MEGAWORLD CORPORATION

www.megaworldcorp.com

ISO 9001:2008 Certified

MEGAWORLD

7:00 A.M.,
THE VENICE PIAZZA

EARLY BIRDS FLOCK TO THE CORNER CAFE.

THE GOOD LIFE

ANNUAL REPORT 2010

"Our 'live-work-play-learn' development concept has served us well in the past two decades, allowing us to offer not just homes and amenities, but completely designed and fully integrated townships that fulfill the needs of its residents and more."

ANDREW L. TAN
Chairman and President

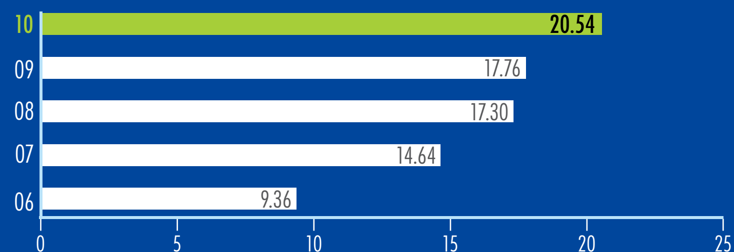
TABLE OF CONTENTS

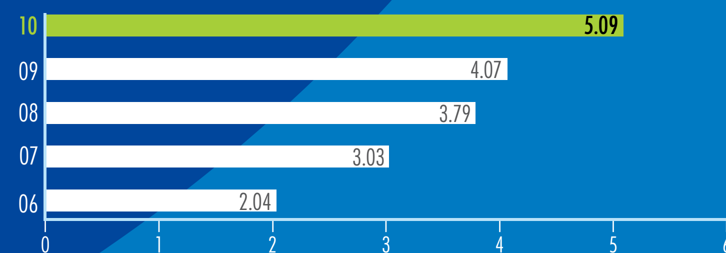
Financial Highlights 01
Chairman's Message 02
Our Communities 06
Projects Launched 18
Results of Operations 27
Financial Condition 29
Corporate Governance 31
Corporate Social Responsibility 32
Board of Directors 34
Key Officers 37
Financial Statements 38

FINANCIAL HIGHLIGHTS

(in Billion Pesos)

	2006	2007	2008	2009	2010
Consolidated Revenues	9.36	14.64	17.30	17.76	20.54
Real Estate Revenues	7.21	11.46	13.80	14.57	15.40
EBITDA	3.09	4.39	5.75	6.43	7.65
Net Income	2.04	3.03	3.79	4.07	5.09





CHAIRMAN'S MESSAGE

TO OUR DEAR SHAREHOLDERS

In 2010, the Philippine economy started getting back on its feet after struggling for the past two years due to the global financial crisis. The local economy expanded by 7.3% in 2010, its highest growth rate in more than two decades, which was fueled by election-related spending in the first half of the year and sustained by remittances from overseas Filipino workers and increased exports and investments in the second half.

The Philippine real estate industry likewise experienced a boom in 2010 as developers busied themselves building homes, high-rise condominiums, office buildings and commercial properties. Real estate projects focused on Metro Manila as a widespread construction boom started to slowly but surely transform the country's urban capital into a world-class metropolis. Similarly, surrounding provinces began to be developed into complementary growth areas that would serve the increasing needs of a metropolitan population.

The continued thriving of the business process outsourcing (BPO) industry in the country also helped drive the expansion of real estate development, particularly in terms of BPO office space requirements. As existing BPO companies expanded and new ones mushroomed during the year, the consequent need for office spaces to house these firms continued to increase.

Amid this backdrop, Megaworld turned in another stellar performance in 2010 as sales of its mega-communities increased together with the demand for your Company's BPO office spaces. In 2010, Megaworld's consolidated net income amounted to a record P5.09 billion, a 25.06% increase from the previous year's P4.07 billion.

Consolidated total revenues—composed of real estate sales, rental income, hotel income, and other revenues—increased by 15.67% from P17.76 billion to P20.54 billion, a result of strong property sales and increased leasing income. Rental income increased by a hefty 34.68% from P2 billion in 2009 to P2.7 billion in 2010 and contributed 13.12% to the consolidated revenue figure. Contributing to the growth of rental income, in turn, were the escalation and completion of additional leasing properties.

Our "live-work-play-learn" development concept has served us well in the past two decades, allowing us to offer not just homes and amenities, but completely designed and fully integrated townships that fulfill the needs of its residents and more. As our target markets appreciated the completeness of our communities, Megaworld earned the distinction of being the largest middle-income residential property developer in the country.

Moreover, as companies abroad continue to look at the Philippines for their outsourcing needs, Megaworld continues to build office spaces for these companies. Megaworld remains to be the leading BPO office space provider in the country. At the end of 2010, Megaworld had a total BPO office space inventory of 384,000 square meters.

Indeed, Megaworld has achieved much through the years. We don't, however, intend to rest on our laurels. In fact, in preparation for future developments, we have set in place a land bank consisting of 230 hectares of prime land in key growth centers in Metro Manila, Iloilo and Cebu. This land bank includes 55 hectares in Iloilo; 25 hectares in Mactan, Cebu; 7.1 hectares of the former NAPOLCOM property within Fort Bonifacio; and 8.5 hectares of land at the North Central Business District in North Bonifacio, also in Fort Bonifacio. The aforementioned mega-sized projects will have a developable area of 2.29 million square meters, of which around one million square meters will be developed into residential areas and around 886,000 square meters will be for office spaces. The remaining areas will be for retail and leisure development projects.

Megaworld will also be developing over the next 20 years the former 34.5-hectare Joint United States Military Advisory Group (JUSMAG) property in Fort Bonifacio, which has been renamed McKinley West, next to Forbes Park. The company plans to develop the property into a mixed-use complex at an estimated cost of at least P22 billion. The addition of McKinley West brings Megaworld's total development portfolio in the burgeoning Fort Bonifacio area to a total of 105 hectares.

Indeed, the year 2010 was another banner year for Megaworld as sales of our residential projects and takeup of retail and office space enjoyed a strong growth momentum. This is a proof that the system that we have carefully set in place through the years has worked steadily for us, allowing us to achieve our sales objectives and keeping us on track towards the achievement of our long-term goals.

