COVER SHEET

ALLIANCE GLOBAL GROUP, INC.

(Company's Full Name)

20th Floor IBM Plaza, Eastwood City CyberPark
188 E. Rodriguez Jr. Ave., Bagumbayan, 1110 Quezon City
Metro Manila, Philippines
(Company's Address)

(02)91129-49 to -52
(Company's Telephone Number)

DECEMBER 31	**THIRD TUESDAY OF SEPTEMBER**
(Fiscal Year Ending)	*(Annual Meeting)*

SEC FORM 17-A
ANNUAL REPORT
FOR THE YEAR ENDED DECEMBER 31, 2006
(Form Type)

April 16, 2007
(Report Date)

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

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

ALLIANCE GLOBAL GROUP, INC.

TABLE OF CONTENTS

.	Description
SEC 17-A	2006 Annual Report
Attachments:	
AACFS	Audited Consolidated Financial Statements with Statement of Management's Responsibility for Financial Statements and Auditors' Report
	Supplementary Schedules to the Financial Statements and Auditors' Report
	Aging Schedule of Trade and Other Receivables Under Current Assets

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. *For the fiscal year ended* **December 31, 2006**

2. *SEC Identification Number* **AS093046**

3. *BIR Tax Identification No*. **003-831-302-000**

4. *Exact name of issuer as specified in its charter* **ALLIANCE GLOBAL GROUP, INC.**

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

6. (*SEC Use Only)*
   Industry classification code

7. **20th Floor, IBM Plaza, Eastwood City CyberPark**
   188 E. Rodriguez Jr. Avenue, Bagumbayan, 1110 Quezon City
   Address of principal office

8. **(632) 91129-49 to -52**
   Registrant's telephone number, including area code

9. *Securities registered pursuant to Sections 8 and 12 of the SRC, or secs. 4 and 8 of the RSA*

Title of Each Class	*Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding* ***As of March 31, 2007***
Common	**8,469,827,979**

10. *Are any or all of these securities listed on* ***Philippine*** *Stock Exchange.* **Yes.**

11. *(a) AGI has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months. (b) AGI has been subject to such filing requirements for the past ninety (90) days.*

12. *The aggregate market value of the voting stock held by non-affiliates of AGI, based on the closing price of its common stock of Seven Pesos and Thirty Centavos (P7.30) on the Philippine Stock Exchange on March 31, 2007, is P17,383,312,354.50.*

PART I - BUSINESS AND GENERAL INFORMATION

Item 1. Business

Business Development in the Past Three Years

Alliance Global Group, Inc. ("AGI" or "the Company") was incorporated under Philippine laws on October 12, 1993. It embarked on the glass-container manufacturing business and acquired a glass manufacturing plant in Canlubang, Laguna in the following year. On September 2, 1999, it obtained approval from the SEC to broaden its primary business into that of a holding company. As a holding company, Alliance Global can engage not only in the manufacture, trade and distribution of all kinds of products but also carry on businesses relating to, among others, development, sale and lease of real estate; maintenance and operation of hotel, restaurants, gyms and parlors; and research, development, marketing and distribution of technology and all technology-derived products and services.

Given a wider scope of business, AGI immediately diversified into food-and-beverage business and real estate development. In 1999, it incorporated under Philippine laws two wholly owned subsidiaries and, in 2001, acquired another local company because of the properties it holds.

In June 2003, the Company won in the bidding called by Bases Conversion Development Authority ("BCDA") for the development and privatization of an approximately 25-ha property in Fort Bonifacio, Taguig, Metro Manila, known as Lawton Parkway (now McKinley Hill). On September 1, 2003, AGI and BCDA signed a joint venture agreement wherein BCDA turned over the property to AGI as its contribution to the joint venture while AGI provides the financing for the development of the property into a predominantly residential community. AGI tapped Megaworld Corporation ("Megaworld") -a reputable developer of large-scale mixed use communities- for the planning, design, construction and marketing of the project. AGI and Megaworld agreed to share in financing the project. Megaworld complemented this project with another adjacent 25-ha property, creating a work-live-learn-play community.

On December 9, 2004, the Board of AGI approved its acquisition of 49% stake in local McDonald's from McDonald's Corporation, USA ("McDonald's") by acquiring the shares held by McDonald's Restaurant Operations, Inc. ("MRO"). The transaction was closed on March 17, 2005. This marks the entry of AGI into another segment of the food business, the quick service restaurant ("QSR").

At present, the Company holds interests in the following entities:

Anglo Watsons Glass, Inc. ("AWG"), a wholly owned subsidiary, handles the spun-off glass-container manufacturing business. It was incorporated on July 22, 1999 with P400 million authorized capitalization and P25 million paid-up capital. It started commercial operations in September 2000.

Alliance Growers Holdings, Inc. (renamed Alliance Global Brands, Inc. in 2007) ("AGH" or "AGB"), a wholly owned subsidiary, handles the food-and-beverage business. It was incorporated on December 22, 1999 with P5 billion authorized capitalization and P1.25 billion paid-up capital. It started commercial operations in January 2000 by trading and distributing internationally-known and branded products. In August 2000, it took over the US production and international marketing of two international food brands – through the acquisition of *McKester Pik-Nik International Limited*, a foreign-based company. This purchase transformed AGI from a merely Philippine-based holding company into one operating in a global marketplace. Since AGH's general business can include real estate and other businesses as well, it acquired two domestic real estate companies in end-1999 and February 2001 because of the properties they held. One of these properties is being transformed into a modern manufacturing complex.

First Centro, Inc. ("FCI"), a wholly owned subsidiary, is primarily engaged in the development of real estate and in marketing of its own real estate projects and those of other entities as well. It was incorporated under Philippine laws in August 1994, and at present, has P1 billion authorized capital stock and P730 million paid-up capital. It had already completed one of its first projects in Paranaque City and has lined up several mid-range projects for development in metropolitan Manila. FCI became a wholly-owned subsidiary in October 2001 and through this, AGI gained entry in the housing industry.

Golden Arches Development Corporation ("GADC") is engaged in the operations of quick service restaurant business under the McDonald's brand and in accordance with the franchise agreement with McDonald's Corporation, a company incorporated in USA. It was incorporated under Philippine laws. At December 31, 2006, it has P99.44 million authorized and paid up common capital stock, 49% of which is held by AGI.

Golden Arches Realty Corporation ("GARC") leases to GADC parcels of land where McDonald's restaurants and warehouses are situated. It was incorporated under Philippine laws on June 25, 2001 and, at present, has P1 million authorized capital stock and P816,400 issued and outstanding, 49% of which is held by AGI.

On February 16, 2007, AGI widened its business portfolio by acquiring 25% equity (in addition to the group's 21%) in Megaworld Corporation (Megaworld), a publicly-listed domestic real estate company, and 100% equity in Emperador Distillers, Inc (Emperador), the manufacturer of Emperador and Generoso brandy. Emperador brandy is acclaimed as the world's largest selling brand of brandy. With 46% equity in Megaworld, AGI becomes the former's parent holding company. Megaworld and Emperador will be consolidated into AGI starting 2007.

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

Company's Business

At end-2006, Alliance Global Group, Inc. is a holding company engaged in glass-container manufacturing, food and beverage business (manufacturing, trading and quick service restaurant), and real estate (development of real estate and lease of properties).

Principal products, their markets and distribution

In the glass-container manufacturing business, the Company produces flint glass bottles and jars based on customers' specifications. Flints are plain transparent glass that could be processed into a variety of shapes and sizes. Clientele includes leading producers of wines, liquors, juices, soft drinks, food preserves, sauces and flavorings products. Clients are mainly based in Metro Manila and other areas in Luzon. Delivery of products to the customers is made through the services of regular freight handlers who supply trucks for the exclusive use of the Company.

In the food-and-beverage business, the Company trades and distributes internationally-known brands. A subsidiary operating in the USA handles the manufacture and international distribution of Pik-Nik shoestring potato snack brands. Sales to US, Asia and Latin America markets account for 55-60%, 30-35%, 1-3%, respectively, of the subsidiaries' sales, with product distribution made principally through commissioned broker houses. The McDonald's brand carries principally the beef burgers variants, fried chicken and French fries. Demographically, the target market is AB, broad C through the restaurant branches nationwide, with delivery service in some areas. All McDonald's restaurants in the Philippines are operated either by GADC, independent entrepreneurs under the terms of a franchise agreement with GADC, or affiliated restaurants under joint venture agreements with local businessmen.

In the real estate business, the Company realized gross profit from sales in Ambassador Hills, a Mediterranean-inspired residential community built in La Huerta, Paranaque City - within Multinational Village, a fully-developed residential subdivision near the Ninoy Aquino International Airport. Another property, the Warehouse Town -a well-secured integrated warehouse complex- is for lease but presently unoccupied. The McKinley Hill (Lawton Parkway) is a predominantly residential community being built in Fort Bonifacio. Megaworld acts as the exclusive marketing agent for this project. The marketing of other properties is being handled by an in-house Marketing group.

By end-2006, the food-and-beverage business contributed the biggest chunk of revenues, with approximately 75% of sales revenues coming from the McDonald's brand and 5% from Pik-Nik brand, while about 4% comes from the glass-container manufacturing business and 16% from the real estate business.

New product or service

In the glass and food-and-beverage businesses, there are no new products or design being developed that would require a material amount of the Company's resources and there have been no research and development activities for the past three years. For the McDonald's brand, new product variations are introduced every now and end which normally last for about 3-6 months only, and this is part of the normal business promotions. McRice burgers, McShaker fries, and chicken fillet sandwiches are the newer introductions.

In the real estate business, construction is in progress for the McKinley Hill Project, a joint development project with Megaworld. Preliminary designs and plans have been completed for Citiwood Heights, a medium-rise residential condominium in Quezon City.

In 2007, the products of Emperador and Megaworld will be to the Group's product portfolio, particularly the brandy brands Emperador and Generoso that are being manufactured by Emperador, and real estate development projects of Megaworld.

Competition

At present, there is a scarcity of research reports and studies from independent research institutions monitoring the Philippine glass containers industry, so industry information is based on company's estimates only. The Company is among the top four big glass container manufacturers. Two of these big players – San Miguel and Asia Brewery – supply approximately 59% and 25%, respectively, of local production, but they cater mainly (i.e. give priority) to the glass requirements of their affiliates. AGI provides about 7% of the local production while Arcya Glass, 8% and other local producers combine for 1%. As the glass container market is expected to follow the growth prospects of its client industries, AGI concentrate on clients that belong to the food and beverage industry. This industry's growth curve assures full production capacity.

The Company enters the competitive food and wine marketplace capitalizing on the excellent image and trustworthiness of the brands it carry.

In the local quick service restaurant business, the strong contender is Jollibee, a homegrown brand, because of its wider network of stores/restaurants. There are several local players including Tropical Hut, Burger King, Chow King, KFC, and emerging coffee shops that also serve sandwiches. The business is also seeing an increasing presence of convenient stores that offers fast food sandwiches. Competition is primarily driven by price and product performance. It is *best value for your money*. McDonald's products maintain world-wide-quality standards and are being sold at competitive prices at guaranteed fast time in a clean ambiance.

The Company caters to the various property requirements of its target market. It expects competition from other property companies offering comparable products. It believes that the industry is highly fragmented with no major player dominating the whole market.

The Company believes that the high quality of all the products it sells can effectively compete with other companies in its areas of competition.

Sources and availability of raw materials

The Company is not dependent upon one or a limited number of suppliers for essential raw materials, the loss of which would not have a material adverse effect on the Company. Raw materials for the manufacture of glass are sourced from suppliers who can give the required quality and quantity at competitive prices. These suppliers include Rock Energy International Corporation, Comeward Marketing Inc. (formerly Easywin Commodity, Inc.), C & B Marble, Feldspar Processing Corporation, among others. The suppliers of potatoes for Pik-Nik have one-year contracts. For the McDonald's products, major materials are sourced

through the McDonald's global supply chain so that they comply with McDonald's global standards.

Customer dependence

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

Transactions with and/or dependence on related parties

In the normal course of business, there were inter-company transactions among the Company and its subsidiaries. These inter-company transactions were eliminated in consolidation and thus were no longer reflected in the consolidated financial statements. These primarily consisted of the following:

- Cash advances for financial requirements. These advances have no fixed repayment terms. AGI's advances to AGH and subsidiaries amounting to P3.1 billion and P3.2 billion as of December 31, 2006 and 2005, respectively, comprised the bulk of these inter-company advances. There were advances among subsidiaries as well but these were not as material.
- Lease of glass manufacturing plant property. The Company leases the glass manufacturing plant facilities to AWGI.
- Lease of parcels of land. GARC leases out these lots to GADC.
- Receivables from subsidiaries/franchisees. GADC supplies restaurant equipment, food, paper and promotional items to all franchisees, including affiliated restaurants, at normal market prices through a third party service provider.

Licenses, franchises

McDonald's USA granted a nonexclusive right to adopt and use the McDonald's System in restaurant operations in the Philippines. The license agreement was renewed in March 2005 for another 20 years. It provides for a royalty fee based on a certain percentage of net sales from the operations of all Company's restaurants, including those operated by the franchisees. Individual sublicense arrangements granted to franchisees generally include a lease and a license to use the McDonald's System for a period of 3 to 20 years, with a co-terminus provision with the master franchise.

On December 1, 2000, McKester Pik-Nik International Limited, a wholly- owned foreign subsidiary of Alliance Growers, granted APEC Assets Limited and McKester Asia Limited the exclusive license to use within the agreed territories the trademark “McKester” on or in association with the manufacture, packaging, labeling, advertising, sale, marketing and distribution of McKester line of food products. The term of the grant of trademark license is ten years.

Existing trademarks for Pik-Nik products are licensed/registered for 10-20 year periods, renewable thereafter.

Government approval and compliance with environmental laws

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

A barangay clearance and development permit from the local government unit must be secured before commencing land development works. Before the start of structural construction activities, a building permit must be secured from the local government unit. A certificate of registration and a license to sell, both from HLURB, must be secured before launching any selling activities. The complies with all regulations applicable to the development and sale of its projects.

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

The Company has not incurred material costs to comply with environmental laws.

Number of employees

As of December 31, 2006, the Company and its subsidiaries have a total work force of about 10,210 employees. About 98% of the total employees are plant/operations workers. A few additional contract workers may be hired or required at the manufacturing plants, but the number of regular employees is not anticipated to change substantially within the ensuing year. In the glass plant, the rank-and-file employees are subject to collective bargaining agreements that would end on January 20, 2010. There are some employees specifically excluded in this agreement.

Business Risks

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

The Group's risk management is coordinated with the Board of Directors and focuses on actively securing short-to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns. The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options.

The risks that the present business face include:

- Hazards. The Company and its subsidiaries' assets are always exposed to losses or impairment through fire and natural or man-made disasters and accidents. Safety precautionary measures have been undertaken and installed within the operating system. Adequate insurance policies are likewise taken to cover from these risks.
- Supply of raw materials. Materials used in production demand high quality and specialty. Purchasing therefore keeps posted about supply sufficiency in the market and always looks out for new potential sources.
- Economic/political forces. The Philippines continues to experience economic difficulties relating to currency fluctuations, volatile stock markets and growth slowdown. While consumers' spending and customers' demands could be affected, Management is of the opinion that losses would not be substantial to the present business operations. Management keeps abreast of current events and tracks down effects to operations and sales.

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

Item 2. Properties

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

- Glass plant and equipment situated on a 57,928-sqm lot located in Zone B-4, Canlubang Industrial Estate, Canlubang, Calamba, Laguna. The plant is strategically located within CALABARZON, the site of several other industrial estates.

- A 92,717-sqm property in Sta. Rosa, Laguna being developed into a modern manufacturing complex. This is covered by a contract to buy and sell and has not been fully paid. Buildings structures in the complex were completed and machinery and equipment fully installed.

- An approximately 25-ha property in Fort Bonifacio, Taguig, Metro Manila, known as McKinley Hill (Lawton Parkway), being developed into a predominantly residential community under joint venture with BCDA.

