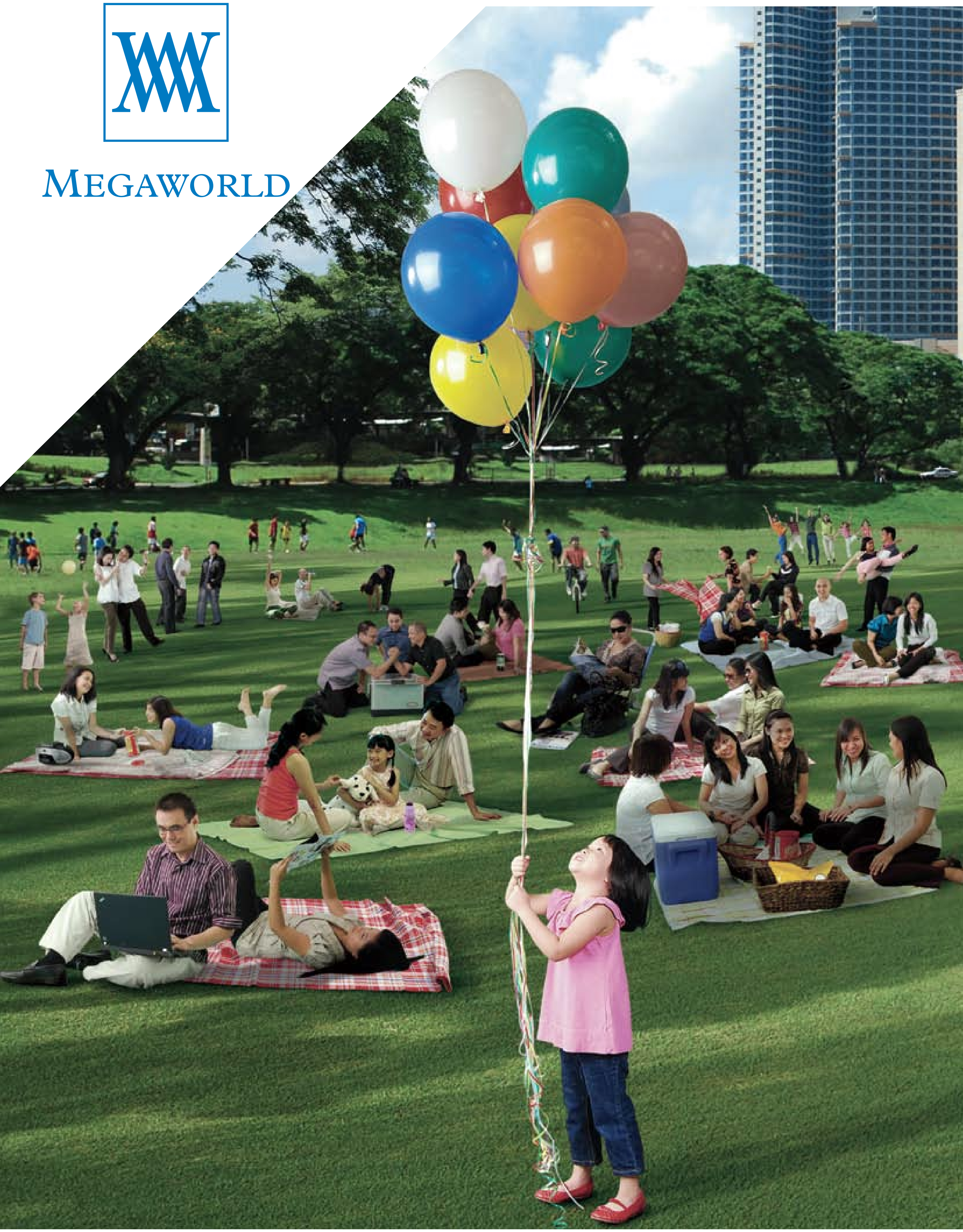
Resorts World at Manila is designed to cater to both international and domestic travelers and fun-seekers. Its strategic location allows it to capitalize on several target markets. For one thing, many high-income groups live in neighboring areas such as Fort Bonifacio, Makati, San Juan, and other cities and towns south of Metro Manila. Its proximity to the new airport, likewise, will allow the resort to attract provincial and international tourists.

AGI's foray into tourism-related projects will not only be beneficial to the company, but are also expected to contribute to nation-building. Aside from the taxes that will be generated by the government, the company will invest a total of approximately $1.55 Billion to complete both projects and create thousands of jobs that will, in turn, have a multiplier effect that will benefit the economy.

As the two aforementioned projects of Travellers unfold, it is clear that they embody the Company's confidence in the Philippine tourism industry and manifest a renewed enthusiasm in pursuing the dream of making the country a powerhouse in international tourism, particularly in the Asia-Pacific region.

*"As the... projects of Travellers unfold, it is clear that they embody the Company's confidence in the Philippine tourism industry and manifest a renewed enthusiasm in pursuing the dream of making the country a powerhouse in international tourism...."*

MEGAWORLD



ALLIANCE GLOBAL


MEGAWORLD CORPORATION:
Developing Communities,
Creating Opportunities

MEGAWORLD CORPORATION remains focused on developing large-scale communities that provide almost everything that modern urban families need and more. With this in mind, Megaworld pursued and pioneered the development of integrated townships, or mega-communities, that locate residences, workplaces, commercial centers, and learning institutions in one setting. This holistic development approach came to be known as the "live-work-play-learn" concept and has been the guiding principle of Megaworld's successful development efforts for the past several years.

Megaworld is the real estate arm of Alliance Global Group, Inc. (AGI). For the past couple of years, Megaworld has been riding the crest of a mild real estate boom in the country despite the global economic slowdown.

Indeed, despite the general decline of the real estate markets in the United States and Europe, the outlook on the real estate sector here in the Philippines has remained quite positive. For one thing, the continued expansion of the business process outsourcing (BPO) industry in the country has resulted in a sustained demand for more office spaces and has provided the much-needed boost to the real estate industry as well as thousands of jobs for Filipinos.

Megaworld, being the leading provider of prime office space for the growing local BPO industry and the largest middle-income housing developer, performed creditably in 2008 as it did in the previous year. Net income amounted to P3.8 billion, 25% higher than the P3 billion recorded in 2007. Total revenues also grew to P17.3 billion, 18% more than the P14.6 billion the previous year. This increase in total revenues was due to the strong sales performance of the Company's development projects and increased leasing and hotel operations.

Noteworthy also is the fact that Megaworld's townships have continued to be attractive to its target markets. The continued appeal of the Company's "live-work-play-learn" concept resulted in local residential sales corresponding to over 80% of total sales for 2008. The Middle East was the biggest overseas contributor to real estate sales in 2008, followed by the Asian market.

Staying on track towards its revenue targets for 2009, Megaworld closed the first half of the year with a net income of P2 billion, net of minority interest, contributed P1.1 billion to equity holders of AGI during the period, a third higher than the P896 million posted a year ago.

Indeed, Megaworld's creditable performance in 2008 and the first half of 2009 proved that the Company's overall business strategy continues to reap wonders. Focusing on the avoidance of speculative building, strong pre-selling, and phased office development supported by pre-leasing commitments, Megaworld effectively abated downside risks. Moreover, Megaworld's prudence in financial management coupled with its keen spirit of innovation once again helped solidify its leadership status in the industry as its strong liquidity position buffered the Company against unpredictable changes in the local and global economy.

Megaworld's fine showing over the years has not escaped the watchful eyes of industry pundits. For one thing, Superbrands, a world-renowned arbiter on branding, named Megaworld as one of the Philippines' leading brands in terms of consumer loyalty and preference in 2008. Superbrands identified Megaworld as a brand that performed above and beyond other brands within its respective market.

Hong Kong-based Finance Asia, in its 2007 survey of investment professionals and equity analysts throughout the region, cited Megaworld as the country's best-managed company, the most committed to corporate governance, and the best in investor relations. Asiamoney, in turn, conferred similar awards on Megaworld in 2007: the Philippines' best in investor relations and overall best-managed company. IR Magazine in the same year gave Megaworld the distinction of being the best Philippine company in investor relations in the Singapore market.

These awards and distinctions prove that Megaworld is truly the leader in real estate development in the country today. The Company, however, refuses to rest on its laurels and continues to come up with new and exciting projects.

As such, Megaworld is currently at work on six major developments that aim not only to provide more integrated townships and office spaces to its target markets but also to maintain its leadership in the real estate industry. These township developments all adhere to Megaworld's "live-work-play-learn-shop" concept.

## Eastwood City

Eastwood City is situated on 16 hectares of land in Libis, Quezon City, and is considered the very first "live-work-play" community in the Philippines. Eastwood City currently houses more than 3,000 homeowners and office tenants, among which are IBM Philippines, Citibank's credit card operations, and several call centers.

The community also hosts 12 completed luxury residential condominium towers, seven ongoing residential projects, and a high-end leisure complex. This complex offers residents, tenants, and visitors a total experience encompassing entertainment, shopping, dining, beauty and wellness, and various special events.

The focal point of this pioneering community, however, is the Eastwood City CyberPark, the Philippines' very first IT park. The CyberPark is fully equipped with high-speed telecommunications facilities, uninterruptible power supply, and a computerized security system—appropriate for technology-driven businesses and BPO companies. It is Megaworld's response to the growing demand for office

*"...Megaworld's prudence in financial management coupled with its keen spirit of innovation once again helped solidify its leadership status in the industry...."*

space with infrastructure capable of supporting IT-based operations.

The CyberPark was the very first project to be granted special economic zone status by the Philippine Economic Zone Authority (PEZA). This status confers certain tax incentives to qualified locators, such as an income tax holiday of up to eight years.

The latest addition to Eastwood City is the recently opened Eastwood Mall. The four-level mall occupies 36,000 square meters of space and boasts of a world-class interior design with spacious hallways and luxurious lounges for relaxation. It also features two distinct sections: the Open Park, which is a wide open area with a botanical garden and a lagoon, and the main Mall section, which has several upscale boutiques, specialty shops, a huge atrium, restaurants, and seven state-of-the-art movie houses.

Once fully completed, Eastwood City will be a community of 19 high-rise residential towers with 8,267 condominium units. It will host 250,000 square meters of top-grade office buildings and 58,000 square meters of entertainment and leisure space. This early, it is already regarded as the top employer and dollar earner among all the 70 IT special economic zones in the Philippines.

As the number of employees in Eastwood City continually grows with the entry of more companies and BPO offices, Megaworld continues to build more office spaces and related facilities in the community. In fact, the number of employees in the community is expected to reach 60,000 in 2010 from 30,000 in 2006. The Company, however, ensures that the consequent demand for office spaces and related facilities is adequately met.

### Forbes Town Center

Right at the heart of Bonifacio Global City in Taguig is Megaworld's Forbes Town Center, an impressive P15-billion, five-hectare township project comprising 12 residential towers housing a total of more than 3,544 units. Forbes Town Center, launched back in 2002, is adjacent to the Manila Polo Club, the Manila Golf and Country Club and Forbes Park—traditional emblems of affluent living.

Forbes Town Center boasts of a half-a-kilometer-long view of the adjacent golf course, unique among residential developments in the Global City and a definite eye candy for upscale tenants. Moreover, the high-end retail strip called Forbes Town Road complements the residential towers and has more than a hundred restaurants and shops that cater to the diverse needs of residents and visitors.

Forbes Town Center showcases the three Bellagio towers, the six towers of Forbeswood Heights, and the two towers of Forbeswood Parklane. The newest addition to the township is the recently launched Eight Forbes Town Road Golfview Residences, a 53-story modern edifice made of blue curtain glass and steel and the very last project of Megaworld at the Forbes Town Center. Like the Bellagio towers, Eight Forbes Town Road offers intimate views of the adjacent golf course.

### McKinley Hill

McKinley Hill is Megaworld's biggest development project in Metro Manila so far. A huge 50-hectare mega-community in Fort Bonifacio, the newest center of business in the metropolis, McKinley Hill, once completed, will consist of over 4,713 condominium units, 469 residential lots, and around 180,000 square meters of office space.

McKinley Hill offers the most complete and diverse line of amenities and facilities in any township in the country—single detached homes, mid-rise garden villas, high-rise luxury residences, dormitory-style residences, BPO office buildings, several foreign embassies, a college, international schools, a mall, and an events venue. These elements are in various stages of development and, once completed, will showcase the "live-work-play-learn-shop" concept to the fullest.

The centerpiece of McKinley Hill is its very own business district, the Philippine Economic Zone Authority (PEZA)—accredited ecozone aptly named McKinley Hill CyberPark. Within the CyberPark is One World Square, the ecozone's very first BPO building that boasts of 11 stories and a huge 28,500 square meters of office space. One World Square's current tenants include big companies such as Diageo, Ericsson Telecommunications, Lawson PSSC, Logica, and Western Union Financial Services.

The second and third BPO towers, Two World Square and Three World Square, have also been recently completed with each tower having 15 floors and a combined floor area of 43,937 square meters. The first locators in the two buildings are HP Shared Services, Safeway Philippines, Syngenta Philippines, and industrial giant 3M.

Another major project within the Cyberpark is 8 Park Avenue, a BPO complex composed of two six-story towers each offering 10,800 meters of office space. These two low-rise structures are perfect for call center operations since they give BPO companies the option to lease the whole building without putting too much strain on their operating costs. The relatively small structures also allow BPO companies to provide better security and tighter control over the traffic of people in the area.

The most important and unique feature of 8 Park Avenue, however, is that it is the first solar-powered BPO facility in the country. Solar panels are installed on the buildings' rooftops and aim to harness energy from the sun to power the facility's electrical requirements. Moreover, self-enclosing automatic top closets in washrooms will help in saving around half a million gallons of water annually. Also, an underground cistern collects and filters

*"The continued appeal of the Company's 'live-work-play-learn' concept resulted in local residential sales corresponding to over 80% of total sales for 2008."*

rainwater for watering plants while a zoning system for air conditioning gives tenants the flexibility to cool only specific areas at specified times, especially on days when staffing requirements are low. All these work to make 8 Park Avenue one of the most environment-friendly and ecologically efficient structures in the country today.

The Commerce and Industry Plaza is another BPO hub recently completed in McKinley Hill. This 15-story office tower features open-plan floors with uninterrupted office space of up to 1,600 square meters, providing a kind of work environment suited for the multiple modular workspaces commonly found in BPO offices. The Commerce and Industry Plaza is the only BPO building that is fully integrated with the Venetian Mall, the project's crowning glory. The upcoming mall features a Grand Canal with romantic gondola rides that can take passengers under the famed Rialto Bridge while enjoying the view of other Venetian landmarks such as St. Mark's Tower and the Doge's Palace.

The two newest residential projects in McKinley Hill are The Venice Luxury Residences and the Morgan Suites Executive Residences. The Venice Luxury Residences builds on the theme that spurred the development of the Venetian Mall and will feature seven towers with each tower resembling a fèrro—the gondola's uniquely shaped iron head. Inspired by the architecture, waterways, and romanticism of the legendary Italian city of Venice, the residential complex definitely offers a leisurely and romantic kind of affluent living not normally found in other residential condominiums.

In turn, the Morgan Suites Executive Residences, whose Towers 1 and 2 were launched in 2008, will offer executive studios and one-bedroom suites that are meticulously designed to bring comfort and convenience to residents.

Aside from BPO towers and residential and commercial projects, McKinley Hill also houses the British Embassy, which became operational in July 2008. The Korean Embassy, on the other hand, broke ground in the same month.

Completing the "live-work-play-learn" theme of the community are three international schools offering educational services to residents of McKinley Hill and nearby cities. Two of these learning institutions are already operational. The Chinese International School Manila, the first English-Mandarin bilingual school in the country using an American system of education, already started operations in August 2007. Enderun Colleges, a hotel management school affiliated with Les Roches of Switzerland, is likewise already operating.

The Korean International School, the first Korean school in the country, is currently under construction and, together with the aforementioned Korean Embassy, has bolstered sales expectations from the growing Korean market in the country.

With all its well-planned and intricately designed buildings and residential projects, facilities, and amenities, McKinley Hill has come to be known as the most complete mega-community in the country and the most beautiful township in Metro Manila today.

### Manhattan Garden City

Manhattan Garden City can be found at the heart of Araneta Center in Cubao, the former premier commercial center in Quezon City. The project was born out of Megaworld's vision to support the local government's redevelopment plan for Araneta Center and help regain the commercial center's former glory.

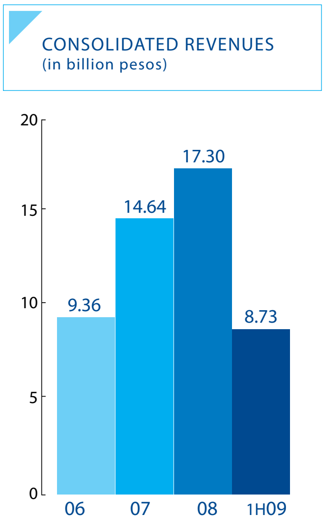
Manhattan Garden City occupies 5.1 hectares of prime land. It is considered the largest single residential development in the country, aside from being the country's first-ever garden-inspired, transit-oriented community. The project is envisioned to have 20 towers that will be interconnected by a 720-meter elevated garden walkway, again a first in Philippine real estate development. Upon its completion, the residential complex will be directly linked to the Light Rail Transit 2 and Metro Rail Transit 3 systems, thus offering better convenience to its residents and enhancing the project's value.

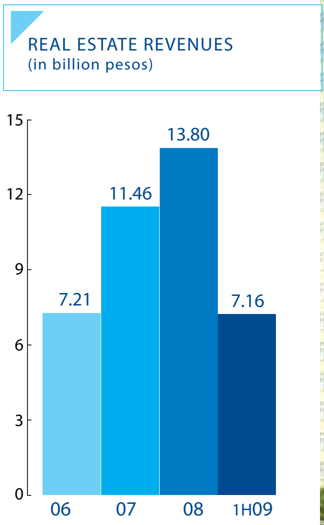
The much-awaited Manhattan Parkview Residences is the newest phase of Manhattan Garden City and was launched in 2008. This three-tower project features tropical landscaping and various amenities such as parks, small gardens, a fitness station, a gym, tennis and basketball courts, jogging pathways, a sauna, a Jacuzzi, a game room, an outdoor spa, upscale ground-level retail shops, a day care center, and a children's play area. These facilities and amenities were designed to provide the ultimate in health, safety, and comfort to residents and visitors.

### Newport City

Megaworld's Newport City is another huge mega-community that fully integrates luxury residences with office spaces and a themed entertainment complex. The P7.64 billion, 25-hectare development is situated at the Villamor Airbase in Pasay City and is right across from the new Terminal 3 of the Ninoy Aquino International Airport (NAIA).

The Residential Resort is Newport City's first residential project and is envisioned to house 16 medium-rise buildings with a total floor area of around 140,000 square meters. The residential complex will house the five residential towers of Pinecrest and the seven-cluster Parkside Villas. The Palmtree Villas, in turn, is the newest phase of the Residential Resort. Once completed, the Palmtree Villas will showcase four 10-story luxury condominium buildings made mostly of glass. What makes the Palm Tree Villas even more exciting for residents is the fact that each bedroom unit will have a glass-railed balcony which opens up to a refreshing view of landscaped gardens and recreational amenities.


CONSOLIDATED REVENUES
(in billion pesos)
20
15
10
5
0
9.36
14.64
17.30
8.73
06
07
08
1H09


REAL ESTATE REVENUES
(in billion pesos)
15
12
9
6
3
0
7.21
11.46
13.80
7.16
06
07
08
1H09

Once all the residential projects in Newport City are completed, they will offer a total of 4,000 sleek, modern, and comfortable condominium units.

The corporate zone of Newport City, in turn, currently hosts 77,000 square meters of office space. This zone will house BPO offices as well as cargo logistics services and airline-related businesses that require workplaces strategically near the new airport.

The most exciting project within Newport City, however, is the 7.8-hectare Resorts World at Manila of affiliate Travellers International. The resort complex will be the first of its kind in the Philippines and will include the country's largest casino, a large mall, and three modern hotels: the 342-room Marriott Hotel; the 172-room all-suites Maxims Hotel, the first of its kind in the country; and the three-star Remington Hotel aimed at budget-seeking visitors. Designed to contribute to the government's drive to make the country a prime tourist destination in Asia, Resorts World at Manila is expected to tap both foreign and domestic travelers and contribute greatly to the country's revenues.

**Cityplace**

Manila's Binondo area plays host to Megaworld's Cityplace, the largest development of its kind in the Binondo district in the last 25 years. This groundbreaking project is envisioned not only to pay homage to the area's rich cultural heritage but enhance and modernize Chinatown's aging landscape as well. Cityplace will stand on a 2.5-hectare lot and will have more than 2,000 residential condominium units. Moreover, in line with Megaworld's vision to create the "New Chinatown," Cityplace will also be home to a world-class shopping center, the 200-meter Chinatown Walk, a public car parking facility, and new bypass roads.

CItyplace's residential zone will cover a total floor area of approximately 81,000 square meters while the commercial units will take up a total floor area of 80,000 square meters. This development project, once completed, will definitely provide a new and modern landmark to one of the oldest and richest business districts in the country.

**Projects in Makati CBD, San Juan**

Through the years, Megaworld's main thrust in project development is the tapping of new but highly promising locations and prepping them to be future centers of business and living. Complementing this, however, the Company also strives to make its presence felt in traditional premier locations like the Makati Central Business District (CBD).

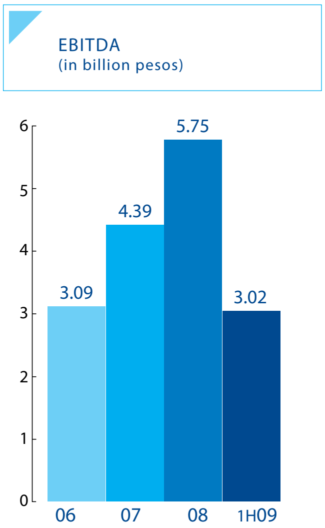
As it stands, Megaworld has six residential projects that specifically cater to the upscale living that Makati City has always been known for. The first two high-end condominium projects of the Company in Makati City were the highly successful Greenbelt Parkplace and Greenbelt Radissons. These were followed by the development of Greenbelt Chancellor, a 35-story condominium project and the Company's first pre-furnished condominium in the Greenbelt area. This was again followed by the launch of the Greenbelt Excelsior, another 35-story residential tower that follows a modernist architectural style.

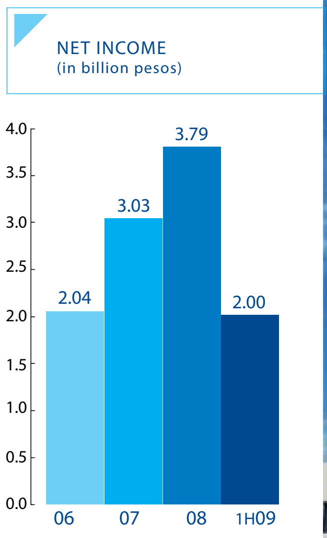
In 2008, Megaworld launched its most prestigious high-rise residential project to date: One Central. The P5.5-billion project is made up of a 50-story residential tower that offers prospective residents the option to acquire units that have treetop, pool, or cityscape views.

One Central is located at the corner of Sen. Gil Puyat Avenue and De la Costa and Geronimo Streets, thus putting residents right in the thick of the action in the Makati CBD. They are also just a stone's throw away from embassies, a short walk from the bustling Ayala Avenue, and just five minutes away from the popular Greenbelt malls.

The newest project of Megaworld in Makati City is the 31-story Greenbelt Madison on Salcedo Street in Legaspi Village. To be launched in 2009, Greenbelt Madison will be situated near Ayala Avenue, the country's main financial artery, and will have a total of 282 executive studios and two-bedroom units. Some of the amenities planned for Greenbelt Madison are a 15-meter lap pool, a gym, a wading pool, and a grand lobby. Parking will be allocated for residents across two basement levels and five podium floors.

Aside from the Makati projects, Megaworld has one ongoing project in San Juan, a proud town with a rich and noble heritage. Named Greenhills Heights, the residential complex was launched in 2008 and is designed to be a low-density community with 215 residential units—perfect for families who value peace and privacy in a classy, upscale setting. Greenhills Heights offers an amenity court, a landscaped pool deck, a gym, and a gazebo—all in a self-enclosed private enclave. Focusing on exclusivity and class, Greenhills Heights is a unique urban retreat sealed off from the city's elements.


EBITDA
(in billion pesos)
3.09
4.39
5.75
3.02
06
07
08
1H09


NET INCOME
(in billion pesos)
2.04
3.03
3.79
2.00
06
07
08
1H09

EMPERADOR DISTILLERS, INC.:

# The Mark of the Discriminating Drinker

ALL PRODUCTS SATISFY the needs and wants of their consumers, in varying degrees. However, there are only a few products that can claim to satisfy those whose tastes are more discerning and refined. One such product is Emperador Brandy.