"The year 2010 was another banner year for Megaworld as sales of our residential projects and takeup of retail and office space enjoyed a strong growth momentum."

We are sure that our conservative development philosophy, which focuses on the avoidance of speculative building and on strong pre-selling and phased office development efforts, as well as our prudence in financial management and investment decision-making will continue to serve us well as we face new challenges. We will continue to focus on our niche—the middle-income residential projects and BPO office space markets—and remain a major player in tourism-related developments.

Economic experts say that the year 2011 and beyond will prove much better not only for the local economy in general but for the real estate sector in particular as the demand for primary homes and office spaces is seen to continually increase. With this in mind, we face the future with a positive outlook, bearing in mind that we fared extremely well during hard times and will fare much better during good times.

As our new projects begin to bear fruit and new plans start to take shape, we are confident that there will be more banner years for your Company in the years to come. We would like to thank our stockholders for their continued support and our management and staff for their unwavering commitment. We are sure that with your help, we will be able to achieve the goals that we have set for ourselves, change the Philippine landscape, contribute to the local economy, and offer our buyers and tenants the best communities and office spaces possible.

ANDREW L. TAN
Chairman and President

THE GO

Live. Work. Play. Learn. Shop.

Megaworld continually outdoes itself in every new project it launches, effectively proving that its reputation of being the leading residential condominium developer and BPO office space provider in the country is no empty boast. Keeping its valued target market in mind, Megaworld will continue developing mega-communities that have one common goal in mind: to let residents, tenants and visitors experience nothing but the good life.

BURGOS CIRCLE

OUR COMMUNITIES

Megaworld's communities have always been regarded as some of the most well-planned, well-designed and well-developed in the country. Providing the very essence of "The Good Life," Megaworld's integrated townships provide not only the comfort and convenience that residents need but also additional perks that make living highly enjoyable as well. It is no wonder that Megaworld has earned the distinction of being the country's leading residential condominium developer on top of being the country's top BPO office developer and landlord.

EASTWOOD CITY

Eastwood City is the prime example of a highly successful mega-community that has made a huge mark in Philippine real estate development. A constant host to major concerts and mega-events, Eastwood City has become the favorite go-to place for fun-lovers and discriminating diners.

Considered the very first "live-work-play" community in the Philippines, the 16-hectare Eastwood City offers residents the total living experience that includes dining, shopping, attending special events, going to beauty and wellness establishments and enjoying other forms of entertainment. It currently houses 15 completed luxury residential condominium towers, seven ongoing residential projects, and nine high-end corporate buildings. It is home to around 20,000 residents and 103 office tenants and BPO offices.

Within Eastwood City is the CyberPark, the country's very first IT park and the very first project to be granted special economic zone status by the Philippine Economic Zone Authority (PEZA). It was designed to respond to the growing demand for prime office space with facilities that can support extensive IT-based operations.

The Eastwood Mall, one of the more recent additions to the community, provides a complete shopping experience with four levels of commercial establishments within a modern setting. The mall's Central Park is a wide open area with a botanical garden and a lagoon while the main Mall section has several upscale boutiques, specialty shops, a huge atrium, restaurants, and seven modern cinemas.

Eastwood Richmonde Hotel, in turn, is a 10-story hotel found at the 29th to the 38th floors of Eastwood Park, a mixed-use project combining residential condominiums and hotel rooms. The Richmonde Hotel has a total of 138 luxurious rooms and a complete line of facilities and amenities one expects from a first-class hotel: swimming pool, fitness center, business center, salon, spa, bar, and banquet facilities. More establishments can be found in the nearby mall.

The newest additions to Eastwood City, however, are One Eastwood Avenue and the Global One Center. One Eastwood Avenue is a modern two-tower residential condominium with a combined total of 97 stories. The condominium was designed to cater to young urban professionals and executives whose offices are in Eastwood City and nearby areas. The Global One Center, on the other hand, is the CyberPark's newest business process outsourcing (BPO) office building with 21 stories, 16 office floors and a floor area of 32,000 square meters.

Eastwood City, although nearing completion, is still a work in progress and is envisioned to be a community of 22 high-rise residential towers with 8,087 condominium units. It will host more than 270,000 square meters of top-grade office buildings and 60,000 square meters of entertainment and retail space. Even prior to its completion, Eastwood City is already regarded as the top employer and dollar earner among all the 70 IT special economic zones in the Philippines.

FORBES TOWN CENTER

One important landmark that has emerged in Bonifacio Global City is Forbes Town Center, a sprawling five-hectare township project featuring 12 residential towers that will house a total of more than 3,552 units upon completion. Forbes Town Center is adjacent to the Manila Polo Club, the Manila Golf and Country Club, and Forbes Park and offers a unique and relaxing half-kilometer-long view of the nearby golf course.

5:30 P.M., FORBES TOWN CENTER

THE CHUAS CHEER FOR THEIR TEAM OVER A LIVE FOOTBALL TELECAST AFTER WORK

LIVE

Experience life and all the good things it has to offer.

The Bellagio III

Forbes Town Road within the Center is a high-end retail strip with 37 restaurants and shops that cater to the diverse needs of residents of the community's three Bellagio towers, the six towers of Forbeswood Heights and the two towers of Forbeswood Parklane.

One of the posh residential towers in the Center is the Eight Forbes Town Road Golf View Residences, a modern 53-story edifice made of blue curtain glass and steel and which offers intimate views of the adjacent golf course. Eight Forbes Town Road offers 16 different amenities in its seventh-level pleasure zone—an infinity pool, landscaped roof gardens, an outdoor spa, a shallow pool with water jets, a reflexology path, a tai chi station, and a playground for children.

The newest addition to Forbes Town Center is Burgos Circle, a leisure destination that caters to the younger, trendier crowd. The Burgos Circle has establishments that allow young professionals to grab a quick lunch during weekdays or have breakfast before or after their call center shifts.