- Several parcels of land where McDonald's restaurants and warehouses are situated.

- Warehouse Town, an integrated warehouse complex on a 9,352-sqm property along Gen, Luis St., Kalookan City. It has living, transport and access facilities consisting of warehouse buildings, power house, stock house and living accommodations.

- A 1,885.3-sqm property along Quezon Ave. corner EDSA, Quezon City, intended for Citiwood Heights, a 35-storey residential condominium.

Office spaces are being rented/leased. The U.S. office and warehouse spaces are being leased, too, with contracts expiring in May 2007 and February 2008, respectively, renewable by agreement of both parties. The total amount of the lease rentals, however, is not significant to the total costs and expenses.

In addition, there are various operating lease agreements for McDonald's restaurant sites, offices and other facilities. These non-cancelable lease agreements are for initial terms of 5-40 years and, in most cases, provide for rental escalations, additional rentals based on certain percentages of sales and renewal options for additional periods of 5-25 years. Lease expense during the year amounted to P681 million and P624 million for 2006 and 2005, respectively.

Item 3. Legal Proceedings

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

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

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

There was a duly constituted special meeting of the stockholders of the Company held on January 5, 2007 at The Richmonde Hotel, Ortigas Centre, Pasig City, wherein stockholders representing at least two-thirds of the outstanding capital stock of the Company voted in favor of the following resolutions of the Board of Directors:

1) Identification of the specific principal office address of the Corporation in the Third Article of the Articles of Incorporation; and
2) Increase in the Authorized Capital Stock of the Corporation from Php5 Billion consisting of 5,000,000,000 common shares with a par value of Php1.00 per share to Php12.95 Billion consisting of 12,950,000,000 common shares with a par value of Php1.00 per share, or an increase of Php7.95 Billion consisting of 7,950,000,000 shares.

The Amended Articles of Incorporation was approved by SEC on February 5, 2007.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

Market Information

The Company's common shares are traded on the Philippine Stock Exchange. The closing price of the said shares as of March 31, 2007 was P7.30. The trading prices of the said shares for each quarter within the last two years and subsequent interim period are set forth below:

	2005				2006				2007
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
High	12.05*	10.50	10.00	11.00	11.50	11.75	12.00	10.75	7.30*
Low	10.23*	10.00	9.70	10.00	11.00	10.00	9.50	7.30	3.50*

**adjusted for 1:10 stock right on Feb 28, 2005 in 2005 and Feb 12, 2007 in 2007*

(*Source: PSE Research Dept.)*

Shareholders

As of March 31, 2007, the Company had 1,064 stockholders holding 8,469,827,979 common shares. The Top Twenty Stockholders of the Company were as follows:

Rank	*Stockholder*	*No. of Shares Held*	*Per Cent to Total*
1	The Andresons Group, Inc.	3,722,008,394	43.944
2	Yorkshire Holdings, Inc.	1,913,273,508	22.589
3	PCD Nominee Corporation (Filipino)	684,522,268	8.082
4	Altavision Resources, Inc.	451,570,334	5.332
5	Andrew L. Tan	341,684,350	4.034
6	PCD Nominee Corporation (Non-Filipino)	222,690,159	2.629
7	Asiagroup Holdings, Inc.	220,000,000	2.597
8	Globaland Holdings, Inc.	220,000,000	2.597
9	Grand Bel Air Holdings, Inc.	220,000,000	2.597
10	American Growers Corporation	160,000,000	1.889
11	California Orchard Growers Investments, Inc.	120,000,000	1.417
12	Gilmore Property Marketing Associates, Inc.	105,000,000	2.240
13	Eastwood Property Holdings, Inc.	87,600,000	1.034
14	Elizabeth Sy De Jesus	75,000	0.001
15	First Centro, Inc.	69,800	0.001
16	Victoriano G. Sy, Jr.	65,498	0.001
17	Roberto A. San Jose	18,053	0.000
18	Cristeta A. Feria	16,500	0.000
19	Remedios Leh Mariano	14,000	0.000
20	Elizabeth S. De Jesus	8,600	0.000

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

Dividends in the Two Most Recent Years and Subsequent Interim Period

It is the Company's policy to periodically declare a portion of its unrestricted retained earnings as dividend either in the form of cash or stock. On July 13, 2005, the Company declared cash dividend of 7% (P0.07) to all stockholders of record as of July 27, 2005.

The payment of dividends in the future will depend upon the Company's earnings, cash flow and financial condition, among other factors. The Company may declare dividends out of its unrestricted retained earnings only. Unrestricted retained earnings represent the net accumulated earnings of the Company, with its capital unimpaired which are not appropriated for any other purpose. The Company may pay dividends in cash, by the distribution of property, or by the issue of shares of stock. Dividends paid in cash are subject to the approval by the Board of Directors. Dividends paid in the form of additional shares are subject to the approval by both the Board of Directors and at least two-thirds (2/3) of the outstanding capital stock of the stockholders at a stockholders' meeting called for such purpose.

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

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

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

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

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

Item 6. Management's Discussion and Analysis

Key Performance Indicators

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

	2006	2005
Sales growth	11%	120%
Net income growth	-73%	898%
Net income growth, less extraordinary	108%	129%
Net income rate	10%	42%
Return on investment	6%	23%
Current ratio	1.6:1	3:1

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

Management's Discussion and Analysis of Operation

The general business climate was still marked by calamities, political conflicts, rising prices and currency inflations that influenced consumers' attitude, not only domestically but globally as well. Amidst this economic environment, the Company and its subsidiaries were able to sustain positive results.

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

Results of operations:

For the Year Ended December 31, 2006 vs. 2005

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

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

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

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

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

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

For the Year Ended December 31, 2005 vs. 2004

AGI ended the year 2005 with P3.3 billion net income, a big leap from P332 million a year ago. P2.0 billion was attributable to AGI's shareholders while P1.7 billion was attributable to other shareholders. Such remarkable feat was due to the addition of the QSR in the Group's business portfolio by end-March this year. As such, all line items in the consolidated statements of income increased significantly.

Revenues grew by 119% to P7.9 billion this year from P3.6 billion last year, primarily because of the QSR contribution. With QSR included in 2005, revenues from the food and beverage business segment rose by 139%. Pik-Nik sales expanded by 6%. The local trading and glass manufacturing businesses, however, experienced sales decline. Glass manufacturing business slowed down by 20% following the glass plant shutdown for cold repair of furnace and upgrade of machines beginning the later part of fourth quarter. Meanwhile, the local trading and distribution business, being a low-margin business with its present product portfolio, was put in abeyance rather than be saddled by the monthly minimum tax it would be required to pay under the new expanded vat law.

Gross profit improved significantly because of contribution from QSR. Gross profit of the other businesses improved as well by 13-24%. This was attributed to prudent management of costs, despite the rising costs of electricity, fuel and raw materials.

Administrative expenses included that of QSR amounting to P351 million in 2005, which in turn further included employees' benefits of P137 million. Composition of costs and expenses by nature is presented in notes to the financial statements.

Selling expenses included royalty fees amounting to P267 million in 2005.

Other operating income was primarily interest earnings on cash and financial assets investments, with P50 million of it coming from GADC.

The excess of carrying value of advances to GADC from MRO over the net fair value of Class B preferred shares, when applied in payment of MRO's subscription to such preferred shares, and the fair value of $-loan to MRO was recognized as gain in 2005 and presented under other income. This amounted to P3.29 billion in 2005.

The equity in net earnings of an associate and a joint venture beefed up revenues by P261.5 million and P182.6 million in 2005 and 2004, respectively.

The preacquisition income of P408 million referred to the equity share of AGI's stockholders in net income of GADC as prorated corresponding to first quarter share.

Income tax expense for 2005 totalled P66.7 million as compared to P57.3 million of previous year.

Liquidity and Capital Resources

As of December 31, 2006 and 2005, consolidated assets totaled P15.8 billion and P14.5 billion, respectively, while consolidated liabilities amounted to P3.8 billion and P2.9 billion as of year-ends 2006 and 2005, respectively.

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:

Trade and other receivables decreased by P374 million this year-end because the P644 million deposit on machinery and equipment for the Sta. Rosa property had been applied to the billing in 2006. Meantime, ending receivables went up by P132 million from the developmental services and P91 million from the QSR.

Inventories went down to P418 million at end-2006 from P587 million at end-2005 as a result of decrease in food and glass container inventories by P95 million and P123 million, respectively. Prior year's glass bottles were unusually high because these were stacked up for the plant shutdown from December 2005 to July 2006.

Prepayments and other current assets went up by P75 million primarily due to P46 million and P21 million creditable tax withheld on real estate development services and QSR, respectively. QSR's prepaid importation charges also increased by P26 million.

Investment in an associate increased by P1.5 billion due to additional acquisition of shares made in second semester to restore equity interest to approximate previous level. The equity interest was diluted when the associate undertook an international stock offering in early part of the year. The additional shares were acquired for P1.4 billion.

Property, plant and equipment and investment property went up by P239 million and P126 million, respectively, primarily from acquisitions in the QSR. QSR has expanded its business operations with new stores opened and existing stores reimaged. Buildings and leasehold improvements, equipment, signs and seatings, vehicles, furniture and fixtures, among others, were added during the year.

Trade and other payables surged by P893 million because of P649 million unpaid cost of real estate development services and P132 million unpaid acquisition cost of associate's common stock.

Dilution loss referred to the decline in the carrying value of equity shares of the associate as a result of the associate's stock issue at lower than its book value.

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

The consolidated balance sheets showed strong liquidity. Current assets as of December 31, 2006 and 2005 amounted to P3.7 billion and P4.2 billion, respectively, while current liabilities for the same respective years-end remained low at P2.3 billion and P1.4 billion, respectively. Thus, current ratios were at 1.6:1 and 3:1 as of respective year-ends.

Debt-to-equity ratios were kept very low at about the same level of 0.3:1 for both year-end. Cash and cash equivalents totaled P1.3 billion and P1.4 billion as of respective year-ends.

Prospects for the future:

The newly acquired brandy manufacturing business is expected to contribute the biggest chunk in the ensuing year. Real estate activities are likewise expected to contribute significant share, particularly with consolidating equity in Megaworld starting 2007. QSR is expected to boost revenues but not so much on net margins. With improved glass plant facilities, higher production efficiency is expected to be achieved which would translate to improved gross profit from the glass manufacturing business.

In first semester of 2007, AGI intends to raise additional funds from a follow-on equity offering to be used primarily to expand its business investments.

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.

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.

Item 7. Financial Statements

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

In compliance with the pronouncements of the Accounting Standards Council (the accounting standards setting body in the Philippines) and the regulations of the SEC, the Company and subsidiaries has adopted all the relevant standards (PFRSs) for the first time in 2005, with January 1, 2004 as transition date. Due to the transition, the 2004 comparatives contained in the attached consolidated financial statements differ from those previously presented/issued for 2004.

The preparation of the consolidated financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and related notes. The estimates and assumptions are based upon management's evaluation of relevant facts and circumstances of the financial statements. Actual results could differ from those estimates.

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

Item 8. Information on Independent Accountant and other Related Maters

Audit and audit-related services

Punongbayan & Araullo ("P&A"), upon recommendation by the Audit Committee, was re-appointed by the stockholders as the principal accountant for the year 2007.

In compliance with SEC Memorandum Circular No. 8, s. 2003 (Rotation of External Auditors), and as adopted by the Company, external auditors are rotated or changed every five years or earlier. P&A is on its fourth year of service as auditors.

There were no other service provided by P&A for the last two fiscal years.

Changes in and disagreements with accountants on accounting and financial disclosure

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

PART III - CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers

Directors, executive officers and significant employees:

Name, Age Citizenship	*Position Held, Term of Office*	*Present Directorship(s) in other companies*	*Business experience for the past five (5) years*
ANDREW L. TAN, 57 Filipino	Chairman of the Board, Sep 2006 – present; Director/Vice Chairman of the Board, Aug 2003 - Sep 2006	*Chairman/President*, Megaworld Corporation; Megaworld Globus Asia, Inc.; Mactan Oceanview Properties & Holdings, Inc.; Megaworld Land, Inc.; Megaworld Homes, Inc.; Megaworld Newport Property Holdings, Inc.; Yorkshire Holdings, Inc.;*Chairman*, Empire East Land Holdings; Inc.; Empire East Properties, Inc.; Megaworld Foundation, Inc.; Alliance Global Brands, Inc.; Consolidated Distillers of the Far East, Inc.; Eastwood Cyber One Corporation; Emperador Distillers, Inc.; Forbes Town Properties & Holdings, Inc.; Gilmore Property Marketing Associates, Inc.; Megaworld Cayman Islands, Inc.; Megaworld Central Properties, Inc.; Megaworld Foundation, Inc.; Raffles & Company, Inc.; The Andresons Group, Inc., *Vice Chairman/Treasurer* , Golden Arches Development Corporation;	Real estate; marketing

		Golden Arches Realty Corporation *Director*, Andresons Global, Inc., Choice Gourmet Banquet, Inc.; Townsquare Development, Inc.	
GEORGE T. YANG, 67 Filipino	Vice-Chairman of the Board, Sept. 2006-present; Chairman of the Board, Oct 1999 – Sept 2006	*Chairman/President*, First Georgetown Ventures, Inc.; Fun Characters International Pte. Ltd. (marketing licensee of Walt Disney Company for Asean Countries); Kristin Management & Development Corporation; HAVI Food Services (Philippines), Inc.; *Chairman*, Golden Arches Development Corporation (McDonald's Philippines); Golden Arches Realty Corporation; Trojan Computer Forms, Inc.; GEC Land Development Corporation; MC Home Builders Depot; Construction Strategies & Management Corporation; Ronald McDonald House Charities (Philippines); *Vice-Chairman*, Megaworld Corporation; *Director*, Empire East Land Holdings, Inc.; Prime Gaming Management Corp; Member of the Board of Governors, Philippine National Red Cross and the Tower Club; Honorary Consul of the State of Eritrea.	Quick service restaurant operations; real estate development; marketing of consumer products
KINGSON U. SIAN, 45 Filipino	Director & President, Feb 20, 2007-present	*Senior Vice President & Executive Director*, Megaworld Corporation; *Director/President,* Prestige Hotels & 'Resorts, Inc.; Eastwood Cyber One Corporation; Eastwood Locators Assistance Center, Inc.;*President & Chief Operating Officer,* Megaworld Land, Inc.	Real estate marketing; business development
WINSTON S. CO, 49 Filipino	Director, up to present; Vice-chairman, Nov1999-Aug2003;Chairman, 1998-October 1999	*Chairman*, Anglo Watsons Glass, Inc.; *President/Director*, New Town Land Partners, Inc.; *Director*, Alliance Global Brands, Inc. Forbes Town Properties & Holdings, Inc.	Finance and marketing
RENATO M. PIEZAS, 39 Filipino	Director/Corporate Secretary- 2002-present	*Director/Corporate Secretary*, Anglo Watsons Glass, Inc. *Corporate Secretary* Eastin Holdings, Inc. Oceantown Properties, Inc.	Marketing and business development
KATHERINE L. TAN, 56, Filipino	Director/Treasurer Feb 20, 2007-present	*Director/President*, The Andresons Group, Inc., Choice Gourmet Banquet, Inc., Consolidated Distillers of the Far East, Inc., Andresons Global, Inc., Raffles and Company, Inc., Emperador Distillers, Inc.; *Director,* Megaworld Corporation; Megaworld Cayman Islands, Inc., *Director/Treasurer*, Newtown Land Partners, Inc., Alliance Global Brands, Inc.	Finance; marketing

ALEJO L. VILLANUEVA, JR., 65, Filipino	Director, 2001-present	*Director,* First Capital Condominium Corporation (non-stock, non-profit)	Training, organizational development, consultancy
DINA D. INTING, 47, Filipino	First Vice President - Finance, January 1996 –present	*Director/Corporate Secretary*, Alliance Global Brands, Inc. up to March 25, 2007	Financial management and comptrollership
ROLANDO D. SITATELA, 47, Filipino	Asst. Corporate Secretary, August 30, 2002-present	*Director*, Asia Finest Cuisine, Inc.;*Corporate Secretary*, Oceanic Realty Group International, Inc., Suntrust Home Developers, Inc.	Legal documentation and corporate affairs mgmt

Directors are elected annually by the stockholders to serve until the election and qualification of their successors. One independent director, Mr. Alejo Villanueva, Jr., was elected in the last annual stockholders' meeting on September 14, 2006.