Emperador Brandy is the flagship product of Emperador Distillers, Inc. (EDI), the food and beverage arm of Alliance Global Group, Inc. (AGI). AGI first entered the distilled spirits manufacturing business in February of 2007 by acquiring 100% of EDI from Consolidated Distillers of the Far East, Inc. and other individual stockholders. EDI has since introduced a new label design for the brandy and embarked on a fresh and aggressive marketing scheme centering on Emperador as the true mark of success and the pursuit of positive Filipino values like hard work, perseverance, and responsibility.

Ever since its inception, Emperador Brandy has accomplished a lot in terms of recognition and sales. Emperador became the world's largest-selling brandy in terms of the number of bottles sold, according to research published in the June 2007 issue of Drinks International, a UK-based beverage magazine.

Emperador was included in Reader's Digest's Trusted Brand Awards—an honor bestowed on brands that have distinguished themselves in terms of quality, value, trustworthiness, strong image, and understanding of customer needs. Emperador was presented the prestigious award four times: in 2004, 2006, 2007, and 2009. This is concrete proof that Emperador has gained the vote of confidence of Asia's consumers, an achievement that no other local brand in the same category has ever attained.

Another product manufactured by EDI is Generoso Brandy, a lighter and sweeter brandy marketed to appeal to young adult drinkers. Together, Emperador and Generoso hold the biggest share in the local brandy market and stand out as the beverages for successful and discerning drinkers.

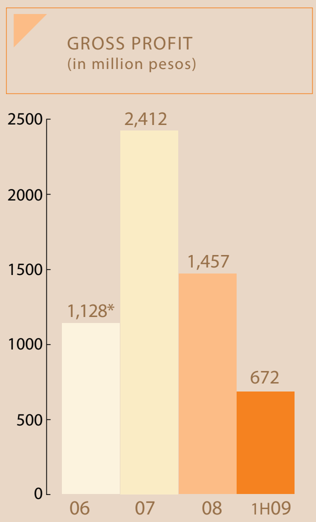
In 2008, EDI's second year with AGI, EDI posted total sales revenues of P5.6 billion despite an industry-wide slowdown in the sales of premium consumer items, brought about by inflation and increasing prices. Nevertheless, EDI's brandy sales for the year contributed 16% to the total revenues of AGI.

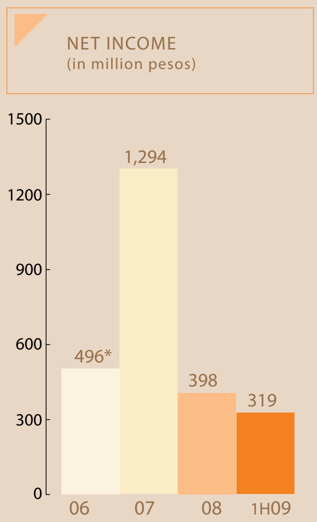
In the same year, EDI came up with a new packaging design for Emperador featuring gold trimmings on both the labels and the cap that gave the product a fresher, more premium image.

The attractive new packaging builds on the image that Emperador has established through the years—that of a quality product appropriate for more discriminating, more successful brandy drinkers. While competing products harp on brandy-drinking as an outlet for fun, Emperador considers the drinking experience as a reward for and manifestation of personal success attained through hard work.

Another milestone for EDI was the launch of The Bar, a new line of flavored alcoholic beverages. The Bar comes in two variants, gin and vodka, and is offered at a slightly more affordable price compared to the premium-priced Emperador brandy. The Bar officially debuted in the first quarter of 2009. The first of its kind in the Philippine market, The Bar is supported by innovative marketing programs currently implemented nationwide. It is expected to contribute to EDI's revenues in the coming months.

The year 2008 and the first six months of 2009 proved to be challenging, to say the least. EDI however, remains focused on the premium segment of the domestic liquor market, as it looks forward to reaping the benefits of an improving economic scenario in the remainder of 2009 and in 2010 .




*Pro Forma

*"In 2008, EDI's second year with AGI, EDI posted total revenues of P5.55 billion despite an industry-wide slowdown in the sales of premium consumer items, brought about by inflation and increasing prices."*


love ko 'to™

GOLDEN ARCHES DEVELOPMENT CORPORATION:

# Bigger and Better

MCDONALD'S IS UNDOUBTEDLY one of the most popular and recognizable brands in the world today. In fact, McDonald's carries the distinction of being the largest franchised food service organization worldwide with more than 31,000 branches around the globe, serving an average of 52 million people in around 119 countries each day.

Golden Arches Development Corporation (GADC) holds the McDonald's master franchise in the Philippines. In 2005, AGI acquired a 49% stake in GADC, thus making it the quick-services leg of its business. Since then, the fast-food chain's local franchise has seen a tremendous increase in activity with GADC opening 72 new restaurants and initiating marketing campaigns such as new product launches, promotions, emotive brand television commercials, and value offers including discount coupons.

McDonald's founder Ray Kroc developed his brand vision for McDonald's around a simple but effective consumer-driven premise: quality, service, cleanliness, and value. GADC, in turn, has ensured that these values remain the cornerstone of the brand and, as a result, the local McDonald's franchise has become known as a trustworthy brand that places the customer needs above all else.

Manifesting the continued success of the franchise, McDonald's revenues in 2008 grew by 13% to P8.4 billion from P7.4 billion the previous year. This improvement came from the expansion of its store chain as 12 company-operated stores were opened during the year, bringing the total number of stores to 173 by year-end. Stores, including sub-franchised ones, totaled 287 nationwide compared to 273 in 2007.

Product promotions also continued to add variety and entice consumer patronage in 2008. Launches in 2008 included the cheeseburger campaign which popularized "pa-cheeseburger ka naman" catch phrase, P50 McSaver Meals, Olympic Coke Glass, flavored Shake Shake fries and couponing efforts like "Back for more treats" and "Fave Savers couponing."

In an effort to protect its margins, however, McDonald's increased its prices about three times during the year as a response to increasing oil and consumer goods prices.

Sustaining the Company's growth momentum in 2008, McDonald's saw its total revenues grow by 17% during the first half of the year to P4.7 billion from P4.0 billion a year ago. Sales, in particular, went up by 16% and revenue from franchised restaurants by 30%. The improvement mainly came from the expansion of its store chain as nine more stores were opened during the first semester, bringing the total number of stores nationwide to 293. Product promotions were also launched during the semester to entice consumer patronage.

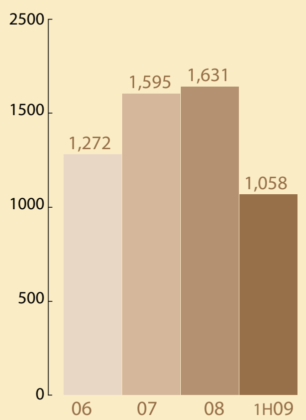
For the remainder of 2009, GADC plans to continue its expansion program by opening at least 13 branches in the remaining months of the year. The redesigning and re-imaging of its existing branches will also continue in order to ensure that the facilities and design of older branches are in step with the new ones and those that have already been renovated.

GADC will also continue its efforts at offering new and exciting sales promotion activities that will ensure that McDonald's remains in tune with constantly changing consumer needs and wants. It will also capitalize on its affiliation with the global McDonald's brand that allows the Company to leverage brand assets like Ice Age and Monsters vs. Aliens.

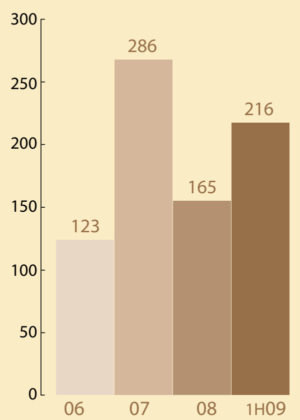
Indeed, the key to GADC's success with McDonald's has been the Company's capacity to touch universal and local consumer needs with such consistency that the essence of the brand has always been relevant to the local culture. Complement this with focused marketing strategies and product innovations, and it is no wonder that McDonald's remains a constant choice among Filipinos when it comes to fast food and refreshments.

For McDonald's, great value and good service are the main ingredients to success. Considering the Company's achievements and expansion in the last 18 months, it is clear that McDonald's just got even bigger and better.

GROSS PROFIT
(in million pesos)




NET INCOME
(in million pesos)



*"Indeed, the key to GADC's success with McDonald's has been the Company's capacity to touch universal and local consumer needs with such consistency that the essence of the brand has always been relevant to the local culture."*


# Board of Directors

ANDREW L. TAN
Chairman and Chief Executive Officer
Alliance Global Group, Inc. and
Megaworld Corporation

SERGIO R. ORTIZ-LUIZ, JR.
Vice-Chairman of the Board
and Independent Director

KINGSON U. SIAN
Director and President

## ANDREW L. TAN

Chairman and Chief Executive Officer – Alliance Global Group, Inc. and Megaworld Corporation

Mr. Tan, 60 years old, Filipino, has served as Chairman of the Board since September 2006 and as the Vice-Chairman of the Board from August 2003 to September 2006. He has broad experience in the real estate, distillery, consumer products marketing and quick service restaurants business. For the past five years, among the positions held and being held by Mr. Tan are: Vice-Chairman and Treasurer of Golden Arches Development Corporation and Golden Arches Realty Corporation; Chairman and CEO of Megaworld Corporation, Megaworld Land, Inc., Megaworld Globus Asia, Inc., Megaworld Homes, Inc., Megaworld Newport Property Holdings, Inc., Mactan Oceanview Properties and Holdings, Inc. and Yorkshire Holdings, Inc.; and Chairman of Empire East Land Holdings, Inc., Empire East Properties, Inc., Emperador Distillers, Inc., Alliance Global Brands, Inc., Eastwood Cyber One Corporation, Megaworld Foundation, Inc., Gilmore Property Marketing Associates, Inc., Townsquare Development Inc., Travellers International Hotel Group, Inc., Sonoma Premier Land, Inc., The Andresons Group, Inc., Raffles & Co, Inc., and Consolidated Distillers of the Far East, Inc. He is also a Director and President of Richmonde Hotel Group International Limited and also sits on the boards of Andresons Global, Inc. and Choice Gourmet Banquet, Inc. Mr. Tan graduated Magna Cum Laude from the University of the East with a degree of Bachelor of Science in Business Administration. He was honored as Biznews Asia's 2008 Business Icon Gold Awardee and conferred in April 2005 the Forward Taguig Award in the Field of Business and Entrepreneurship by the City of Taguig, and in 2004 the "Businessman of the Year" award by Quezon City in recognition of his "visionary leadership" in transforming Eastwood City into a "magnet for investments" and the "most dynamic growth center in Quezon City." In 2003, he was also named Most Outstanding Alumnus of the University of the East.

KATHERINE L. TAN
Director and Treasurer

WINSTON S. CO
Director

ALEJO L. VILLANUEVA, JR.
Independent Director

RENATO M. PIEZAS
Director

## SERGIO R. ORTIZ-LUIS, JR.

Vice-Chairman of the Board and Independent Director

Mr. Ortiz-Luis, Jr., 66 years old, Filipino, was appointed Vice Chairman and elected as Independent Director in September 2007. Mr. Ortiz-Luis is concurrently an Independent Director of Waterfront Philippines, Inc. and a Director of PHILEX Mining Corporation. He is also the President of the Employers Confederation of the Philippines since 2007 and of the Philippine Exporters Confederation, Inc. since 1991. He has also been a Commissioner of the Social Security System since 2002 and the Employers Compensation Commission since 2009. He is the Honorary Chairman and Treasurer of the Philippine Chamber of Commerce and Industry since 2006 and is Vice Chairman of the Export Development Council. He is also a Director of Manila Exposition Complex, Inc. and the Holy Angel Memorial Park. He is the past president of the Rotary Club of Greenmeadows, Quezon City, a Senator of the Philippine Jaycee Senate, and a member of the League of Corporate Foundation and the Council of Advisers of the Philippine National Police. Mr. Ortiz-Luis has broad experience in business management/administration and in the export sector. He obtained his Bachelor of Arts and Bachelor of Science in Business Administration and Masters in Business Administration from the De La Salle College and was awarded Honorary Doctorates in Humanities and Business Technology by the Central Luzon State University and Eulogio Rodriguez Institute of Science and Technology, respectively.

## KINGSON U. SIAN

Director and President

Mr. Sian, 48 years old, Filipino, was appointed as Director and President in February 2007. Mr. Sian is currently the Executive Director of Megaworld Corporation. For the past

5 years, among the positions held by Mr. Sian are: Director and President of Prestige Hotels & Resorts, Inc. (the operator of The Richmonde Hotel), Eastwood Cyber One Corporation, and Megaworld Land, Inc. Mr. Sian was a Vice President of First Pacific Bank Ltd. In Hong Kong from 1990 to 1995. Prior to that, he was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. Mr. Sian graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

## KATHERINE L. TAN

Director and Treasurer

Ms. Tan, 58 years old, Filipino, was appointed as Treasurer and Director on 20 February 2007 to serve the unexpired term of Ms. Cherryll L. Yu, who resigned effective 20 February 2007. Ms. Tan has served as a member of the Board of Directors of Megaworld Corporation since 1989. She likewise served as Treasurer of Megaworld from 1989 to 1994. For the past 5 years, among the other positions held by Mrs. Tan are: Director and President of The Andresons Group, Inc., Choice Gourmet Banquet, Inc., Consolidated Distillers of the Far East, Inc., Andresons Global, Inc. and Raffles & Co., Inc.; and Director and Treasurer of Emperador Distillers, Inc., Alliance Global Brands, Inc., Yorkshire Holdings, Inc. and New Town Land Properties, Inc. She is also a director of McKester Pik-Nik International Limited. Ms. Tan graduated from St. Scholastica's College with a degree in Nutrition.

## WINSTON S. CO

Director

Mr. Co, 51 years old, Filipino, has served as Director since 1998. He was Vice-Chairman of the Board from November 1999 to August 2003, and Chairman from June 1998 to October 1999. His field of expertise is in finance and marketing of consumer products. He is concurrently the Chairman of the Board of Anglo Watsons Glass, Inc.; Director and President of New Town Land Partners, Inc. and Emperador Distillers, Inc.; and Senior Vice-President for sales and marketing operations of Consolidated Distillers of the Far East, Inc. He also sits on the boards of Alliance Global Brands, Inc. and Forbes Town Properties & Holdings, Inc., McKester Pik-Nik International Limited and Raffles & Company, Inc. Mr. Co is a Magna Cum Laude graduate of Jose Rizal College with a Bachelor of Science in Commerce. He is a member of the Philippine Association of National Advertisers and Philippine Marketing Association.

## ALEJO L. VILLANUEVA, JR.

Independent Director

Mr. Villanueva, 68, Filipino, has served as an Independent Director since 22 August 2001. He is concurrently an Independent Director of Empire East Land Holdings, Inc., and director of First Capital Condominium Corporation (a non-stock non-profit corporation of unit owners). He is a professional consultant who has more than 20 years of experience in the fields of training and development, public relations, community relations, institutional communication, and policy advocacy, among others. In the past five years and more, he has done consulting work with the Office of the Vice President, the Office of the Senate President, the Commission on Appointments, the Securities and Exchange Commission, the Home Development Mutual Fund, the Home Insurance Guaranty Corporation, Department of Agriculture, Philippine National Railways, International Rice Research Institute, Rustan's Supermarkets, Louis Berger International (USAID-funded projects on Mindanao growth), World Bank (Subic Conversion Program), Ernst & Young (an agricultural productivity project), Chemonics (an agribusiness project of USAID), Price Waterhouse (BOT program, a USAID project), Andersen Consulting (Mindanao 2000, a USAID project), Renardet S.A. (a project on the Privatization of MWSS, with World Bank funding support), Western Mining Corporation, Phelps Dodge Exploration, and Marubeni Corporation. Mr. Villanueva obtained his Bachelor's Degree in Philosophy from San Beda College, Summa Cum Laude. He has a Master's degree in Philosophy from the University of Hawaii under an East-West Center Fellowship. He also took up special studies in the Humanities at Harvard University. He studied Organizational Behavior at INSEAD in Fontainebleau, France. He taught at the Ateneo Graduate School of Business, the UST Graduate School, and the Asian Institute of Journalism.

## RENATO M. PIEZAS

Director

Mr. Piezas, 42 years old, Filipino, has served as Director since 30 August 2002. He has also served as Corporate Secretary of Yorkshire Holdings, Inc. since 2006. He is also concurrently a Director and Corporate Secretary of Anglo Watsons Glass, Inc. and Corporate Secretary of Eastin Holdings, Inc., Forbes Town Properties & Holdings, Inc., and Oceantown Properties, Inc. Mr. Piezas has substantial experience in marketing and business development. He is at present a Business Development Manager of Megaworld Corporation. He obtained his Bachelor of Science in Mechanical Engineering degree from De La Salle University.

# Corporate Governance

Alliance Global Group, Inc. is committed to the principles and best practices of corporate governance and acknowledges that the same may guide the attainment of its corporate goals.

The Board of Directors and Management believe that corporate governance is a necessary component of what constitutes sound strategic business management and will, therefore, undertake every effort necessary to create awareness within the organization.

In 2005, the Company engaged the services of the Institute of Corporate Directors (ICD) to facilitate a Corporate Governance Training/Seminar for its Board of Directors and executives. The training/seminar included a discussion on the Main Principles of Corporate Governance contained in the Organization for Economic Cooperation and Development (OECD), the Pacific Economic Cooperation Council (PECC) and the Philippine SEC Corporate Governance Code, Responsible Citizenship and Corporate Social Responsibility, Finance in the Corporate Governance Setting and Best Practices of Corporate Governance and Pathways to Reforms.

The Manual on Corporate Governance requires the Company to rotate its external auditor or change the handling partner every five (5) years or earlier, as such, the Company appointed a new engagement partner for the audit of its 2008 financial statements and for the ensuing year.

In 2007, the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee, in accordance with SEC Memorandum Circular No. 6.

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 periodic monitoring and evaluation of the internal control system for corporate governance. The Company likewise maintains an active website wherein the Annual Reports, Quarterly Reports, Financial Statements, and other disclosures are uploaded for easy access and reference by the investing public. 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.

## THE BOARD OF DIRECTORS

The Board is composed of seven (7) directors, two of whom are independent directors.

In 2007, the Board held twenty-five (25) board meetings and one (1) organizational meeting.

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the principles of good corporate governance within the entire organization.

Pursuant to the Company's corporate governance manual, the Company's Board of Directors created each of the following committees and appointed board members thereto.

## AUDIT COMMITTEE

The Company's Audit Committee is responsible for ensuring that all financial reports comply with internal financial management and accounting standards; performing oversight financial management functions; pre-approving all audit plans, scope, and frequency; and performing direct interface functions with internal and external auditors. The Company's Audit Committee has three (3) voting members and two (2) independent directors, one of whom serves as the head of the committee.

## COMPENSATION AND REMUNERATION COMMITTEE

The Company's Compensation and Remuneration Committee is responsible for establishing a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of corporate officers and directors, as well as providing oversight over remuneration of senior management and other key personnel ensuring that compensation is consistent with the Company's culture, strategy, and control environment. The Company's Compensation and Remuneration Committee consists of three (3) voting members, including at least one (1) independent director.

## NOMINATION COMMITTEE

The Company's Nomination Committee pre-screens and shortlists all candidates nominated to become a member of the Board of Directors in accordance with qualifications prescribed by Philippine law and the Company's manual on corporate governance. The Company's Nomination Committee has three (3) voting members, including at least one (1) independent director.

# Management's Discussion and Analysis

## A. KEY PERFORMANCE INDICATORS

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

| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Sales growth | 8.7% | 213% | 11% |
| Net income growth | 21.3% | 466.7% | -73% |
| Net income growth, less extraordinary | | | 108% |
| Net income rate | 20.2% | 18.1% | 10% |
| Net income attributable to equity holders of parent | 13% | 12% | 9% |
| Return on investment | 3.5% | 3.7% | 5% |
| Current ratio | 3.5:1 | 4.3:1 | 1.6:1 |

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

## B. DISCUSSION AND ANALYSIS OF OPERATION

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

### B.1. RESULTS OF OPERATIONS:
### For the Year Ended December 31, 2008 vs. 2007

AGI ended the year 2008 with consolidated net income of P6.1 billion - 21% better than the P5.0 billion recorded a year ago. Net income attributable to equity holders of the parent company improved by 19% year-on-year to P3.9 billion from P3.2 billion a year ago. Such were attributed to the strong results from real estate (RE) led by Megaworld and investment gains. Megaworld closed the year with P3.8 billion net income net of minority interest, thereby contributing P1.8 billion to equity holders of AGI this year, up from P1.2 billion (net of preacquisition income) a year ago.

Revenues from sales of goods and services increased by 8.7% to P30 billion from P28 billion a year ago. Among the three business segments, RE contributed the highest, 51% this year, followed by quick service restaurant (QSR), 28% and food and beverage (F&B), 21%. RE revenues came from sale of residential lots, condominium, and office units; from rental of office spaces; and hotel operations. Sales, in particular, which comprised 81% of revenues grew by 17% to P12.43 billion from P10.61 billion last year. Real estate sales came from the following projects: Bellagio 1, 2 and 3 and Forbeswood Parklane in Fort Bonifacio; One Central Park and Eastwood Le Grand in Eastwood City; Cityplace in Manila; Greenbelt Chancellor in Makati City; McKinley Hill and Newport City in Taguig City. With high occupancy rates in both the BPO office spaces and retail developments plus completion of additional leasing property and escalation rates, rental income went up by 40% to P1.3 billion from P932 million a year ago.

Our consumer products, being premium items, continued to be affected by the rising prices and watchful consumer spending.

Brandy sales slipped by 19% to P5.6 billion from P6.8 billion a year ago. This was primarily attributed to increased competition and inflation. Pik-Nik sales, on the other hand, improved by 22% this year due to penetration of new outlets/markets, with its domestic (i.e. USA) and international sales gaining 23% and 19%, respectively, over last year. Pik-Nik was able to increase its prices in some areas/market towards end of April.

Revenues from McDonald's grew by 13% to P8.4 billion from P7.4 billion a year ago. This improvement came from the expansion of its store chain. Twelve company-operated stores were opened from a year ago, bringing the total number to 173 by year-end. Stores, including sub-franchised ones, totalled 287 nationwide as compared to 273 a year ago. Product promotions continued to add variety and enticed consumer patronage. Launches this year included the Back for more treats, Fave savers couponing, Chicken mcsavers offers, Olympic coke glasses, Sundae season, and Cheeseburger Xmas campaign. Sales prices of selected products have been increased slightly beginning second quarter.

Cost of sales and services went up primarily because RE sales went up. The rising costs of raw materials, fuel and electricity put pressure on the gross profit (GP) margin. Costs of imported materials were also affected by the depreciating peso, particularly on the consumer products. Nevertheless, management was able to implement control measures to ease the pressures so that GP margin for this year was registered at 29% as compared to 30% a year ago. GP margins from RE improved to 36% from 33% while those of F&B and QSR dropped slightly to 26% and 19% from 36% and 22%, respectively. GP from the brandy products was at 26% this year from 33% last year. While McDonald's had instituted selective price increases from second quarter and Pik-Nik in April, Emperador and Generoso were able to make modest price increase in July and September, respectively, only. There were minimal development costs of the new flavoured alcoholic beverage product, The Bar, that were charged to gross profit.

The top three cost components in the manufacture of brandy were raw materials (87%), depreciation (1%) and rent (1%). In the QSR, these were food and paper (47%), rental and utilities (22%), personnel costs (15%), and depreciation and amortization (5%).

Operating expenses went up by 12% as these got affected by the rising cost of fuel, electricity and commodities. Selling expenses went up to P1.71 billion from P1.42 billion a year ago due to higher sales this year which translated to higher commissions and advertising expenses in RE and higher royalty fees in QSR. The aggressive marketing campaign this year for the brandy products resulted in increase in advertising, freight out, travel, fuel and oil. Administrative expenses went up by 7% to P2.4 billion from P2.3 billion a year ago primarily because of increase in prices of supplies, salaries adjustments, and rent escalations.

Finance and other income, net of finance costs and charges, amounted to P2.9 billion from P1.7 billion a year ago. During the year, the group realized gains on sale of equity investments; these, reduced by fair value losses on financial assets, amounted to P1.1 billion.

Tax expense totaled P1.6 billion for the year, as compared to P1.3 billion a year ago as a result of contraction in F&B and QSR income.

EBITDA amounted to P9.6 billion for the year 2008.