McKINLEY HILL

Among all of Megaworld's development projects in Metro Manila, the 50-hectare McKinley Hill is by far the biggest. Situated in Fort Bonifacio, the emerging center of metropolitan business, McKinley Hill has over 4,713 condominium units in 34 residential condominium buildings, 482 residential lots, and more than 270,000 square meters of office space spread across 15 different offices.

Perfectly abiding by Megaworld's "live-work-play-learn-shop" development concept, McKinley Hill offers a complete line of residential and office facilities and amenities with single detached homes, townhouses, a mid-rise condominium, high-rise luxury residences, BPO office buildings, a Venetian-themed mall, and an events venue, all of which are in various stages of development. McKinley Hill also plays host to the British, South Korean, and Qatar embassies.

The McKinley Hill CyberPark is the community's very own PEZA-accredited ecozone. Soon after its launch, the CyberPark rolled out One World Square, the ecozone's very first BPO building with 11 stories and a huge 28,900 square meters of office space. A record of sorts, One World Square achieved full occupancy, with tenants that include big-name companies, in less than two years.

Several other BPO offices followed suit, such as Two World Square and Three World Square which boast of the same scalable layout that made their predecessor a huge success. The 18 and 20 Upper McKinley Road buildings also offer BPO companies prime office spaces in two 10-story buildings that offer a total of 17,142 square meters of space.

7:50 P.M.,
ONE WORLD SQUARE
ETHAN ENJOYS
CATCHING UP WITH
HIS GIRLFRIEND
AT DINNER

WORK

All the elements for success are right where they are needed.

Two World Square

The 8 Park Avenue office building, in turn, is composed of two six-story towers each offering 10,800 meters of office space. With 8 Park Avenue, BPO companies are given the option to lease the whole structure thus easing the strain on their operating costs.

The 15-story Commerce and Industry Plaza, one of the bigger BPO hubs in McKinley Hill, features open-plan floors with uninterrupted office space of up to 2,000 square meters, perfect for multiple modular workspace layouts commonly found in BPO offices. The Philippine Chamber of Commerce and Industry (PCCI) has aptly set up its headquarters in the building.

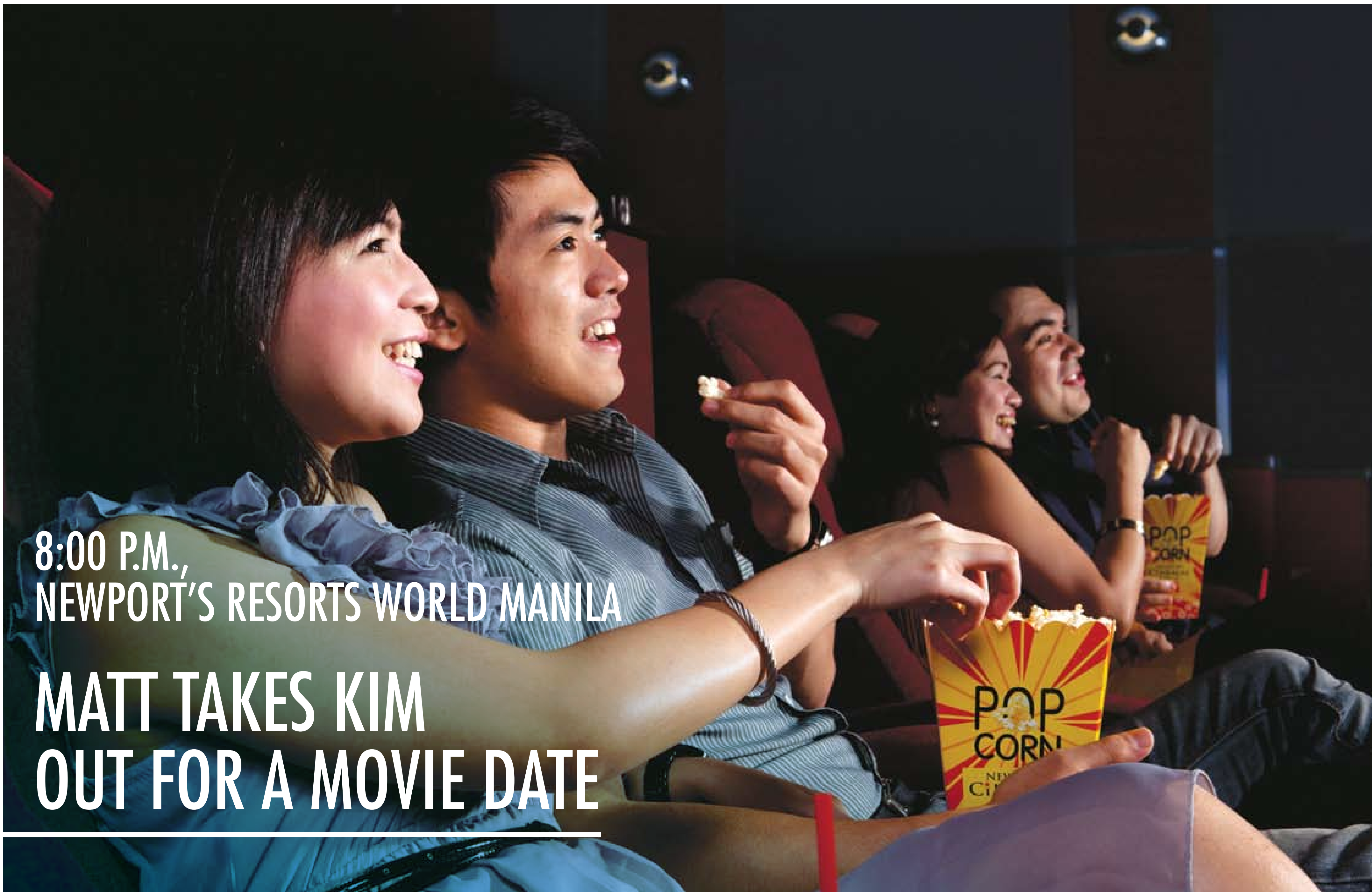
The Venice is a residential project that captures its namesake's romanticism and grandeur. The project's main draw is the man-made Grand Canal, the first of its kind in the country, where residents and guests can enjoy rides in authentic gondolas steered by singing gondoliers while taking in the sights of reconstructed Venetian landmarks seen along the Canal's waterway. Upon completion, The Venice will feature seven residential towers, each one resembling a fèrro – the gondola's uniquely shaped iron head.