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

Family Relationships

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

Involvement in Legal Proceedings

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

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

Item 10. Executive Compensation

Name and Principal Position
Andrew L. Tan, Chairman (CEO)
Kingson U. Sian*, President (COO)
Katherine L. Tan*, Treasurer
Dina D. Inting, FVP-Finance
Renato M. Piezas, Corporate Secretary
Rolando Siatela, Asst. Corporate Secretary

*Mr. Sian and Ms. Tan were elected by the Board to fill the respective positions/seats left vacant with the resignation of Danilo M. Utanes and Cherryll L. Yu in February 2006.

The officers receive fixed salary on a monthly basis from the respective subsidiaries or businesses they handle. Hence, for years 2006 and 2005, no compensation was received from AGI, the holding company, and neither will there be for 2007 except for allowance for Mr. Kingson Sian starting February 2007.

No member of the Company's Board of Directors has received any compensation for serving as director of the Company for the years 2006 and 2005; and neither will there be for 2007.

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

(1) *Security Ownership of Record and Beneficial Owners owning more than 5% of the Company's outstanding common stock as of March 31, 2007:*

Title of Class	*Name and Address of Record Owner &Relationship w/ Issuer*	*Name of Beneficial Owner & Relationship w/ Record Owner*	*Citizen-ship*	*No. of Shares*	*Percent Owned*
Common	THE ANDRESONS GROUP, INC. 20/F IBM Plaza Bldg., Eastwood City Bagumbayan, Quezon City, MM It is solely a stockholder of the issuer; its chairman is also AGI's chairman.	Mr. Andrew L. Tan, as its Chairman.	Filipino	3,722,008,394	43.94
Common	YORKSHIRE HOLDINGS, INC. 28/F The World Centre, 330 Sen Gil Puyat Ave, Makati, MM It is solely a stockholder of the issuer; its chairman and President is also AGI's chairman.	Mr. Andrew L. Tan, as its Chairman and President	Filipino	1,913,273,508	22.59%
Common	ALTAVISION RESOURCES, INC. 20/F IBM Plaza Bldg.,	Mr. Danilo M. Utanes, as its Chairman & President	Filipino	451,570,334	5.33

	Eastwood City Bagumbayan, Quezon City, MM It is solely a stockholder of the issuer.				

(2) Security Ownership of Management as of March 31, 2007:

Title	*Name of Beneficial Owner*	*Citizenship*	*Amount*	*Percent*
Common	Andrew L. Tan *(Chairman of the Board)*	Filipino	341,684,350	4.034%
Common	George T. Yang *(Director)*	Filipino	1	.000000%
Common	Winston S. Co *(Director)*	Filipino	2,728	.000032%
Common	Kingson U. Sian *(Director)*	Filipino	1,100	.000000%
Common	Katherine L. Tan *(Director)*	Filipino	1	.000000%
Common	Alejo L. Villanueva, Jr *(Director)*.	Filipino	1	.000000%
Common	Renato M. Piezas *(Director)*	Filipino	1,100	.00005%
Common	Dina D. Inting *(Top Five)*	Filipino	2,758	.00033%
Directors and Executive Officers as a Group			341,692,039	4.03423%

Item 12. Certain Relationships and Related Transactions

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

PART IV – CORPORATE GOVERNANCE

Item 13. Corporate Governance

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

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

The Company commits to promulgate its corporate governance rules and principles as adopted in accordance with SEC's Code.

PART V - EXHIBITS AND SCHEDULES

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

(b) Reports on SEC Form 17-C Filed During the Last Six Months (October 2006-April 2007)

Date	Disclosures
3 November 2006	Board Approval of the Setting of Special Stockholders' Meeting for approval of amendment to Articles of Incorporation and Increase in Authorized Capital Stock
7 November 2006	Board Approval on Amendment to the Increase in Authorized Capital Stock
6 December 2006	Board Approval on the Offering of Subscription of Shares by way of pre-emptive stock rights offering
5 January 2007	Results of Special Meeting of Stockholders
11 January 2007	Board Approval of termination of services of stock transfer agent
26 January 2007	Board Approval on appointment of new stock transfer agent
05 February 2007	Stock Rights Approval by PSE, terms and conditions thereof
06 February 2007	SEC Approval of amendments to Articles of Incorporation
16 February 2007	Board Approval of acquisition of shares of Megaworld Corporation (by way of share swap with The Andresons Group, Inc., Yorkshire Holdings, Inc. and Andrew L. Tan) and Emperador Distillers, Inc. (by way of purchase from existing stockholders and new subscription)
20 February 2007	a. Board Approval on the resignation and election of directors and officers b. PSE Approval of amendment on payment date of pre-emptive stock rights offering
23 February 2007	Board of Directors' authorization to offer unissued common shares by way of follow-on offering
05 March 2007	Board Approval of amendment to Articles of Incporation re:reclassification of 30M unissued common shares to 3 Billion preferred shares

SIGNATURES

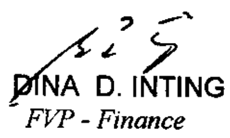
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized.

Alliance Global Group, Inc.
Issuer

By:

ANDREW L. TAN
Chairman & CEO

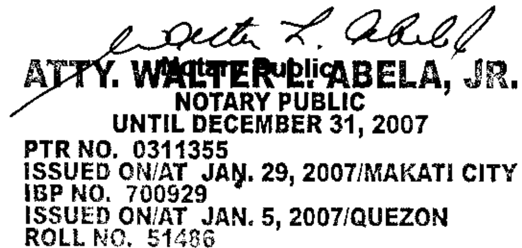
KINGSON U. SIAN
President & COO


DINA D. INTING
FVP - Finance

RENATO M. PIEZAS
Corporate Secretary

SUBSCRIBED AND SWORN to before me this April 16, 2007 affiants exhibiting to me their Residence Certificates, as follows:

NAMES	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Andrew L. Tan	07545528	January 12, 2007	Quezon City
Kingson U. Sian	20047621	January 16, 2007	Quezon City
Renato M. Piezas	17755193	April 3, 2007	Makati City
Dina D. Inting	18396376	March 16, 2007	Quezon City


ATTY. WALTER L. ABELA, JR.
NOTARY PUBLIC
UNTIL DECEMBER 31, 2007
PTR NO. 0311355
ISSUED ON/AT JAN. 29, 2007/MAKATI CITY
IBP NO. 700929
ISSUED ON/AT JAN. 5, 2007/QUEZON
ROLL NO. 51486

Doc No. 42
Page No. 10
Book No. I
Series of 2007.

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

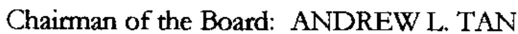
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

The management of *Alliance Global Group, Inc.* is responsible for all information and representations contained in the consolidated financial statements as at December 31, 2006 and 2005 and for each of the three years in the period ended December 31, 2006. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Chairman of the Board: ANDREW L. TAN 

President: KINGSON U. SIAN

FVP for Finance: DINA D. INTING

SUBSCRIBED AND SWORN to before me this **APR 1 6 2007**, affiants exhibiting to me their Community Tax Certificates, as follows:

Names	CTC	Date of Issue	Place of Issue
Andrew L. Tan	07545528	January 12, 2007	Quezon City
Kingson U. Sian	20047621	January 16, 2007	Quezon City
Dina D. Inting	18396376	March 16, 2007	Quezon City

Notary Public

ATTY. WALTER L. ABELA, JR.
NOTARY PUBLIC
UNTIL DECEMBER 31, 2007
PTR NO. 0311355
ISSUED ON/AT JAN. 29, 2007/MAKATI CITY
IBP NO. 700929
ISSUED ON/AT JAN. 5, 2007/QUEZON
ROLL NO. 51486

DOC. NO. 43
PAGE NO. 70
BOOK NO. I
SERIES OF 2007

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Alliance Global Group, Inc. and Subsidiaries

20th Floor, IBM Plaza
Eastwood City CyberPark
188 E. Rodriguez, Jr. Avenue
Bagumbayan, Quezon City

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, 2006, 2005 and 2004, and the consolidated income statements, statements of changes in equity and cash flow statements for the years then ended, 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 44%, 48% and 29% as of December 31, 2006, 2005 and 2004, respectively, and total operating income before nonrecurring items constituting 29%, 19% and negative 11% for the years then ended, respectively, of the respective consolidated totals. The financial statements of those subsidiaries were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as they relate to the data included for the subsidiaries, is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

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

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

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

Opinion

In our opinion, based on our audits and the reports of other auditors, the consolidated financial statements present fairly, in all material respects, the financial position of Alliance Global Group, Inc. and subsidiaries as of December 31, 2006, 2005 and 2004, and of their financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 0267676, January 2, 2007, Makati City
SEC Accreditation No. 0012-AR-1
BIR AN 08-002511-9-2005 (Dec. 27, 2005 to 2008)

March 20, 2007

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	Notes	2006	2005	2004
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	5	**P 1,289,597,395**	P 1,447,604,381	P 466,748,223
Trade and other receivables - net	6	**1,166,434,752**	1,434,994,261	579,807,455
Financial assets at fair value through profit or loss		**86,802,438**	97,254,103	115,801,920
Inventories - net	7	**418,327,491**	586,780,754	161,196,962
Property development costs	8	**358,053,580**	366,523,916	376,729,943
Prepayments and other current assets	9	**380,846,442**	305,622,811	169,988,081
Total Current Assets		**3,700,062,098**	4,238,780,226	1,870,272,584
NON-CURRENT ASSETS				
Trade and other receivables - net	6	**26,196,144**	131,796,708	200,708,443
Available-for-sale financial assets - net	10	**54,911,419**	43,749,460	41,355,700
Investments in an associate and interest in a joint venture	11	**5,355,200,798**	3,835,690,198	3,588,972,776
Property, plant and equipment - net	12	**2,146,765,903**	1,907,210,107	115,019,877
Investment property - net	13	**2,138,767,025**	2,012,894,706	1,824,123,261
Deferred tax assets - net	22	**154,215,062**	193,580,145	22,787,193
Goodwill	14	**1,653,165,188**	1,653,165,188	414,565,136
Other non-current assets - net	15	**599,097,454**	509,690,160	670,912,423
Total Non-current Assets		**12,128,318,993**	10,287,776,672	6,878,444,809
TOTAL ASSETS		**P 15,828,381,091**	P 14,526,556,898	P 8,748,717,393

Forward

	Notes	2006	2005	2004
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Trade and other payables	16	**P 2,193,418,613**	P 1,268,815,846	P 416,636,618
Advances from related parties	23	**78,326,360**	74,204,084	-
Income tax payable		**9,216,803**	10,903,794	4,834,113
Obligation under finance lease		**3,296,231**	-	-
Advances from customers		**4,329,139**	-	-
Total Current Liabilities		**2,288,587,146**	1,353,923,724	421,470,731
NON-CURRENT LIABILITIES				
Long-term notes payable	23	**906,468,118**	1,061,224,157	-
Redeemable preferred shares	26	**231,445,636**	206,232,579	-
Retirement benefit obligations	21	**109,201,576**	86,685,584	5,997,694
Deferred tax liabilities	22	**-**	-	5,857,413
Obligation under finance lease		**5,733,446**	-	-
Other non-current liabilities	17	**238,378,515**	243,711,969	21,000,000
Total Non-current Liabilities		**1,491,227,291**	1,597,854,289	32,855,107
Total Liabilities		**3,779,814,437**	2,951,778,013	454,325,838
EQUITY				
Equity attributable to equity holders of the parent company				
Capital stock	25	**2,205,181,000**	2,205,181,000	2,004,710,000
Additional paid-in capital	25	**5,232,877,999**	5,232,877,999	4,448,131,367
Subscriptions receivable		**(986,612,492)**	(986,612,492)	(999,999,992)
Accumulated translation adjustments		**(28,819,937)**	32,541,532	61,346,240
Share in translation adjustments of an associate		**(17,724,682)**	(26,589,703)	6,320,345
Share in net unrealized gain on available-for-sale financial assets of an associate	11	**11,595,904**	-	-
Dilution loss		**(307,137,911)**	-	-
Revaluation reserves		**12,261,215**	3,895,661	998,792
Retained earnings	25	**5,061,762,565**	4,242,723,735	2,772,884,803
		11,183,383,661	10,704,017,732	8,294,391,555
Minority interest		**865,182,993**	870,761,153	-
Total Equity		**12,048,566,654**	11,574,778,885	8,294,391,555
TOTAL LIABILITIES AND EQUITY		**P 15,828,381,091**	P 14,526,556,898	P 8,748,717,393

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	Notes	2006	2005	2004
REVENUES				
Sale of goods		**P 7,616,175,558**	P 7,554,335,457	P 3,566,714,454
Rendering of services	18	**1,201,640,065**	389,113,021	52,500,000
		8,817,815,623	7,943,448,478	3,619,214,454
COST OF SALES AND SERVICES				
Cost of sales	19	**6,545,890,863**	6,823,174,677	3,330,509,100
Cost of services	19	**995,275,155**	237,391,514	56,079,064
		7,541,166,018	7,060,566,191	3,386,588,164
GROSS PROFIT		**1,276,649,605**	882,882,287	232,626,290
OTHER OPERATING INCOME (EXPENSES)				
Finance and other income		**143,090,103**	141,713,327	98,753,276
Administrative expenses	20	**(477,504,382)**	(415,442,555)	(54,129,365)
Selling expense	20	**(299,883,767)**	(281,810,799)	(8,311,923)
Other operating expenses	20	**(648,194)**	(2,475,087)	(17,523,445)
		(634,946,240)	(558,015,114)	18,788,543
OTHER INCOME (CHARGES)				
Equity in net earnings of an associate and a joint venture	11	**409,417,490**	261,507,483	182,618,819
Finance costs	23	**(144,800,781)**	(123,053,887)	(14,704,464)
Losses from restaurant closings		**(73,993,770)**	(36,134,724)	-
Rental income		**52,807,512**	46,572,887	-
Foreign currency gains (losses) - net		**49,481,363**	(3,108,976)	-
Excess of carrying value of advances over fair value of preferred shares	2, 23, 26	**-**	3,294,992,293	-
Other gains (losses) - net		**49,991,349**	22,781,677	(30,190,872)
		342,903,163	3,463,556,753	137,723,483
INCOME BEFORE TAX AND PREACQUISITION INCOME		**984,606,528**	3,788,423,926	389,138,316
TAX EXPENSE	22	**96,592,434**	66,721,935	57,268,457
INCOME BEFORE PREACQUISITION INCOME		**888,014,094**	3,721,701,991	331,869,859
PREACQUISITION INCOME	1	**-**	(408,201,530)	-
NET INCOME		**P 888,014,094**	P 3,313,500,461	P 331,869,859
Attributable to:				
Equity holders of the parent company		**P 819,038,830**	P 1,613,001,601	P 331,869,859
Minority interest		**68,975,264**	1,700,498,860	-
		P 888,014,094	P 3,313,500,461	P 331,869,859
Earnings Per Share for the Net Income Attributable to the Equity Holders of the Parent Company	27	**P 0.3714**	P 0.7485	P 0.1655