### 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 P5.03 billion from P888 million in 2006 -- P3.29 billion 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 from sales of goods and services soared 210% to P27.7 billion in 2007 from P8.8 billion a year ago. The brandy business contributed P7 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, respectively, than a year ago.

Cost of sales and services went up by 170% to P19.3 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 56% to 31% 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 P2.67 billion this year from P192 million a year ago. This came primarily from interest earned on cash and short-term investments that amounted to P2.2 billion in 2007 as compared to P141 million in 2006.

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.

## B.2. LIQUIDITY AND CAPITAL RESOURCES

Consolidated total assets expanded to P112 billion at yearend 2008 from P89 billion at beginning of the year, primarily because of increased activity in the RE segment, including the tourism-oriented projects.

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

Cash and cash equivalents increased by P3.5 billion— from P24.07 billion at the beginning of the year to end at P27.60 billion. Cash flows from operating, financing and investing activities during the year can be found in the consolidated cash flow statements.

Current trade and other receivables increased by P6.1 billion and non-current portion by P1.0 year-on-year primarily due to higher activity in RE business.

Financial assets at FVTPL decreased by P141 million mainly due to the reduction from RE business. These assets are presented at their fair values.

Inventories went up by P1.2 billion because of P630 million more residential and condominium units held for sale and

P372 million finished goods inventory for the distilled spirits manufacturing.

Other current assets increased by P233 million because of additional input vat.

Advances to landowners and joint ventures increased by P165 million as a result of additional advances made to RE joint venture partners.

Land for future development went down by P390 million due to reclassification of account at the start of project development.

Available-for-sale financial assets decreased by P475 million due to reduction in fair value. Such reduction is presented under equity in balance sheet.

Property, plant and equipment increased by P8.5 billion and investment property increased by P1.4 billion due to fast-track construction and development activities in RE segment.

Other non-current assets increased by P428 million as a result of P476 million advances to supplier of an aircraft. The aircraft is intended for the tourism-oriented projects.

Trade and other payables went up by P2 billion as a result of fast-track construction and development activities in RE segment.

Interest-bearing loans and borrowings increased by P2.4 billion and P4.6 billion under current and non-current portions, respectively. This account included P4.5 additional borrowings in RE business. It also included P1.9 billion net loans used to acquire financial assets.

Current and non-current Reserve for property development increased by P420 million and P808 million, respectively, due to costs attributable to various RE projects.

Current and non-current Deferred income on real estate sales increased by P378 million and P493 million, respectively, due to uncompleted projects generating sales during the year.

Bonds payable decreased by P444 million primarily due to dollar translation.

Redeemable preferred shares went down by P33 million due to interest accretion.

Other current and non-current liabilities went up by P96 million and P56 million, respectively, due to unearned income and deferred rent.

The changes in equity components are presented in detail in the consolidated statements of changes in equity.

Treasury shares are AGI shares acquired but not cancelled which are carried at cost. These include shares held by AGI under its buy-back program and those held by certain subsidiaries. The fair value gains (losses) on the shares held by subsidiaries were eliminated in full and were not recognized in the consolidated financial statements.

The buy-back program is being undertaken to create and enhance shareholder value, since current market prices do not reflect the true value of the shares. AGI has confidence in the long-term value of its businesses, including its latest venture in tourism-oriented projects. The program commenced on July 10, 2008 and will continue for 18 months. AGI intends to buy back up to P3 billion worth of shares.

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2008 and 2007 amounted to P55 billion and P44 billion, respectively, while current liabilities for the same respective years-end remained low at P16 billion and P10 billion, respectively. Thus, current ratios were at 3.5:1 and 4.3:1 as of respective year-ends. Debt-to-equity ratios were kept very low at 0.78:1 and 0.53:1 in 2008 and 2007, respectively.

### B.3. PROSPECTS FOR THE FUTURE:

Given heightened worries of a global recession, that has not spared even the best of economies, AGI remains focused on its business programs. The higher cost of commodities, peso depreciation and softening of consumer spending may have affected the business environment, but AGI is committed to facing these challenges head-on. Management will continue to adopt prudent measures to ensure financial sustainability and look for new opportunities that will enhance the overall profitability of the group.

AGI has entered into the tourism sector through Travellers and embarks on two large-scale development projects which will drive revenues into AGI in the next few years.

### B.4. OTHERS

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

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

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

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

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

# 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 31,2008 and 2007 and for each of the three years in the period ended December 31,2008. 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 comittee 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 stock holders 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.

| ANDREW L. TAN | KINGSON U. SIAN | DINA D. INTING |
|---|---|---|
| Chairman of the Board | President | First Vice President for Finance |

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

| Names | CTC | Date of Issue | Place of Issue |
|---|---|---|---|
| Andrew L. Tan | 08221605 | January 8,2009 | Quezon City |
| Kingson U. Sian | 08221645 | January 8,2009 | Quezon City |
| Dina D. Inting | 16401190 | February 5,2008 | Quezon City |

SUBSCRIBED AND SWORN to before me this **APRIL 29 2009**, affiants exhibiting to me their Passport No./SSS No., as follows:

| Names | Passport No./SSS No. | Date of Issue | Place of Issue |
|---|---|---|---|
| Andrew L. Tan | XX0777629 | March 19, 2008 to 2013 | Manila |
| Kingson U. Sian | XX1996220 | September 10, 2008 to 2013 | Manila |
| Dina D. Inting | SSS# 03-5204775-3 | | |

Doc. No. 480;
Page No. 07;
Book No. 3;
Series of 2009

IRWIN C. NIDEA JR.
Notary Public
Until December 31, 2009
PTR 1575565 1/09/2009, Makati City
IBP 764855 12/22/2008, Camarines Sur

# 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

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, 2008 and 2007, 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, 2008, 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 9% and 8% as of December 31, 2008 and 2007, respectively, and total net income constituting 32%, 6% and 24% for the years ended December 31, 2008, 2007 and 2006, 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 consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

***Auditors' Responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audits and the reports of other auditors. 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 consolidated financial statements are free from material misstatement.

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

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

***Opinion***

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Alliance Global Group, Inc. and subsidiaries as of December 31, 2008 and 2007, and of their consolidated financial performance and cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**

**By: Jessie C. Carpio**
Partner
CPA Reg. No. 0057831
TIN 109-227-789
PTR No. 1566062, January 5, 2009, Makati City
SEC Accreditation No. 0011-AR-2
BIR AN 08-002511-6-2008 (Nov. 25, 2008 to 2011)

March 31, 2009

# CONSOLIDATED BALANCE SHEETS

December 31, 2008 and 2007

*(Amounts in Philippine Pesos)*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | 5 | ₱ 27,601,662,533 | ₱ 24,066,590,081 |
| Trade and other receivables - net | 6 | 14,105,701,833 | 7,909,712,467 |
| Financial assets at fair value through profit or loss - net | 7 | 1,834,995,456 | 1,975,897,931 |
| Inventories - net | 8 | 7,728,981,610 | 6,482,232,000 |
| Property development costs | 2 | 2,821,399,894 | 2,737,375,575 |
| Other current assets - net | 9 | 1,072,517,869 | 839,675,257 |
| Total Current Assets | | 55,165,259,195 | 44,011,483,311 |
| **NONCURRENT ASSETS** | | | |
| Trade and other receivables | 6 | 6,743,211,901 | 5,672,422,501 |
| Advances to landowners and joint ventures | 10 | 335,048,101 | 169,383,639 |
| Land for future development | 2 | 1,809,743,589 | 2,199,780,902 |
| Available-for-sale financial assets - net | 11 | 3,948,179,674 | 4,422,853,647 |
| Investments in and advances to associates and other related parties and interest in a joint venture | 12 | 10,150,187,651 | 9,280,098,257 |
| Property, plant and equipment - net | 13 | 13,571,870,591 | 5,050,957,339 |
| Investment property - net | 14 | 7,434,161,121 | 6,005,410,045 |
| Intangible assets - net | 15 | 11,483,665,796 | 11,561,119,524 |
| Deferred tax assets - net | 27 | 266,133,009 | 241,470,542 |
| Other noncurrent assets - net | 9 | 1,183,607,967 | 755,165,620 |
| Total Noncurrent Assets | | 56,925,809,400 | 45,358,662,016 |
| **TOTAL ASSETS** | | ₱ 112,091,068,595 | ₱ 89,370,145,327 |

*(Forward)*

| | Notes | 2008 | 2007 |
|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 16 | ₱ **7,011,242,229** | ₱ 5,011,495,902 |
| Interest-bearing loans and borrowings | 17 | **2,927,396,421** | 510,982,742 |
| Customers' deposits | 2 | **1,032,291,104** | 789,059,627 |
| Reserve for property development | 2 | **2,078,799,883** | 1,658,763,404 |
| Deferred income on real estate sales | 2 | **1 ,180,849,892** | 802,714,242 |
| Income tax payable | | **183,529,706** | 282,440,590 |
| Other current liabilities | 20 | **1,309,337,179** | 1,212,811,608 |
| Total Current Liabilities | | **15,723,446,414** | 10,268,268,115 |
| **NONCURRENT LIABILITIES** | | | |
| Interest-bearing loans and borrowings | 17 | **7,143,988,135** | 2,516,989,323 |
| Bonds payable | 18 | **3,696,290,569** | 4,140,100,000 |
| Customers' deposits | 2 | **990,510,257** | 1,603,157,590 |
| Reserve for property development | 2 | **1,743,300,891** | 934,753,482 |
| Deferred income on real estate sales | 2 | **1,014,902,786** | 521,657,596 |
| Retirement benefit obligation | 26 | **353,601,480** | 232,629,468 |
| Advances from related parties | 28 | **871,199,221** | 647,083,981 |
| Redeemable preferred shares | 19 | **294,718,643** | 261,271,803 |
| Deferred tax liabilities | 27 | **1,896,389,575** | 1,446,479,277 |
| Other noncurrent liabilities | 20 | **1,080,590,749** | 1,024,289,228 |
| Total Noncurrent Liabilities | | **19,085,492,306** | 13,328,411,748 |
| **Total Liabilities** | | **34,808,938,720** | 23,596,679,863 |
| **EQUITY** | | | |
| Equity attributable to equity holders of the parent company: | | | |
| Capital stock | 29 | **10,269,827,979** | 10,269,827,979 |
| Additional paid-in capital | | **27,157,647,455** | 27,157,647,455 |
| Treasury shares | | **( 3,487,548,482)** | ( 1,395,127,506) |
| Revaluation reserves | | **( 1 ,997,417,235)** | 218,863,302 |
| Accumulated translation adjustments | | **59,561,516** | ( 5 28,101,377) |
| Dilution gain | | **45,023,383** | 45,023,383 |
| Retained earnings | | **12,263,183,145** | 8,354,349,181 |
| | | **44,310,277,761** | 44,122,482,417 |
| Minority interest | | **32,971,852,114** | 21,650,983,047 |
| **Total Equity** | | **77,282,129,875** | 65,773,465,464 |
| **TOTAL LIABILITIES AND EQUITY** | | ₱ **112,091,068,595** | ₱ 89,370,145,327 |

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

# Consolidated Income Statements

For The Years Ended December 31, 2008, 2007 and 2006

*(Amounts in Philippine Pesos)*

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sale of goods | | **₱ 14,218,216,295** | ₱ 14,556,248,321 | ₱ 6,992,457,558 |
| Real estate sales | | **12,430,321,088** | 10,606,609,442 | 623,718,000 |
| Rendering of services | 21 | **2,139,809,355** | 1,714,399,806 | 1,254,447,577 |
| Realized gross profit on prior years' real estate sales | | **752,681,262** | 472,578,943 | - |
| Interest income on real estate sales | 6 | **612,320,924** | 382,487,377 | - |
| Finance and other income | 24 | **5,854,200,603** | 2,672,163,507 | 192,571,466 |
| Equity in net earnings of associates and a joint venture - net | 12 | **101,830,925** | 46,857,739 | 409,417,490 |
| | | **36,109,380,452** | 30,451,345,135 | 9,472,612,091 |
| **COST AND EXPENSES** | | | | |
| Cost of goods sold | 22 | **11,033,176,102** | 10,310,489,182 | 5,990,926,339 |
| Cost of real estate sales | 22 | **8,082,125,043** | 7,238,595,819 | 379,867,208 |
| Cost of services | 22 | **595,136,687** | 645,413,338 | 773,618,593 |
| Deferred gross profit on real estate sales | 22 | **1,624,410,655** | 1,072,330,683 | - |
| General and administrative expenses | 23 | **2,428,935,299** | 2,268,528,318 | 478,152,576 |
| Selling expenses | 23 | **1,712,010,259** | 1,419,403,015 | 694,062,099 |
| Finance costs and other charges - net | 25 | **2,921,201,931** | 993,022,217 | 171,378,748 |
| | | **28,396,995,976** | 23,947,782,572 | 8,488,005,563 |
| **INCOME BEFORE TAX AND PREACQUISITION INCOME** | | **7,712,384,476** | 6,503,562,563 | 984,606,528 |
| **TAX EXPENSE** | 27 | **1,606,782,802** | 1,295,243,438 | 96,592,434 |
| **INCOME BEFORE PREACQUISITION INCOME** | | **6,105,601,674** | 5,208,319,125 | 888,014,094 |
| **PREACQUISITION INCOME** | 1 | **-** | ( 175,815,400) | - |
| **NET INCOME** | | **₱ 6,105,601,674** | ₱ 5,032,503,725 | ₱ 888,014,094 |
| Attributable to: | | | | |
| Equity holders of the parent company | | **₱ 3,908,833,964** | ₱ 3,292,586,616 | ₱ 819,038,830 |
| Minority interest | | **2,196,767,710** | 1,739,917,109 | 68,975,264 |
| | | **₱ 6,105,601,674** | ₱ 5,032,503,725 | ₱ 888,014,094 |
| **Earnings Per Share for the Net Income Attributable to the Equity Holders of the Parent Company** | 30 | **₱ 0.3858** | ₱ 0.3768 | ₱ 0.3714 |

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

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

For The Years Ended December 31, 2008, 2007 and 2006

*(Amounts in Philippine Pesos)*

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY** | | | | |
| **Capital Stock** | 29 | | | |
| Balance at beginning of year | | **₱ 10,269,827,979** | ₱ 2,205,181,000 | ₱ 2,205,181,000 |
| Additional issuance during the year | | **-** | 8,064,646,979 | - |
| Balance at end of year | | **10,269,827,979** | 10,269,827,979 | 2,205,181,000 |
| **Additional Paid-in Capital** | 29 | | | |
| Balance at beginning of year | | **27,157,647,455** | 5,232,877,999 | 5,232,877,999 |
| Additional issuance during the year | | **-** | 21,924,769,456 | - |
| Balance at end of year | | **27,157,647,455** | 27,157,647,455 | 5,232,877,999 |
| **Subscriptions Receivable** | | | | |
| Balance at beginning of year | | **-** | ( 986,612,492) | ( 986,612,492) |
| Collections during the year | | **-** | 986,612,492 | - |
| Balance at end of year | | **-** | - | ( 986,612,492) |
| **Treasury Shares - at cost** | 29 | | | |
| Balance at beginning of year | | **( 1,395,127,506)** | - | - |
| Net purchases of treasury shares | | **( 2,092,420,976)** | ( 1,395,127,506) | - |
| Balance at end of year | | **( 3,487,548,482)** | ( 1,395,127,506) | - |
| **Accumulated Translation Adjustments** | | | | |
| Balance at beginning of year | | **( 528,101,377)** | ( 4 6,544,619) | 5,951,829 |
| Currency translation adjustments during the year | | **587,662,893** | ( 481,556,758) | ( 52,496,448) |
| Balance at end of year | | **59,561,516** | ( 528,101,377) | ( 46,544,619) |
| **Share in Net Unrealized Gain on Available-for-Sale Financial Assets of an Associate** | 11 | | | |
| 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 |

*(Forward)*

# Consolidated Statements of Changes in Equity

For The Years Ended December 31, 2008, 2007 and 2006
*(Amounts in Philippine Pesos)*

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **Dilution Gain (Loss)** | 29 | | | |
| Balance at beginning of year | | **45,023,383** | ( 307,137,911) | - |
| Dilution gain (loss) recognized during the year | | **-** | 352,161,294 | ( 307,137,911) |
| Balance at end of year | | **45,023,383** | 45,023,383 | ( 307,137,911) |
| **Revaluation Reserves** | | | | |
| Balance at beginning of year | | **218,863,302** | 12,261,215 | 3,895,661 |
| Revaluation reserve of a newly acquired subsidiary | | **-** | 11,595,904 | - |
| Fair value gains (losses) - net | 11 | **( 2,216,280,537)** | 195,006,183 | 8,365,554 |
| Balance at end of year | | **( 1,997,417,235)** | 218,863,302 | 12,261,215 |
| **Retained Earnings** | 12 | | | |
| Appropriated for capital expenditures | | | | |
| Balance at beginning of year | | **-** | - | - |
| Appropriation during the year | | **446,297,286** | - | - |
| Balance at end of year | | **446,297,286** | - | - |
| Unappropriated | | | | |
| Balance at beginning of year | | **8,354,349,181** | 5,061,762,565 | 4,242,723,735 |
| Appropriation during the year | | **( 446,297,286)** | - | - |
| Net income | | **3,908,833,964** | 3,292,586,616 | 819,038,830 |
| Balance at end of year | | **11,816,885,859** | 8,354,349,181 | 5,061,762,565 |
| Total Retained Earnings | | **12,263,183,145** | 8,354,349,181 | 5,061,762,565 |
| | | **44,310,277,761** | 44,122,482,417 | 11,183,383,661 |
| **MINORITY INTEREST** | | | | |
| Balance at beginning of year | | **21,650,983,047** | 865,182,993 | 870,761,153 |
| Minority interest in additional investments | | **10,093,255,886** | - | - |
| Treasury shares additions during the year | | **( 706,580,033)** | ( 575,976,918) | - |
| Dividend from investee | | **( 263,980,746)** | ( 304,258,042) | ( 7 7,678,424) |
| Deposit for future subscription to shares of stock of a subsidiary | | **1,406,250** | - | - |
| Share in consolidated net income | | **2,196,767,710** | 1,739,917,109 | 68,975,264 |
| Minority interest in a newly acquired consolidated entities | | **-** | 20,849,428,265 | - |
| Sale of interest in a subsidiary | | **-** | ( 9,459,333,774) | - |
| Exercise of stock rights | | **-** | 8,535,929,664 | - |
| Collection of subscriptions receivable | | **-** | 93,750 | 3,125,000 |
| Balance at end of year | | **32,971,852,114** | 21,650,983,047 | 865,182,993 |
| **TOTAL EQUITY** | | **₱ 77,282,129,875** | ₱ 65,773,465,464 | ₱ 12,048,566,654 |
| **Net Gains (Losses) Directly Recognized in Equity** | | **₱ 1,628,617,644** | (₱ 6 5,610,719) | ₱ 339,672,901 |

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

# Consolidated Cash Flow Statements

For The Years Ended December 31, 2008, 2007 and 2006
*(Amounts in Philippine Pesos)*

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Income before tax and preacquisition income | | **₱ 7,712,384,476** | ₱ 6,503,562,563 | ₱ 984,606,528 |
| Adjustments for: | | | | |
| Gain on sale of investment in shares of stock | 24 | **( 2,809,732,873)** | ( 220,000,000) | - |
| Interest income | 24 | **( 2,545,342,840)** | ( 2,248,315,582) | ( 141,596,145) |
| Fair value losses - net | 25 | **1,757,177,853** | 25,135,673 | - |
| Interest expense | 25 | **912,102,027** | 729,136,629 | 144,800,781 |
| Depreciation and amortization | 22, 23 | **829,750,950** | 737,176,477 | 444,573,465 |
| Unrealized foreign currency losses (gains) | 25 | **181,514,868** | 218,782,843 | ( 48,720,000) |
| Equity in net earnings of associates and a joint venture | 12 | **( 101,830,925)** | ( 46,857,739) | ( 409,417,490) |
| Amortization of trademarks | 23 | **100,632,276** | 91,672,731 | - |
| Dividend income | 24 | **( 49,680,085)** | ( 12,295,840) | - |
| Impairment losses | 14 | **43,871,277** | 40,000,000 | 20,453,346 |
| Gain on disposal of property and equipment | 13 | **35,504,331** | - | ( 118,549) |
| Gain on sale of investment in AFS securities | 24 | **( 2,306,450)** | ( 5 ,749,349) | - |
| Losses (gains) from restaurant closings | | **-** | ( 2,663,842) | 52,807,512 |
| Operating income before working capital changes | | **6,064,044,885** | 5,809,584,564 | 1,047,389,448 |
| Decrease (increase) in trade and other receivables | | **( 5,998,086,863)** | ( 4,544,051,224) | 417,260,787 |
| Decrease (increase) in inventories | | **( 1,001,370,701)** | ( 4,064,111,933) | 157,518,442 |
| Decrease (increase) in property development costs | | **( 8 4,024,319)** | 283,966,144 | 388,337,544 |
| Increase in financial assets at fair value through profit or loss | | **( 1,324,696,825)** | ( 635,179,356) | 10,840,627 |
| Decrease (increase) in prepayments and other current assets | | **( 233,107,252)** | ( 375,499,167) | 10,566,797 |
| Increase in trade and other payables | | **1,978,101,236** | 889,200,740 | 980,948,137 |
| Increase in reserve for property development | | **1,228,583,888** | 874,879,989 | - |
| Increase (decrease) in other liabilities | | **( 211,184,377)** | 804,734,970 | ( 129,142,990) |
| Increase in deferred income on real estate sales | | **871,380,840** | 243,038,738 | - |
| Increase in retirement benefit obligations | | **120,972,012** | 123,427,892 | 22,515,992 |
| Decrease in customers' deposits | | **( 369,415,856)** | ( 1,544,157,165) | - |
| Cash generated from (used in) operations | | **1,041,196,668** | ( 2,134,165,808) | 2,906,234,784 |
| Cash paid for taxes | | **( 1,276,179,878)** | ( 688,734,402) | ( 53,614,502) |
| Net Cash From (Used in) Operating Activities | | **( 234,983,210)** | ( 2,822,900,210) | 2,852,620,282 |
| ***Balance carried forward*** | | **(₱ 234,983,210)** | (₱ 2,822,900,210) | ₱ 2,852,620,282 |

# CONSOLIDATED CASH FLOW STATEMENTS

For The Years Ended December 31, 2008, 2007 and 2006

*(Amounts in Philippine Pesos)*

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| ***Balance brought forward*** | | **(₱ 234,983,210)** | (₱ 2,822,900,210) | ₱ 2,852,620,282 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Additions to: | | | | |
| Property, plant and equipment and investment property | 14, 15 | **( 11,108,125,580)** | ( 1,899,619,555) | ( 1,303,009,347) |
| Available-for-sale financial assets | 12 | **( 1,739,300,115)** | ( 4 ,317,273,779) | - |
| Proceeds from sale of investment | 24 | **2,994,450,000** | 320,000,000 | - |
| Payments made for the subscribed common stocks of an associate | | **( 1,967,194,514)** | ( 655,952,266) | - |
| Net decrease (increase) in investments in and advances to associates and other related parties | | **( 256,459,630)** | 480,934,484 | ( 1,488,122,615) |
| Interest received | | **1,111,400,509** | 741,967,590 | 141,596,145 |
| Net decrease in land for future development | | **390,037,313** | 408,504,530 | - |
| Net decrease (increase) in advances to land owners and joint ventures | | **( 165,664,462)** | 12,721,508 | - |
| Cash dividend received | 25 | **49,680,085** | 12,295,840 | 45,676,260 |
| Decrease (increase) in other noncurrent assets | | **96,917,788** | ( 743,409,997) | ( 199,651,244) |
| Acquisition of trademarks | 16 | **( 12,500,000)** | ( 1 ,000,072,767) | - |
| Proceeds from sale of property and equipment | | **10,676,527** | 277,673,381 | 29,209,401 |
| Payments for leasehold rights | | **( 3,500,000)** | - | - |
| Payment made as a result of store closing | | **-** | - | ( 21,093,939) |
| Net Cash Used in Investing Activities | | **( 10,599,582,079)** | ( 6 ,362,231,031) | ( 2,795,395,339) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Proceeds from issuance of capital stock | | **10,094,000,000** | 21,111,389,798 | - |
| Net increase (decrease) in interest-bearing loans and borrowings | | **6,752,829,014** | ( 1,087,928,398) | - |
| Acquisition of treasury shares | | **( 2,092,420,976)** | ( 1,143,508,487) | - |
| Interest paid | | **( 621,518,550)** | ( 667,093,993) | ( 144,800,781) |
| Advances from related parties | | **224,115,240** | 469,975,686 | 4,122,276 |
| Collections of subscriptions receivable | | **-** | 986,612,492 | 3,125,000 |
| Cash dividends paid | | **-** | - | ( 77,678,424) |
| Net Cash From (Used in) Financing Activities | | **14,357,004,728** | 19,669,447,098 | ( 215,231,929) |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **3,522,439,439** | 10,484,315,857 | ( 158,006,986) |
| **BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES** | | **12,633,013** | 12,292,676,829 | - |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **24,066,590,081** | 1,289,597,395 | 1,447,604,381 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **₱ 27,601,662,533** | ₱ 24,066,590,081 | ₱ 1,289,597,395 |