There are other residential projects in McKinley Hill, like the upscale McKinley Hill Village, the Spanish-Mediterranean-inspired Garden Villas, the Stamford Executive Residences, the Italian-themed Tuscany, and the affordable yet luxurious Woodridge Residences, which was designed for the more cost-conscious call center employees working in the area. The three-tower Morgan Suites Executive Residences, in turn, was designed for no-nonsense executives with its executive studios and one-bedroom units that are perfect for busy professionals.

There are three international schools in the community that effectively bring to life McKinley Hill's "live-work-play-learn-shop" development concept. These are the Chinese International School Manila, the first English-Mandarin bilingual school in the country; the hospitality management school of Enderun Colleges, which is supported by the world-renowned Les Roches Swiss Hotel Management; and the Korean International School, the first Korean school in the country.

MANHATTAN GARDEN CITY

When Megaworld launched Manhattan Garden City in 2006, the company had in mind a residential project that would seamlessly integrate with the mass-transit system in the metropolis. Manhattan Garden City thus became the very first transit-oriented development in the country. It is also Megaworld's contribution to the local government's redevelopment plan for Araneta Center, the premier commercial center in Quezon City back in the 60s and 70s.



8:00 P.M.,
NEWPORT'S RESORTS WORLD MANILA

MATT TAKES KIM OUT FOR A MOVIE DATE

PLAY

Rest and recreation is an integral part of an integrated lifestyle.

Newport City

The 5.7-hectare Manhattan Garden City is located at the heart of Araneta Center and is considered the largest single residential development in the country. The 720-meter elevated garden walkway connects the complex's 20 towers and is also considered a first in local real estate development. Providing more convenience to residents is the City's direct link to the Light Rail Transit 2 and Metro Rail Transit 3 systems.

Manhattan Garden City is slowly nearing completion as construction remains on schedule. The first residential phase of the project, the three-tower Manhattan Parkway, has been sold out, as has the first tower of the much-awaited Manhattan Parkview Residences. Towers 2 and 3 of the project are also almost sold out. The construction of Manhattan Heights, the latest phase of Manhattan Garden City, is also underway. It will have four new towers with around 1,590 units.

The Manhattan Garden City is poised to help bring back the former glory of Araneta Center. Soon, the Center will once again be an important center of activity in the Quezon City area.

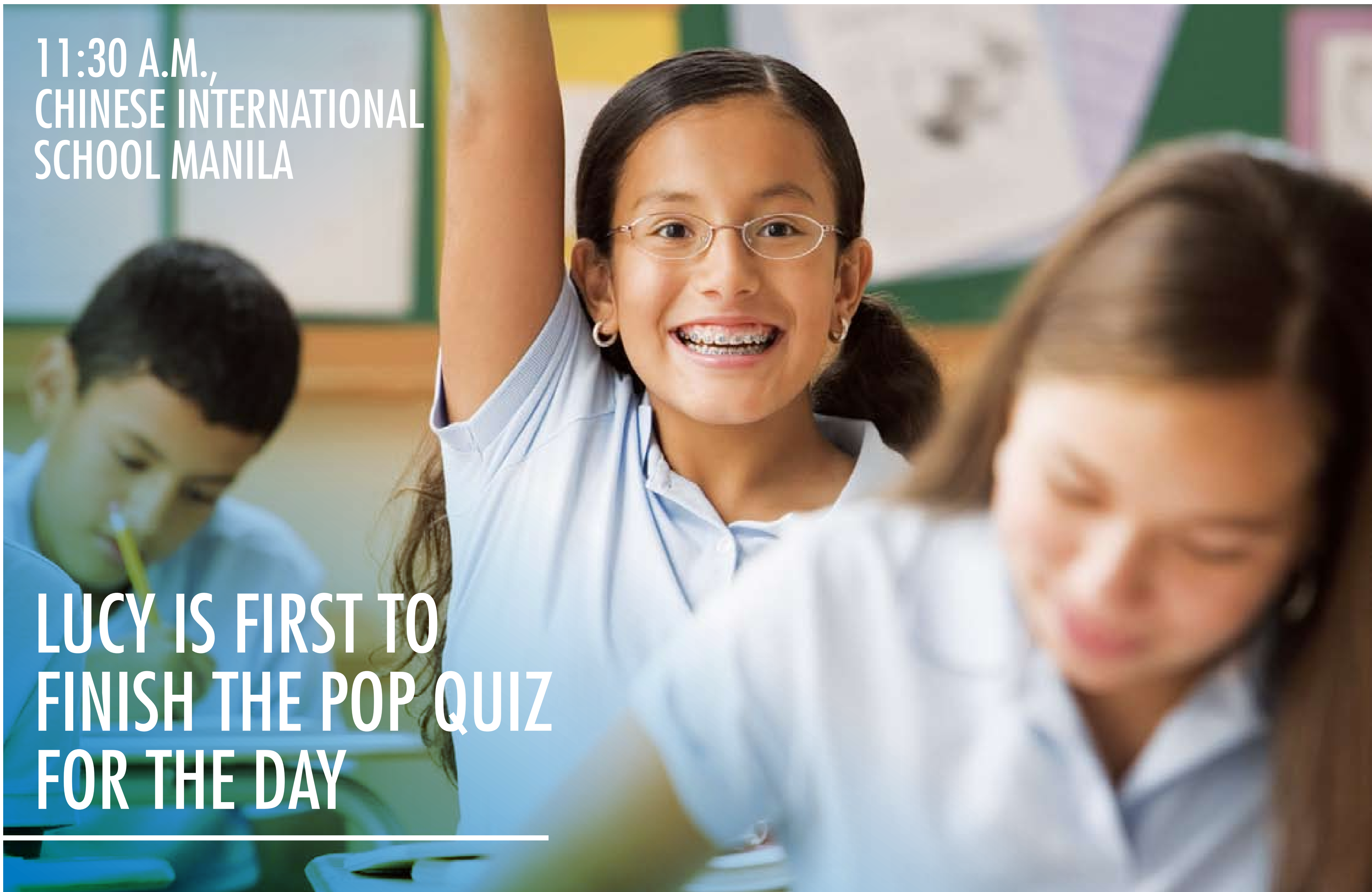
NEWPORT CITY

Megaworld launched Newport City in 2005 with a residential project called The Residential Resort. With the grand objective of putting the Philippines in the global tourism map, the 25-hectare Newport City was designed to fully integrate luxury residences with prime office spaces and a world-class entertainment complex. It is a P7.64-billion development project situated at the Villamor Airbase in Pasay City and is right across the bustling new Terminal 3 of the Ninoy Aquino International Airport (NAIA).