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	Notes	2006	2005	2004
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Capital Stock	25			
Balance at beginning of year		P 2,205,181,000	P 2,004,710,000	P 2,004,710,000
Additional issuance during the year		-	200,471,000	-
Balance at end of year		2,205,181,000	2,205,181,000	2,004,710,000
Additional Paid-in Capital	25			
Balance at beginning of year		5,232,877,999	4,448,131,367	4,448,131,367
Additional issuance during the year		-	784,746,632	-
Balance at end of year		5,232,877,999	5,232,877,999	4,448,131,367
Subscriptions Receivable	25			
Balance at beginning of year		(986,612,492)	(999,999,992)	(999,999,992)
Collections during the year		-	13,387,500	-
Balance at end of year		(986,612,492)	(986,612,492)	(999,999,992)
Accumulated Translation Adjustments	2			
Balance at beginning of year		32,541,532	61,346,240	57,490,632
Currency translation adjustments during the year		(61,361,469)	(28,804,708)	3,855,608
Balance at end of year		(28,819,937)	32,541,532	61,346,240
Share in Translation Adjustments of an Associate				
Balance at beginning of year		(26,589,703)	12,321,105	25,235,812
As previously reported				
Effects of transition to PFRS	2	-	(6,000,760)	(6,000,760)
As restated		(26,589,703)	6,320,345	19,235,052
Currency translation adjustments during the year		8,865,021	(32,910,048)	(12,914,707)
Balance at end of year		(17,724,682)	(26,589,703)	6,320,345

Forward

	Notes	2006	2005	2004
Share in Net Unrealized Gain on Available-for-Sale Financial Assets of an Associate	11	**11,595,904**	-	-
Dilution Loss	11	**(307,137,911)**	-	-
Revaluation Reserves				
Balance at beginning of year		**3,895,661**	-	-
As previously reported				
Effects of transition to PFRS, net of tax	2	**-**	998,792	(4,197,433)
As restated		**3,895,661**	998,792	(4,197,433)
Fair value gains	10	**8,365,554**	2,896,869	5,196,225
Balance at end of year		**12,261,215**	3,895,661	998,792
Retained Earnings				
Balance at beginning of year				
As previously reported		**4,242,723,735**	1,994,593,725	1,641,058,981
Effects of transition to PFRS	2	**-**	766,035,699	787,700,584
Prior period adjustments	22	**-**	12,255,379	12,255,379
As restated		**4,242,723,735**	2,772,884,803	2,441,014,944
Cash dividends	25	**-**	(143,162,669)	-
Net income		**819,038,830**	1,613,001,601	331,869,859
Balance at end of year		**5,061,762,565**	4,242,723,735	2,772,884,803
		11,183,383,661	10,704,017,732	8,294,391,555
MINORITY INTEREST				
Balance at acquisition date		**870,761,153**	(826,836,811)	-
Collection of subscriptions receivable		**3,125,000**	450,000	-
Dividends from investee		**(77,678,424)**	(3,350,896)	-
Share in net income of investee		**68,975,264**	1,700,498,860	-
Balance at end of year		**865,182,993**	870,761,153	-
TOTAL EQUITY		**P 12,048,566,654**	P 11,574,778,885	P 8,294,391,555
Net Losses Directly Recognized in Equity		**P 339,672,901**	P 58,817,887	P 3,862,874

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax and preacquisition income	P 984,606,528	P 3,788,423,926	P 389,138,316
Adjustments for:			
Depreciation and amortization	441,109,307	338,428,462	58,147,699
Equity in net earnings of an associate and a joint venture	(409,417,490)	(261,507,483)	(182,618,819)
Interest income	(142,521,067)	(148,543,811)	(98,753,276)
Interest expense	144,800,781	123,053,887	14,704,464
Loss from restaurant closings	52,807,512	46,572,887	-
Unrealized foreign exchange gains	(48,720,000)	(12,360,000)	-
Impairment losses	20,453,346	43,356,743	36,014,167
Gain on disposal of property, plant and equipment	(118,549)	-	-
Excess of carrying value of advances over fair value of preferred shares	-	(3,294,992,293)	-
Gain on sale of available-for-sale financial assets	-	-	(3,075,113)
Operating income before working capital changes	1,043,000,368	622,432,318	213,557,438
Decrease (increase) in trade and other receivables	371,584,527	(219,440,447)	29,949,853
Decrease (increase) in inventories	157,518,442	(259,792,253)	(39,191,335)
Decrease (increase) in property development costs	388,337,544	(3,159,973)	(2,786,386)
Decrease in financial assets	10,840,627	12,896,117	-
Increase in prepayments and other current assets	10,566,797	(115,407,893)	(6,523,166)
Increase (decrease) in trade and other payables	980,948,137	1,322,452,309	(128,962,772)
Increase (decrease) in other non-current liabilities	(129,142,990)	223,441,710	(172,730)
Increase in retirement benefit obligations	22,515,992	80,687,890	1,079,885
Cash generated from operations	2,856,169,444	1,664,109,778	66,950,787
Cash paid for taxes	(53,614,502)	(82,440,811)	(63,186,141)
Net Cash From Operating Activities	2,802,554,942	1,581,668,967	3,764,646
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of additonal investment	(1,442,446,355)	-	-
Interest received	142,521,067	148,543,811	98,753,276
Cash dividend received	45,676,260	-	-
Additions to property, plant and equipment and investment property	(1,303,009,347)	(2,272,610,243)	(31,822,095)
Proceeds from sale of property, plant and equipment	29,209,401	39,152,216	-
Payment made as a result of store closing	(21,093,939)	(10,645,116)	-
Advances from related parties	4,122,276	74,204,084	-
Decrease (increase) in other non-current assets	(196,187,086)	636,357,976	(75,716,452)
Net Cash Used in Investing Activities	(2,741,207,723)	(1,384,997,272)	(8,785,271)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	(144,800,781)	(71,258,000)	(14,704,464)
Cash dividends paid	(77,678,424)	(143,162,669)	-
Collections of subscriptions receivable	3,125,000	13,387,500	-
Proceeds from issuance of capital stock	-	985,217,632	-
Net Cash From (Used in) Financing Activities	(219,354,205)	784,184,463	(14,704,464)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(158,006,986)	980,856,158	(19,725,089)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,447,604,381	466,748,223	486,473,312
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 1,289,597,395	P 1,447,604,381	P 466,748,223

See Notes to Consolidated Financial Statements.

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2006, 2005 AND 2004
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

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

The Company's shares of stock are traded at the Philippine Stock Exchange (PSE).

The Company holds ownership interests in the following subsidiaries and controlled entities (collectively referred to as "the Group") and an associate:

Subsidiaries/Associate	Explanatory Notes	Percentage of Ownership 2006	2005	2004
Subsidiaries/controlled entities:				
Alliance Growers Holdings, Inc. (AGHI) (in March 2007, name is changed to Alliance Global Brands, Inc.)		100%	100%	100%
Anglo Watsons Glass, Inc. (AWGI)		100%	100%	100%
First Centro, Inc. (FCI)		100%	100%	100%
New Town Land Partners, Inc. (NTLPI)	(a)	100%	100%	100%
McKester Pik-Nik International Limited (MPIL)	(a)	100%	100%	100%
Tradewind Estates, Inc. (TEI)	(a)	100%	100%	100%
Great American Foods, Inc. (GAFI)	(b)	100%	100%	100%
McKester America, Inc. (MAI)	(b)	100%	100%	100%
Golden Arches Development Corporation (GADC)	(c)	49%	49%	-
Golden Arches Realty Corporation (GARC)	(c)	49%	49%	-
Clark Mac Enterprises, Inc. (Clark Mac)	(d)	100%	100%	-
Advance Foods Concepts Manufacturing, Inc. (AFCMI)	(d)	100%	-	-
Davao City Food Industries, Inc. (Davao Food)	(d)	75.5%	75.5%	-
Golden Laoag Foods Corporation (Golden Laoag)	(d)	70%	70%	-
Retiro Golden Foods, Inc. (Retiro Foods)	(d)	70%	70%	-
Associate:				
Megaworld Corporation (Megaworld)	(e)	20.02%	22.61%	21.43%

(a) Wholly owned subsidiaries of AGHI
(b) Wholly owned subsidiaries of MPIL
(c) Subsidiaries acquired in 2005
(d) Subsidiaries of GADC; percentage ownership represents direct interest of GADC
(e) Associate of NTLPI; percentage ownership includes direct interest of FCI of 0.820% in 2006 and 1.118% in 2005.

Except for MPIL, GAFI and MAI, the subsidiaries and associate were incorporated in the Philippines and operate within the country. They are engaged in various industries, such as real estate, food and beverage and glass manufacturing. MPIL was incorporated and operates in the British Virgin Islands while GAFI and MAI were incorporated and operate in the United States of America and are engaged in the food and beverage business.

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

As of December 31, 2006, the Company's parent company is Yorkshire Holdings, Inc., a domestic entity.

The consolidated financial statements for the year ended December 31, 2006 (including the comparatives for the year ended December 31, 2005 and 2004) were authorized for issue by the Board of Directors (BOD) on March 20, 2007.

1.1 Acquisition of GADC and GARC

On March 17, 2005, as previously approved by its BOD, the Company acquired 49% of the outstanding common shares of GADC and 49% of the outstanding common shares of GARC held by McDonald's Restaurant Operations, Inc. (MRO), a subsidiary of McDonald's Corporation (McDonald's), both incorporated in the United States of America. The total agreed consideration for the acquisition was US$15.05 million (about P832.57 million) which was fully paid by the Company by September 2005. The acquisition of GADC and GARC was accounted for as a business combination under the purchase method. The excess of the acquisition cost over the Company's equity in the fair value of the net assets of the entities acquired at the date of acquisition was recognized as goodwill in the amount of P1.24 billion (see Note 14).

GADC and its subsidiaries are engaged in the operations of quick service restaurant business under the McDonald's brand in accordance with the franchise agreement with McDonald's. GADC and GARC, which are less than 50% owned, are considered controlled entities and are included in consolidation. Certain directors and officers of the Company were appointed as directors and officers of GADC giving the Company's management power to govern the financial and operating policies of GADC.

The fair values of the identifiable assets acquired and liabilities assumed by the parent company at the date of acquisition based on audited separate restated financial statements
are presented below:

	GADC	GARC	Total
Assets:			
Current assets	P 756,598,551	P 5,443,854	P 762,042,405
Non-current assets	1,201,611,519	62,009,500	1,263,621,019
	1,958,210,070	67,453,354	2,025,663,424
Liabilities:			
Current liabilities	1,994,587,123	237,625	1,994,824,748
Non-current liabilities	368,134,838	68,738,243	436,873,081
	2,362,721,961	68,975,868	2,431,697,829
Net liabilities	P 404,511,891	P 1,522,514	P 406,034,405

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of the 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

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group have been prepared in accordance with Statement of Compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC), formerly the Accounting Standards Council, from the pronouncements issued by the International Accounting Standards Board (IASB). PFRSs consist of:

(i) PFRSs – corresponding to International Financial Reporting Standards;

(ii) Philippine Accounting Standards (PASs) – corresponding to International Accounting Standards; and,

(iii) Interpretations to existing standards – representing interpretations issued by the International Financial Reporting Interpretations Committee, formerly the Standing Interpretations Committee, of the IASB which are adopted by the FRSC.

These consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies that follow.

(b) Transition to PFRS in 2005

In compliance with the pronouncements of the FRSC and the regulations of the Securities and Exchange Commission (SEC), the Group adopted all the relevant PFRSs for the first time in its financial statements for the year ended December 31, 2005, with January 1, 2004 as its transition date.

The transition from the previous generally accepted accounting principles in the Philippines to PFRS was made in accordance with PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards.*

The Group's transition to PFRS in 2005 resulted in the restatement of the balance of Equity as of January 1, 2005. The total adjustment to Equity as of January 1, 2005 arising from the transition amounted to P761.0 million and is broken down as follows:

	Relevant PFRSs	Share in Translation Adjustments of an Associate	Revaluation Reserves	Retained Earnings	Total Adjustments
Remeasurement of foreign currency denominated financial statements of an associate	PAS 39	(P 6,000,760)	P -	P -	(P 6,000,760)
Remeasurement of available-for-sale financial assets	PAS 39	-	998,792	-	998,792
Recognition of negative goodwill in income	PAS 27/28	-	-	883,952,469	883,952,469
Reversal of positive goodwill amortization	PAS 27/28	-	-	18,514,915	18,514,915
Share in the effects of the PFRS transition of an associate	PAS 27/28	-	-	(132,353,253)	(132,353,253)
Recognition of retirement benefits obligation	PAS 19	-	-	(5,986,212)	(5,986,212)
Deferred income tax on retirement benefit expense recognized	PAS 12	-	-	1,907,780	1,907,780
		(P 6,000,760)	P 998,792	P766,035,699	P 761,033,731

In addition to the foregoing adjustments to Equity, the structure of the balance sheet and income statement was also revised.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated (see also Note 2.18).

2.2 *Impact of New Standards, and Amendments and Interpretations to Existing Standards that are Relevant to the Company*

(a) Effective in 2006

The Group adopted the amendments and interpretations to existing accounting standards issued by the IASB and adopted by the FRSC which are mandatory for accounting periods beginning on or after January 1, 2006. These amendments and interpretations are as follows:

PAS 19 (Amendment)	:	Employee Benefits
Philippine Interpretation IFRIC 4	:	Determining Whether an Arrangement Contains a Lease

Discussed below are the impact on the financial statements of each of these amendments and interpretations.

(i) PAS 19 (Amendment), *Employee Benefits.* The amendment introduces an option for an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements and imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. Because the Group does not intend to change its current accounting policy for recognition of actuarial gains and losses and does not participate in any multi-employer plans, the adoption of this amendment did not result in a material adjustment to the financial statements.

(ii) Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*. Philippine Interpretation IFRIC 4 requires the determination of whether an arrangement is or contains a lease based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset; and (b) the arrangement conveys a right to use the asset. Based on management's current year assessment, the adoption of Philippine Interpretation IFRIC 4 has no significant impact on the Group's current operations because there were no outstanding arrangements that were identified to be a lease or contains a lease.

(b) Effective Subsequent to 2006

There are a few new standards, amendments and interpretation to existing standards that are effective for periods subsequent to 2006. Of these new standards, and amendments and interpretations, the following are relevant to the Group, which the Group will apply in 2007 in accordance with their transitional provisions.

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures

PFRS 7, *Financial Instruments: Disclosures,* and complementary amendment to PAS 1 are effective for annual periods beginning on or after January 1, 2007. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group has assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment to PAS 1.

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

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries (see listing in Note 1) as of December 31, 2006, 2005 and 2004. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

(a) *Investments in Subsidiaries.* Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Group obtains and exercises control through voting rights.

In addition, acquired subsidiaries are subject to application of the purchase method. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. The difference between the acquisition cost and the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition is accounted for as goodwill (or negative goodwill) (see Note 2.10).

All intercompany balances and transactions with subsidiaries, including unrealized profits arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

(b) *Investments in Associates.* Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method.

Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investment in associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are lodged in Equity in Net Earnings (Losses) in the Group's consolidated income statements and therefore affect the net results of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of the associate's assets and liabilities. Items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale financial assets, are recognized in consolidated equity of the Group. Any non-income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

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

Actual disbursements incurred in relation to the joint venture are presented as Property Development Costs.

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

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

2.4 Financial Assets

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

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.

All financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

The financial assets of the Group include the following:

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

This category includes financial assets that are either classified as held for trading or are designated by the entity to be carried at FVTPL upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. 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 short-term money market placements.

(b) Loans and Receivables

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value due to impairment is recognized in profit or loss.

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

Impairment loss is provided when there is objective evidence that all amounts due will not be collected 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 cash flows.

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

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in the Non-current Financial Assets account in the balance sheets 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 statements when they are sold or when the investment is impaired.

In case of impairment, any loss previously recognized in equity is transferred to the consolidated income statement. Losses recognized in the consolidated income statement on equity investments are not reversed through the consolidated income statement. Losses recognized in prior period consolidated income statements resulting from the impairment of debt instruments are reversed through the consolidated income statements.

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

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

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

At the balance sheet date, inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average method. Finished goods and work-in-process include the cost of direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity. The cost of raw materials includes all costs directly attributable to acquisition.