**Supplemental Information on Noncash Investing and Financing Activities**

In the normal course of business, the Group enters into noncash transactions such as exchanges or purchases on account of real estate and other assets. Other noncash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development. These noncash activities are not reflected in the consolidated cash flow statements (see Notes 10 and 14)

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

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008, 2007 and 2006
*(Amounts in Philippine Pesos)*

## 1. CORPORATE INFORMATION

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

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

| | | Percentage of Effective Ownership | |
|---|---|---|---|
| *Subsidiaries/Associates/Jointly Controlled Entity* | Explanatory Notes | 2008 | 2007 |
| ***Subsidiaries*** | | | |
| **Real Estate** | | | |
| Megaworld Corporation (Megaworld) | (a) | **48%** | 46% |
| Travellers International Hotel Group, Inc. (Travellers) | (b, r) | **52%** | 100% |
| New Town Land Partners, Inc. (NTLPI) | (c) | **100%** | 100% |
| First Centro, Inc. (FCI) | | **100%** | 100% |
| Adams Properties, Inc. | (d, r) | **60%** | - |
| Megaworld Resort Estates, Inc. (MREI) | (e, r) | **73%** | 72% |
| Megaworld Land, Inc. (MLI) | (f) | **48%** | 46% |
| Prestige Hotels and Resorts, Inc. | (f) | **48%** | 46% |
| Mactan Oceanview Properties and Holdings, Inc. | (f) | **48%** | 46% |
| Megaworld Cayman Islands, Inc. (MCII) | (f) | **48%** | 46% |
| Richmonde Hotel Group International (RHGI) | (f) | **48%** | 46% |
| Eastwood Cyber One Corporation (ECOC) | (f) | **48%** | 46% |
| Forbes Town Properties and Holdings, Inc. | (f) | **48%** | 46% |
| Megaworld Newport Property Holdings, Inc. | (f) | **48%** | 46% |
| Oceantown Properties, Inc. | (f) | **48%** | 46% |
| Piedmont Property Ventures, Inc. | (f, r) | **48%** | - |
| Stonehaven Land, Inc. | (f, r) | **48%** | - |
| Streamwood Property Inc. | (f, r) | **48%** | - |
| Megaworld-Daewoo Corporation | (f) | **29%** | 28% |
| Megaworld Central Properties, Inc. | (f) | **24%** | 23% |
| Megaworld Globus Asia, Inc. | (f) | **24%** | 23% |
| Townsquare Development, Inc. (TDI) | (f, g) | **44%** | 72% |
| Gilmore Property Marketing Associates Inc. (GPMAI) | (f, g) | **44%** | 72% |
| Philippine International Properties, Inc. | (f, r) | **24%** | 23% |
| Oceanic Realty Group International, Inc. | (h) | **100%** | 66% |
| ERA Real Estate Exchange, Inc. (EREEI) | (h) | **100%** | - |
| First Oceanic Property Management, Inc (FOPMI) | (h) | **100%** | 100% |
| Citylink Coach Services, Inc. | (i) | **100%** | 100% |
| APEC Assets Limited (APEC) | (k, r) | **52%** | - |
| BrightLeisure Management, Inc. | (k, r) | **52%** | - |
| GrandVenture Management Services, Inc. | (k, r) | **52%** | - |
| GrandServices, Inc. | (k, r) | **52%** | - |
| **Food and Beverage** | | | |
| Emperador Distillers, Inc. (EDI) | | **100%** | 100% |
| Anglo Watsons Glass, Inc. (AWGI) | | **100%** | 100% |
| Tradewind Estates, Inc. (TEI) | (c) | **100%** | 100% |
| Great American Foods, Inc. (GAFI) | (l) | **100%** | 100% |
| McKester America, Inc. (MAI) | (l) | **100%** | 100% |
| The Bar Beverage, Inc. (TBBI) | (m, r) | **100%** | - |
| **Quick Service Restaurant** | | | |
| Golden Arches Development Corporation (GADC) | | **49%** | 49% |
| Golden Arches Realty Corporation (GARC) | (n) | **49%** | 49% |
| Clark Mac Enterprises, Inc. | (n) | **49%** | 49% |
| Advance Foods Concepts Manufacturing, Inc. | (n) | **37%** | 49% |
| Davao City Food Industries, Inc. | (n) | **37%** | 37% |
| Golden Laoag Foods Corporation | (n) | **38%** | 34% |
| First Golden Laoag Ventures | (n) | **34%** | 34% |
| Retiro Golden Foods, Inc. | (n) | **34%** | 34% |

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008, 2007 and 2006
*(Amounts in Philippine Pesos)*

| *Subsidiaries/Associates/Jointly Controlled Entity* | **Explanatory Notes** | **Percentage of Effective Ownership 2008** | 2007 |
|---|---|---|---|
| **Corporate and Others** | | | |
| Alliance Global Brands, Inc. (AGBI) | | **100%** | 100% |
| Mckester Pik-Nik International Limited (MPIL) | (c) | **100%** | 100% |
| Emperador International Ltd. (EIL) | (m) | **100%** | 100% |
| Venezia Universal Ltd. (Venezia) | | **100%** | 100% |
| Premium Travellers, Ltd. (PTL) | (l) | **100%** | - |
| Travellers Group, Ltd. (TGL) | (o, r) | **100%** | - |
| ***Associates*** | | | |
| Sonoma Premiere Land, Inc. (SPLI) | (j) | **54%** | 85% |
| Empire East Land Holdings, Inc. (EELHI) | (p) | **23%** | 27% |
| Suntrust Home Developers, Inc. (SHDI) | (p) | **20%** | 20% |
| Palm Tree Holdings and Development Corporation (PTHDC) | (p) | **19%** | 18% |
| ***Jointly Controlled Entity*** | | | |
| Golden City Food Industries, Inc. (GCFII) | (q) | **24%** | 24% |

Notes:

(a) Formerly an associate of AGI that became a subsidiary on February 16, 2007; AGI's percentage of ownership includes direct and indirect interests of FCI and NTLPI of 2.041% and 20.084% in 2008 and 0.855% and 20.084% in 2007, respectively (see Note 1.2)
(b) Formerly wholly owned by FCI in 2007, thus a 100% indirect owned subsidiary of the Company prior to the changes in the corporate structure in 2008 of Travellers (see Note 1.1).
(c) Wholly owned subsidiaries of AGBI
(d) Became a subsidiary in 2008 by way of an increase in ownership interest held during the year; Adams holds 25% ownership interest in Travellers.
(e) Subsidiary acquired in 2007; AGI directly owns 49% while Megaworld 51% which is equivalent to effective interest by AGI through Megaworld of 24.25% in 2008 and 23.65% in 2007.
(f) Subsidiaries of Megaworld; Percentage ownership represents effective interest of AGI.
(g) In 2007, MREI acquired 100% ownerships in GPMAI and TDI which resulted in the Company's indirect interest of 72% each as of December 31, 2007. During 2008, MREI's ownerships in GPMAI and TDI decreased to 60%. As of December 31, 2008, the Company has 44% indirect interest in GPMAI and TDI each.
(h) Wholly owned subsidiaries of FCI
(i) Wholly owned subsidiaries of FOPMI
(j) Formerly named Galleria Corsinni Holdings, Inc., which was 85% owned by FCI in 2007, prior to sale of 31% ownership interest to EELHI in 2008 by way of assignment; Consolidated with EELHI due to its management's control of the financial and operating policies of SPLI.
(k) Wholly owned subsidiary of Travellers
(l) Wholly owned subsidiaries of MPIL
(m) Wholly owned subsidiaries of EDI
(n) Subsidiaries of GADC; Percentage ownership represents effective interest of AGI (o) Subsidiary acquired in December 2008
(o) Subsidiary acquired in 2008
(p) Associates of Megaworld
(q) Incorporated joint venture of GADC
(r) Has not yet started commercial operations as of December 31, 2008

Except for MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, PTL and APEC, the foregoing companies were incorporated in the Philippines and operate within the country. MPIL, EIL, RHGI, Venezia, TGL, PTL and APEC 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.

***1.1 Investment in Travellers***

On June 2, 2008, Travellers was issued by the Philippine Amusement and Gaming Corporation (PAGCOR) a provisional license authorizing it to participate in the development of a portion of the Newport City Project (Site B) and the Bagong Nayong Pilipino Entertainment City Manila Project (Site A), which is part of a larger scale integrated tourism project envisioned by PAGCOR.

The Company and Star Cruises Limited (SCL) of Malaysian conglomerate Genting Group agreed to pursue a strategic working arrangement with the objective of collaborating with the joint development of two large-scale tourism projects in Metro Manila.

Several transactions with other related parties covering the Travellers' shares held by the Company and its subsidiaries took place. As a result of these transactions, the Company and its subsidiaries hold 52.2% ownership interest in Travellers as of December 31, 2008. The effective ownership interest of the Group follows: AGI (20%), Adams (15%), PTL (7.4%) FCI (5%) and Megaworld (4.8%). The balance is held by SCL through its associated entities.

As of December 31, 2008, Travellers is undertaking construction works on Site B to meet its planned commercial operations by September 2009 (see Notes 32.7 and 32.8).

Travellers was established to engage in and hold investments in the business of hotels, restaurants, leisure parks, entertainment centers, gaming activities, and other tourism-oriented businesses.

***1.2 Acquisition of Megaworld***

On February 16, 2007, in a share swap transaction with TAGI and certain other related parties, the Company acquired 25% ownership interest in Megaworld for a total cost of the investment of ₱16.8 billion (see Note 29.1). As the Company has an indirect ownership of 21% through FCI (0.855%) and NTLPI (20.084%) at that time, the acquisition brought the total effective 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 ₱7.6 billion was recognized as goodwill (see Note 15).

As of December 31, 2008, FCI increased its ownership interest by 2% bringing the total ownership interest of the Company in Megaworld and its wholly owned subsidiaries to 48%.

A portion of the consolidated net income of Megaworld in the first quarter of 2007 amounting to ₱175.8 million was allocated to the period before the acquisition date of the additional investment and is presented as Preacquisition Income in the 2007 consolidated income statements. A portion of this amount (₱75.4 million) pertains to the preacquistion income from GPMAI brought about by the Company and Megaworld's acquisition of MREI in 2007. 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 ₱1.83 per rights share. During the offering period in January 2007, NTLPI and FCI, subsidiaries of the Company that held 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 ₱1.1 billion (see Note 15).

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

***1.3 Acquisition of EDI***

On February 16, 2007, the Company purchased 100% ownership interest in EDI from TAGI and individual shareholders, representing 1,002,500,000 shares, for a total cost of ₱1.0 billion, which acquisition was fully paid by the Company. On the same date, the Company subscribed to an additional 997,500,000 shares from the unissued shares of EDI for a total cost of ₱1,997.5 million. The acquisition of EDI was accounted for as a business combination under the purchase method of accounting.As of December 31, 2008 and 2007, the Company has outstanding subscription payable amounting to ₱857.7 million relating to its investment in EDI, which is due and payable upon call for payment by EDI's Board of Directors (BOD).

EDI is engaged primarily in the manufacturing and trading of brandy, wine or other similar alcoholic beverage products. A related party provided operational, logistical and marketing services to EDI until June 1, 2008 when EDI took over operations, the marketing and distribution of its own products.

***1.4 Authorization to Issue the Consolidated Financial Statements***

The consolidated financial statements for the year ended December 31, 2008 (including comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by BOD on March 31, 2009.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

***2.1 Basis of Preparation of Consolidated Financial Statements***

*(a) Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. These consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies in the next page.

*(b) Functional and Presentation Currency*

These consolidated financial statements are presented in Philippine peso, the Company's functional and presentation currency. Except for MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, PTL and APEC, which functional currency is the U.S. dollar, all entities in the Group have Philippine peso as their functional currency. All values represent absolute amounts except when otherwise indicated (see also Note 2.18).

*(c) Reclassification of Accounts*

Certain accounts in the 2007 and 2006 consolidated financial statements have been reclassified to conform to the 2008 consolidated financial statements presentation and classification.

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

*(a) Effective in 2008 that are relevant to the Group*

In 2008, the Group adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

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

*(Amounts in Philippine Pesos)*

| | | |
|---|---|---|
| PAS 39 and PFRS 7 (Amendments) | : | PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial Instruments : Disclosures |

Discussed below are the effects on the consolidated financial statements of the new accounting interpretation and amended standards adopted by the Group.

(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 guidance on assessing the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. The Group's adoption of this interpretation does not have any impact on the Group's financial statements, as it has a retirement benefit obligation that is not subject to any minimum funding requirements.

(ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* and PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:

- Reclassify nonderivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and,

- Transfer from the available-for-sale category to the loans and receivable category those financial assets that would have meet the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification was made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. However, as the Group did not exercise the option to reclassify its financial assets, it determined that the adoption of these amendments has no impact on the 2008 consolidated financial statements.

The first time application of these interpretation and amendments has not resulted in the any prior period adjustments on the balance sheet, net income or cash flows line items.

*(b) Effective in 2008 but not relevant to the Group*

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Group's operations:

| | | |
|---|---|---|
| Philippine Interpretation IFRIC 11 | : | PFRS 2 – Group and Treasury Share Transactions |
| Philippine Interpretation IFRIC 12 | : | Service Concession Arrangements |

*(c) Effective subsequent to 2008*

There are new amended standards and Philippine Interpretations that are effective for periods subsequent to 2008. The following new pronouncements, effective for annual periods beginning on or after January 1, 2009, are relevant to the Group which the Group will apply in accordance with their transitional provisions.

| | | |
|---|---|---|
| PAS 1 (Revised 2007) | : | Presentation of Financial Statements |
| PAS 23 (Revised 2007) | : | Borrowing Costs |
| PAS 27 (Amendment) | : | Consolidated and Separate Financial Statements |
| PAS 32 and PAS 1 (Amendments) | : | Financial Instruments: Presentation and Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation |
| PFRS 2 (Amendment) | : | Share-based Payment |
| PFRS 3 (Revised 2008) | : | Business Combinations |
| PFRS 8 | : | Operating Segments |
| Philippine Interpretations IFRIC 15 | : | Agreements for the Construction of Real Estate |
| Philippine Interpretations IFRIC 16 | : | Hedges of a Net Investment in a Foreign Operation |
| Various Standards | : | 2008 Annual Improvements to PFRS |

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

(i) 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 income statement shall disclose incomtng when control is lost. Any remaining interest in the equity is re-measured to fair value, and any gain or loss is recognized in profit or loss. Based on the initial assessment of management, the adoption of the revisions could have material effect on the Group's consolidated financial statements depending on transactions affecting its ownership interest in its subsidiaries and associates at the time of its adoption beginning on January 1, 2010.

(ii) 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 a qualifying asset shall be capitalized as part of the cost of that 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.

(iii) PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and any gain or loss is recognized in profit or loss. Based on the initial assessment of management, the adoption of the revisions could have material effect on the Group's consolidated financial statements depending on transactions affecting its ownership interest in its subsidiaries and associates at the time of its adoption beginning on January 1, 2010.

(iv) PAS 32 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with noncontrolling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and any gain or loss is recognized in profit or loss. Based on the initial assessment of management, the adoption of the revisions could have material effect on the Group's consolidated financial statements depending on transactions affecting its ownership interest in its subsidiaries and associates at the time of its adoption beginning on January 1, 2010.

(v) PFRS 2 (Amendment), *Shared-based Payment: Vesting Conditions and Cancellations* (effective from January 1, 2009). The amended standard clarifies the definition of vesting conditions and introduces the concept of nonvesting conditions, which are required to be reflected at fair value on the grant date. The Group does not provide share-based payment, except GADC which granted share-based payments as compensation for its key management personnel until 2005. Accordingly, the Group's management does not consider the amendments to have significant impact on the consolidated financial statements.

(vi) PFRS 3 (Revised), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the noncontrolling interest in the acquiree either at fair value or at the noncontrolling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply PFRS 3 (Revised) prospectively from its reporting period beginning January 1, 2010, and may have significant effect on business combinations occurring from the date of the adoption of this revised standard.

(vii) 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.

(viii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate,* (effective from January 1, 2012). This Interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts,* or PAS 18, *Revenue,* and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e. as the construction progresses, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in the consolidated financial statements.

(ix) Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation* (effective from October 1, 2008). This interpretation clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirement of PAS 21, *The Effects of Changes in Foreign Exchange Rates,* does not apply to the hedged item. The Group will adopt this interpretation from January 1, 2009 and management does not epect its application to have a material impact on the Group's consolidated financial statements.

(x) 2008 Annual Improvements to PFRS. The FRSC has issued *Improvements to Philippine Financial Reporting Standards 2008*. These amendments became effective in annual periods beginning on or after January 1, 2009. The Group expects the amendments to the following standards to be relevant to the Group's accounting policies:

- PAS 1 (Amendment), *Presentation of Financial Statements.* The amendment clarifies that financial instruments classified as held-fortrading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead normal classification principles under PAS 1 should be applied. Management assessed that this amendment will have no impact in the Group's 2009 consolidated financial statements.

- PAS 16 (Amendment), *Property, Plant and Equipment* and consequential amendment to PAS 7, *Statement of Cash Flows.* The amendment clarifies that an entity in the course of ordinary activities, sells property, plant and equipment that was held for rental transfers the property, plant and equipment to inventories at carrying amount when they ceased to be rented and are held-for-sale. A consequential amendment to PAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. Also, the term "net selling price" has been replaced with "fair value less cost to sell" in the definition of recoverable amount so as to achieve consistency with the terminology used in PFRS 5. The amendment is not expected to have an impact on the Group's consolidated financial statements.

- PAS 19 (Amendment), *Employee Benefits.* The amendment includes the following:

  - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.

  - Change in the definition of return on plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such cost have been excluded from measurement of the defined benefit obligation.

  - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets,* which requires contingent liabilities to be disclosed and not recognized.

  The Group's management assessed that this amendment to PAS 19 will not have a material effect on its 2009 consolidated financial statements.

- PAS 23 (Amendment), *Borrowing Costs.* The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment will be applied by the Group in 2009, however, management expects its effect to be insignificant.

- PAS 36 (Amendment), *Impairment of Assets.* Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply this amendment in its 2009 consolidated financial statements.

- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. For services, an expense is recognized on receiving the service. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 consolidated financial statements.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held-for-trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 consolidated financial statements.

- PAS 40 (Amendment), *Investment Property* (effective from January 1, 2009). PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Group's consolidated financial statements.

***2.3 Consolidated Financial Statements, Investments 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, 2008 and 2007 and for each of the three years in the period ended December 31, 2008, after the elimination of material intercompany transactions. All intercompany balances and transactions with these companies, including income, expenses and dividends and unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. In addition, shares of stock of the Company acquired by any of these subsidiaries are recognized as treasury stocks and these are presented as deduction in the consolidated statement of changes in equity at cost. Any changes in their market values as recognized separately by the subsidiaries are likewise eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

*(a) Investments in Subsidiaries*

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

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases.

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's accounting policies.

Positive goodwill represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost (see Note 2.10).

*(b) Investments in Associates*

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

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the 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 carrying amount of the Group's investment. Changes resulting from the profit or loss generated by the associate are shown as Equity in Net Earnings (Losses) of Associates in the Group's consolidated income statements and therefore affect the net results of operations of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of the associate's assets and liabilities.

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 nonincome related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments in behalf of the associate.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) *Interests in Joint Ventures*

For interests in jointly controlled operations, the Group recognized in its consolidated financial statements its share of the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. No adjustment or other consolidation procedures are required since the assets, liabilities, income and expenses of the joint venture are recognized in the separate financial statements of the venturers.

For 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 of equity investments to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases of equity shares from minority interests may 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 cash equivalents 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. All financial assets are recognized on their trade date.

All financial assets that are not classified 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 recognized at fair value and transaction costs are expensed in the consolidated income statement.

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.

The categories of financial instruments relevant to the Group 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-fortrading 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 marketable debt securities.

(b) *Loans and Receivables*

Loans and receivables are nonderivative 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 noncurrent 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 financial assets categorized as loans and receivables include Cash and Cash Equivalents, Trade and Other Receivables, and Refundable Deposits under Other Noncurrent Assets in the consolidated balance sheet.

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

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

This includes nonderivative 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 noncurrent assets section 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 financial 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 include investments in marketable equity securities where the Group held no significant influence and whose shares are not listed in the stock exchange (except for shares of EELHI and SHDI) and investments in marketable debt securities designated by management at initial recognition.

Impairment losses recognized on financial assets are presented as part of Finance Costs and Other Charges in the consolidated income statement.

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

Noncompounding 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-inprocess include the cost of direct materials and labor and a proportion of manufacturing. The cost of raw materials include all costs directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

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

***2.6 Real Estate Transactions***

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Land for Future Development account. These costs are reclassified to the Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Group as part of the Property Development Costs account.

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

Property Development Costs and Residential and Condominium Units for Sale under Inventories are valued at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs to complete and the estimated costs necessary to make the sale. 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 a real estate project is charged to operations during the period in which the loss is determined.

***2.7 Property, Plant and Equipment***

Property, plant and equipment 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 2.19).

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 Obligation***

GADC is legally required under various lease agreements to dismantle the installations and restore the leased sites at the end of the lease term. It is also GADC's policy to remove permanent improvements or additions which contain designs and configurations inherent to GADC's business signs, 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***

Properties held for lease under operating lease agreements, which comprise mainly of land, buildings and condominium units, are classified as Investment Property and carried at cost net of accumulated depreciation and any impairment in value (see also Note 2.19). Depreciation of investment property (excluding land) is computed using the straight-line method over the estimated useful lives of the assets ranging from 5 to 25 years.

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

***2.10 Goodwill***

Goodwill (included under Intangible Assets account in the consolidated balance sheet) 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.

***2.11 Trademarks***

Trademarks acquired and used in the production are accounted for under the cost model. These are included under Intangible Assets account in the consolidated balance sheet. The cost of the trademarks is the amount of cash 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 are amortized on a straight-line basis over the estimated useful life of 10 years. In addition, trademarks are subject to impairment testing as described in Note 2.19.

***2.12 Leasehold Rights***

Leasehold rights, which are included under Intangible Assets account in the consolidated balance sheet, are stated at cost, which includes purchase price and other direct costs, less accumulated amortization and any impairment in value. Leasehold rights are amortized on a straight-line basis over the term of the lease.

When leasehold rights are retired or otherwise disposed of, the cost and the related accumulated amortization and any impairment in value are removed from the accounts. Any resulting gain or loss is credited to or charged against current operations.

***2.13 Financial Liabilities***

The categories of financial liabilities relevant to the Group are more fully described below.

*(a) Financial Liabilities at FVTPL*

Financial liabilities are classified in this category if they are from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Group elects to designate a financial liability under this category.

The Company occasionally uses derivative financial instruments, such as foreign exchange forward contracts, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Company's derivative instruments provide economic hedges under the Company's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to net profit or loss for the period.

Included in this category are the derivative financial instruments with negative fair values, presented as part of Other Current Liabilities account in the consolidated balance sheet.

*(b) Financial Liabilities at Amortized Costs*

This category pertains to financial liabilities that are not held-for-trading or not designated as at FVTPL upon inception of the liability. These include liabilities arising from operations or borrowings.

Financial liabilities, which include interest-bearing loans and borrowings, bonds payable, trade and other payables, advances from related parties, redeemable preferred shares and other 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 and Other Charges.

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

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

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 2.17).

Redeemable preferred shares, which are mandatorily redeemable at the option of the holder, are recognized at fair value, net of transaction costs, on inception date and presented as liability in the consolidated 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 part of Interest Expense under Finance Costs and Other Charges in the consolidated income statement.

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

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

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

***2.14 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 consolidated 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 consolidated financial statements.

***2.15 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. The unrealized gross profit on a year's sales is presented as Deferred Gross Profit in the consolidated income statements; the cumulative unrealized gross profit as of the end of the year is shown as Deferred Income on Real Estate Sales (current and noncurrent liabilities) in the consolidated balance sheet.

The sale is recognized when a certain percentage of the total contract price has already been collected. If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated balance sheet.

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 while other subsidiary reports revenues for tax purposes based also on the percentage-of-completion method.

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

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

(c) *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 valueadded tax (VAT) and trade discounts.