Aside from The Residential Resort, which is envisioned to house 16 medium-rise buildings with a total floor area of around 140,000 square meters, there are several ongoing residential projects in Newport City. One such project is The Palmtree Villas which will showcase four 10-story luxury condominium buildings made mostly of glass with bedroom units that offer a refreshing view of gardens and recreational facilities to residents and visitors. Upon completion of all its residential projects, Newport City will be offering a total of 4,000 world-class condominium units.

The Newport City CyberPark, in turn, will mainly house BPO offices as well as cargo logistics services and airline-related businesses that require proximity to the airport. The very first locator at the CyberPark is the Star Cruises Centre which hosts the offices of Megaworld affiliate Travellers International Hotel Group Inc. and Star Cruises Ltd.

The centerpiece of Newport City, however, is Resorts World Manila, a 7.8-hectare project of AGI subsidiary–Travellers International. Dubbed the "leisure capital" of the


11:30 A.M.,
CHINESE INTERNATIONAL
SCHOOL MANILA
LUCY IS FIRST TO
FINISH THE POP QUIZ
FOR THE DAY

LEARN

Be part of a community where learning is an integral part of living.

McKinley Hill Tuscany Private Estate

Philippines, Resorts World Manila features fine dining restaurants, a performing arts theater, a high-class shopping mall and three modern hotels: the five-star Marriott Hotel; the six-star all-suites Maxims Hotel, the first of its kind in the country; and the budget-class three-star Remington Hotel.

Newport City definitely boasts world-class attractions and facilities and, as such, is envisioned to revive the tourism industry in the country.

CITYPLACE

A breath of fresh air amid the crowded metropolis, Cityplace is currently the largest and most modern development project in Binondo in the past twenty years. Not only is it envisioned to bring back the former glory of old Manila, it also aims to enhance and modernize Chinatown's landscape and create a "new Chinatown."

The 2.5-hectare Cityplace will have 525 residential condominium units while offering entrepreneurs new and modern versions of traditional Chinese shophouses, where businessmen can put up new stores, restaurants and offices downstairs and live upstairs.

Cityplace will also showcase a world-class shopping center, a public car parking facility, and the 200-meter Chinatown Walk. New bypass roads will also be constructed for the convenience of commuters and motorists going to and from Cityplace.

As it stands, Cityplace is poised to be the newest and the most distinct landmark in Binondo.

PROJECTS IN MAKATI CBD, SAN JUAN

Although Megaworld's overall development strategy is to develop new and untapped locations in the metropolis and dressing them up to be future business centers and residential districts, the Company also pursues residential development projects in established locations like the Makati Central Business District (CBD) and San Juan.

For instance, Megaworld's ongoing projects in Makati City include the Greenbelt Chancellor, a 35-story condominium project and the company's first pre-furnished condominium in the Greenbelt area; the Greenbelt Excelsior, a 35-story residential tower that follows a modern architectural style; Two Central, a 34-story condominium along Valero Street in Salcedo Village; and the 31-story Greenbelt Madison, located on Salcedo Street in Legaspi Village near Ayala Avenue.

Megaworld also has a project in San Juan, an old and proud city with a rich and noble heritage, aptly named Greenhills Heights, a low-density community with 215 stylish residential units. Greenhills Heights was designed for families who put a premium on privacy and peace of mind. The project is also strategically located near

6:00 P.M., EASTWOOD MALL

SOPHIA AND HER BEST FRIEND GO BAG-HUNTING AFTER WORK

SHOP

Shopping has never been this great, with shopping attractions just a stone's throw away.

Cityplace

affluent schools in the area, an important factor for upscale families who want to provide quality education for their children.

NORTH BONIFACIO CENTRAL DISTRICT AND JOINT UNITED STATES MILITARY ADVISORY GROUP (JUSMAG)

Megaworld will also be investing at least P15.6 billion over the next 20 years to develop an 8.38-hectare property in the North Bonifacio Central District into a predominantly residential mixed-use complex with more than 500,000 square meters of gross floor area. The property is located in the northern district of Fort Bonifacio and is near the school zone where the British, Japanese and American international schools and various other local schools are located.

Similarly, Megaworld will be developing the huge, 34.5-hectare JUSMAG property in Fort Bonifacio into a mixed-use complex at an estimated cost of at least P22 billion. Around 60 percent of the entire property will be used for developments, while the remaining 40 percent will be dedicated to wide open spaces, lush greenery, leisure amenities and access roads along Lawton Avenue.

The property, located at the back of Forbes Park, will also be developed over the next 20 years and will bring to more than 100 hectares the total development portfolio of Megaworld at the Bonifacio Global City, the upcoming premier central business district in the country.

EASTWOOD PARK

PROJECTS LAUNCHED

MANHATTAN HEIGHTS

Manhattan Heights is the newest residential phase of Megaworld's Manhattan Garden City at the Araneta Center in Cubao, Quezon City. Launched in 2009, the four-tower condominium is currently under construction with its first tower slated for completion by 2014. The project's four towers punctuate the Cubao skyline with their curved design. Each tower is rendered in glass and concrete and painted with cool hues of blue and white. One distinct feature of Manhattan Heights is that it offers different options for homebuyers, which is apt for the highly diverse market in the Cubao area. There are one-bedroom units for couples, executive studios for young professionals, and two-bedroom units for growing families.