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

2.6 Real Estate Transactions

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Group, are charged to the Investment Property account in the balance sheets. These costs are reclassified to the Property Development Costs account in the balance sheets when the development of the property starts. Related property development costs are then accumulated in this account. The costs of completed projects are transferred from Property Development Costs to Residential units held for sale included as part of the Inventories account in the consolidated balances sheet.

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

Property Development Costs and Residential Units Held for Sale are carried at the lower of cost and net realizable value. The Group recognizes the effect of revisions in the total project cost estimates in the year in which these changes become known. Any impairment loss from the residential unit project is charged to operations during the period in which the loss is determined.

2.7 Property, Plant and Equipment

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

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

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

Buildings and improvements	5 - 40 years
Machinery and equipment	2 - 12 years
Transportation equipment	5 years
Other fixed assets	3 - 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.

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.

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.

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 Obligations

GADC, a controlled entity, 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. GADC recognizes the present value of the restoration cost at the inception of the contract as part of the balance of the related property and equipment accounts, which are being depreciated on a straight-line basis over the shorter of the useful life of the related asset or the lease term.

2.9 Investment Property

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

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

An investment property's carrying amount is written down immediately to its recoverable amount if the property's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

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

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

2.10 Goodwill

Goodwill represents the excess of the cost of acquisition of investments over the fair value of the Group's share in the net identifiable assets of the investee at the date of acquisition. 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 Leasehold Rights

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

2.12 Financial Liabilities

Financial liabilities include trade and other payables, advances from related parties and long-term notes payable which are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

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

Trade and other payables and advances to a related party are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

Long-term notes payable are recognized at the amount of proceeds received. Finance charges are recognized in profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period which they arise.

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

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

2.13 Redeemable Preferred Shares

Redeemable preferred shares, which are mandatorily redeemable at the option of the holder, are recognized at fair value on inception date and presented as liability in the consolidated balance sheets. The corresponding accretion of the liability and the dividends on those shares are charged as Finance Costs in the consolidated income statement.

2.14 Share-based Payment Transactions

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

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

2.15 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, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

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

2.16 Revenue and Cost 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 goods* – Revenue is recognized when the title to the goods has passed to the buyer and the amount of revenue can be measured reliably.

(b) *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.

(c) *Rental 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.

(d) *Real estate sales* – For financial reporting purposes, revenues from transactions covering sales of residential 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. For tax reporting purposes, a modified basis of computing the taxable income for the year based on collections from sales is used.

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

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

Cost and expenses are recognized in the consolidated income statement upon utilization of the service or at the date they are incurred. Finance costs are reported on an accrual basis.

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

2.17 Leases

(a) Group as lessee

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the 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 does not transfer to the lessee substantially all risks and benefits incidental to ownership of the leased item, 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. Indirect costs incurred by the lessor in negotiating and arranging for an operating lease is added to the carrying amount of the leased asset and recognized as expense over the lease term.

2.18 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

(c) Translation of Financial Statements of Foreign Subsidiaries

The results and financial position of all the entities in the Group (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation 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. 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.

2.19 Impairment of Non-financial Assets

The Group's investments in property, plant and equipment, investment property and intangible assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro rata to the other assets in the cash generating unit.

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

2.20 *Employee Benefits*

(a) *Defined Benefit Plan Obligations*

Retirement benefit cost is actuarially determined using the projected unit credit method as computed by an actuary covering all regular full-time employees.

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

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

(b) *Defined Contribution Plan Expense*

The Group also contributes to a retirement benefit plan maintained by the Social Security System, which is considered a defined contribution plan. Under a defined contribution plan, an entity has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) Termination Benefits

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

2.21 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.

2.22 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.

2.23 Equity

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

Additional paid-in capital (APIC) includes any premiums received on the 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 deductions in the consolidated statements of changes in equity.

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 translation adjustments of an associate pertain to the translation adjustments resulting from the conversion of the foreign currency denominated financial statements of an associate's investment in foreign subsidiaries.

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

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

2.24 Earnings Per Share (EPS)

EPS is computed by dividing net income 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.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's 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.

3.1 Judgments

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 financial statements:

(a) Functional Currency

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

(b) Impairment of AFS Financial Assets

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

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

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

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

(d) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements.

Rent expense charged to operations amounted to P683.6 million in 2006, P637.4 million in 2005 and P4.0 million in 2004 (see Note 20).

(e) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.15.

3.2 Estimates

The estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances of the Group's financial statements. Actual results could differ from those estimates. The following are the relevant estimates performed by management on its December 31, 2006, 2005 and 2004 financial statements:

(a) Determining the Net Selling Prices of Inventories

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

(b) 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.

Allowance for impairment loss on inventory amounted to P37.8 million and P39.2 million as of December 31, 2006 and 2005, respectively. No allowance for inventory obsolescence was recognized as of December 31, 2004 (see Note 7).

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

The Group estimates the useful lives of property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

Property, plant and equipment net of accumulated depreciation and amortization amounted to P2,146.8 million, P1,907.2 million and P115.0 million as of December 31, 2006, 2005 and 2004, respectively (see Note 12). Investment property net of accumulated depreciation, amortization and impairment losses amounted to P2,138.8 million, P2,012.9 million and P1,824.1 million as of December 31, 2006, 2005 and 2004, respectively (see Note 13).

(d) Asset Retirement Obligation

Property, plant and equipment includes the estimated cost of dismantling and restoration of 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.

Asset retirement obligation amounted to P10.4 million and P8.4 million as of December 31, 2006 and 2005, respectively. There is no asset retirement obligation as of December 31, 2004 (see Note 17).

(e) Estimated allowance for impairment loss on receivables

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

Allowance for impairment loss on receivables amounted to P32.2 million, P50.9 million and P1.7 million as of December 31, 2006, 2005 and 2004, respectively (see Note 6).

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

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. 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.

Impairment losses on available-for-sale financial assets recognized in the 2005 consolidated income statement amounted to P3.3 million (see Note 10). No impairment loss was recognized in 2006 and 2004.

(g) 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.

Deferred tax assets amounted to P154.2 million, P193.6 million and P22.8 million as of December 31, 2006, 2005 and 2004, respectively (see Note 22.1).

(h) Impairment of Non-financial Assets

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

Impairment losses recognized on property, plant and equipment amounted to P13.4 million in 2005. No impairment loss was recognized in both 2006 and 2004 (see Note 12).

(i) Retirement and Other Benefits

The determination of the Group's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligations amounted to P109.2 million, P86.7 million and P6.0 million as of December 31, 2006, 2005 and 2004, respectively, while the unrecognized actuarial losses amounted to P213.8 million in 2006 and P15.1 million in 2005 and unrecognized actuarial gains of P0.9 million in 2004 (see Note 21).

4. SEGMENT INFORMATION

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The *Quick Service Restaurant* includes operations of McDonald's restaurants in the Philippines in accordance with the franchise agreement with McDonald's Corporation, USA. The *Food and Beverage* segment trades and distributes internationally-known brands and includes the operations of the foreign-based subsidiaries that handle the manufacture and international distribution of food products. The *Real Estate Development* segment is engaged in the development of real estate and leasing of properties. Segment accounting policies are the same as the policies described in Note 2. The Group generally accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

The following tables present revenue and profit information regarding industry segments for the years ended December 31, 2006, 2005 and 2004 and certain asset and liability information regarding segments at December 31, 2006, 2005 and 2004 (amounts in millions).

	Quick Service Restaurant	Food and Beverage	Real Estate Development	Corporate and others	Consolidated
2006					
SALES OF GOODS AND SERVICES	P 6,570	P 803	P 1,445	P -	P 8,818
RESULTS					
Segment results	P 319	P 133	P 269	(P 4)	P 717
Equity in net earnings of an associate and a joint venture					410
Finance costs and other losses					(142)
Income before income tax					985
Tax expense					(97)
Net income					P 888
ASSETS AND LIABILITIES					
Total assets	P 5,459	P 1,839	P 7,971	P 559	P 15,828
Total liabilities	P 2,554	P 185	P 1,031	P 10	P 3,780
OTHER SEGMENT INFORMATION					
Capital expenditures	P 641	P 662	P -	P -	P 1,303
Depreciation and amortization	308	129	1	3	441
Impairment losses	20	-	-	-	20

	Quick Service Restaurant	Food and Beverage	Real Estate Development	Corporate and others	Consolidated
2005					
SALES OF GOODS AND SERVICES	P 6,124	P 1,762	P 57	P -	P 7,943
RESULTS					
Segment results	P 3,488	P 177	(P 11)	P 6	P 3,660
Equity in net earnings of an associate and a joint venture					261
Finance costs and other losses					(133)
Income before income tax					3,788
Tax expense					(67)
Income before preacquisition income					3,721
Preacquisition income					(408)
Net income					P 3,313
ASSETS AND LIABILITIES					
Total assets	P 5,474	P 1,701	P 6,900	P 452	P 14,527
Total liabilities	P 2,546	P 193	P 199	P 14	P 2,952
OTHER SEGMENT INFORMATION					
Capital expenditures	P 399	P 159	P -	P -	P 558
Depreciation and amortization	288	46	1	3	338
Impairment losses	-	40	3	-	43
2004					
SALES OF GOODS AND SERVICES	P -	P 3,566	P 53	P -	P 3,619
RESULTS					
Segment results	P -	P 220	P 7	(P 6)	P 221
Equity in net earnings of an associate					183
Finance costs and other losses					(15)
Income before income tax					389
Income tax expense					(57)
Net income					P 332
ASSETS AND LIABILITIES					
Total assets	P -	P 1,637	P 6,593	P 519	P 8,749
Total liabilities	P -	P 110	P 323	P 21	P 454
OTHER SEGMENT INFORMATION					
Capital expenditures	P -	P 2	P 30	P -	P 32
Depreciation and amortization	-	43	1	14	58
Impairment losses	-	36	-	-	36

5. CASH AND CASH EQUIVALENTS

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

	2006	2005	2004
Cash on hand and in banks	P 395,942,372	P 432,777,741	P 28,915,205
Short-term placements	893,655,023	1,014,826,640	437,833,018
	P 1,289,597,395	P 1,447,604,381	P 466,748,223

Cash accounts with the banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods and earn effective interest ranging from 4.75% to 8.00% in 2006, 5.60% to 9.00% in 2005 and 7.50% to 9.20% in 2004.

6. TRADE AND OTHER RECEIVABLES

Trade and other receivables consist of:

	Note	2006	2005	2004
Current:				
Trade	23.3	P 815,630,531	P 590,610,279	P 558,024,953
Deposit on machinery and equipment		-	643,837,168	-
Loans		120,423,364	79,682,630	-
Others		262,617,740	171,772,096	23,435,277
		1,198,671,635	1,485,902,173	581,460,230
Allowance for impairment		(32,236,883)	(50,907,912)	(1,652,775)
		P1,166,434,752	P1,434,994,261	P 579,807,455
Non-current:				
Trade		P 26,196,144	P 131,796,708	P 200,708,443

A reconciliation of the allowance for impairment at beginning and end of 2006, 2005 and 2004 is shown below.

	2006	2005	2004
Balance at beginning of year	P 50,907,912	P 1,652,775	P 1,652,775
GADC's balance of allowance at acquisition date	-	36,462,717	-
Reversal due to collection of accounts	(21,246,575)	-	-
Impairment loss during the year	2,575,546	12,792,420	-
Balance at end of year	P 32,236,883	P 50,907,912	P 1,652,775

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. Trade receivables from franchised and joint venture restaurants consist of rental, royalty and service charges by GADC.

Loan receivables pertain to the amount granted to certain corporations. The Group's management expects that the balance of the loan as of December 31, 2006 will be settled within 12 months based on the progress of the ongoing negotiation with the debtor.

The fair values of these short-term financial assets are not individually determined as the carrying amounts are a reasonable approximation of their fair values.

7. INVENTORIES

The details of inventories are shown below.

	2006	2005	2004
Food	**P 191,023,228**	P 286,111,376	P 69,865,152
Glass			
Finished goods	**20,808,450**	143,206,432	41,056,522
Work-in-progress	**1,862,007**	-	167,220
Raw materials	**19,434,603**	17,616,366	35,473,820
Fuel and lubricants	**10,065,783**	3,362,019	7,277,066
Spare parts and manufacturing supplies	**3,128,643**	4,218,069	5,879,879
Indirect materials	**1,869,675**	1,193,459	1,477,303
Paper and promotional items	**138,331,788**	107,016,424	-
Restaurant equipment and construction materials	**44,050,023**	38,526,511	-
Residential units held for sale	**16,438,250**	16,438,250	-
Others	**9,104,089**	8,297,923	-
	456,116,539	625,986,829	161,196,962
Allowance for impairment	**(37,789,048)**	(39,206,075)	-
	P 418,327,491	P 586,780,754	P 161,196,962

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

A reconciliation of the allowance for impairment in 2006 and 2005 is shown below.

	2006	2005
Balance at beginning year	**P 39,206,075**	P -
GADC's balance of allowance at acquisition date	**-**	25,265,692
Reversal of write-down	**(12,351,848)**	-
Impairment loss during the year	**10,934,821**	13,940,383
Balance at end of year	**P 37,789,048**	P 39,206,075

Impairment losses of P10.9 million and P13.9 million were recognized by GADC in 2006 and 2005, respectively, to write down the inventories of paper and promotional items, restaurant equipment and construction materials to their net realizable value. No impairment loss was recognized in 2004.

8. PROPERTY DEVELOPMENT COSTS

On September 1, 2003, the Company entered into a Joint Venture Agreement (the Agreement) with the Bases Conversion Development Authority (BCDA) for the development of a parcel of land referred to as the Lawton Parkway Project (the Project) predominantly for residential purposes.

BCDA conveyed to the Company all its rights, title and interest over the parcel of lot for the Project as its contribution to the Joint Venture while the Company provides financing for the implementation of the Project. In return for their contributions to the Project, the parties shall allocate between themselves the available saleable units and lots.

The Company has the sole right to market, sell, lease, develop, operate and manage the Project. The Agreement authorizes the Company, subject to prior written approval of BCDA, to enter into a joint development agreement with third party entities under which the Company may delegate to said third party entities the performance of all its obligations and functions in the development, marketing and management of the Project.

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

The total accumulated disbursements for the Project funded by the Group amounting to P358.0 million is presented as Property Development Costs in the consolidated balance sheets. The Group has not made any additional contributions to the Project in 2006 and 2005. As of December 31, 2006, Megaworld has not started pre-selling activities relating to the share of the Group in the Project.

9. PREPAYMENTS AND OTHER CURRENT ASSETS

The details of this account are shown below.

	2006	2005	2004
Input value-added tax (VAT)	**P 141,191,170**	P 166,187,382	P 163,233,662
Prepayments	**82,285,199**	66,481,079	-
Creditable withholding tax	**117,722,990**	47,904,545	-
Others	**39,647,083**	25,049,805	6,754,419
	P380,846,442	P 305,622,811	P 169,988,081

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS

AFS financial assets pertain to FCI's investments in shares of stock of entities where FCI holds no significant influence. These shares are composed mainly of equity securities of companies listed at the PSE. Fair value is determined directly by reference to published prices in an active market. AFS financial assets with quoted market prices amounted to P30.6 million in 2006, P23.5 million in 2005 and P18.5 million in 2004.