Costs and expenses are recognized in the consolidated income statement upon utilization of the service or at the date they are incurred. All finance costs are reported on an accrual basis (see Note 2.16).

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

**2.16 Borrowing Costs**

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

**2.17 Leases**

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

(a) *Group as Lessee*

Leases which transfer to the Group substantially all risks and benefits incidental to ownership of the leased item are classified as finance leases and are recognized as assets and liabilities in the consolidated balance sheet at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of minimum lease payments. 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.

(b) *Group as Lessor*

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

**2.18 Functional Currency and Foreign Currency Transactions**

(a) *Functional and Presentation Currency*

Items included in the consolidated financial statements of the Company 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 peso, which is the Company's functional and presentation currency.

(b) *Transactions and Balances*

Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated income statements.

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

The operating results and financial position of MPIL, GAFI, MAI, EIL, Venezia, RHGI, MCII, TGL, PTL and APEC, which are measured using the U.S. dollars, their functional currency, are translated to Philippine peso, the Company'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 peso should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

**2.19 Impairment of Nonfinancial 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. 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 cashgenerating unit level.

Individual assets or cash-generating units that include goodwill and other intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognized for the amount by which the asset's or cashgenerating 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 losses recognized for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged prorata to the other assets in the cash generating unit. With the exception of goodwill, all assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist.

***2.20 Employee Benefits***

*(a) 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 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 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 Obligation*

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.

*(d) Share-based Payment Transactions*

Prior to 2005, certain employees of GADC receive remuneration in the form of stock options on the shares of McDonald's Corporation (McDonald's). The cost of the stock options is measured by reference to the fair value of the stock options at the date of grant and is based on billings made McDonald's to GADC.

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.

***2.21 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.

***2.22 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 by the Company or its subsidiaries 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 AFS financial assets.

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

***2.23 Earnings Per Share (EPS)***

Basic 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.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares.

***2.24 Segment Reporting***

In identifying its operating segments, management generally follows the Group's operating businesses which are recognized and managed separately according to the nature of the products marketed and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The measurement policies the Group uses for segment reporting are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

## 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 Management Judgments in Applying Accounting Policies***

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

*(a) Impairment of AFS Financial Assets*

The Group follows the guidance of 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 flows. The fair value of the Company's AFS financial assets decreased by ₱2.2 billion in 2008. However, this decrease in fair value is not considered by management as objective evidence that the said financial assets are impaired as the decrease in considered temporary.

*(b) 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.

*(c) 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.

*(d) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Notes 2.14 and 32.

***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)* *Estimated Allowance for Impairment of Trade and Other 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.

An analysis of the net realizable value of trade and other receivables and impairment losses on such receivables are presented in Note 6.

*(b)* *Determining the Net Realizable Values*

In determining the net realizable values of inventories and real estate properties, management takes into account the most reliable evidence available at the times the estimates are made. Net realizable value of real estate properties is one of the key variables used in analyzing property development costs, investment property and land for future development for possible impairment. The Group's core business is subject to changes in market factors that directly affect the demand for inventories and real estate properties such as purchasing power of consumers, degree of competition, and other market-related factors. Future realization of inventories and real estate properties is affected by price changes in the costs incurred necessary to make a sale. Changes in the sources of estimation may cause significant adjustments to the Group's inventories and real estate properties within the next financial year.

*(c)* *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.

An analysis of the net realizable value of inventories and impairment losses on such inventories are presented in Note 8.

*(d)* *Useful Lives of Property, Plant and Equipment, Investment Property and Intangible Assets*

The Group estimates the useful lives of property, plant and equipment, investment property and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment, investment property and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant equipment, investment property and intangible assets are analyzed in Notes 13, 14 and 15, respectively. Actual results, however, may vary due to changes in factors mentioned above. Based on management assessment, no change in the estimated useful lives of the assets is necessary as of December 31, 2008 and 2007.

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

Investment Property is measured using the cost model. The fair value disclosed in Note 14 to the consolidated financial statements is determined by the Group using the discounted cash flows valuation technique since the information on current or recent prices of investment property is not available. The Group uses assumptions that are mainly based on market conditions existing at each 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.

*(f)* *Recognition of 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.

ARO amounted to ₱15.5 million and ₱12.7 million as of December 31, 2008 and 2007, respectively (see Note 20).

*(g)* *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-ofcompletion method requires the Group to estimate the portion completed to date as a proportion of the total budgeted cost of the project.

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

*(i)* *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at 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. An analysis of the carrying amount of deferred tax assets is presented in Note 27.

*(j)* *Impairment of Nonfinancial Assets*

Except for intangible assets with indefinite useful lives which are reviewed annually for impairment, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of nonfinancial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

*(k)* *Retirement Benefits*

The determination of the Group's obligation and cost of 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.

The estimated present value of the retirement benefit obligation, fair value of plan assets and net unrecognized actuarial gains and losses are presented in Note 26.

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

The Group is organized into three major business segments, namely food and beverage, real estate, and quick service restaurant. Entities not classified under the three main business segments are retained as part of corporate and investments. As follows is the basis of the Group in reporting its primary segment information.

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

(b) The *Real Estate* segment is engaged in the development of real estate, leasing of properties, hotel operations and tourism-oriented businesses.

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

### *4.2 Segment Assets and Liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, property, plant and equipment, intangibles assets and investment property. Segment liabilities include all operating liabilities and consist principally of trade and other payables, loans, customers' deposits, bonds payable and accrued liabilities.

### *4.3 Intersegment Transactions*

Segment revenues, expenses and performance include sales and purchases between business segments. Such sales and purchases are eliminated in consolidation.

The following tables present revenue and profit information regarding business segments for the years ended December 31, 2008, 2007 and 2006 and certain asset and liability information regarding segments at December 31, 2008, 2007 and 2006 (amounts in millions).

| | Food and Beverage | Real Estate | Quick Service Restaurant | Corporate and Investments | Consolidated |
|---|---|---|---|---|---|
| **2008** | | | | | |
| **REVENUES** | ₱ 5,832 | ₱ 17,979 | ₱ 8,590 | ₱ 3,708 | ₱ 36,109 |
| **RESULTS** | | | | | |
| Segment results | ₱ 711 | ₱ 4,635 | ₱ 328 | ₱ 2,038 | ₱ 7,712 |
| Tax expense | | | | | ( 1,607) |
| Net income | | | | | ₱ 6,105 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | ₱ 6,756 | ₱ 94,244 | ₱ 6,627 | ₱ 4,464 | ₱ 112,091 |
| Total liabilities | ₱ 269 | ₱ 24,995 | ₱ 3,477 | ₱ 6,068 | ₱ 34,809 |
| **OTHER SEGMENTINFORMATION** | | | | | |
| Capital expenditures | ₱ 117 | ₱ 10,188 | ₱ 793 | ₱ 10 | ₱ 11,108 |
| Depreciation and amortization | 202 | 247 | 379 | 2 | 830 |

*(Amounts in Philippine Pesos)*

| 2007 | Food and Beverage | Real Estate | Quick Service Restaurant | Corporate and Investments | Consolidated |
|---|---|---|---|---|---|
| **REVENUES** | ₱ 7,173 | ₱ 14,958 | ₱ 7,497 | ₱ 823 | ₱ 30,451 |
| **RESULTS** | | | | | |
| Segment results | ₱ 1,926 | ₱ 3,855 | ₱ 455 | ₱ 268 | ₱ 6,504 |
| Tax expense | | | | | ( 1,295) |
| Income before preacquisition income | | | | | 5,209 |
| Preacquisition income | | | | | ( 176) |
| Net income | | | | | ₱ 5,033 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | ₱ 6,704 | ₱ 66,055 | ₱ 5,958 | ₱ 10,653 | ₱ 89,370 |
| Total liabilities | ₱ 1,397 | ₱ 19,296 | ₱ 2,868 | ₱ 36 | ₱ 23,597 |
| **OTHER SEGMENT INFORMATION** | | | | | |
| Capital expenditures | ₱ 547 | ₱ 417 | ₱ 547 | ₱ - | ₱ 1,512 |
| Depreciation and amortization | 180 | 226 | 329 | 2 | 737 |

| 2006 | Food and Beverage | Real Estate | Quick Service Restaurant | Corporate and Investments | Consolidated |
|---|---|---|---|---|---|
| **REVENUES** | ₱ 1,201 | ₱ 1,035 | ₱ 6,727 | ₱ 509 | ₱ 9,472 |
| **RESULTS** | | | | | |
| Segment results | ₱ 68 | ₱ 650 | ₱ 198 | ₱ 69 | ₱ 985 |
| Tax expense | | | | | ( 97) |
| Net income | | | | | ₱ 888 |
| **ASSETS AND LIABILITIES** | | | | | |
| Total assets | ₱ 1,839 | ₱ 7,971 | ₱ 5,459 | ₱ 559 | ₱ 15,828 |
| Total liabilities | ₱ 185 | ₱ 1,031 | ₱ 2,554 | ₱ 10 | ₱ 3,780 |
| **OTHER SEGMENT INFORMATION** | | | | | |
| Capital expenditures | ₱ 662 | ₱ - | ₱ 641 | ₱ - | ₱ 1,303 |
| Depreciation and amortization | 129 | 1 | 311 | 3 | 444 |

## 5. CASH AND CASH EQUIVALENTS

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

| | Note | **2008** | 2007 |
|---|---|---|---|
| Cash on hand and in banks | | ₱ **1,544,895,567** | ₱ 1,127,004,568 |
| Short-term placements | 17 | **26,056,766,966** | 22,939,585,513 |
| | | ₱ **27,601,662,533** | ₱ 24,066,590,081 |

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.

A portion of short-term placements placed with a certain bank is covered by a set-off provision. The amount of compensating loan set-off against short-term placements amounts to U.S.$26.6 million (P1.1 billion) as of December 31, 2007 (see Note 17). There are no compensating loans set-off in short-term placements as of December 31, 2008.

## 6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

| | Note | 2008 | 2007 |
|---|---|---|---|
| Current: | | | |
| Trade | 28 | ₱ 13,135,749,023 | ₱ 7,419,015,762 |
| Accrued interest receivable | | 226,183,331 | 61,316,935 |
| Advances to contractors and suppliers | | 492,497,844 | 182,615,018 |
| Advances to employees and related parties | 28 | 123,474,020 | 63,237,360 |
| Others | | 223,259,695 | 227,016,046 |
| | | 14,201,163,913 | 7,953,201,121 |
| Allowance for impairment | | ( 95,462,080) | ( 43,488,654) |
| | | ₱ 14,105,701,833 | ₱ 7,909,712,467 |
| Noncurrent: | | | |
| Trade | | ₱ 6,742,185,477 | ₱ 5,664,985,816 |
| Others | | 1,026,424 | 7,436,685 |
| | | ₱ 6,743,211,901 | ₱ 5,672,422,501 |

A reconciliation of the allowance for impairment at beginning and end of 2008 and 2007 is shown below.

| | Note | 2008 | 2007 |
|---|---|---|---|
| Balance at beginning of year | | ₱ 43,488,654 | ₱ 32,236,883 |
| Impairment loss during the year | 25 | 65,396,395 | 19,840,806 |
| Recovery of allowance previously written off | | ( 11,473,456) | - |
| Write-off of trade receivables previously provided with allowance | | ( 1,783,690) | - |
| Reversal due to collection of accounts | | ( 165,823) | ( 15,452,167) |
| Addition from newly acquired subsidiary | | - | 6,863,132 |
| | | ₱ 95,462,080 | ₱ 43,488,654 |

Certain trade receivables from real estate customers are covered by postdated checks. The installment period of real estate sales contracts ranges from one to five years. The title to the real estate properties remains with the Group until the receivables are fully collected. Trade receivables are noninterest-bearing and are remeasured at amortized cost using the effective interest rate. Interest income recognized amounted to P612.3 million in 2008 and P382.5 million in 2007 and are presented under Interest Income on Real Estate Sales account in the consolidated income statements.

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.

Other 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. 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.

The carrying amounts of other short-term trade and other receivables are determined by management as the reasonable approximation of their fair values.

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

This account consists of investments in marketable debt securities which are measured at their fair values determined directly by reference to published prices quoted in an active market as of December 31, 2008 and 2007. The changes in fair values of these financial assets are presented as Fair Value Losses under Finance Costs and Other Charges in the consolidated income statements (see Note 25).

A portion of the investments in marketable debt securities placed with certain banks are covered by a set-off provision. The loans set-off against marketable debt securities amounted to U.S.$37.9 million (P1.82 billion) as of December 31, 2008. There are no compensating loans set-off in marketable securities as of December 31, 2007.

## 8. INVENTORIES

The details of inventories are shown below.

| | Note | 2008 | 2007 |
|---|---|---|---|
| At cost: | | | |
| Finished goods | | ₱ 705,133,429 | ₱ 274,605,594 |
| Work-in process | | 10,510,172 | 1,381,200 |
| Raw materials | | 711,404,434 | 620,847,116 |
| Residential and condominium units held for sale | 9 | 5,864,958,827 | 5,231,733,608 |
| | | 7,292,006,862 | 6,128,567,518 |
| Supplies and other consumables – at net realizable value | | 436,974,748 | 353,664,482 |
| | | ₱ 7,728,981,610 | ₱ 6,482,232,000 |

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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.

As discussed in Note 1.3, starting June 1, 2008, EDI carries its manufactured but unsold products as finished goods inventory. Previously, all products manufactured were delivered to and considered sold to Consolidated Distillers of the Far East, Inc. (Condis), a related party under common ownership. Accordingly, as of December 31, 2007, EDI has no finished goods inventory. EDI agrees to warehouse the unsold finished goods inventories of Condis as of June 1, 2008 at no cost while retaining the risks and rewards of ownership with Condis until such time these are sold to EDI.

A reconciliation of the allowance for impairment is shown below.

| | Note | 2008 | 2007 |
|---|---|---|---|
| Balance at beginning of year | | ₱ 21,769,152 | ₱ 37,789,048 |
| Impairment loss during the year | 23 | 31,906,987 | 9,028,821 |
| Reversal of write-down | | ( 3,258,171) | ( 25,048,717) |
| Balance at end of year | | ₱ 50,417,968 | ₱ 21,769,152 |

Impairment loss on inventories of P31.9 million in 2008, P9.0 million in 2007 and P10.9 million in 2006 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 P3.3 million and P25.0 million in 2008 and 2007 were recognized by GADC due to disposal to third parties of items previously written down. The reversals are shown as part of Miscellaneous under Finance and Other Income in the consolidated income statements (see Note 24).

## 9. OTHER ASSETS

The details of this account are shown below.

| | 2008 | 2007 |
|---|---|---|
| Current: | | |
| Input VAT | ₱ 404,311,107 | ₱ 215,870,296 |
| Prepayments | 257,205,800 | 281,350,119 |
| Creditable withholding tax | 247,959,594 | 221,446,324 |
| Others | 163,041,368 | 121,008,518 |
| | ₱ 1,072,517,869 | ₱ 839,675,257 |
| Noncurrent: | | |
| Advances to a supplier | ₱ 476,064,000 | ₱ - |
| Refundable deposits | 265,108,476 | 331,865,135 |
| Deferred input VAT – net | 132,886,594 | 158,890,127 |
| Claims for tax refund | 119,602,964 | 168,517,399 |
| Prepaid rent | 47,816,733 | 49,855,938 |
| Others | 142,129,200 | 46,037,021 |
| | ₱ 1,183,607,967 | ₱ 755,165,620 |

Advances to a supplier pertains to payments for the production of an aircraft, assumedby APEC from Genting Management Services, Inc (Genting). Upon commencement of APEC's commercial operations, APEC will hold the assets and generate revenue related to air transportation services to be provided to Traveller's valued clients.

A portion of the net deferred input VAT is recognized from the acquisition of assets by EDI from Condis in 2007 amounting to ₱213.4 million. Of this amount, ₱160.2 million is attributed to the purchase of intangible assets, property and equipment and supplies which will be amortized over 60 months in accordance with the prevailing tax regulations. Amortization of input VAT, claimed against output tax arising from this transaction, amounts to ₱32.1 million in 2008 and ₱32.0 million in 2007.

## 10. 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 predevelopment 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 land 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 for construction expenditures amount to:

| | 2008 | 2007 |
|---|---|---|
| Total commitment | ₱ 6,164,100,646 | ₱ 5,673,848,677 |
| Expenditures incurred | ( 3,244,787,600) | ( 3,065,838,608) |
| Net commitment | ₱ 2,919,313,046 | ₱ 2,608,010,069 |

Megaworld's interests on jointly-controlled operations and projects range from 72% to 95% in both 2008 and 2007. The list of Megaworld's jointly controlled projects are as follows:

- McKinley Hills (see Note 32.4)
- Newport City
- Manhattan Parkway Residences
- Greenbelt Excelsior
- Forbeswood Heights
- Forbeswood Parklane 1 & 2

As of December 31, 2008 and 2007, the Group has no other contingent liabilities with regard to these joint ventures or the probability of loss that may arise from contingent liabilities is remote.

## 11. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following:

| | Note | 2008 | 2007 |
|---|---|---|---|
| Investment in debt instruments | 17 | ₱ 3,273,653,414 | ₱ 2,801,582,386 |
| Investment in equity instruments | | 674,526,260 | 1,621,271,261 |
| | | ₱ 3,948,179,674 | ₱ 4,422,853,647 |

The fair values of AFS financial assets have been determined directly by reference to published prices in an active market. The aggregate cost of AFS financial assets as of December 31, 2008 and 2007 amounted to ₱4.1 billion and ₱3.2 billion, respectively. The fair value gains (losses) arising from the investments in AFS financial assets are reported as part of Fair Value Gains (Losses) under Revaluation Reserves in the equity section of the consolidated balance sheets.

## 12. INVESTMENTS IN AND ADVANCES TO ASSOCIATES AND OTHER RELATED PARTIES AND INTEREST IN A JOINT VENTURE

### *12.1 Breakdown of Carrying Values*

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

| | 2008 | 2007 |
|---|---|---|
| Investments of Megaworld in associates at equity | | |
| Acquisition costs: | | |
| EELHI | ₱ 5,726,128,415 | ₱ 6,896,782,126 |
| SHDI | 875,445,000 | 875,445,000 |
| PTHDC | 64,665,000 | 64,665,000 |
| | 6,666,238,415 | 7,836,892,126 |
| Less: Subscription payable to EELHI | - | 1,948,900,176 |
| | 6,666,238,415 | 5,887,991,950 |
| Accumulated equity in net earnings of associates: | | |
| Balance at beginning of year | 1,148,146,700 | 1,103,646,026 |
| Deductions due to sale of investment | ( 12,051,075) | - |
| Equity in net earnings | 101,752,743 | 44,500,674 |
| Balance at end of year | 1,237,848,368 | 1,148,146,700 |
| | 7,904,086,783 | 7,036,138,650 |
| Investment of FCI in SPLI at equity | | |
| Acquisition cost | 200,000,000 | - |
| Equity in net loss | ( 1,507,216) | - |
| | 198,492,784 | - |
| Investment of GADC in GCFII, a joint venture – acquisition cost | 10,000,000 | 10,000,000 |
| Accumulated equity in net earnings in a joint venture | | |
| Beginning of year | 6,283,463 | 3,926,398 |
| Equity in net earnings | 1,585,398 | 2,357,065 |
| Balance at end of year | 7,868,861 | 6,283,463 |
| | 17,868,861 | 16,283,463 |
| Advances to associates and other related parties (see Note 28.5) | 2,029,739,223 | 2,227,676,144 |
| | ₱ 10,150,187,651 | ₱ 9,280,098,257 |

The total quoted or market value of investment in the listed associates amounted to ₱2.4 billion and ₱5.5 billion as of December 31, 2008 and 2007, respectively. In making assessment for impairment, the Company's management considered the book values of the shares of these associates. As the related book values in 2008 and 2007 were substantially in excess of cost and market values, no impairment losses were deemed necessary.

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The total balance of the Equity in Net Earnings of ₱1.2 billion and ₱1.2 billion as of December 31, 2008 and 2007, respectively, which is lodged in the Group's Retained Earnings as of those dates, is not available for declaration as dividend.

***12.2 Investment in EELHI***

In connection with the stock rights offering by EELHI in 2007 and in compliance with the requirements of the PSE, Megaworld committed to purchase any of the unsubscribed portion of the rights offer after the completion of the offer to EELHI shareholders.

In November 2007, Megaworld subscribed to additional shares of EELHI representing 14.5% of equity, at ₱1 par value or for a total subscription price of ₱2.6 billion, of which ₱656.0 million had been paid as of December 31, 2007 and the balance fully paid in January 2008. The additional equity resulted in 59.8% equity interest of Megaworld in EELHI as of December 31, 2007 and a nominal goodwill of ₱466.1 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. In June 2008, Megaworld sold 1.2 billion of the abovementioned EELHI shares (as a block sale) at ₱1.01 per share which brought down Megaworld's ownership interest in EELHI from 59.8% to 48.4%.

***12.3 Summarized Financial Information***

The aggregated amounts of assets, liabilities, revenues and net income (loss) of the associates are as follows (in thousands):

| | Assets | Liabilities | Revenues | Net Income (Loss) |
|---|---|---|---|---|
| **2008:** | | | | |
| EELHI | ₱ 26,224,207 | ₱ 8,774,674 | ₱ 1,979,009 | ₱ 213,260 |
| PTHDC | 1,146,438 | 1,012,042 | 4,400 | 2,619 |
| SHDI | 581,036 | 478,774 | 10 | (74,298) |
| SPLI | 513,325 | 18,694 | - | (3,768) |
| GCFII | 43,529 | 7,792 | 60,289 | 3,171 |
| | **₱ 28,508,535** | **₱ 10,291,976** | **₱ 2,043,708** | **₱ 140,984** |
| 2007: | | | | |
| EELHI | ₱ 22,649,780 | ₱ 7,644,533 | ₱ 3,140,024 | ₱ 307,258 |
| SHDI | 2,608,508 | 2,362,053 | 361,446 | (277,951) |
| PTHDC | 1,141,430 | 1,009,653 | 13,975 | 4,523 |
| SPLI | 512,275 | 13,877 | - | (1,601) |
| GCFII | 37,977 | 5,430 | 60,229 | 4,714 |
| | ₱ 26,949,970 | ₱ 11,035,546 | ₱ 3,575,674 | ₱ 36,943 |

## 13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment at the beginning and end of 2008 and 2007 are shown below.

| | Land and Land Improvement | Buildings and Leasehold Improvement | Machinery and Equipment | Transportation Equipment | Fixtures and Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| December 31, 2008 | | | | | | | |
| Cost | ₱ 3,454,163,026 | ₱ 4,741,595,274 | ₱ 2,693,910,049 | ₱ 274,530,245 | ₱ 789,681,746 | ₱ 5,270,363,731 | ₱ 7,224,244,071 |
| Accumulated depreciation, amortization and impairment | (56,562,113) | (1,719,808,588) | (1,337,631,878) | (89,842,121) | (448,528,780) | - | (3,652,373,480) |
| Net carrying amount | **₱ 3,397,600,913** | **₱ 3,021,786,686** | **₱ 1,356,278,171** | **₱ 184,688,124** | **₱ 341,152,966** | **₱ 5,270,363,731** | **₱13,571,870,591** |
| December 31, 2007 | | | | | | | |
| Cost | ₱ 394,993,808 | ₱ 4,397,593,164 | ₱ 2,592,913,911 | ₱ 169,706,956 | ₱ 726,218,535 | ₱ 86,092,583 | ₱ 8,367,518,957 |
| Accumulated depreciation, amortization and impairment | (48,337,300) | (1,458,749,298) | (1,336,282,883) | (81,503,940) | (391,688,197) | - | (3,316,561,618) |
| Net carrying amount | ₱ 346,656,508 | ₱ 2,938,843,866 | ₱ 1,256,631,028 | ₱ 88,203,016 | ₱ 334,530,338 | ₱ 86,092,583 | ₱ 5,050,957,339 |
| January 1, 2007 | | | | | | | |
| Cost | ₱ 327,509,300 | ₱ 2,082,897,972 | ₱ 1,905,712,839 | ₱ 100,931,284 | ₱ 576,261,931 | ₱ 74,058,990 | ₱ 5,067,372,316 |
| Accumulated depreciation, amortization and impairment | (41,576,636) | (1,027,077,023) | (1,078,732,990) | (56,101,228) | (329,226,177) | - | (2,532,714,054) |
| Net carrying amount | ₱ 285,932,664 | ₱ 1,055,820,949 | ₱ 826,979,849 | ₱ 44,830,056 | ₱ 247,035,754 | ₱ 74,058,990 | ₱ 2,534,658,262 |

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of property, plant and equipment is shown below.