Moreover, since the project is located within Manhattan Garden City, the country's first transit-oriented community, Manhattan Heights has a direct link to two train stations, the MRT3 and the LRT2, which makes commuting a breeze for residents. There are also bus terminals nearby, providing other transport options. And since the project is at the heart of Araneta Center, residents will have easy access to virtually all kinds of establishments: restaurants, bars, spas, salons and malls.

McKINLEY WEST VILLAGE

McKinley West Village is Megaworld's latest offering in the Bonifacio Global City area. The French-inspired McKinley West Village is comprised of 34.5 hectares of prime land adjacent to the Manila Polo Club and the affluent villages of Forbes Park and Dasmariñas. The exclusive, high-end residential subdivision is designed to be a mixed-use, self-sustaining community with various residential, business, and commercial developments. It is also a stone's throw from St. Luke's Medical Center Global City, the Venice Piazza, Bonifacio High Street and Serendra, as well as a few international schools and embassies. There are 293 prime residential lots in the village, ranging from 180 square meters to 300 square meters in size.

THE VENICE

The Venice is an exciting residential project in McKinley Hill that captures the very essence of Italy's most romantic city. Slowly taking shape, The Venice will showcase seven residential towers upon completion, with each tower resembling a fèrro – the gondola's uniquely shaped iron head. Inside each tower, one can find plush interiors and high ceilings with tall glass curtains. With its man-made Grand Canal, which is the first of its kind in the country, and reconstructed Venetian landmarks, The Venice definitely lives up to its name and reputation. Residents and visitors can even enjoy a romantic gondola ride along the canal while being serenaded by costumed gondoliers and be instantly transported to a different time and place. The Grand Canal is bounded on each side by cafes and shops, and hosts the Rialto Bridge, a stone walkway inspired by the original Ponte di Rialto which spans the real Grand Canal in Venice, Italy.

MORGAN SUITES

The Morgan Suites Executive Residences is a contemporary address that's part of McKinley Hill, a sprawling 50-hectare mega-community in Fort Bonifacio. The 22-story, three-tower project will provide residents with quick access to the best destinations in Fort Bonifacio. Residents can easily walk to various office buildings, international schools, embassies, dining establishments and shops, and the Venice Piazza which will feature a replica of St. Mark's Tower and the Grand Canal. Homebuyers can choose between cozy executive studios that are perfect for young professionals or medium-sized, one-bedroom units that suit small families. Amenities include retail shops at the ground level, a swimming pool with a sunbathing lounge at the roof decks of Towers 1 and 2 and a multipurpose hall, badminton court and gym at the roof deck of Tower 3, the third and last phase of the project which was launched in 2010 and is expected to be completed by 2013.

THREE CENTRAL

Three Central is Megaworld's newest residential project in the bustling Makati Central Business District (CBD). Upon completion, Three Central will stand as an impressive 50-story residential tower rendered in light blue glass and concrete. The modern tower, which follows on the heels of the highly successful One Central and Two Central, was designed to echo the elegance of the iconic International Finance Center in Hong Kong. Three Central's strategic location gives residents easy access to important Makati City landmarks like the Philippine Stock Exchange, Makati Medical Center, Makati's five-star hotels and, of course, shopping centers like Glorietta and Greenbelt. Much like Megaworld's other high-end residential projects, Three Central has a leisure deck with a lap pool, kiddie pool, spa, playground, gazebo and al fresco seating areas. Regular amenities like a gym, function rooms, and a day care center can also be found in the project.

EIGHTY-ONE NEWPORT BOULEVARD

Eighty-One Newport Boulevard is Megaworld's newest project in the 25-hectare Newport City in Pasay. The residential project consists of three 10-story residential clusters situated on Newport Boulevard, Newport City's main thoroughfare. Cluster 1, with a structure enclosed in cool light-blue glass, has units that come with balconies overlooking the second-level amenity deck. Clusters 2 and 3, in turn, have atriums that open up to the sky, letting in sunlight and cool breezes. The three residential clusters combine to provide residents with a breathtaking view of Newport City itself. Moreover, Eighty-One Newport Boulevard itself is right at the heart of the action where retail hubs, hotels, leisure centers, restaurants, and other establishments are all within walking distance. The location is perfect for couples and families who want everything within easy reach.

150 NEWPORT BOULEVARD

Another new residential project in Newport City is 150 Newport Boulevard, a hip 10-story condominium address along Newport Boulevard. The project stands out from the landscape with its distinct mix of traditional and modern design elements. Its two residential wings are painted in soothing, neutral hues and its façade is accented by an English-style clock tower, reminiscent of old buildings in London. Much like the other residential projects in the community, 150 Newport Boulevard sits amid diverse establishments where residents can basically do anything they want, from dining and drinking to shopping and playing golf.

EASTWOOD AVENUE

RESULTS OF OPERATIONS

(Based on Financial Statements adopted in accordance with the Philippine Financial Reporting Standards)

REVIEW OF 2010 VERSUS 2009

During the year 2010 consolidated net income amounted to Php5.09 billion 25.06% higher than the previous year net income of Php4.07 billion. Consolidated total revenues composed of real estate sales, rental income, hotel income, and other revenues elevated by 15.67% from Php17.76 billion to Php20.54 billion resulting from strong property sales and increased leasing income.

DEVELOPMENT

Among product portfolios, the bulk of generated consolidated revenues came from the sale of condominium units and residential lots amounting to Php13.11 billion in 2010 compared to Php12.57 billion in 2009, an increase of 4.26%. The Group's registered sales came from the following projects: Bellagio, Forbeswood Park Lane 1 & 2 and Eight Forbes Town in Fort Bonifacio; Eastwood Le Grand in Eastwood City; McKinley West, McKinley Hill Tuscany, Stamford, Morgan Suites, and The Venice Luxury Residences in Taguig City; Manhattan Parkview, Manhattan Heights and El Jardin del Presidente in Quezon City; and Newport City in Pasay; City Place in Binondo, Manila and One Central, Greenbelt Chancellor and Excelsior in Makati City.