The changes to the carrying amounts of AFS financial assets held by FCI, as presented in the consolidated balance sheets as of December 31, 2006, 2005 and 2004, are summarized as follows:

	2006	2005	2004
Balance at beginning of year	**P 43,749,460**	P 41,355,700	P 36,159,475
Additions	**6,896,405**	2,754,831	-
Return of investment	**(4,100,000)**	-	-
Fair value gains	**8,365,554**	2,896,869	5,196,225
Impairment losses	**-**	(3,257,940)	-
Balance at end of year	**P 54,911,419**	P 43,749,460	P 41,355,700

11. INVESTMENTS IN AN ASSOCIATE AND INTEREST IN A JOINT VENTURE

This account includes the investments in Megaworld (an associate) and the 50% interest in Golden City Food Industries, Inc. (GCFII, a joint venture), which are carried at equity:

	Note	**2006**	2005	2004
Investments in Megaworld				
Acquisition cost		**P3,239,700,940**	P1,797,254,584	P1,797,254,584
Equity in net earnings:				
Balance at beginning of year				
As previously reported		**2,026,016,767**	1,040,805,084	812,525,965
Recognition of negative goodwill in income	2	**-**	883,230,364	942,441,338
Share in the PFRS transition adjustments	2	**-**	(132,317,256)	(152,188,275)
As restated		**2,026,016,767**	1,791,718,192	1,602,779,028
Equity in net earnings during the year		**407,909,939**	260,888,278	182,618,819
Share in unrealized gain on AFS financial assets		**11,595,904**	-	-
Cash dividend received		**(45,676,260)**	-	-
Dilution loss		**(307,137,911)**	-	-
Share in translation adjustments	2	**8,865,021**	(26,589,703)	6,320,345
Balance at the end of year		**2,101,573,460**	2,026,016,767	1,791,718,192
		5,341,274,400	3,823,271,351	3,588,972,776
Investment in GCFII				
Acquisition cost		**10,000,000**	10,000,000	-
Accumulated equity in net earnings of a joint venture:				
Balance at acquisition date		**2,418,847**	1,799,642	-
Equity in net earnings		**1,507,551**	619,205	-
Balance at end of year		**3,926,398**	2,418,847	-
		13,926,398	12,418,847	-
		P5,355,200,798	P3,835,690,198	P3,588,972,776

The balance of the unamortized negative goodwill (which arose from the acquisition of Megaworld) of P883.2 million as of December 31, 2004 was recognized in 2005, in connection with the Group's transition to PFRS, as an adjustment to the beginning balance of Retained Earnings which resulted in an increase in the balance of the investments account by the same amount. It also resulted in the discontinuance of the annual amortization to income of the negative goodwill of P59.2 million for 2005 and subsequent years.

During 2006, the Company's ownership interest in Megaworld was diluted when Megaworld undertook an international stock offering. The issuance of new shares of stock by Megaworld during the stock offering increased its net assets but reduced the Company's percentage ownership interest and share on such net assets. The decrease in share in Megaworld's net assets was recorded directly in equity presented as Dilution Loss. In September and October 2006, the Company made additional investments in the shares of Megaworld to restore its ownership interest to approximate the previous level. The total cost of the additional investments amounted to P1,442.4 million which includes goodwill in the amount of P360.9 million. This increased the Company's total cost of investment as of December 31, 2006 to P3,239.7 million, representing 20.02% ownership interest.

Also in 2006, the Company received cash dividends from Megaworld amounting to P45.7 million.

The total quoted market price of investment in the shares of Megaworld as of December 31, 2006 and 2005 is P7,140.4 million and P2,740.6 million, respectively.

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

	Assets	Liabilities	Equity	Net Income
2006:				
Megaworld	P 8,909,728	P 3,724,925	P 5,184,803	P 408,104
GCFII	31,897	4,044	27,853	1,508
	P 8,941,625	**P 3,728,969**	**P 5,212,656**	**P 409,612**
2005:				
Megaworld	P 7,412,212	P 3,370,741	P 4,041,471	P 260,888
GCFII	28,861	3,967	24,894	619
	P 7,441,073	P 3,374,708	P 4,066,365	P 261,507
2004:				
Megaworld	P 7,352,425	P 3,560,658	P 3,791,767	P 182,619

12. PROPERTY, PLANT AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of 2006, 2005 and 2004 and the gross carrying amounts and the accumulated depreciation of property, plant and equipment is shown below.

	Land and Land Improvement	Building and Leasehold Improvement	Machinery and Equipment	Transportation Equipment	Fixtures and Other Equipment	Construction in Progress	Total
Balance at January 1, 2006, net of accumulated depreciation and amortization	P 160,727,433	P 904,627,287	P 600,190,468	P 28,887,281	P 16,597,421	P 196,180,217	P1,907,210,107
Additions	-	265,671,351	280,421,041	17,586,562	8,988,760	105,604,920	678,272,634
Reclassifications – net	-	21,876,898	185,857,143	399,177	1,115,661	(227,726,147)	(18,477,268)
Disposals – net	-	(51,383,584)	(35,438,529)	(1,561,912)	(1,118,800)	-	(89,502,825)
Depreciation and amortization charges for the year	(103,067)	(103,129,849)	(204,050,273)	(11,564,167)	(11,889,389)	-	(330,736,745)
Balance at December 31, 2006, net of accumulated depreciation and amortization	**P 160,624,366**	**P1,037,662,103**	**P 826,979,850**	**P 33,746,941**	**P 13,693,653**	**P 74,058,990**	**P2,146,765,903**
December 31, 2006							
Cost	P 161,750,000	P2,008,849,830	P1,905,712,839	P 66,344,616	P 91,230,548	P 74,058,990	P4,307,946,823
Accumulated depreciation and amortization	(1,125,634)	(971,187,727)	(1,078,732,989)	(32,597,675)	(77,536,895)	-	(2,161,180,920)
Net carrying amount	**P 160,624,366**	**P1,037,662,103**	**P 826,979,850**	**P 33,746,941**	**P 13,693,653**	**P 74,058,990**	**P2,146,765,903**
Balance at January 1, 2005, net of accumulated depreciation and amortization	P 34,280,500	P 39,114,511	P 40,221,334	P 443,683	P 959,849	P -	P 115,019,877
Balance of GADC at acquisition	126,550,000	854,297,719	639,017,365	26,524,474	27,434,186	27,837,224	1,701,660,968
Additions	-	145,857,956	114,858,292	13,098,618	5,121,209	267,102,530	546,038,605
Reclassifications – net	-	(10,662,429)	(5,030,369)	(860)	(1,243,667)	(98,759,537)	(115,696,862)
Disposals – net	-	(24,338,453)	(19,480,853)	(1,041,784)	(240,177)	-	(45,101,267)
Impairment	-	(7,508,000)	(5,858,000)	-	-	-	(13,366,000)
Depreciation and amortization charges for the year	(103,067)	(92,134,017)	(163,537,301)	(10,136,850)	(15,433,979)	-	(281,345,214)
Balance at December 31, 2005, net of accumulated depreciation and amortization	P 160,727,433	P 904,627,287	P 600,190,468	P 28,887,281	P 16,597,421	P 196,180,217	P1,907,210,107
December 31, 2005							
Cost	P 161,750,000	P1,819,685,446	P1,599,205,801	P 59,084,819	P 103,082,808	P 196,180,217	P3,938,989,091
Accumulated depreciation and amortization	(1,022,567)	(915,058,159)	(999,015,333)	(30,197,538)	(86,485,387)	-	(2,031,778,984)
Net carrying amount	P 160,727,433	P 904,627,287	P 600,190,468	P 28,887,281	P 16,597,421	P 196,180,217	P1,907,210,107

	Land and Land Improvement	Building and Leasehold Improvement	Machinery and Equipment	Transportation Equipment	Fixtures and Other Equipment	Construction in Progress	Total
Balance at January 1, 2004, net of accumulated depreciation and amortization	P 34,383,567	P 53,181,786	P 44,416,714	P 762,513	P 1,150,476	P -	P 133,895,056
Additions	-	-	2,149,128	-	85,805	-	2,234,933
Depreciation and amortization charges for the year	(103,067)	(14,067,275)	(6,344,508)	(318,830)	(276,432)	-	(21,110,112)
Balance at December 31, 2004, net of accumulated depreciation and amortization	P 34,280,500	P 39,114,511	P 40,221,334	P 443,683	P 959,849	P -	P 115,019,877
December 31, 2004							
Cost	P 35,200,000	P 414,673,380	P 69,355,533	P 3,426,698	P 6,067,702	P -	P 528,723,313
Accumulated depreciation and amortization	(919,500)	(375,558,869)	(29,134,199)	(2,983,015)	(5,107,853)	-	(413,703,436)
Net carrying amount	P 34,280,500	P 39,114,511	P 40,221,334	P 443,683	P 959,849	P -	P 115,019,877

13. INVESTMENT PROPERTY

The Group's investment property includes buildings and building improvements and several pieces of land which are held for investment purposes or for future development.

A reconciliation of the carrying amounts at the beginning and end of 2006, 2005 and 2004 is shown below.

	2006	2005	2004
Balance at beginning of year, net of accumulated depreciation	**P2,012,894,706**	P 1,824,123,261	P1,831,709,273
Balance of GADC at acquisition	**-**	231,680,754	-
Additions	**624,736,713**	12,414,489	29,451,575
Reclassifications	**(375,036,357)**	9,629,399	-
Disposal – net	**(13,455,475)**	(7,869,949)	-
Depreciation charge for the year	**(110,372,562)**	(57,083,248)	(37,037,587)
Net carrying amount	**P2,138,767,025**	P 2,012,894,706	P1,824,123,261

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

	2006	2005	2004
Cost	**P2,393,413,920**	P 2,167,348,447	P1,867,181,327
Accumulated depreciation	**(254,646,895)**	(154,453,741)	(43,058,066)
Net carrying amount	**P2,138,767,025**	P 2,012,894,706	P1,824,123,261

In line with its property development business, FCI acquired parcels of land which it intends to develop in the future. This account includes parcels of land in Mactan, Cebu and various locations in Metro Manila.

During 2006, parcels of land with a carrying value of P371.4 million located in Mactan, Cebu were reclassified to Property Development Costs account and subsequently sold to Oceantown Properties, Inc., in exchange for shares of stock of the latter. The shares of stock were immediately sold to Megaworld for cash. FCI used the proceeds received from Megaworld as the value of the consideration received for the parcels of land sold and, accordingly, such amount was considered in the determination of the gross profit from the sale of land. FCI obtained from the Bureau of Internal Revenue (BIR) a certification of income tax and capital gains tax exemption, hence, the sale of land was not subjected to regular income tax of 35% as well as to capital gains tax.

Rental income earned from the investment property amounted to P206.0 million, P203.9 million and P52.5 million in 2006, 2005 and 2004, respectively.

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

14. GOODWILL

Goodwill arose from the acquisitions of investments in shares of stock of subsidiaries and controlled entities. The carrying amounts of Goodwill as of December 31 are as follows:

	Note	**2006**	2005	2004
Acquisition of investments by AGGI:				
GADC		**P 1,236,536,374**	P 1,236,536,374	P -
GARC		**2,063,678**	2,063,678	-
	1	**1,238,600,052**	1,238,600,052	-
Acquisition of investments by AGHI:				
MPIL		**P 312,126,500**	P 312,126,500	P 312,126,500
TEI		**100,000,000**	100,000,000	100,000,000
NTLPI		**2,438,636**	2,438,636	2,438,636
		414,565,136	414,565,136	414,565,136
		P 1,653,165,188	P 1,653,165,188	P 414,565,136

Based on the Group's assessment, no impairment loss is required on the above amounts of Goodwill.

15. OTHER NON-CURRENT ASSETS

Other non-current assets consist of:

	2006	2005	2004
Deposits	**P 312,370,773**	P 193,176,606	P 6,537,588
Claim for tax refund	**167,495,968**	167,495,968	-
Leasehold rights – net of accumulated amortization	**42,347,602**	46,807,631	-
Non-operating restaurant equipment	**32,028,775**	20,123,807	-
Prepaid rent	**23,194,482**	31,717,090	-
Others	**64,644,819**	86,411,044	664,374,835
	642,082,419	545,732,146	670,912,423
Allowance for impairment	**(42,984,965)**	(36,041,986)	-
Net carrying amount	**P 599,097,454**	P 509,690,160	P 670,912,423

Other Non-current Assets – Others in 2005 included the P84.5 million deposit which was eventually deducted from the amount of the final payment to MRO for the acquisition of the investments in GADC and GARC (see Note 1).

Impairment losses of P6.9 million in 2006 and P36.0 million in 2005 were recognized on these non-current assets.

16. TRADE AND OTHER PAYABLES

This account consists of:

	Note	2006	2005	2004
Trade	23	**P 1,552,675,830**	P 847,712,946	P 381,518,097
Accrued expenses	23	**442,794,890**	230,320,117	6,231,956
Others		**197,947,893**	190,782,783	28,886,565
		P 2,193,418,613	P 1,268,815,846	P 416,636,618

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

17. OTHER NON-CURRENT LIABILITIES

The breakdown of this account is as follows:

	Note	2006	2005	2004
Accrued rent		**P 153,794,629**	P 164,361,132	P -
Guarantee deposits		**42,953,546**	38,174,326	-
Security deposits		**21,000,000**	21,000,000	21,000,000
Payable to MRO under stock option plan	24	**10,209,538**	11,807,052	-
Asset retirement obligation		**10,420,802**	8,369,459	-
		P 238,378,515	P 243,711,969	P 21,000,000

18. REVENUES FROM RENDERING OF SERVICES

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

	2006	2005	2004
Revenue from franchised restaurants:			
Rentals	**P 371,160,032**	P 325,429,505	P -
Initial fees	**-**	2,499,075	-
Royalty	**9,330,809**	8,510,651	-
Management fees	**122,438**	173,790	-
	380,613,279	336,613,021	-
Rental and development of properties	**821,026,786**	52,500,000	52,500,000
	P1,201,640,065	P 389,113,021	P 52,500,000

19. COST OF SALES AND SERVICES

The components of cost of sales and services are as follows:

	2006	2005	2004
Cost of Sales			
Finished goods at beginning of year	**P 143,206,432**	P 41,056,522	P 44,167,996
Cost of goods manufactured:			
Raw materials at beginning of year	**17,616,366**	35,473,820	24,388,751
Work-in-process at beginning of year	**-**	167,220	388,544
Net purchases during the year	**441,081,551**	1,424,806,224	3,113,571,740
Direct labor	**12,306,456**	17,337,141	16,768,275
Manufacturing overhead	**121,967,269**	225,630,976	207,921,356
Raw materials at end of year	**(19,434,603)**	(17,616,366)	(35,473,820)
Work-in-process at end of year	**(1,862,007)**	-	(167,220)
	714,881,464	1,726,855,537	3,371,565,622
Finished goods at end of year	**(20,808,450)**	(143,206,432)	(41,056,522)
	694,073,014	1,583,649,105	3,330,509,100
Company-operated restaurants:			
Cost of food	**2,172,550,654**	2,114,576,311	-
Cost of paper	**391,818,467**	366,456,311	-
Salaries, allowances and bonuses	**747,431,168**	707,587,280	-
Utilities	**566,935,824**	557,564,299	-
Rental	**431,306,078**	423,140,122	-
Advertising and promotion	**383,029,865**	362,540,088	-
Depreciation and amortization	**265,817,042**	242,586,048	-
Taxes and licenses	**111,527,129**	107,660,156	-
Repairs and maintenance	**79,654,127**	73,189,232	-
Others	**321,880,287**	276,526,467	-
	5,471,950,641	5,231,826,314	-
Cost of real estate sales	**379,867,208**	7,699,258	-
	P 6,545,890,863	P 6,823,174,677	P 3,330,509,100
Cost of Services			
Contract cost	**P 649,300,029**	P -	P -
Franchised restaurant expenses	**221,656,562**	178,334,599	-
Rental	**124,318,564**	59,056,915	56,079,064
	P 995,275,155	P 237,391,514	P 56,079,064

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2006	2005	2004
Cost of food and contract	7	**P 3,193,272,071**	P 3,459,364,387	P -
Employee benefits	21	**972,012,668**	920,594,955	75,283,511
Rental		**683,551,180**	637,403,270	3,983,253
Utilities		**607,919,003**	624,461,340	54,095,829
Depreciation and amortization	12, 13	**441,109,307**	338,428,462	58,396,638
Cost of paper		**391,818,467**	366,456,311	-
Advertising and promotions		**383,079,865**	366,011,283	-
Cost of residential units sold		**379,867,208**	7,699,258	938,606
Royalty	23.2	**284,868,123**	267,059,963	-
Professional fees and outside services		**160,891,076**	133,603,592	16,242,618
Change in finished goods and work-in-process inventories		**159,328,683**	(87,582,094)	419,597,656
Taxes and licenses		**129,570,819**	133,500,804	4,968,941
Repairs and maintenance		**95,980,593**	90,513,368	17,927,816
Raw materials and other consumable		**81,118,743**	195,049,439	130,246,807
Representation and entertainment		**35,286,782**	22,690,392	2,283,271
Communication and office expenses		**18,138,023**	13,641,687	-
Impairment loss on inventory		**10,934,821**	13,940,383	-
Commissions		**8,522,709**	9,307,852	-
Freight and handling		**6,554,632**	5,609,507	6,710,628
Insurance		**4,045,548**	7,111,151	-
Transportation and travel		**2,652,505**	3,895,987	3,755,263
Impairment loss on receivables		**2,575,546**	12,922,770	8,311,923
Purchases		**-**	-	2,652,461,192
Others		**266,103,989**	218,610,565	11,348,945
		P 8,319,202,361	P 7,760,294,632	P 3,466,552,897

These expenses are classified in the consolidated income statements as follows:

	Note	2006	2005	2004
Cost of sales	19	**P 6,545,890,863**	P 6,823,174,677	P 3,330,509,100
Cost of service	19	**995,275,155**	237,391,514	56,079,064
Administrative		**477,504,382**	415,442,555	54,129,365
Selling and distribution		**299,883,767**	281,810,799	8,311,923
Others		**648,194**	2,475,087	17,523,445
		P 8,319,202,361	P 7,760,294,632	P 3,466,552,897

21. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below.