| | Land and Land Improvement | Buildings and Leasehold Improvement | Machinery and Equipment | Transportation Equipment | Fixtures and Other Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|
| Balance at January 1, 2008, net of accumulated depreciation and amortization | ₱ 346,656,508 | ₱ 2,938,843,866 | ₱ 1,256,631,028 | ₱ 88,203,016 | ₱ 334,530,338 | ₱ 86,092,583 | ₱ 5,050,957,339 |
| Additions | 3,125,185,825 | 423,336,033 | 380,044,605 | 122,334,434 | 63,406,319 | 5,233,977,916 | 9,348,285,132 |
| Reclassifications – net | ( 66,016,607) | ( 57,205) | 12,361,056 | ( 821,571) | 1,577,112 | ( 49,706,768) | ( 102,663,983) |
| Disposals – net | ( - ) | ( 18,106,359) | ( 21,045,056) | ( 1,943,144) | ( 78,742) | - | ( 41,173,301) |
| Impairment | - | ( 32,562,448) | ( 11,308,829) | - | - | - | ( 43,871,277) |
| Depreciation and amortization charges for the year | ( 8,224,813) | ( 289,667,201) | ( 260,404,633) | ( 23,084,611) | ( 58,282,061) | - | ( 639,663,319) |
| Balance at December 31, 2008, net of accumulated depreciation amortization and impairment | **₱ 3,397,600,913** | **₱ 3,021,786,686** | **₱ 1,356,278,171** | **₱ 184,688,124** | **₱ 341,152,966** | **₱ 5,270,363,731** | **₱13,571,870,591** |
| Balance at January 1, 2007, net of accumulated depreciation and amortization | ₱ 285,932,664 | ₱ 1,055,820,949 | ₱ 826,979,849 | ₱ 44,830,056 | ₱ 247,035,754 | ₱ 74,058,990 | ₱ 2,534,658,262 |
| Additions | 68,384,508 | 342,185,035 | 669,824,947 | 67,126,994 | 146,732,970 | 15,804,884 | 1,310,059,338 |
| Reclassifications – net | - | 1,810,461,437 | 21,516,457 | ( 186,633) | ( 605,545) | ( 3,771,291) | 1,827,414,425 |
| Disposals – net | ( 900,000) | ( 3,902,804) | ( 4,140,332) | ( 261,523) | ( 95,817) | - | ( 9,300,476) |
| Impairment | - | ( 9,471,009) | ( 30,528,991) | - | - | - | ( 40,000,000) |
| Depreciation and amortization charges for the year | ( 6,760,664) | ( 256,249,742) | ( 227,020,902) | ( 23,305,878) | ( 58,537,024) | - | ( 571,874,210) |
| Balance at December 31, 2007, net of accumulated depreciation amortization and impairment | ₱ 346,656,508 | ₱ 2,938,843,866 | ₱ 1,256,631,028 | ₱ 88,203,016 | ₱ 334,530,338 | ₱ 86,092,583 | ₱ 5,050,957,339 |

Impairment loss of ₱43.9 million and ₱40.0 million were recognized as part of Finance Cost and Other Charges – net in the 2008 and 2007 consolidated income statements, respectively, to write down specific assets to their recoverable amount. The recoverable amount was based on value in use and was determined at the cashgenerating unit level. The cash-generating unit consists of property and equipment from Company-owned restaurant outlets. In determining value in use for the cashgenerating unit, the estimated cash flows were discounted using the pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

## 14. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation at the beginning and end of 2008 and 2007 are shown below.

| | Land | Buildings | Condominium Units | Total |
|---|---|---|---|---|
| December 31, 2008 | | | | |
| Cost | ₱ 1,432,856,846 | ₱ 4,128,960,013 | ₱ 2,865,320,562 | ₱ 8,427,137,421 |
| Accumulated depreciation | - | ( 690,355,147) | ( 302,621,153) | ( 992,976,300) |
| Net Carrying Amount | **₱ 1,432,856,846** | **₱ 3,438,604,866** | **₱ 2,562,699,409** | **₱ 7,434,161,121** |
| December 31, 2007 | | | | |
| Cost | ₱ 1,568,356,846 | ₱ 4,140,508,591 | ₱ 1,112,886,197 | ₱ 6,821,751,634 |
| Accumulated depreciation | - | ( 584,023,391) | ( 232,318,198) | ( 816,341,589) |
| Net Carrying Amount | ₱ 1,568,356,846 | ₱ 3,556,485,200 | ₱ 880,567,999 | ₱ 6,005,410,045 |
| January 1, 2007 | | | | |
| Cost | ₱ 1,208,482,384 | ₱ 2,963,952,528 | ₱ 1,015,255,064 | ₱ 5,187,689,976 |
| Accumulated depreciation | - | ( 379,887,827) | ( 187,172,766) | ( 567,060,593) |
| Net Carrying Amount | ₱ 1,208,482,384 | ₱ 2,584,064,701 | ₱ 828,082,298 | ₱ 4,620,629,383 |

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A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of investment property is shown below.

| | Land | Buildings | Condominium Units | Total |
|---|---|---|---|---|
| Balance at January 1, 2008, net of accumulated depreciation | ₱ 1,568,356,846 | ₱ 3,556,485,200 | ₱ 880,567,999 | ₱ 6,005,410,045 |
| Additions | - | 7,406,083 | 1,752,434,365 | 1,759,840,448 |
| Disposals | - | ( 2,810,999) | - | ( 2,810,999) |
| Reclassifications – net | ( 135,500,000) | ( 7,214,926) | - | ( 142,714,926) |
| Depreciation charges for the year | - | ( 115,260,492) | ( 70,302,955) | ( 185,563,447) |
| Balance at December 31, 2008, net of accumulated depreciation | **₱ 1,432,856,846** | **₱ 3,438,604,866** | **₱ 2,562,699,409** | **₱ 7,434,161,121** |
| Balance at January 1, 2007, net of accumulated depreciation | ₱ 1,366,856,846 | ₱ 4,586,345,583 | ₱ 925,713,431 | ₱ 6,878,915,860 |
| Additions | 201,500,000 | 167,857 | - | 201,667,857 |
| Reclassifications – net | - | ( 913,302,021) | - | ( 913,302,021) |
| Depreciation charges for the year | - | ( 116,726,219) | ( 45,145,432) | ( 161,871,651) |
| Balance at December 31, 2007, net of accumulated depreciation | ₱ 1,568,356,846 | ₱ 3,556,485,200 | ₱ 880,567,999 | ₱ 6,005,410,045 |

Certain properties held for lease by Megaworld with a net book value of ₱2.0 billion as of December 31, 2007 are used as collateral for ECOC's Interest-bearing Loan (see Note 17). In 2008, ECOC asked for the partial release of the mortgage which was approved by the creditor. As of December 31, 2008, the carrying value of investment properties that remained as collateral to this loan amounted to P0.8 billion.

Rental income earned from the investment property amounted to ₱1.4 billion in 2008, ₱1.1 billion in 2007 and ₱206.0 million in 2006, and shown as part of revenues from Rendering of Services in the consolidated income statements (see Note 21). The direct operating costs, exclusive of depreciation, incurred by the Group relating to the investment property amount to ₱124.2 million in 2008, ₱89.6 million in 2007 and ₱17.6 million in 2006. The operating lease commitments of the Group as a lessor are fully disclosed in Note 32.2.

The fair market values of these properties amounted ₱22.7 billion and P14.8 billion as of December 31, 2008 and 2007, respectively. These are internally determined by the Company by calculating the present value of the cash inflows anticipated until the end of the life of the investment property. 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.

## 15. INTANGIBLE ASSETS

The details of this account are presented below.

| | Note | 2008 | 2007 |
|---|---|---|---|
| Goodwill from acquisitions of investments: | | | |
| by AGI in: | | | |
| GADC | | **₱ 1,236,536,374** | ₱ 1,236,536,374 |
| Megaworld | 1.2 | **7,586,424,694** | 7,586,424,694 |
| GARC | | **2,063,678** | 2,063,678 |
| | | **8,825,024,746** | 8,825,024,746 |
| by AGBI in: | | | |
| MPIL | | **312,126,500** | 312,126,500 |
| TEI | | **100,000,000** | 100,000,000 |
| NTPLI | | **2,438,636** | 2,438,636 |
| | | **414,565,136** | 414,565,136 |
| by NTLPI and FCI in – Megaworld | 1.2 | **1,117,354,593** | 1,117,354,593 |
| by Megaworld in certain associates: | | | |
| MLI | | **255,083,968** | 255,083,968 |
| RHGI | | **9,684,376** | 9,684,376 |
| | | **264,768,344** | 264,768,344 |
| | | **10,621,712,819** | 10,621,712,819 |
| Trademarks – net of amortization | | **820,267,760** | 908,400,037 |
| Leasehold rights – net of accumulated amortization and impairment loss | | **41,685,217** | 31,006,668 |
| | | **₱ 11,483,665,796** | ₱ 11,561,119,524 |

Intangible assets consist of goodwill which arose from the acquisitions of investments in shares of stock of subsidiaries and other controlled entities, as well as trademarks acquired by EDI to manufacture and sell distilled spirits and leasehold rights acquired by GADC.

The goodwill pertains to excess of cost over fair value of net assets at the time of acquisition. Goodwill is primarily related to growth expectations, expected future profitability and expected cost of synergies. Goodwill has been allocated to cash-generating units.

Trademarks particularly brandy under the brand names "Emperador Brandy" and "Generoso Brandy" were acquired from Condis in January 2007. In 2008, EDI acquired the trademark "The Bar" from The Bar Bottlers Corporation for ₱12.5 million. The remaining useful life as of December 31, 2008 of "Emperador Brandy" and "Generoso Brandy" is 8 years and "The Bar" is 9.5 years. The amortization of trademarks amounted to ₱100.6 million and ₱91.7 million in 2008 and 2007, respectively, and is shown as part of Other Operating Expenses in the consolidated income statements (see Note 23).

The amortization for leasehold rights amounted to ₱4.5 million in 2008 and ₱3.4 million in 2007, and is shown as part of Depreciation and Amortization under Cost of Goods Sold and Services in the consolidated income statements (see Note 22).

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, 2008, 2007 and 2006.

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

## 16. TRADE AND OTHER PAYABLES

This account consists of:

| | Notes | | 2008 | | 2007 |
|---|---|---|---|---|---|
| Trade | 28.3 | ₱ | **4,508,477,782** | ₱ | 3,054,576,642 |
| Accrued expenses | | | **850,660,184** | | 879,378,646 |
| Retention payable | | | **781,371,153** | | - |
| Due to related parties | 28.4 | | **438,667,848** | | 389,386,547 |
| Output VAT payable | | | **233,779,901** | | 14,152,418 |
| Others | | | **198,285,361** | | 674,001,649 |
| | | ₱ | **7,011,242,229** | ₱ | 5,011,495,902 |

The carrying amounts of trade and other payables recognized in the balance sheets areconsidered by management to be reasonable approximation of their fair values due to their short duration.

## 17. INTEREST-BEARING LOANS AND BORROWINGS

This account includes the outstanding balances of the following loans and borrowings:

| | Note | | 2008 | | 2007 |
|---|---|---|---|---|---|
| Current: | | | | | |
| Foreign | | ₱ | **2,024,564,562** | ₱ | 324,404,111 |
| Local | | | **584,723,741** | | 186,578,631 |
| Related party | 28.1 | | **318,108,118** | | - |
| | | ₱ | **2,927,396,421** | ₱ | 510,982,742 |
| Noncurrent: | | | | | |
| Local | | ₱ | **6,281,668,448** | ₱ | 1,347,001,781 |
| Related party | 28.1 | | **570,240,000** | | 813,468,118 |
| Foreign | | | **292,079,687** | | 356,519,424 |
| | | ₱ | **7,143,988,135** | ₱ | 2,516,989,323 |

The balances as of December 31, 2008 and 2007 of foreign borrowings include the following:

(a) Venezia was granted U.S. dollar-denominated current loans to fund the acquisition of marketable securities which are maintained in the same bank. The amount of AFS financial assets set-off against compensating loans is U.S.$67.6 million (P3.2 billion) as of December 31, 2008 (see Note 11). The total outstanding balance of the loan, net of the amount set-off against AFS financial assets, is U.S.$40.2 million (P1.9 billion) as of December 31, 2008.

(b) The amount payable by ECOC pertains to the balance of a long-term loan facility obtained in 2002 with an original amount of U.S.$25.0 million (approximately P1.3 billion) from a foreign financial institution. The proceeds of the loan were used in the construction of several information technology buildings at the Eastwood CyberPark which is operated by ECOC. The drawdown from the loan facility amounting to U.S.$20.0 million (P1.1 billion) was made on October 15, 2002. The loan is payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest is payable every six months at LIBOR rate plus certain spread. Collateral for the loan consisted of a first ranking mortgage over ECOC's investment property (see Note 14) and a full guarantee from Megaworld. The current and noncurrent portions of the loan as of December 31, 2008 amounted to P116.8 million and P292.1 million, respectively, and as of December 31, 2007 amounted to P101.9 million and P356.5 million, respectively.

(c) Loans obtained by RHGI, consisting of various secured and unsecured loans, from commercial banks which are denominated in Singaporean and U.S. dollars. The loans bear annual interest rates that are subject to monthly repricing. RHGI has set-off provision on some of its loans to a commercial bank against shortterm placements and AFS financial assets as of December 31, 2008 and financial assets at FVTPL as of December 31, 2007 held by the same bank (see Notes 5, 7, and 11). The total outstanding balance of the loans, net of the amount set-off against these financial assets, is nil as of December 31, 2008 and P222.5 million (U.S.$5.4 million) as of December 31, 2007.

*(Amounts in Philippine Pesos)*

The balances as of December 31, 2008 and 2007 of local borrowings include the following:

(a) In 2008, the Company obtained a ₱2.0 billion loan from a local bank to partially fund the Company's buy-back program (see Note 29.3). The loan will mature on October 23, 2011 and bears interest based on Philippine Dealing System Treasury Fixing rate (PDSTF-R) plus a certain spread. It is secured initially by around 4.01 billion shares (reduced to around 3 billion in January 2009) of shares of stock of Megaworld held by NTLPI. In the consolidated statement of changes in equity, the buy-back shares of stock form part of the Company's treasury shares.

(b) In 2008, Megaworld signed a financing deal with a local bank in which Megaworld may avail of a ₱5.0 billion loan, divided into Tranche A (₱3.5 billion) and Tranche B (₱1.5 billion). The proceeds of the loan shall be used to fund the purchase of land and for the development of Megaworld's various real estate projects. The loan is payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments. Interest is payable every quarter based on the Philippine Dealing System Treasury Fixing rate plus a certain spread. As of December 31, 2008, the Group had availed ₱4.5 billion out of the ₱5.0 billion facility and this is presented as part of the noncurrent portion on Interest-Bearing Loans and Borrowings account in the 2008 consolidated balance sheet.

(c) Megaworld obtained from a local bank loans amounting to ₱950.0 million in 2003 and ₱403.0 million in 2006. The loans are payable for a term of 10 years, inclusive of a three-year grace period on principal payments. Interest is payable every quarter based on 91-day treasury bill plus a certain spread. Collateral for the loan consisted of a mortgage over certain investment property of Megaworld (see Note 14). The current and noncurrent portions amounted to ₱232.0 million and ₱1.1 billion, respectively, as of December 31, 2008 and ₱185.3 million and ₱1.347 billion, respectively, as of December 31, 2007.

The Group complied with loan covenants including maintaining certain financial ratios at the balance sheet dates. There is no loan covenant relating to the restriction from declaration of cash dividend.

Total finance costs attributable to these loans amounted to ₱528.4 million, ₱364.4 million, and ₱119.6 million as of 2008, 2007 and 2006, respectively, and are presented as part of Interest Expense under Finance Costs and Other Charges in the consolidated income statements (see Note 25). There were no interest charges capitalized in 2008, 2007, and 2006.

## 18. BONDS PAYABLE

The bonds payable represent the five-year term bonds issued by MCII on August 4, 2006 totalling U.S.$100 million at a discount of U.S.$1.5 million. The bonds bear interest at 7.875% per annum payable semi-annually in arrears every February 4 and August 4 of each year, starting on February 4, 2007. The transaction costs related to the bond issuance were considered in the determination of the amortized cost at inception. The net proceeds from the issuance of these bonds amounted to U.S.$97 million.

Interest expense from bonds payable amounting to ₱350.2 million in 2008 and ₱360.2 million in 2007 is presented as part of Finance Costs and Other Charges - net in the consolidated income statements (see Note 25).

## 19. REDEEMABLE PREFERRED SHARES

The preferred shares pertains to GADC's redeemable preferred shares issued in March 2005 to McDonald's Restaurant Operations, Inc. (MRO), company incorporated in the U.S.A and a subsidiary of McDonald's. These preferred shares with par value per share of ₱61,066 each have the following features:

| Class | Voting | Authorized and Issued | | No. of shares Total Par (Undiscounted) | Additional payment in Value the event of GADC's liquidation |
|---|---|---|---|---|---|
| A | No | 778 | ₱ | 47,509,348 | U.S.$1,086 per share or a total PhP equivalent of U.S.$845,061 |
| B | Yes | 25,000 | | 1,526,650,000 | U.S.$1,086 per share or a total PhP equivalent of U.S.$27,154,927 |

(a) Redeemable at the option of the holder after the beginning of the 19th year from the date of issuance for a total redemption price equivalent to the Philippine peso (PhP) value on the date that the shares were issued;

(b) Has preference as to dividend declared by the BOD, but in no event shall the dividend exceed ₱1 per share; and,

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

The redeemable preferred shares are recognized at fair value on the date of issuance and are classified under Noncurrent Liabilities section in the consolidated balance sheets. The fair values of the redeemable preferred shares on the date of issuance were determined as the sum of all future cash payments, discounted using the prevailing market rates of interest as of transaction date for similar instruments with similar maturities (18 years). Based on the terms of subscription and in accordance with PAS 39, the difference between the fair values of the redeemable preferred shares on the date of issuance and the subscription amounts were recognized as a credit to profit and loss in 2005. The accretion of the redeemable preferred shares in 2008, 2007 and 2006 totaling ₱33.5 million, ₱29.9 million and ₱25.2 million, respectively, were recognized as part of Interest Expense under the caption of Finance Costs and Other Charges (see Note 25).

As of December 31, 2008 and 2007, the carrying value of the redeemable preferred shares amounted to P294.7 million and P261.3 million, respectively, as shown in the consolidated balance sheets.

## 20. OTHER LIABILITIES

The breakdown of this account is as follows:

| | Notes | | 2008 | | 2007 |
|---|---|---|---|---|---|
| Current: | | | | | |
| Unearned income | | ₱ | **724,444,707** | ₱ | 639,091,277 |
| Derivative liabilities | | | | | |
| (currency forwards) | 25 | | **376,458,309** | | - |
| Deferred rent | | | **203,755,106** | | 562,804,691 |
| Obligation under finance lease | | | **1,127,271** | | 3,700,608 |
| Advances from customers | | | **-** | | 3,747,270 |
| Others | | | **3,551,786** | | 3,467,762 |
| | | ₱ | **1,309,337,179** | ₱ | 1,212,811,608 |
| Noncurrent: | | | | | |
| Deferred rent | | ₱ | **977,334,804** | ₱ | 947,276,371 |
| Guarantee deposits | 21 | | **58,397,822** | | 51,617,023 |
| Payable to MRO under stock option plan | 26.4 | | **14,288,739** | | 10,697,935 |
| Asset retirement obligation (ARO) | 2.8 | | **15,530,250** | | 12,740,727 |
| Obligation under finance lease | | | **779,134** | | 1,957,172 |
| Others | | | **14,260,000** | | - |
| | | ₱ | **1,080,590,749** | ₱ | 1,024,289,228 |

The movement in ARO is as follows:

| | | 2008 | | 2007 |
|---|---|---|---|---|
| Balance at beginning of year | ₱ | **12,740,727** | ₱ | 10,420,802 |
| Accretions during the year | | **2,038,052** | | 1,828,220 |
| ARO capitalized to property, plant and equipment during the year | | **963,425** | | 1,210,775 |
| Disposals during the year | ( | **211,954**) | ( | 719,070) |
| | ₱ | **15,530,250** | ₱ | 12,740,727 |

The Derivative Liability under Other Current Liabilities above represents currency forward knock out option contract with a certain bank maturing on October 20, 2009 with a strike price of JP¥107 against U.S.$. As of December 31, 2008, the option has a negative fair value of U.S.$7.9 million, which was charged against its profit or loss and is recorded as part of Fair Value Losses under Finance Costs and Other Charges in the consolidated income statement.

## 21. REVENUES FROM RENDERING OF SERVICES

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

| | Notes | | 2008 | | 2007 | | 2006 |
|---|---|---|---|---|---|---|---|
| Rental income | 14 | ₱ | **1,293,374,848** | ₱ | 930,717,843 | ₱ | 821,026,786 |
| Revenue from franchised McDonald's restaurants – | | | | | | | |
| Rentals, royalty and management fees | 32.1 | | **514,037,703** | | 480,447,394 | | 433,420,791 |
| Hotel operations | | | **246,919,573** | | 247,677,952 | | - |
| Management fees | | | **85,477,231** | | 55,556,617 | | - |
| | | ₱ | **2,139,809,355** | ₱ | 1,714,399,806 | ₱ | 1,254,447,577 |

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 in the Philippines. 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, 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 real property taxes, insurance and maintenance. The franchisees also generally pay a refundable, noninterest-bearing security deposit (see Note 20).

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2008, 2007 and 2006
*(Amounts in Philippine Pesos)*

## 22. COST OF GOODS SOLD AND SERVICES

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

| | Notes | **2008** | 2007 | 2006 |
|---|---|---|---|---|
| ***Cost of Goods Sold*** | | | | |
| Cost of inventories | 8 | ₱ **3,655,260,512** | ₱ 3,063,781,118 | ₱ 2,935,790,509 |
| Direct materials used | 8 | **3,273,642,457** | 3,974,986,563 | 38,581,345 |
| Rentals | 32.1 | **1,293,684,880** | 1,085,279,306 | 1,280,307,123 |
| Salaries and employee benefits | 26 | **1,045,518,504** | 916,934,943 | 767,318,466 |
| Depreciation and amortization | 13, 14, 15 | **412,059,783** | 350,378,658 | 296,528,608 |
| Change in work in process and finished goods | 8 | **328,944,923** | 93,470,595 | 162,910,767 |
| Indirect materials and other consumables | | **151,217,677** | 97,267,313 | 38,955,314 |
| Utilities | | **42,734,729** | 48,403,513 | 22,603,263 |
| Repairs and maintenance | | **35,103,835** | 29,174,781 | 7,724,977 |
| Professional fees | | **22,597,237** | 19,022,809 | - |
| Direct labor | 26 | **19,596,802** | 18,753,610 | 12,306,456 |
| Transportation and travel | | **4,033,982** | 2,507,680 | 276,252 |
| Supplies | | **2,270,147** | 9,644,768 | 1,221,567 |
| Taxes and licenses | | **1,098,297** | 943,370 | 929,835 |
| Other direct and overhead costs | | **745,412,337** | 599,940,155 | 425,471,857 |
| | | ₱ **11,033,176,102** | ₱ 10,310,489,182 | ₱ 5,990,926,339 |
| ***Cost of Services*** | | | | |
| Rental | | **245,554,744** | 222,915,059 | - |
| Depreciation and amortization | 13, 14 | **135,126,316** | 136,648,435 | 95,166,253 |
| Hotel operations | | **110,169,420** | 190,264,667 | - |
| Salaries and employee benefits | 26 | **59,173,851** | 89,094,281 | 25,228,841 |
| Contract cost | | **30,067,205** | - | 649,300,029 |
| Other direct and overhead costs | | **15,045,151** | 6,490,896 | 3,923,470 |
| | | **595,136,687** | 645,413,338 | 773,618,593 |
| ***Cost of real estate sales*** | | **8,082,125,043** | 7,238,595,819 | 379,867,208 |
| ***Deferred gross profit on real estate sales*** | | **1,624,410,655** | 1,072,330,683 | - |
| | | ₱ **21,334,848,487** | ₱ 19,266,829,022 | ₱ 7,144,412,140 |

## 23. OTHER OPERATING EXPENSES

The details of other operating expenses are shown below.

| | Notes | **2008** | 2007 | 2006 |
|---|---|---|---|---|
| Advertising and promotions | 28.3 | ₱ **828,802,229** | ₱ 695,301,548 | ₱ 383,079,865 |
| Salaries and employee benefits | 26 | **654,606,964** | 498,173,964 | 167,158,905 |
| Commissions | | **418,773,750** | 369,906,854 | 8,522,709 |
| Royalty | | **368,885,345** | 323,776,582 | 284,868,123 |
| Depreciation and amortization | 13, 14 | **282,564,851** | 254,972,670 | 57,217,663 |
| Transportation and travel | | **249,022,651** | 36,513,038 | 23,851,716 |
| Taxes and licenses | | **226,350,025** | 293,235,953 | 14,505,604 |
| Freight and handling | | **171,269,292** | 91,268,870 | 6,554,632 |
| Rental | | **169,092,798** | 89,064,407 | 47,298,892 |
| Utilities | 28.3 | **129,460,770** | 57,469,220 | 18,216,154 |
| Amortization of trademarks | 15 | **100,632,276** | 91,672,732 | - |
| Professional fees and outside services | | **53,692,965** | 54,793,008 | 26,076,061 |
| Management fees | 28.3 | **52,970,763** | 76,142,635 | - |
| Repairs and maintenance | | **40,998,981** | 32,611,392 | 10,046,542 |
| Impairment loss on inventories | 8 | **31,906,987** | 9,028,821 | 10,934,821 |
| Representation and entertainment | | **30,296,903** | 26,598,221 | 11,273,807 |
| Insurance | | **4,041,012** | 8,073,349 | 4,045,548 |
| Communication and office expenses | 28.3 | **1,027,608** | 26,515,980 | 18,138,023 |
| Others | 28.3 | **326,549,388** | 652,812,089 | 80,425,610 |
| | | ₱ **4,140,945,558** | ₱ 3,687,931,333 | ₱ 1,172,214,675 |

These are classified in the consolidated income statements as follows:

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| General and administrative expenses | ₱ **2,428,935,299** | ₱ 2,268,528,318 | ₱ 478,152,576 |
| Selling expenses | **1,712,010,259** | 1,419,403,015 | 694,062,099 |
| | ₱ **4,140,945,558** | ₱ 3,687,931,333 | ₱ 1,172,214,675 |

GADC was granted by McDonald's the nonexclusive right to adopt and use the McDonald's System in restaurant operations in the Philippines. The license agreement, as renewed in March 2005 for another 20 years, provides for a royalty fee, presented as Royalty 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, 2008 and 2007 amounted to ₱69.1 million and P53.1 million, respectively, and is shown as part of Due to Related Parties under Trade and Other Payables account in the consolidated balance sheets.