LEASING

Rental income contributed 13.12% to the consolidated revenue and amounted to Php2.70 billion compared to Php 2.00 billion reflected last year, a 34.68% increase. Contributing to the growth are the escalation and completion of additional leasing properties.

HOTEL OPERATIONS

The Group's hotel operations posted an amount of Php232.76 million in 2010, an increase of 7.69%, from Php216.14 million in 2009. The increase is primarily due to the increase in the number of hotel rooms and hotel occupancy rates.

In general, the increase in cost and expenses by 12.89% from Php13.69 billion in 2009 to Php15.46 billion in 2010 was due mainly to increase in recognized real estate sales, as well as marketing and selling expenses particularly commission expenses, resulting from aggressive marketing activities. Income tax expense in 2010 amounting to Php1.61 billion resulted to a 11.93% from 2009 reported amount of Php1.44 billion attributed by higher taxable income and tax effects of deductible temporary differences. Operating expenses as a percentage of consolidated total revenues were 10% for the year 2010 and 2009.

During 2010, there were no seasonal aspects that had a material effect on the financial condition or financial performance of the Group. Neither were there any trends, events or uncertainties that have had or that are reasonably expected to have a material impact on net sales or revenues or income from continuing operations. The Group is not aware of events that will cause material change in the relationship between costs and revenues.

There are no significant elements of income or loss that did not arise from the Group's continuing operations.

THE GRAND EASTWOOD PALAZZO

FINANCIAL CONDITION

The Group maintains a prudent financial policy as it engages to a more competitive and challenging environment. The Group's Statement of Financial Position reflects stable financial growth. Total resources as of December 31, 2010 is Php97.03 billion compared to Php85.25 billion as of December 31, 2009, listing a 13.81% increase.

Cash and cash equivalents increased by 5.54% from Php20.88 billion in 2009 to Php22.03 billion in 2010 due to efficient collection of receivables and financing activities. A 22.51% increase from its current and non-current trade and other receivables - Php29.75 billion as of December 31, 2010 compared to Php24.28 billion as of December 31, 2009, due to higher sales for the period. An increase in the completed portion of costs attributable to on-going projects resulted in the increase in the number of residential and condominium units for sale by 9.91% from Php5.72 billion in 2009 to Php6.29 billion in 2010. . Property development costs increased to 2.08% in 2010 figure of Php3.80 billion to last year-end's amount of Php3.72 billion due to the development and construction costs of various ongoing projects

The company shows liquid position by having current assets amounting to Php46.81 billion in 2010 with an increase of 7.00% from December 31, 2009 balance of Php43.75 billion. On the other hand the group's current obligations stood at Php17.41 billion which reflected a 60.39% increase year on year and this is the result of currently maturing financial commitments of the company. The group investment in available-for-sale securities increase by 112.24%, from Php2.93 billion in 2009 to Php6.21 billion in 2010 was due to market value changes of its different invested securities.

Trade and other payables amounted to Php4.04 billion and Php3.66 billion as of December 31, 2010 and 2009, respectively. The increase of 10.25% was due to additional costs to be paid to contractors and suppliers for new projects. Current customers' deposits as of December 31, 2010 amounted to Php1.01 billion compared to Php.96 billion as of December 31, 2009. The 5.51% increase was due largely to aggressive marketing and pre-sales for of various projects. The combined effect of current and non-current deferred income on real estate sales increased by 39.33% which amounted to Php3.81 billion as of December 31, 2010 compared to Php2.73 billion as of December 31, 2009 due mainly to an increase in unearned revenue.

During 2010, the Interest-bearing loans and borrowings current and non-current amounted to Php7.44 billion representing a 10.36% decrease from previous year-end's Php8.30 billion mainly due to principal payments. Total Equity (including minority interest) increased by 17.42% from Php49.84 billion as of December 31, 2009 to Php58.52 billion as of December 31, 2010 due to the Group's continuous profitability.

The top five (5) key performance indicators of the Group are shown below:

	2010	2009
Current Ratio [*1]	**2.69:1**	4.03:1
Quick Ratio [*2]	**1.27:1**	1.92:1
Debt to Equity Ratio [*3]	**0.27:1**	0.34:1
Return on Assets [*4]	**5.18%**	4.76%
Return on Equity [*5]	**8.70%**	8.26%

**1 – Current Assets / Current Liabilities*
**2 – Cash and Cash Equivalents / Current Liabilities*
**3 – Interest Bearing Loans and Borrowings and Bonds payable / Equity attributable to Parent Company*
**4 – Net Income / Total Assets (Computed using figures attributable only to Parent Company shareholder)*
**5 – Net Income / Equity (Computed using figures attributable only to parent company shareholders)*

With its strong financial position, the Group will continue investing in and pursuing expansion activities as it focuses on identifying new markets, maintaining established markets and tapping business opportunities.

THE EASTWOOD EXCELSIOR

CORPORATE GOVERNANCE

COMPLIANCE WITH LEADING PRACTICES ON CORPORATE GOVERNANCE

In 2002, the Company adopted a Manual on Corporate Governance in order to institutionalize the principles of good corporate governance in the entire organization. Pursuant to the Company's Manual on Corporate Governance, the Company's Board of Directors created each of the following committees and appointed board members thereto.

AUDIT COMMITTEE

The Audit Committee assists the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations, provides oversight over financial management functions and over internal and external auditors, reviews internal audit plans, reports submitted by internal and external auditors and the financial statements of the Company. The Audit Committee has three members, two of whom are independent directors. An independent director serves as the head of the committee.

COMPENSATION AND REMUNERATION COMMITTEE

The Compensation and Remuneration Committee is responsible for establishing a formal and transparent procedure for developing a policy on remuneration of the directors and officers to ensure that their compensation is consistent with the Company's culture, strategy and the business environment in which it operates. The Compensation and Remuneration Committee consists of three members, including at least one independent director.

NOMINATION COMMITTEE

The Nomination Committee reviews and evaluates the qualifications of all persons nominated to the Board and other appointments that require Board approval. The Nomination Committee has three members, including at least one independent director.