	Note	2006	2005	2004
Salaries and wages		**P 916,342,738**	P 873,866,316	P 58,028,230
Retirement benefits		**33,566,592**	19,863,027	1,095,474
Stock option benefits	24	**7,687,548**	10,663,798	-
Social security costs		**2,845,194**	3,244,712	3,305,657
Bonuses		**4,103,542**	4,223,575	4,158,518
Short-term medical benefits		**5,404,649**	7,032,790	7,446,216
Other short-term benefits		**2,062,405**	1,700,737	1,249,416
		P 972,012,668	P 920,594,955	P 75,283,511

GADC, TEI and AWGI obtained updated actuarial valuations as of January 1, 2004 to ascertain the transitional liability as of that date in accordance with PAS 19, *Employee Benefits*. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

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

The amounts of retirement benefit obligation pertaining to GADC, TEI and AWGI recognized in the consolidated balance sheets are determined as follows:

	2006	2005	2004
Present value of the obligation	**P 411,838,479**	P 166,726,187	P 5,100,457
Fair value of plan assets	**(88,797,700)**	(64,904,900)	-
Deficiency of plan assets	**323,040,779**	101,821,287	5,100,457
Unrecognized actuarial gains (losses)	**(213,839,203)**	(15,135,703)	897,237
Retirement benefits obligation	**P 109,201,576**	P 86,685,584	P 5,997,694

The movements in the retirement and other long-term employee benefit obligation recognized in the books are as follows:

	2006	2005	2004
Balance at beginning of year	**P 86,685,584**	P 5,997,694	P 4,917,809
GADC balance at acquisition date	**-**	80,854,795	-
Expense recognized	**33,566,592**	19,833,095	1,079,885
Contributions	**(11,050,600)**	(20,000,000)	-
Balance at end of year	**P 109,201,576**	P 86,685,584	P 5,997,694

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

	2006	2005
Balance at beginning of year	P 64,904,900	P 42,261,800
Contributions paid into the plan	10,149,400	20,000,000
Benefits paid	-	(2,957,300)
Actuarial gains	7,252,900	1,374,200
Expected return on plan assets	6,490,500	4,226,200
Balance at end of year	P 88,797,700	P 64,904,900

The plan assets as of December 31, 2006 consist of the following:

Cash and cash equivalents	P 3,592,200
Loans and receivables	8,679,800
Investments in:	
Unit investment trust fund	71,342,500
Other securities	5,899,700
Long-term equity investments	5,449,200
Preferred shares	872,000
Net plan liabilities	(7,037,700)
	P 88,797,700

Actual returns on plan assets amounted to P13.7 million in 2006 and P5.6 million in 2005.

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

	2006	2005	2004
Current service costs	P 21,526,885	P 12,570,808	P 507,208
Interest costs	18,493,307	12,740,101	588,266
Expected return on plan assets	(6,490,500)	(4,226,200)	-
Net actuarial gains (losses) recognized during the year	36,900	(1,221,682)	-
Retirement benefits expense	P 33,566,592	P 19,863,027	P 1,095,474

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

	2006	2005	2004
Cost of goods sold	P 1,167,430	P 1,007,524	P 125,701
Operating expenses	32,399,162	18,855,503	969,773
Retirement benefits expense	P 33,566,592	P 19,863,027	P 1,095,474

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

	2006	2005	2004
Discount rates	**8.08% - 11%**	11% - 14%	11% - 14%
Expected rate of return on plan assets	**0% - 10%**	0% - 10%	0%
Expected rate of salary increases	**4% - 10%**	4% - 10%	4%

22. TAXES

22.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 are as follows:

	2006	2005	2004
Current tax expense:			
Regular corporate income (RCIT) at 35% in 2006, 35% and 32% in 2005 and 32% in 2004	**P 48,718,889**	P 34,141,217	P 55,385,910
Minimum corporate income tax (MCIT) at 2%	**297,132**	29,163,763	-
Final tax at 20%	**8,170,290**	11,214,314	3,438,130
Others	**41,040**	14,000	44,800
	57,227,351	74,533,294	58,868,840
Deferred tax income:			
Deferred tax relating to origination and reversal of temporary differences	**33,465,634**	(15,369,390)	(1,600,383)
Deferred tax resulting from an increase in RCIT rate	**(470,108)**	(1,206,957)	-
Derecognition of deferred tax assets	**6,369,557**	8,764,988	-
	39,365,083	(7,811,359)	(1,600,383)
Tax expense reported in the consolidated income statements	**P 96,592,434**	P 66,721,935	P 57,268,457

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

	2006	2005	2004
Tax on consolidated pretax income (at 35% in 2006, 32% and 35% in 2005 and 32% in 2004)	**P 345,813,260**	P 1,231,237,776	P 124,524,261
Adjustment for income subjected to different tax rate	**(1,105,137)**	(27,240,880)	(7,930,922)
Tax effects of:			
Non-deductible expenses	**160,043,120**	12,856,511	100,712
Income not subject to RCIT	**(7,780,070)**	(1,066,824,505)	-
Dividend income not subject to RCIT	**(25,724,176)**	-	-
Interest income subjected to final tax	**(5,575,675)**	-	-
Equity in net earnings of an associate and a joint venture	**(143,296,122)**	(84,989,932)	(58,438,022)
Expenses directly charged to APIC	**-**	(5,569,645)	-
Net deferred tax assets derecognized	**(5,848,045)**	10,575,912	-
Increase in RCIT rate	**-**	(2,168,460)	-
Income generated from PEZA-registered activities	**(1,555,461)**	(1,154,842)	-
Gain on sale of marketable securities	**(218,301,300)**	-	(984,036)
Unrecognized deferred tax asset on net operating loss carryover (NOLCO)	**44,550**	-	-
Others	**(122,510)**	-	(3,536)
Tax expense reported in the consolidated income statements	**P 96,592,434**	P 66,721,935	P 57,268,457

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

	Consolidated Balance Sheets		
	2006	**2005**	**2004**
Deferred tax assets - net:			
Retirement benefits	**P 95,025,063**	P 85,589,762	P 1,907,780
Accrued rent	**60,451,601**	64,018,792	-
Allowance for impairment losses	**48,564,437**	42,099,970	528,888
MCIT	**336,892**	22,716,846	-
NOLCO	**11,198,953**	16,841,377	-
Unamortized preoperating expenses (for tax purposes)	**3,393,151**	4,421,749	16,958,080
Provision for contingency	**3,750,600**	3,750,600	3,429,120
Rent receivable	**(38,672,319)**	(38,744,507)	-
Unrealized income – net	**(29,376,267)**	(5,607,798)	-
Undepreciated capitalized interest and asset retirement obligation	**(457,049)**	(1,506,646)	-
Others	**-**	-	(36,675)
Deferred Tax Assets - net	**P 154,215,062**	P 193,580,145	P 22,787,193
Deferred Tax Liabilities:			
Unrealized gross profit from real estate sales (for tax purposes)	**P -**	P -	P 5,857,413

	Consolidated Income Statements		
	2006	**2005**	**2004**
Deferred income tax:			
Retirement benefits	**(P 9,458,336)**	(P 83,681,982)	(P 345,563)
Derecognition of deferred tax assets	**6,369,557**	-	-
Accrued rent	**3,567,191**	(64,018,792)	-
Allowance for impairment losses	**(6,464,467)**	(41,571,082)	-
MCIT	**22,379,954**	(22,716,846)	-
NOLCO	**(704,098)**	(16,841,377)	-
Unamortized preoperating expenses (for tax purposes)	**1,028,598**	12,536,331	(435,072)
Provision for contingency	**-**	(321,480)	-
Rent receivable	**(72,188)**	38,744,507	-
Unrealized income – net	**23,768,469**	5,607,798	(729,241)
Undepreciated capitalized interest and asset retirement obligation	**(1,049,597)**	1,506,646	-
Realized gross profit from real estate sales (for tax purposes)	**-**	(5,857,413)	-
Deferred tax assets of GADC prior to acquisition	**-**	168,839,006	-
Others	**-**	(36,675)	(90,507)
Deferred Tax Expense (Income)	**P 39,365,083**	(P 7,811,359)	(P 1,600,383)

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
2006	P 634,997	2009
2005	48,710,870	2008
2004	28,848,964	2007
	P 78,194,831	

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
2006	P 416,457	2009
2005	23,098,116	2008
2004	79,334	2007
	P 23,593,907	

The following summarizes the amount of NOLCO and other deductible temporary differences as of the end of 2006, 2005 and 2004 for which the related deferred tax assets have not been recognized:

	2006		2005		2004	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
Allowance for doubtful accounts	**P 30,584,108**	**P 10,704,438**	P 49,255,137	P 17,239,298	P 38,064,755	13,322,664
Accrued retirement	**7,520,543**	**2,632,190**	7,544,743	2,640,660	7,079,618	2,477,866
NOLCO	**1,582,687**	**553,940**	2,942,013	959,224	2,663,384	932,184
MCIT	**877,061**	**306,971**	501,730	501,730	120,460	42,161
Allowance for inventory obsolescence	**126,583**	**44,304**	192,499	67,375	-	-
Allowance for claims for tax refund	-	-	-	-	2,034,803	661,311
	P 40,690,982	**P 14,241,843**	P 60,436,122	P 21,408,287	P 49,963,020	P 17,436,186

22.2 Prior Period Adjustment to Deferred Tax Liabilities

In 2005, FCI recorded an adjustment to restate the balances of its retained earnings as of January 1, 2004 and 2005 from the amounts previously reported to correct the overstatement in deferred tax liabilities recognized in prior years amounting to P12.2 million.

22.3 Recent Changes in Tax Regulation

On May 24, 2005, Republic Act No. 9337 (RA 9337), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and became effective on November 1, 2005. The following are the major changes brought about by RA 9337 that are relevant to the Company:

(a) RCIT rate was increased from 32% to 35% starting on November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning on January 1, 2009;

(b) 10% VAT rate was increased to 12% effective February 1, 2006;

(c) VAT is now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

(d) Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter; and,

(e) Creditable input VAT was capped at a maximum of 70% of output VAT per quarter which is effective until the third quarter of 2006 (this cap was removed effective for the quarter ended December 31, 2006 and onwards).

23. RELATED PARTY TRANSACTIONS

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

23.1 Long-Term Notes Payable

The breakdown of the outstanding long-term borrowings obtained from related parties as of
December 31, shown under Long-term Notes Payable in the consolidated balance sheets, are as follows:

	2006	2005
MRO, a stockholder holding preferred shares of GADC	**P 588,360,000**	P 637,080,000
Mc Donald's Philippines Realty Corporation (MPRC), a related party under common ownership	**318,108,118**	424,144,157
	P 906,468,118	P 1,061,224,157

On March 17, 2005, GADC entered into a loan agreement with MRO and executed a promissory note covering the remaining unpaid amount of advances from MRO, after the assignment to GADC of a portion of the advances in payment of MRO's subscription to preferred shares as discussed in Note 26. The principal amount of the loan of US$12.0 million will be payable in full on March 16, 2025, and bears interest at 10% or US$1.2 million, payable every six months. The loan was recognized at fair value and the difference between the fair value of the loan and the carrying value of the advances, which was deemed extinguished, amounting to P25.2 million was recognized as a gain (shown as part of Excess of Carrying Value of Advances over Fair Values of Preferred Shares account) in the 2005 consolidated income statement. Accrued interest as of December 31, 2006 and 2005 included in Trade and other payables account amounted to P14.4 million and P15.8 million, respectively (see Note 16).

Notes payable to MPRC represent two promissory notes amounting to P57.4 million and P366.7 million relating to unpaid advances on land and equipment purchased and unpaid rentals and interest due to MPRC, respectively. The loans are payable in full on March 17, 2009 with an interest rate of 8.4375% from March 1, 2005 to March 17, 2006; thereafter, interest shall accrue at six-month PHIBOR rate plus 2%, which MPRC will reset on March 18 of each year. Total interest charged by MPRC on these loans amounted to P4.2 million in 2006 and P6.3 million in 2005 and shown as part of Finance Costs in the consolidated income statements.

GADC paid a total amount of P107.0 million to MPRC on April 24, 2006. Payment represents principal and interest payments amounting to P106.0 million and P1.0 million, respectively.

Rentals and interest payable to MPRC (included under Advances from Related Parties account in the consolidated balance sheets) amounted to P25.1 million and P32.0 million as of December 31, 2006 and 2005, respectively.

23.2 License Agreement with McDonald's

GADC was granted by McDonald's the nonexclusive right to adopt and use the McDonald's System in restaurant operations in the Philippines. The license agreement, as renewed in March 2005 for another 25 years, provides for a royalty fee, presented as Royalty expense (see Note 20), based on certain percentage of net sales from the operations of all the Company's restaurants, including those operated by the franchisees. The balance of royalty fees and other advances payable to McDonald's as of December 31, 2006, 2005 and 2004 amounted to P54.3 million, P42.2 million and P50.3 million, respectively, and is shown as Advances from Related Parties in the consolidated balance sheets.

23.3 Joint Venture Operating under Joint Venture Agreement

GADC has a 50% interest in GCFII operating under joint venture agreement (see Note 11). GCFII was granted by GADC the right to adopt and use the McDonald's System of restaurant operations. GADC supplies restaurant equipment, food, paper and promotional items to all franchised restaurants through a third party service provider. Total inventories supplied to GCFII amounted to P26.6 million in 2005. 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 P2.3 million as of December 31, 2005 (see Note 6).

23.4 Key Management Personnel Compensation

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

	2006	2005	2004
Short-term employee benefits	**P 45,909,500**	P 40,780,000	P 3,600,000
Retirement benefits	**4,117,500**	3,350,000	-
Other long-term employee benefits	**739,200**	740,000	-
	P 50,766,200	P 44,870,000	P 3,600,000

24. SHARE-BASED PAYMENTS

GADC participates in McDonald's share-based compensation plan (the Plan). Under the Plan, qualified officers and employees of GADC are granted options to purchase common shares of McDonald's which are exercisable at the fair market value of the stock on the date of the grant. The qualified officers and employees shall pay for the grants exercised through cash, through McDonald's shares held for more than six months valued at its fair market value at the time of exercise, or through simultaneous sale through a broker of McDonald's shares acquired on exercise. The options become exercisable in four equal installments beginning one year from the date of grant, and generally expire in 10 years from the grant date. Approximately 71,600 options granted between May 19, 1999 and March 21, 2000 expire 13 years from the date of grant. These options are settled in equity once exercised. The qualified employees must remain with GADC until the vesting date to be eligible to exercise the options granted. The plans also provide restrictions on the assignment or transfer of shares other than by will or the laws of descent and distribution.