## 24. FINANCE AND OTHER INCOME

The details of this account are as follows:

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Gain on sale of investment in shares of stock | | ₱ 2,809,732,873 | ₱ 220,000,000 | ₱ - |
| Interest income | 5, 7, 11 | 2,545,342,840 | 2,248,315,582 | 141,596,145 |
| Dividend income | | 49,680,085 | 12,295,840 | - |
| Gain on sale of investment in AFS securities | 11 | 2,306,450 | 5,749,349 | - |
| Miscellaneous – net | | 447,138,355 | 185,802,736 | 50,975,321 |
| | | ₱ 5,854,200,603 | ₱ 2,672,163,507 | ₱ 192,571,466 |

On July 31, 2008, MPIL sold its entire interest in Asian Travellers Ltd. (ATL) including all the latter's obligations for a total price of U.S.$85 million (approximately ₱3.754 billion). MPIL recognized gain on sale of U.S.$56.4 million (approximately ₱2.5 billion), which is shown as part of Gain on Sale of Investment in Shares of Stock under Finance and Other Income in the 2008 consolidated income statement.

In 2008, FCI sold 40% of its interest in SPLI to EELHI for ₱500.0 million resulting in a gain on sale of investment amounting to ₱300.0 million, presented as part of Gain on Sale of Investment in Shares of Stock above. In 2007, 20% of the total ownership was sold to the same related party for ₱320.0 million resulting also in a gain of sale of investment amounting to ₱220.0 million.

In 2008, 2007 and 2006, RHGI entered into contracts wherein it sold certain European bond put option and knock-out put options. In consideration of these contracts, RHGI received premiums amounting to U.S.$2.1 million (₱93.1 million), U.S.$3.2 million (₱149.0 million) and U.S.$2.4 million (₱123.9 million) in 2008, 2007 and 2006, respectively, which are shown as part of Miscellaneous Income above.

## 25. FINANCE COSTS AND OTHER CHARGES

The details of this account are as follows:

| | Notes | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Fair value loss – net | 7, 11, 20 | ₱ 1,757,177,853 | ₱ 25,135,673 | ₱ - |
| Interest expense | 17, 18, 19 | 912,102,027 | 729,136,629 | 144,800,781 |
| Foreign currency losses – net | 7 | 181,514,868 | 218,782,843 | 24,002,421 |
| Impairment loss on receivables | 6 | 65,396,395 | 19,840,806 | 2,575,546 |
| Miscellaneous – net | | 5,010,788 | 126,266 | - |
| | | ₱ 2,921,201,931 | ₱ 993,022,217 | ₱ 171,378,748 |

## 26. SALARIES AND EMPLOYEE BENEFITS

### *26.1 Salaries and Employees Benefits*

Expenses recognized for salaries and employee benefits (see Notes 22 and 23) are presented below.

| | Note | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| Short-term employee benefits | | ₱ 1,667,196,012 | ₱ 1,416,063,403 | ₱ 930,758,528 |
| Post-employment defined benefit | 26.2 | 138,628,570 | 102,201,360 | 33,566,592 |
| Share-based payments | 26.3 | 3,138,744 | 4,692,035 | 7,687,548 |
| | | ₱ 1,808,963,326 | ₱ 1,522,956,798 | ₱ 972,012,668 |

### *26.2 Employee Retirement Benefit Obligation*

Megaworld maintains a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular and full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. GADC has a funded, defined contribution retirement plan covering all regular and full-time employees, which allows voluntary employee contribution. The retirement plans of TEI, AWGI, EDI and FOPMI are unfunded. Actuarial valuations are generally made every two years to update the retirement benefit costs and the amount of accruals.

The 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 nonaccrual of the estimated retirement benefits will not have any material effect on the Group's consolidated financial statements.

*(Amounts in Philippine Pesos)*

The amounts of retirement benefit obligation, presented as part of Noncurrent Liabilities section in the consolidated balance sheets, are determined as follows:

| | **2008** | 2007 |
|---|---|---|
| Present value of the obligation | **₱ 197,466,214** | ₱ 628,715,025 |
| Fair value of plan assets | **( 119,552,759)** | ( 131,290,152) |
| Deficiency of plan assets | **77,913,455** | 497,424,873 |
| Unrecognized actuarial gains (losses) | **275,688,025** | ( 264,795,405) |
| Retirement benefits obligation | **₱ 353,601,480** | ₱ 232,629,468 |

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

| | **2008** | 2007 |
|---|---|---|
| Balance at beginning of year | **₱ 628,715,025** | ₱ 468,594,726 |
| Current service and interest costs | **146,060,473** | 100,953,005 |
| Actuarial losses (gains) | **( 575,862,108)** | 60,134,161 |
| Benefits paid by the plan | **( 1,447,176)** | ( 966,867 ) |
| Balance at end of year | **₱ 197,466,214** | ₱ 628,715,025 |

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

| | **2008** | 2007 |
|---|---|---|
| Balance at beginning of year | **₱ 131,290,152** | ₱ 93,797,700 |
| Contributions paid into the plan | **21,533,358** | 28,501,539 |
| Actuarial gains (losses) | **( 44,245,472)** | 111,113 |
| Expected return on plan assets | **11,680,000** | 8,879,800 |
| Benefits paid by the plan | **( 705,279)** | - |
| Balance at end of year | **₱ 119,552,759** | ₱ 131,290,152 |

The Group expects to contribute ₱32.0 million to its retirement benefit plans in 2009.

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

| | **2008** | 2007 |
|---|---|---|
| Cash and cash equivalents | **₱ 35,600,841** | ₱ 32,690,756 |
| Loans and receivables | **8,961,842** | 3,110,182 |
| Investments in: | | |
| Unit investment trust fund | **40,888,402** | 62,898,474 |
| Other securities and debt instruments | **29,191,332** | 23,778,557 |
| Long-term equity investments | **4,098,175** | 7,896,775 |
| Preferred shares | **812,167** | 915,408 |
| Balance at end of year | **₱ 119,552,759** | ₱ 131,290,152 |

Actual returns on plan assets amounts to ₱32.6 million (loss) in 2008 and ₱9.0 million (gain) in 2007.

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

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Current service costs | **₱ 94,754,109** | ₱ 59,077,982 | ₱ 21,526,885 |
| Interest costs | **50,268,105** | 41,875,023 | 18,493,307 |
| Expected return on plan assets | **( 11,680,000)** | ( 8,879,800) | ( 6,490,500) |
| Net actuarial losses recognized during the year | **5,286,356** | 10,128,155 | 36,900 |
| | **₱ 138,628,570** | ₱ 102,201,360 | ₱ 33,566,592 |

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

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Cost of sales | **₱ 1,895,674** | ₱ 51,558,669 | ₱ 1,167,430 |
| Operating expenses | **136,732,896** | 50,642,691 | 32,399,162 |
| | **₱ 138,628,570** | ₱ 102,201,360 | ₱ 33,566,592 |

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

| | **2008** | 2007 |
|---|---|---|
| Discount rates | **7.31% - 37.55%** | 7.31% - 12% |
| Expected rate of return on plan assets | **0% - 6%** | 0% - 10% |
| Expected rate of salary increases | **4% - 10%** | 4% - 10% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The discount rates assumed were based on the yields of long-term government bonds, as of the valuation dates published by the Philippine Dealing & Exchange Corporation for all retirement benefit plans except that of GADC which based its discount rates from Bloomberg. The discount rates used approximate the average years of remaining working lives of the Group's employees.

***26.3 Other Long-term Employee Benefits***

GADC provides six consecutive weeks (45 days) paid leave (sabbatical leave) to monthly salaried employees who have been with GADC for 10 consecutive years. Eligibility is based on continuous full time service with GADC. Pay while on sabbatical leave is computed on the basis of the basic monthly rate at the time it is availed.

***26.4 Stock Option Benefits***

The Company's stock option benefit expense pertains to the amount of compensation recognized by GADC over the vesting period of the options granted prior to 2005. GADC's participation in the stock option plan of McDonald's ceased in 2005 when GADC underwent a change in ownership structure. All options granted prior to the GADC equity restructuring in 2005 will continue to be exercisable until the expiration of the exercise period which is generally 10 to 13 years from the grant date.

The fair value of each option is estimated on the date of grant based on the billings from McDonald's. The total amount to be paid by GADC is recognized as expense over the vesting period.

Stock option benefits expense, included as part of Salaries and Employee Benefits in the consolidated income statements, amounted to ₱3.1 million in 2008 and ₱4.7 million in 2007. The accumulated liability to MRO relating to the fair value of options vested amounted to ₱14.3 million and ₱10.7 million as of December 31, 2008 and 2007, respectively and is included as part Other Noncurrent Liabilities account (see Note 20).

## 27. TAXES

***27.1 Current and Deferred Taxes***

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

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Current tax expense: | | | |
| Regular corporate income tax (RCIT) at 35% | **₱ 921,328,452** | ₱ 1,050,879,038 | ₱ 48,718,889 |
| Final tax at 20% | **223,358,548** | 184,095,901 | 8,170,290 |
| Capital gains tax | **29,990,000** | 21,995,000 | - |
| Preferential tax rate at 5% | **14,373,247** | 10,562,953 | - |
| Minimum corporate income tax (MCIT) at 2% | **2,006,719** | 2,539,954 | 297,132 |
| Others | **460,477** | 491,145 | 41,040 |
| | **1,191,517,443** | 1,270,563,991 | 57,227,351 |
| Deferred tax expense (income): | | | |
| Deferred tax relating to origination and reversal of temporary differences | **414,561,554** | 24,493,101 | 39,835,191 |
| Deferred tax resulting from an decrease (increase) in RCIT rate | **703,805** | 186,346 | ( 470,108) |
| | **415,265,359** | 24,679,447 | 39,365,083 |
| | **₱ 1,606,782,802** | ₱ 1,295,243,438 | ₱ 96,592,434 |

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

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Tax on consolidated pretax income at 35% | **₱ 2,430,682,472** | ₱ 2,400,163,522 | ₱ 345,813,260 |
| Adjustment for income subjected to different tax rates | **( 333,097,485)** | ( 171,895,574) | ( 1,105,137) |
| Tax effects of: | | | |
| Income not subject to RCIT | **( 937,741,492)** | ( 1,100,708,207) | ( 7,780,070) |
| Nondeductible expenses | **497,034,604** | 256,337,781 | 160,043,120 |
| Dividend income not subject to RCIT | **( 130,407,114)** | ( 89,321,088) | ( 25,724,176) |
| Reduction in RCIT rate | **( 119,886,417)** | ( 1,425,780) | - |
| Nondeductible interest expense | **115,818,042** | 104,571,397 | - |
| Unrecognized deferred tax asset on net operating loss carryover (NOLCO) | **71,456,929** | 189,532,757 | 44,550 |
| Net deferred tax assets derecognized | **15,871,724** | 2,950,155 | ( 5,848,045) |
| Applied NOLCO and MCIT without deferred tax asset recognized in prior years | **11,057,802** | ( 865,272) | - |

*(Forward)*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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| | 2008 | 2007 | 2006 |
|---|---|---|---|
| Additional deduction with the use of Optional Standard Deduction (OSD) | ( 5,976,408) | - | - |
| Expenses directly charged to APIC | ( 4,330,375) | ( 161,828,037) | - |
| Gross income generated from PEZA-registered activities | ( 2,661,008) | ( 2,678,142) | ( 1,555,461) |
| Interest income subjected to final tax | ( 2,485,647) | 7,409,102 | ( 5,575,675) |
| Net deferred tax liabilities derecognized | 1,790,801 | - | - |
| Equity in net earnings of associates and a joint venture | ( 554,889) | ( 824,973) | ( 143,296,122) |
| 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) | - |
| Gain on sale of marketable securities | - | - | ( 218,301,300) |
| Day one loss on discounting security deposit for financial reporting purposes | - | 1,824,735 | - |
| Others | 211,263 | 391,670 | ( 122,510) |
| Tax expense | ₱ 1,606,782,802 | ₱ 1,295,243,438 | ₱ 96,592,434 |

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

| | Consolidated Balance Sheets | |
|---|---|---|
| | 2008 | 2007 |
| Deferred tax assets – net | | |
| Retirement benefits | ₱ 128,937,499 | ₱ 135,689,993 |
| Accrued rent | 47,116,443 | 57,084,377 |
| NOLCO | 39,398,544 | 50,067,243 |
| Allowance for impairment losses | 28,965,205 | 34,088,915 |
| Allowance for inventory obsolescence | 14,921,776 | - |
| Unearned interest income | 3,173,448 | 1,282,861 |
| Unrealized gross profit from gross estate sales | ( 1,881,144) | ( 2,834,066) |
| Rent receivable | 380,748 | ( 37,466,212) |
| MCIT | 365,153 | 960,460 |
| Unrealized foreign currency gains – net | ( 143,416) | ( 48,268,715) |
| Unamortized preoperating expenses (for tax purposes) | - | 1,879,838 |
| Unrealized income – net | - | 1,237,345 |
| Provision for contingency | - | 3,045,000 |
| Fair value gain on marketable securities | - | 3,184,445 |
| Undepreciated capitalized interest and asset retirement obligation | - | ( 180,588) |
| Others | 4,898,753 | 41,699,646 |
| Deferred tax assets – net | ₱ 266,133,009 | ₱ 241,470,542 |
| Deferred tax liabilities: | | |
| Uncollected gross profit | ₱ 1,527,833,787 | ₱ 1,168,555,582 |
| Difference between the tax reporting base and financial reporting base of leased assets | 172,865,496 | 140,519,823 |
| Capitalized interest | 108,660,065 | 134,171,948 |
| Uncollected rental income | 57,966,658 | 5,717,382 |
| Unrealized foreign currency losses | 38,329,154 | - |
| Accrued retirement cost | ( 33,095,868 ) | ( 26,765,076 ) |
| Difference between the tax reporting base and financial reporting base of property, plant and equipment | ( 19,478,257 ) | ( 22,070,472 ) |
| Others | 43,308,540 | 46,350,090 |
| Deferred tax liabilities | ₱ 1,896,389,575 | ₱ 1,446,479,277 |

| | Consolidated Income Statements | | |
|---|---|---|---|
| | **2008** | 2007 | 2006 |
| Deferred expense (income) tax: | | | |
| Uncollected gross profit | ₱ **359,278,205** | (₱ 7,890,268) | ₱ - |
| Difference between the tax reporting base and financial reporting base of leased assets | **32,345,673** | 61,533,948 | - |
| Capitalized interest | **( 25,692,471 )** | ( 3,852,344) | - |
| Unrealized foreign currency gains – net | **16,538,584** | 18,989,436 | - |
| Uncollected rental income | **15,639,661** | 5,717,382 | - |
| NOLCO | **10,756,691** | ( 38,868,290) | ( 704,098) |
| Accrued rent | **9,967,934** | 3,632,499 | 3,567,191 |
| Allowance for inventory obsolescence | **( 7,362,664 )** | - | - |
| Accrued retirement cost | **( 6,330,792 )** | ( 9,075,870) | - |
| Fair value gain on marketable securities | **3,184,445** | ( 3,184,445) | - |
| Provision for contingency | **3,045,000** | 705,600 | - |
| Retirement benefits | **2,858,454** | ( 39,698,021) | ( 9,458,336) |
| Difference between the tax reporting base and financial reporting base of property and equipment | **2,592,215** | 23,221,845 | - |
| Unamortized preoperating expenses (for tax purposes) | **1,910,253** | 1,059,013 | 1,028,598 |
| Unearned interest income | **( 1,890,587 )** | 260,158 | - |
| Allowance for impairment losses | **1,484,167** | 15,120,504 | ( 6,464,467) |
| Unrealized gross profit from gross estate sales | **( 952,922 )** | ( 778,399) | - |
| MCIT | **595,307** | ( 623,568) | 22,379,954 |
| Rent receivable | **-** | ( 1,206,107) | ( 72,188) |
| Unrealized income – net | **-** | 735,113 | 23,768,469 |
| Undepreciated capitalized interest and asset retirement obligation | **-** | ( 276,461) | ( 1,049,597) |
| Derecognition of deferred tax assets | **-** | - | 6,369,557 |
| Others | **( 2,701,794)** | ( 842,278) | - |
| Deferred Tax Expense | ₱ **415,265,359** | ₱ 24,679,447 | ₱ 39,365,083 |

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.

| Year Incurred | Amount | Valid Until |
|---|---|---|
| 2008 | ₱ 249,503,461 | 2011 |
| 2007 | 677,224,465 | 2010 |
| 2006 | 32,572,886 | 2009 |
| | ₱ 959,300,812 | |

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

| Year Incurred | Amount | Valid Until |
|---|---|---|
| 2008 | ₱ 1,836,610 | 2011 |
| 2007 | 913,509 | 2010 |
| 2006 | 494,548 | 2009 |
| | ₱ 3,244,667 | |

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2008, 2007 and 2006 for which the related deferred tax assets have not been recognized by certain entities within the Group:

| | **2008** | | 2007 | | 2006 | |
|---|---|---|---|---|---|---|
| | **Amount** | **Tax Effect** | Amount | Tax Effect | Amount | Tax Effect |
| NOLCO | ₱ **827,972,332** | ₱ **248,391,700** | ₱ 545,304,998 | ₱ 190,856,749 | ₱ 1,582,687 | ₱ 553,940 |
| Allowance for impairment loss on trade receivables | **31,187,143** | **9,356,143** | 35,460,599 | 12,411,210 | 30,584,108 | 10,704,438 |
| Accrued rent | **7,262,845** | **2,178,854** | 7,211,572 | 2,524,050 | - | - |
| MCIT | **2,879,514** | **2,879,514** | 277,114 | 277,114 | 877,061 | 877,061 |
| Accrued retirement | **679,757** | **203,927** | 420,000 | 147,000 | 7,520,543 | 2,632,190 |
| Allowance for inventory obsolescence | **678,712** | **203,614** | 116,944 | 40,930 | 126,583 | 44,304 |
| ARO | **443,932** | **133,180** | 205,520 | 71,932 | - | - |
| | ₱ **871,104,235** | ₱ **263,346,932** | ₱ 588,996,747 | ₱ 206,328,985 | ₱ 40,690,982 | ₱ 14,811,933 |

***27.2 New Tax Regulation***

In July 2008, Republic Act 9504 became effective giving corporate taxpayers an option to claim itemized standard deduction or optional standard deduction (OSD) equivalent to 40% of gross income. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. In 2008, the Group except AWGI opted to continue claiming itemized standard deductions. AWGI opted to use OSD in computing RCIT from July 1 to December 31, 2008.

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***27.3 Change in Applicable Tax Rate***

In accordance with Republic Act 9337, RCIT rate will be reduced from 35% to 30% effective January 1, 2009; and nonallowable deductions for interest expense from 42% to 33% of interest income subjected to final tax beginning January 1, 2009.

## 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 17):

| | **2008** | 2007 |
|---|---|---|
| MRO | ₱ **570,240,000** | ₱ 495,360,000 |
| McDonald's Philippines Realty Corporation (MPRC), a related party owned by MRO | **318,108,118** | 318,108,118 |
| | ₱ **888,348,118** | ₱ 813,468,118 |

GADC has a loan agreement with MRO. The principal amount of the loan of U.S.$12.0 million will be payable in full on March 17, 2025, and bears annual interest at 10.0% or U.S.$1.2 million, payable every six months. Accrued interest payable as of December 31, 2008 and 2007 included as part of Accrued Expenses under Trade and Other Payables account in the consolidated balance sheets amounts to ₱14.0 million and ₱12.2 million, respectively (see Note 16).

GADC also has two interest-bearing notes with MPRC amounting to ₱57.4 million and ₱366.7 million representing unpaid advances obtained in prior years from MPRC on land and equipment purchased for various stores and a warehouse and unpaid rentals and interest due to MPRC, respectively. (GADC paid a total amount of ₱107.0 million to MPRC on April 24, 2006, representing principal and interest payments amounting to ₱106.0 million and P1.0 million, respectively.) The loans are payable in full on March 17, 2009 with an interest rate of 8.4% from March 1, 2005 to March 17, 2006; thereafter, interest shall accrue at six-month PHIBOR rate plus 2.0%, which MPRC will reset on March 18 of each year. Total interest charged by MPRC on these loans amounted to ₱25.8 million in 2008 and ₱25.5 million in 2007 and was shown as part of Interest Expense under Finance Costs and Other Charges in the consolidated income statements (see Note 25).

Rentals and interest payable to MPRC (included as part of Due to Related Parties under the Trade and Other Payables account in the consolidated balance sheets) amounted to ₱26.0 million and ₱38.9 million as of December 31, 2008 and 2007, respectively.

***28.2 Interest in a Joint Venture***

GADC has a 50.0% 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. 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 ₱5.9 million and ₱3.4 million as of December 31, 2008 and 2007, respectively (see Note 6).

Megaworld also entered into numerous joint venture agreements for the joint development of various projects (see Note 10).

***28.3 Sales and Purchases of Goods, Real Estate, Services and Rentals***

The following data pertain to sales and purchases of goods, real estate, services and rentals to related parties in 2008, 2007 and 2006:

| | Amount of Transactions | | | Outstanding Balances | |
|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** | 2007 |
| Purchases of goods | ₱ **2,163,707,877** | ₱ 3,587,225,117 | ₱ - | ₱ **419,040,097** | ₱ 193,563,621 |
| Sale of goods | **( 2,227,253,776)** | ( 6,852,954,507) | - | **( 694,392,911)** | ( 1,471,728,150) |
| Purchase of services | **249,097,491** | 516,394,088 | - | - | - |
| Rendering of services and rentals | **( 155,326,569)** | ( 144,661,169) | ( 141,321,780) | **( 79,678,432)** | ( 79,288,364) |
| Acquisition of building structure | **2,000,000,000** | - | - | **1,500,000,000** | - |
| | ₱ **2,030,225,023** | (₱ 2,893,996,471) | (₱ 141,321,780) | ₱ **1,144,968,754** | (₱ 1,357,452,893) |

***28.3.1 Purchases of Goods***

EDI sources its raw materials such as alcohol, molasses, flavorings and other supplies from Condis and Andresons Global Inc., both related parties through common ownership of certain stockholders of the Company. The related unpaid balance as of December 31, 2008 and 2007 is shown as part of Trade Payables under Trade and Other Payables account in the consolidated balance sheets (see Note 16).

Also, in 2008, EDI distributed the products manufactured by GAFI. EDI purchases the products from Condis which imports the same. Total purchases during the year amounted to ₱212.8 million. There is no outstanding liability as of December 31, 2008 arising from this transaction.

***28.3.2 Sale of Goods***

In 2007 until June 1, 2008 (see Note 1.3), all products manufactured by EDI were delivered and sold exclusively to Condis. The outstanding balance as of December 31, 2008 and 2007 is shown as part of Trade Receivables under Trade and Other Receivables account (see Note 6).

***28.3.3 Purchase of Services***

In 2007 until June 1, 2008 (see Note 1.3), Condis provided marketing, sales and logistics services to EDI. In exchange for these services, on a monthly basis EDI reimbursed actual expenses incurred by Condis plus an additional P100,000. There are no unpaid payables related to these transactions as of December 31, 2008 and 2007.

***28.3.4 Rendering of Services***

Services rendered are usually on a cost-plus basis, allowing a margin ranging from 20% to 30%. There are no outstanding payables for services obtained from the associates as of December 31, 2008 and 2007.

***28.3.5 Acquisition of Building Structure***

In 2008, the Company incurred a liability to TAGI, a related party through common ownership, on the acquisition of the building structure in Newport City. As of December 31, 2008, the Company has outstanding payable amounting to ₱1.5 billion and is presented as part of Trade Payables under Trade and Other Payables account (see Note 16).

***28.4 Due from/to Related Parties***

Transactions with related parties include the following: financing of opening of letters of credit and payment of progress billing, royalty fees, rentals, interest and certain expenses in behalf of the entities within Group or other entities. The outstanding balances of Due from/to Related Parties are presented under Trade and Other Receivables and Trade and Other Payables accounts, respectively, in the 2008 and 2007 consolidated balance sheets as follows:

| | **2008** | 2007 |
|---|---|---|
| ***Due from related parties*** | | |
| Andreson | ₱ **37,300,000** | ₱ - |
| Genting – net | **33,188,830** | - |
| Yorkshire Holdings, Inc. | **25,047** | 21,471,814 |
| Other related parties | **7,786,423** | - |
| | ₱ **78,300,300** | ₱ 21,471,814 |
| ***Due to related parties*** | | |
| TAGI | ₱ **180,000,000** | ₱ 180,000,000 |
| McDonald's | **69,058,610** | 53,157,848 |
| Condis | **43,985,574** | 43,985,574 |
| MPRC | **26,005,282** | 38,866,011 |
| Other related parties | **119,618,382** | 73,377,114 |
| | ₱ **438,667,848** | ₱ 389,386,547 |

***28.5 Advances to/from Associates and Other Related Parties***

Entities within the Group grant advances to associates and other entities for working capital purposes. 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 consolidated balance sheets are as follows (these mainly represent advances granted by Megaworld) (see Note 12):

| | **2008** | 2007 |
|---|---|---|
| Advances to Associates: | | |
| EELHI | ₱ **69,356** | ₱ 179,760,465 |
| SHDI | **15,813,306** | 14,111,301 |
| PTHDC | **1,009,173,481** | 1,006,803,619 |
| | **1,025,056,143** | 1,200,675,385 |
| Advances to other related parties | **1,004,683,080** | 1,027,000,759 |
| | ₱ **2,029,739,223** | ₱ 2,227,676,144 |

In addition, entities within the Group pay certain expense on behalf of other entities. The outstanding balances from these transactions are presented as part of Advances from Related Parties account in the consolidated balance sheets.

***28.6 Key Management Personnel Compensation***

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

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Short-term employee benefits | ₱ **143,444,988** | ₱ 100,332,243 | ₱ 45,909,500 |
| Retirement benefits | **6,848,057** | 7,111,500 | 4,117,500 |
| Other long-term employee benefits | **4,131,927** | 4,335,030 | 739,200 |
| | ₱ **154,424,972** | ₱ 111,778,773 | ₱ 50,766,200 |

(Amounts in Philippine Pesos)

## 29. EQUITY

### *29.1 Capital Stock*

Capital stock consists of:

| | Shares | | | Amount | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | 2006 | **2008** | 2007 | 2006 |
| Common shares – P1 par value | | | | | | |
| Authorized | | | | | | |
| Balance at beginning of year | **12,950,000,000** | 5,000,000,000 | 5,000,000,000 | | | |
| Increase during the year | **-** | 7,950,000,000 | - | | | |
| Balance at end of year | **12,950,000,000** | 12,950,000,000 | 5,000,000,000 | | | |
| Issued and outstanding: | | | | | | |
| Balance at beginning of year | **10,269,827,979** | 2,045,181,000 | 2,045,181,000 | **₱ 10,269,827,979** | ₱ 2,045,181,000 | ₱ 2,045,181,000 |
| Issued during the year | **-** | 8,224,646,979 | - | - | 8,224,646,979 | - |
| Balance at end of year | **10,269,827,979** | 10,269,827,979 | 2,045,181,000 | **10,269,827,979** | 10,269,827,979 | 2,045,181,000 |
| Subscribed | **-** | - | 160,000,000 | - | - | 160,000,000 |
| Total outstanding | **10,269,827,979** | 10,269,827,979 | 2,205,181,000 | **₱ 10,269,827,979** | ₱ 10,269,827,979 | ₱ 2,205,181,000 |
| Subscriptions receivable: | | | | | | |
| Balance at beginning of year | | | | **₱ -** | (₱ 986,612,492) | (₱ 986,612,492) |
| Collections during the year | | | | **-** | 986,612,492 | - |
| Balance at end of year | | | | **₱ -** | ₱ - | (₱ 986,612,492) |

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 ₱5.0 billion divided into 5 billion shares, to ₱12.9 billion divided into 12.9 billion shares, both with par value of ₱1 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 ₱1.50. 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 1.2).

In the first semester of 2007, the Company offered 1.8 billion primary shares to international investors at an offer price of ₱5.75 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 significant addition to APIC amounting to ₱21.9 billion in 2007 were derived from the stock rights offering, share swap transaction and international offering. APIC as presented in the consolidated statement of changes in equity is net of ₱462.4 million direct costs pertaining to issuance, legal and underwriting fees.

### *29.3 Treasury Shares*

In July and August 2008, the Company's BOD authorized the buy-back of up to ₱3.0 billion worth of Company's shares of common stock under its buy-back program within an 18-month period commencing on July 10, 2008. The program is undertaken to create and enhance shareholder value as current market prices do not reflect the true value of the shares. The Company has confidence in the long-term value of its businesses, including its latest venture in tourism-oriented projects (see Note 1.1). As of December 31, 2008, the Company holds 441 million shares which amounted to ₱1.5 billion under the buy-back program. As of March 31, 2009, the Company holds 525.1 million shares which amounted to ₱1.59 billion.

This account also includes the Company's common shares held and acquired by certain subsidiaries aggregating to ₱2.1 billion (441.7 million shares) and ₱1.4 billion (201.9 million shares) as of December 31, 2008 and 2007, respectively. The changes in market values of these shares recognized as fair value gains (losses) by subsidiaries in their respective financial statements were eliminated in full and were not recognized in the consolidated income statements.

### *29.4 Dilution Gain (Loss)*

The Company's ownership interest in Megaworld was diluted when Megaworld undertook a pre-emptive stock rights offering in 2007 and international stock offering in 2006. The effect of dilution in the Company's share in Megaworld's net assets was recorded directly in the consolidated equity amounting to ₱352.2 million (gain) and ₱307.1 million (loss) in 2007 and 2006, respectively.

## 30. EARNINGS PER SHARE

Basic EPS were computed as follows:

| | **2008** | 2007 | 2006 |
|---|---|---|---|
| Net income attributable to equity holders of the parent company | **₱ 3,908,833,964** | ₱ 3,292,586,616 | ₱ 819,038,830 |
| Divided by the weighted average number of subscribed and outstanding common shares | **10,132,816,160** | 8,737,510,045 | 2,205,181,000 |
| | **₱ 0.3858** | ₱ 0.3768 | ₱ 0.3714 |

There were no dilutive potential common shares as of December 31, 2008, 2007 and 2006, hence, no information on diluted EPS is presented.

## 31. EVENTS AFTER BALANCE SHEET DATE

On February 10, 2009, Megaworld issued unsecured corporate notes in the aggregate principal amount of ₱1.4 billion which will mature in seven years from the issue date. The proceeds received in the issuance of corporate notes will be used to finance part of the Group's projected capital and development expenditures for the next three years.

In addition, the BOD approved a pre-emptive right to offer to holders of its common shares at the proportion of one new share for every four existing common shares at an exercise price of ₱1 per share. Subscribers availing of the rights offer will also be entitled to detachable warrants, at no cost to the stockholders at the proportion of four warrants for every five rights shares. Each warrant shall entitle the holder to subscribe to one common share at ₱1 par value.

## 32. COMMITMENTS AND CONTINGENCIES

***32.1 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 ₱1.3 billion for the consolidated balances.

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

| | | **2008** | | 2007 | | 2006 |
|---|---|---|---|---|---|---|
| Within one year | ₱ | **2,001,508,184** | ₱ | 1,412,736,875 | ₱ | 956,294,967 |
| After one year but not more than five years | | **7,582,583,273** | | 4,915,438,500 | | 3,688,369,947 |
| More than five years | | **1,922,768,964** | | 1,757,917,808 | | 1,789,873,396 |
| | ₱ | **11,506,860,421** | ₱ | 8,086,093,183 | ₱ | 6,434,538,310 |

GADC has entered into various commercial property lease agreements with its franchisees and other third parties covering restaurant sites, equipment and other facilities. These noncancellable leases have remaining noncancellable 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.

Total lease income during the year amounted to ₱557.0 million (including variable rent of ₱183.3 million) in 2008, ₱470.2 million (including variable rent of ₱145.5 million) in 2007 and ₱424.0 million (including variable rent of ₱137.9 million) in 2006; lease income from franchisees amounted to ₱449.5 million in 2008, ₱416.2 million in 2007 and ₱370.6 million in 2006, shown as part of Rendering of Services in the consolidated income statements (see Note 21).

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

| | | **2008** | | 2007 | | 2006 |
|---|---|---|---|---|---|---|
| Within one year | ₱ | **182,700,905** | ₱ | 139,700,944 | ₱ | 145,660,190 |
| After one year but not more than five years | | **660,380,781** | | 412,548,641 | | 482,298,573 |
| More than five years | | **318,889,205** | | 314,837,749 | | 450,764,336 |
| | ₱ | **1,161,970,891** | ₱ | 867,087,334 | ₱ | 1,078,723,099 |

***32.2 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 during the year amounted to ₱836.1 million (including variable rent of ₱156.2 million) in 2008, ₱758.5 million (including variable rent of ₱149.4 million) in 2007, and ₱681.3 million (including variable rent of ₱131.6 million) in 2006, shown as part of Cost of Goods Sold in the consolidated income statements (see Note 22).

Future minimum rentals payable under noncancellable operating leases as of December 31 are as follows:

| | | **2008** | | 2007 | | 2006 |
|---|---|---|---|---|---|---|
| Within one year | ₱ | **212,666,563** | ₱ | 204,133,941 | ₱ | 166,255,223 |
| After one year but not more than five years | | **647,080,821** | | 522,253,385 | | 464,825,709 |
| More than five years | | **303,950,299** | | 154,117,611 | | 319,491,622 |
| | ₱ | **1,163,697,683** | ₱ | 880,504,937 | ₱ | 950,572,554 |

(Amounts in Philippine Pesos)

***32.3 Finance Lease Commitments – Group as Lessee***

GADC has finance leases over Plasma/LCD display monitors on several media sites. The lease agreements provide for the turnover of ownership of the equipment to GADC at the end of the lease term. Future minimum lease payments (MLP) under finance leases together with the present value (PV) of the net MLP are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | Future MLP | PV of NMLP | Future MLP | PV of NMLP |
| Within one year | ₱ 669,600 | ₱ 647,578 | ₱ 3,682,800 | ₱ 3,331,280 |
| After one year but not more than five years | - | - | 669,600 | 647,578 |
| Total MLP | 669,600 | 647,578 | 4,352,400 | 3,978,858 |
| Amounts representing finance charges | ( 22,022) | - | ( 373,542) | - |
| PV of MLP | ₱ 647,578 | ₱ 647,578 | ₱ 3,978,858 | ₱ 3,978,858 |

***32.4 Joint Venture Project***

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 referred to as McKinley Hill Project (the Project) (formerly Lawton Parkway Project) predominantly for residential purposes.

The Company and Megaworld entered into a Memorandum of Understanding (MOU) for the joint development of the Project. Under the MOU, the Company and Megaworld shall be entitled to the Company's share in the Project.

Since 2005 to present, the Company did not make additional contributions to the Project; as a result, the Company's share in the joint venture was diluted and the remaining capital commitments in relation to its interest in the joint venture have been assigned to Megaworld.

As the terms of the Agreement did not change, with regards to the parties involved; the Company shall ultimately be responsible in ensuring Megaworld's compliance (in behalf of the Company) to BCDA.

As of December 31, 2008 and 2007, the Company has determined that Megaworld has substantially complied with the terms of the Agreement and has no other contingent liabilities with regard to this joint venture or the probability of loss that may arise from contingent liabilities is remote.

***32.5 PTL Deed***

On July 31, 2008, MPIL has agreed to sell its entire interest in PTL to SCL. The sale is conditional and will be payable to MPIL 90 days after the commencement of operations in Site B.

***32.6 Various Agreements with Marriott***

On July 17, 2006, Travellers signed the following agreements with Marriott Hotel Group, namely, Management Agreement, Technical Service Agreement, International Services Agreement and License and Royalty Agreement, for the operation of firstclass, full service international hotel on Site B.

***32.7 Investment Commitment***

As required by the License with PAGCOR, Travellers is required to complete its U.S.$1.3 billion (about ₱62.7 billion) investment commitment in phases, which amount is divided into Site A and Site B with minimum investment of U.S.$1.1 billion (about ₱52.2 billion) and U.S.$216 million (about ₱10.3 billion), respectively. The cost of the Project includes land acquisition costs, costs related to securing development rights, construction, equipment acquisition, development costs, financing costs and all other expenses directly related to the completion of the Project.

Travellers is required to fully invest and utilize in the development of the Project at least 40% each of its total investment commitment for Site A and Site B within two years from execution of the lease agreement for Site A.

As of December 31, 2008, Travellers is about 55% to completion of the construction work in Site B, which is in accordance to the timelines agreed with PAGCOR. Site A construction will not commence until 2010.

***32.8 Development of Site B***

Travellers is required to complete the development of the unfinished portion of Site B (including the development of the hotel and office buildings and entertainment complex thereon but excluding gaming and auxiliary equipment and gaming furniture and fixtures) no later than December 31, 2009 (or such other period mutually agreed upon by the Company, Adams, SCP Holdings and SCL). Any funding required to complete the development of Site B in excess of the aggregate ceiling cost agreed with SCP Holdings shall be provided solely by the Company.

***32.9 Others***

There are other commitments, guarantees and contingent liabilities that arise in the normal course of operations of the Group which are not reflected in the accompanying consolidated financial statements. The management of the Group is of the opinion that losses, if any, from these items will not have any material effect on their consolidated financial statements.

## 33. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group has various financial instruments such as cash and cash equivalents, financial assets at FVTPL, AFS financial assets, interest-bearing loans and borrowings, bonds payable, trade receivables and payables and derivative liabilities 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.

***33.1 Foreign Currency Sensitivity***

Most of the Group's transactions are carried out in Philippine peso, its functional currency. The currency exchange risk arise from the U.S. dollar-denominated cash and cash equivalents, loans and bonds which have been used to fund new projects. Foreign currency denominated financial assets and liabilities, translated into Philippine peso at year-end closing rate are as follows:

| | 2008 | | 2007 | |
|---|---|---|---|---|
| | **U.S. Dollars** | **Pesos** | U.S. Dollars | Pesos |
| Financial assets | **$ 211,554,706** | **₱ 10,045,684,389** | $ 292,480,440 | ₱ 12,108,965,193 |
| Financial liabilities | **( 143,551,537)** | **( 6,816,964,755)** | ( 161,436,644) | ( 9,681,302,554) |
| | **$ 68,003,169** | **₱ 3,228,719,634** | $ 131,043,796 | ₱ 2,427,662,639 |

The sensitivity of the consolidated income before tax for the year in regards to the Group's financial assets and the U.S. dollar – Philippine peso exchange rate. It assumes +/-17% and +/-14% changes of the Philippine peso/U.S. dollar exchange rate for the years ended December 31, 2008 and 2007, respectively. These percentages have been determined based on the average market volatility in exchange rates 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 balance sheet dates.

If the Philippine peso had strengthened against the U.S. dollar, with all other variables held constant, consolidated income before tax would have decreased by ₱548.9 million and ₱339.9 million in 2008 and 2007, respectively. Conversely, if the Philippine peso had weakened against the U.S. dollar by the same percentage, then consolidated income before tax would have increased by the same amount.

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

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

***33.2 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 consolidated net income before tax for the year to a reasonably possible change in interest rates +/-4.89% for Philippine peso and +/-6.12% for U.S. dollar in 2008 and +/-2.98% for Philippine peso and +/-2.63% for U.S. dollar in 2007 with effect from the beginning of the year. 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, 2008 and 2007, with effect estimated from the beginning of the year. All other variables held constant, the consolidated net income before tax would have increased by ₱1.3 billion and ₱648.3 million in 2008 and 2007, respectively. Conversely, if the interest rates decreased by the same percentage, income before tax would have been lower by the same amount.

***33.3 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 carrying values of these financial assets subject to credit risk are disclosed in Note 34.

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

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

Trade and other receivables past due but not impaired can be shown as follows:

| | **2008** | 2007 |
|---|---|---|
| Not more than 30 days | **₱ 2,794,528,399** | ₱ 934,012,637 |
| 31 to 60 days | **1,241,328,317** | 579,495,243 |
| Over 60 days | **1,267,228,550** | 279,896,514 |
| | **₱ 5,303,085,266** | ₱ 1,793,404,394 |

***33.4 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 dayto- 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

*(Amounts in Philippine Pesos)*

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, 2008, the Group's financial liabilities have contractual maturities which are presented below:

| | Current | | Noncurrent | |
|---|---|---|---|---|
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years 5 | Later than Years |
| Trade and other payables | ₱ 5,446,788,307 | ₱ 1,461,880,973 | ₱ - | ₱ - |
| Interest-bearing loans and borrowings | 392,569,997 | 2,301,249,196 | 6,085,233,037 | 648,888,889 |
| Long term notes payable | - | 888,348,118 | 228,096,000 | 1,226,016,000 |
| Bonds payable | - | - | 4,046,528,044 | - |
| Derivative liabilities | - | 376,458,309 | - | - |
| Obligation under finance lease | 669,600 | 479,693 | 779,134 | - |
| Redeemable preferred shares | - | - | - | 1,574,159,348 |
| Guaranty deposits | - | 13,280,422 | 27,718,294 | 23,879,995 |
| Payable to MRO stock option | - | 11,304,734 | 12,912,962 | - |
| Advances from related parties | 102,572,950 | 34,940,975 | 836,258,246 | - |
| | **₱ 5,942,600,854** | **₱ 5,087,942,420** | **₱ 11,237,525,717** | **₱ 3,472,944,232** |

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

| | Current | | Noncurrent | |
|---|---|---|---|---|
| | Within 6 Months | 6 to 12 Months | 1 to 5 Years | Later than 5 Years |
| Trade and other payables | ₱ 1,308,221,789 | ₱ 2,491,473,179 | ₱ 21,000,000 | ₱ - |
| 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 | - | - | 4,500,268,949 | - |
| Advances from relater parties | - | 92,023,859 | 647,083,981 | - |
| | ₱ 1,651,028,057 | ₱ 2,843,108,003 | ₱ 7,251,613,878 | ₱ 2,904,184,527 |

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

***33.5 Other Price Risk Sensitivity***

The Group's market price risk arises from its investments carried at fair value (financial assets classified as AFS financial assets). It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Company's investments held at fair value and their impact on the Company's equity as of December 31 are summarized as follows:

| | Observed Volatility Rates | | Impact on Equity | |
|---|---|---|---|---|
| | Increase | Decrease | Increase | Decrease |
| **2008** | | | | |
| Investment in equity securities in: | | | | |
| Property company | +106.24% | -106.24% | ₱ 470,395,485 | (₱ 470,395,485) |
| Bank | +111.21% | -111.21% | 291,750 | ( 291,750) |
| | | | **₱ 470,687,235** | **(₱ 470,687,235)** |
| 2007 | | | | |
| Investment in equity securities in: | | | | |
| Property company | +63.26% | -63.26% | ₱ 497,481,766 | (₱ 497,481,766) |
| Bank | +66.49% | -66.49% | 467,570 | ( 467,570) |
| | | | ₱ 497,949,336 | (₱ 497,949,336) |

The maximum additional estimated loss in 2008 is to the extent of the carrying value of the securities held as of December 31, 2008 with all other variables held constant. The estimated change in quoted market price is computed based on volatility of local index for property and bank sectors listed at Philippine Stock Exchange at 95% confidence level.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor.

## 34. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

The carrying amounts and fair values of the categories of assets and liabilities presented in the balance sheets are shown below (amounts in thousands).

| | Notes | 2008 Carrying Values | 2008 Fair Values | 2007 Carrying Values | 2007 Fair Values |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 5 | ₱ 27,601,663 | ₱ 27,601,663 | ₱ 24,066,590 | ₱ 24,066,590 |
| Trade and other receivables | 6 | 20,848,914 | 20,848,914 | 13,582,135 | 13,582,135 |
| | | ₱ 48,450,577 | ₱ 48,450,577 | ₱ 37,648,725 | ₱ 37,648,725 |
| Financial assets at FVTPL - | | | | | |
| Debt securities | 7 | ₱ 1,834,995 | ₱ 1,834,995 | ₱ 1,975,898 | ₱ 1,975,898 |
| AFS: | | | | | |
| Debt securities | 11 | ₱ 3,273,653 | ₱ 3,273,653 | ₱ 2,801,582 | ₱ 2,801,582 |
| Equity securities | 11 | 674,526 | 674,526 | 1,621,272 | 1,621,272 |
| | | ₱ 3,948,179 | ₱ 3,948,179 | ₱ 4,422,854 | ₱ 4,422,854 |
| ***Financial Liabilities*** | | | | | |
| Financial liabilities at amortized cost: | | | | | |
| Current: | | | | | |
| Interest-bearing loans and borrowings | 17 | ₱ 2,927,396 | ₱ 2,927,396 | ₱ 510,983 | ₱ 506,702 |
| Trade and other payables | 16 | 7,011,242 | 7,011,242 | 5,011,496 | 5,011,496 |
| Other financial liabilities | 20 | 377,586 | 377,586 | 3,701 | 3,701 |
| | | 10,316,224 | 10,316,224 | 5,526,180 | 5,521,899 |
| Noncurrent: | | | | | |
| Interest-bearing loans and borrowings | 17 | 7,143,988 | 7,523,187 | 2,516,989 | 2,694,493 |
| Bonds payable | 18 | 3,696,291 | 3,520,290 | 4,140,100 | 4,191,851 |
| Advance from related parties | 28 | 871,199 | 871,199 | 647,084 | 647,084 |
| Redeemable preferred shares | 19 | 294,719 | 347,319 | 261,272 | 384,154 |
| Other financial liabilities | 20 | 73,466 | 73,466 | 64,272 | 64,272 |
| | | 12,079,663 | 12,335,461 | 7,629,717 | 7,981,854 |
| | | ₱ 22,395,887 | ₱ 22,651,685 | ₱ 13,155,897 | ₱ 13,503,753 |

See Notes 2.4 and 2.13 for a description of the accounting policies for each category of financial instrument. A description of the Company's risk management objectives and policies for financial instruments is provided in Note 32.

## 35. 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:

| | 2008 | 2007 |
|---|---|---|
| Total liabilities | ₱ 34,808,938,720 | ₱ 23,596,679,863 |
| Equity attributable to equity holders of the parent company | 44,310,277,761 | 44,122,482,417 |
| Debt-to-equity ratio | 0.79:1 | 0.54:1 |

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

# Corporate Information

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## Date of Incorporation
October 12, 1993

## Date of Public Listing
April 19, 1999

## Principal Auditors
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Grant Thornton International Ltd.
20/F Tower 1, The Enterprise Center
6766 Ayala Avenue, Makati City
Tel. No. 886-5511

## Stock Transfer Agent
BDO Stock Transfer
Banco De Oro Unibank, Inc.
15/F South Tower, BDO Corporate Center
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Tel. No. 878-4053

## Subsidiaries
Alliance Global Brands, Inc.
Anglo Watsons Glass, Inc.
Emperador Distillers, Inc.
First Centro, Inc.
Golden Arches Development Corporation
Golden Arches Realty Corporation
Megaworld Corporation
Travellers International Hotel Group, Inc.

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

ALLIANCE GLOBAL

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