The McDonald's 1992 Stock Ownership Incentive Plan (for grants from 1992 to 2001) and the McDonald's 2001 Omnibus Stock Ownership Plan (for grants from 2001 to 2004) provide for payments by GADC of amounts approximately equal to the carrying cost of shares held by McDonald's for possible exercise of grants. These payments are settled in four equal installments, which correspond to the exercisability of the grants and without regard to the number of grants that will ultimately vest.

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.

As a result of the change in the ownership structure of GADC (see Note 26), GADC's participation in the Plan ceased in 2005. All options granted prior to the equity restructuring will continue to be exercisable until the expiration of the exercise period.

Stock option benefits expense amounted to P7.7 million in 2006 and P10.7 million in 2005 (see Note 21). Outstanding liability to MRO amounted to P10.2 million and P11.8 million as of December 31, 2006 and 2005, respectively (see Note 17).

25. EQUITY

25.1 Capital Stock

Capital stock consists of:

	Shares			Amount		
	2006	2005	2004	**2006**	2005	2004
Common shares – P1 par value						
Authorized – 5 billion shares						
Issued and outstanding:						
Balance at beginning of year	**2,045,181,000**	1,844,710,000	1,844,710,000	**P 2,045,181,000**	P 1,844,710,000	P 1,844,710,000
Issued during the year	**-**	200,471,000	-	**-**	200,471,000	-
Balance at end of year	**2,045,181,000**	2,045,181,000	1,844,710,000	**2,045,181,000**	2,045,181,000	1,844,710,000
Subscribed	**160,000,000**	160,000,000	160,000,000	**160,000,000**	160,000,000	160,000,000
Total outstanding	**2,205,181,000**	2,205,181,000	2,004,710,000	**2,205,181,000**	2,205,181,000	2,004,710,000
Subscriptions receivable:						
Balance at beginning of year				**(85,792,391)**	(86,956,521)	(86,956,521)
Collections during the year				**-**	1,164,130	-
Balance at end of year				**(85,792,391)**	(85,792,391)	(86,956,521)
				P 2,119,388,609	P 2,119,388,609	P 1,917,753,479

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

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 by way of 1:1 stock rights offering to existing stockholders as of February 15, 2007 at offer price of P1.50. The said offering took place between February 23 to March 1, 2007. Fifty percent of the subscription price was paid upon subscription with the balance payable by April 23 or June 7, 2007.

On March 5, 2007, the Board of Directors of the Company approved the reclassification of a portion of unissued common shares into preferred shares (see Note 28).

25.2 Additional Paid-in Capital

The BOD approved on January 19, 2005 the offering of 200,471,000 common shares from unissued authorized capital stock of the Company to all stockholders as of the record date of March 3, 2005 on a pro rata basis at an offer price of P5.00 per share. As of December 31, 2005, these common shares were fully subscribed and issued.

25.3 Subscriptions Receivable

The outstanding subscriptions receivable corresponds to the 160 million shares subscribed at P11.50 per share, with unpaid balance of P986.6 million as of December 31, 2006 and 2005, and P999.99 million as of December 31, 2004.

25.4 Retained Earnings

On July 13, 2005, the Company's BOD approved the declaration of cash dividends of 7% of the par value of common shares, or a total of P143.2 million, payable to stockholders of record as of July 27, 2005. The dividends were paid in 2005.

The balance of retained earnings includes the Company's accumulated equity in net earnings of subsidiaries, controlled entities and an associate amounting to P4.19 billion in 2006 and 2005, respectively, and P2.6 billion in 2004. Such amounts are not available for declarations as dividends until declared by the respective entities.

26. EQUITY RESTRUCTURING OF GADC

On January 3, 2005, the BOD and stockholders of GADC approved the increase in GADC's authorized capital stock from P150.0 million divided into 150,000 common shares with par value of P1,000 per share to P1,673,603,348 divided into 99,444 common shares with a par value of P1,000 per share, 778 Class A preferred shares with par value of P61,066 per share, and 25,000 Class B preferred shares with a par value of P61,066 per share. The increase in authorized capital stock resulted in the conversion of the 47,656 GADC common shares held by MRO into 778 non-voting Class A preferred shares.

In the same meeting, the BOD and the stockholders of GADC also accepted the subscription by MRO to 25,000 Class B preferred shares and the payment thereof by way of capitalizing a portion of MRO's advances to GADC in the amount of P3,466.1 million representing total par value of P1,526.6 million plus a premium of P1,939.5 million. The other stockholders waived their right to subscribe to the increase. Also, on January 3, 2005, GADC and MRO entered into a Deed of Assignment whereby MRO assigned and conveyed a portion of its advances to GADC, with a total amount of P3,466.1 million, which will be applied as payment for MRO's subscription to the 25,000 Class B preferred shares of GADC.

On March 9, 2005, the SEC approved the foregoing transactions.

The SEC also approved on March 9, 2005, GADC's request to undergo equity restructuring to reduce its accumulated deficit against its additional paid-in capital of P1,940.5 million which amount arose mainly from the issuance of Class B preferred shares.

The Class A and Class B preferred shares of GADC, which have mandatory redemption option on the part of the holder, are considered as financial liabilities, under PAS 32 and PAS 39. Accordingly, the redeemable preferred shares are recognized at fair value on the date of issuance and are classified under Non-current Liabilities in the consolidated balance sheets.

The fair values of the redeemable preferred shares 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).

The conversion of common shares held by MRO to Class A preferred shares is considered an equity transaction, on which no gain or loss should arise. Thus, for financial reporting, the difference between the book value as of March 17, 2005 of the common shares converted (P47.7 million) and the fair value of Class A preferred shares (P5.7 million) amounting to P42.0 million were recognized as additional paid-in capital in the books of GADC.

The advances from MRO were deemed extinguished when it was assigned and conveyed to the GADC in payment of MRO's subscription into Class B preferred shares. In accordance with PAS 39, the difference between the advances from MRO (P3,466.1 million) and the fair value of Class B preferred shares (P181.7 million) amounting to P3,284.4 million less transaction costs of P14.6 million, was recognized as Excess of Carrying Value of Advances over Fair Value of Preferred Shares in the consolidated income statements.

The accretion of the redeemable preferred shares amounting to P25.2 million and P18.9 million in 2006 and 2005, respectively, were recognized as interest expense in the consolidated income statements.

27. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	2006	2005	2004
Net income attributable to equity holders of the parent company	**P 819,038,830**	P1,613,001,601	P 331,869,859
Divided by the weighted average number of subscribed and outstanding common shares	**2,205,181,000**	2,155,063,250	2,004,710,000
	P 0.3714	P 0.7485	P 0.1655

There were no dilutive potential common shares as of December 31, 2006, 2005 and 2004, hence, no information on diluted earnings per share is presented.

28. EVENTS AFTER THE BALANCE SHEET DATE

On February 16, 2007, through a share swap with The Andresons Group, Inc. and other related parties, the Company acquired 5,248,128,261 shares of stock of Megaworld, representing 25% ownership interest, in exchange for 4,059,465,979 shares of stock of the Company to be taken from its unissued shares. The total cost of the investment of P16.8 billion is based on the fair value of the shares of Megaworld as of date of aquisition, which is P3.20 per share and the 30-day volume weighted average price of the Company's shares with the PSE plus premium, which is P4.14 per share. The Company recognized additional paid-in capital of P12.7 billion from the share swap. On February 20, 2007, the Company obtained a ruling from the BIR confirming the tax-free status of the exchange of shares.

Also, on February 16, 2007, the Company purchased from The Andresons Group, Inc. 100% ownership interest in Emperador Distilers, Inc. (EDI), representing 1,002.5 million shares, for a total cost P1,002.5 million, which has been fully paid by the Company. On the same date, the Company subscribed to an additional 997.5 million unissued shares of EDI for a total cost of P1,997.5 million. Of this amount, the Company has paid P993.6 million.

On March 5, 2007, the Company's BOD approved the reclassification of 30.0 million unissued common shares of the Company into three billion voting and non-convertible preferred shares.

On March 19, 2007, the subscription receivable amounting to P986,612,492 presented in the statements of changes in equity as of December 31, 2006 was collected in full.

29. SUBLICENSE AGREEMENTS

Individual sublicense arrangements granted to franchisees (including a joint venture) generally include a lease and a license to use the McDonald's System and 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 three to 20 years, provided, however, that should GADC's license rights from McDonald's be terminated at an earlier date or not renewed for any reason whatsoever, these sublicense agreements shall thereupon also be terminated. The franchisees pay for the related occupancy costs including property taxes, insurance and maintenance. The franchisees also generally pay a refundable, non-interest bearing security deposit.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's management of risk is coordinated with the BOD and stockholders, and focuses on actively securing the Group's short-to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

30.1 Foreign currency risk

Except for GADC, the Group has no significant exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

GADC has transactional currency exposures. Such exposure arises from purchases of food, merchandise and paper products in currencies other than GADC's functional currency. The Group now seeks to mitigate the effect of its transactional currency exposure by converting a portion of its peso denominated time deposits into US$ denominated time deposit.

30.2 Credit risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the balance sheet. Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk.

In addition, for real estate sales, advance payments are received to mitigate credit risk. With regard to the accounts receivable of GADC, since its accounts receivables are only from its approved franchisees, there is no requirement for collateral. The Group has adopted a no-business policy with customers lacking an appropriate credit history where credit records are available.

With respect to credit risk arising from the other financial assets of the Group, which comprise 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. The Group only deals with banks duly evaluated and approved by the BOD.

30.3 Interest rate risks

The Group's exposure to the risk for changes in market interest rates relates primarily to the Groups' long-term debt obligations. The Group's policy is to manager its interest cost using a mix of fixed and variable rate debts. Long-term debts with floating rate are repriced at intervals of one year.

30.4 Liquidity risk

The Group's exposure to liquidity risk is minimal. The Group's objective is to maintain a balance between continuity of funding and flexibility by investing its excess cash in short-term time deposits. GADC's time deposits denominated in Philippine peso and US dollar will mature in less than one year.

Punongbayan & Araullo

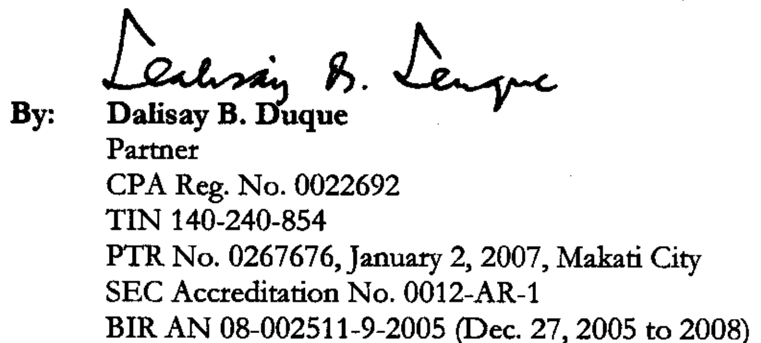
Certified Public Accountants

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY SEC SCHEDULES

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

We have audited the consolidated financial statements of Alliance Global Group, Inc. and subsidiaries for the year ended December 31, 2006, on which we have rendered our report dated March 20, 2007. Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see table of contents) of the Company and subsidiaries as of December 31, 2006 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



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ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
SEC Supplementary Schedules
December 31, 2006

Table of Contents

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

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
Schedule C - Non-Current Marketable Equity Securities, Other Long-Term Investments in Stock, and Other Investments
December 31, 2006

		Beginning Balance		*Additions*		*Deductions*		*Ending Balance*		
Name of Issuing entity and description of Investee	*Percentage of Ownership*	*Number of shares or principal amount of bonds and notes*	*Amount in Peso*	*Equity in earnings (losses) of investee for the period*	*Other*	*Distribution of earnings by investees*	*Other*	*Number of shares or principal amount of bonds and notes*	*Amount in Peso*	*Dividends received from investments not accounted for by the equity method*
Investment in an Associate:										
Megaworld Corporation (At equity)	20.02%	2,409,813,000	P 3,823,271,351	P 407,909,939	P 1,462,907,281	(P 45,676,260)	(P 307,137,911)	3,076,584,600	P 5,341,274,400	-
Interest in Joint Venture and Other Long-Term Investments:										
Interest in Joint Venture										
Golden City Food Industries, Inc. (At equity)	50%		12,418,847	1,507,551	-	-	-		13,926,398	
Available-for-sale financial assets (At fair value)										
First LPL Land Syndication, Inc		100,000	10,000,000	-	-	-	(4,100,000)	59000	5,900,000	
Electronic Realty Associates, Inc.	66%	13,200,000	9,942,060	-	-	-	-	13,200,000	9,942,060	
Export Bank		2,010,000	1,226,100	-	-	-	(281,400)	2,010,000	944,700	
ELI		44,430,000	18,660,600		10,198,959			48,930,000	28,859,559	
Suntrust		2,820,000	1,917,600				(253,800)	2,820,000	1,663,800	
AGI		182,100	2,003,100				(455,250)	182,100	1,547,850	
Others		-	-		6,053,450				6,053,450	
			P 3,879,439,658						P 5,410,112,217	

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
Schedule E - Intangible Assets - Other Assets
December 31, 2006

Description	Beginning balance	Additions at cost	*Deduction* Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions)	Ending balance
Goodwill - net	P 1,653,165,188	-	-	-	-	P 1,653,165,188
Deposits	193,176,606	119,194,167				312,370,773
Leasehold rights - net of accumulated amortization	46,807,631		(1,035,710)	-	(3,424,319)	42,347,602
Non-operating restaurant equipment	20,123,807				11,904,968	32,028,775
Prepaid rent	31,717,090		(8,522,608)			23,194,482
Claim for tax refund	167,495,968	-	-	-	-	167,495,968
Others	86,411,044	-	-	-	(21,766,225)	64,644,819
Allowance for impairment	(36,041,986)	-	(6,942,979)	-	-	(42,984,965)
	P 2,162,855,348	P 119,194,167	(P 16,501,297)	-	(P 13,285,576)	P 2,252,262,642

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
Schedule F - Long-Term Debt
December 31, 2006

Title of issue and type of obligation		*Amount authorized by indenture*	*Amount shown under caption"Current portion of long-term debt" in related balance sheet*		*Amount shown under caption"Long-Term Debt" in related balance sheet*
Loans:					
McDonald's Restaurant Operations, Inc. [1]	$	12,000,000	-	P	588,360,000
McDonald's Philippines Realty Corporation [2]	P	424,144,157	-		318,108,118
				P	906,468,118

[1] *Payable in full on March 16, 2025, and bears interest at 10%, payable every six months.*

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

ALLIANCE GLOBAL GROUP, INC. AND SUBSIDIARIES
Schedule I - Capital Stock
December 31, 2006

Title of Issue	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption*	*Number of shares reserved for options, warrants, coversion and other rights*	*Number of shares held by*		
				Related parties	*Directors, officers and employees*	*Others*
Common shares - P1 par value	5,000,000,000	2,205,181,000	-	1,250,000,001	29,255	955,151,744

ALLIANCE GLOBAL GROUP, INC. & SUBSIDIARIES
AGING SCHEDULE OF TRADE AND OTHER RECEIVABLES
UNDER CURRENT ASSETS
DECEMBER 31, 2006

TRADE RECEIVABLES	
Current/not yet due	511,154,687
1 - 30 days overdue	61,194,480
31 - 60 days overdue	13,101,501
over 60 days overdue	230,179,863
	815,630,531
OTHER RECEIVABLES	
Current	383,041,104
TOTAL	*1,198,671,635*
Less allowance for impairment	*32,236,883*
NET	*1,166,434,752*