In 2005, the Company engaged the services of the Institute of Corporate Directors (ICD) to facilitate a Corporate Governance Training/Seminar for its Board of Directors and executives. The Training/Seminar included a discussion on the Main Principles of Corporate Governance contained in the Organization for Economic Cooperation and Development (OECD), the Pacific Economic Cooperation Council (PECC) and the Philippine SEC Corporate Governance Code, Responsible Citizenship and Corporate Social Responsibility, Finance in the Corporate Governance Setting and Best Practices of Corporate Governance. In 2004, the Company designated a new engagement partner of Punongbayan and Araullo for the audit of its financial statements beginning the year ending December 31, 2004 in compliance with its Manual on Corporate Governance requirement that the Company rotate its external auditor or change the handling partner every five (5) years or earlier. During the same year, the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee, in accordance with SEC Memorandum Circular No. 6. In 2009, Ms. Dalisay B. Duque was designated as the new signing partner for the audit of the Company's financial statements as of 31 December 2009.

EVALUATION SYSTEM

The Company has designated a Compliance Officer who is tasked with monitoring compliance with the provisions and requirements of its Manual on Corporate Governance. The Compliance Officer has established an evaluation system to measure or determine the level of compliance by the Company with its Manual.

DEVIATIONS FROM MANUAL AND SANCTIONS IMPOSED

In 2010, the Company substantially complied with its Manual on Corporate Governance and did not materially deviate from its provisions.

No sanctions were imposed on any director, officer or employee on account of non-compliance with the Company's Manual on Corporate Governance.

PLAN TO IMPROVE CORPORATE GOVERNANCE

Pursuant to SEC Memorandum Circular No. 6, Series of 2009, the Company revised its Manual of Corporate Governance to make the same compliant with the Revised Code of Corporate Governance.

CORPORATE SOCIAL RESPONSIBILITY

Megaworld Foundation, Inc. is a non-stock, non-profit organization which aims to contribute to the country's development, primarily by promoting education through scholarship programs for financially handicapped but deserving students. It also supports causes that promote poverty alleviation, people empowerment, social justice, good governance, environmental conservation and other noble undertakings.

The Foundation also aims to provide society with a new generation of professionals whose drive for excellence equals their passion for community involvement. Their academic skills and knowledge applied to the fields of Engineering, Architecture, Interior Design, Information Technology, Accountancy, Finance, Business and Legal courses, combined with the urgency to be socially responsible, shall be the foundation's contribution to the country's industrial advancement and economic progress.

HISTORY

Megaworld Foundation, Inc. was established in 1999 as Megaworld Corporation's socio-civic arm. It initially offered scholarship grants to students taking up Engineering and Architecture courses at the University of the Philippines and Mapua Institute of Technology, where it sponsored 70 scholars from first to fourth year. In 2000, it included the following schools in its scholarship program: University of Santo Tomas, University of the East, Far Eastern University, Pamantasan ng Lungsod ng Maynila, and the Polytechnic University of the Philippines.

Since 1999, the Foundation has also given financial assistance and support to a variety of organizations that aim to promote social justice and improve the lives of Filipinos.

In 2005, it made the leadership grant part of its scholarship program as its way of supporting the country's future leaders. Leadership grants are given to students that excel both in their academic and extra-curricular activities.

In 2007, the Foundation partnered with DepEd's Adopt-a-school Program and had a memorandum of agreement to support Raja Soliman High School and Jose Abad Santos High School. The Foundation has also been accredited to Philippine Council for NGO Certification. Last year, the Foundation became a member of Association of Foundations (AF). AF is a heterogeneous federation of foundations which aims to improve development work in the country by building its members' capacities and by nurturing partnerships that will strengthen the network's response to challenges and change.

VISION

To be a leading foundation that promotes corporate social responsibility by organizing and supporting educational and charitable programs geared toward the social and economic development of the less privileged.

MISSION

- To provide scholarship grants to financially handicapped but academically qualified students
- To acknowledge students with leadership qualities and support their activities
- To provide financial assistance to foundations and socio-civic organizations that share the same vision as the Foundation

OFFICERS OF MEGAWORLD FOUNDATION, INC.

- Andrew L. Tan – Chairman
- Francisco C. Canuto – President
- Kevin L. Tan – Treasurer
- Lourdes G. Clemente – Corporate Secretary
- Monica T. Salomon – Director

TOTAL NUMBER OF SCHOLARS FOR SCHOOL YEAR 2009-2010

- Regular Scholarship – 245
- Special Scholarship – 111
- Leadership Grant – 5

PARTNER SCHOOLS AND UNIVERSITIES FOR THE SCHOLARSHIP PROGRAM

- Adamson University
- Ateneo de Manila University
- Centro Escolar University
- De La Salle University – Manila
- Far Eastern University
- Far Eastern University – East Asia College
- Lyceum of the Philippines University
- Mapua Institute of Technology
- National University
- Pamantasan ng Lungsod ng Maynila
- Philippine School of Business Administration
- Polytechnic University of the Philippines
- San Beda College
- San Sebastian College – Recoletos
- Technological Institute of the Philippines
- Technological University of the Philippines
- University of Santo Tomas
- University of the East – Manila
- University of the Philippines – Diliman

MEGAWORLD SPONSORSHIPS

A. Major Sponsorships

1 Daughters of Mary Help Foundation
2 Haribon Foundation
3 Foundation of Our Lady Of Peace Mission
4 ABS-CBN Bantay Kalikasan
5 GMA Kapuso Foundation
6 Teen Dynamic Inc. (Efren Peñaflorida)
7 Caritas Manila
8 Hospicio de San Jose
9 Philippine Heart Center
10 Philippine Cancer Society
11 Philippine General Hospital
12 National Kidney Transplant Institute
13 Children's Hour Philippines, Inc.
14 ABS-CBN Kapit Bisig Para sa Ilog Pasig (KBPIP)
15 UNICEF
16 National Press Club of the Philippines
17 Philippine Tuberculosis Society, Inc.
18 Cottolengo Filipino Bahay Para sa May Kapansanan
19 Let the (Special) Children Come to Me
20 Anawim Lay Missions Foundation Inc.
21 Dulaang Tahimik ng Pilipinas
22 Manila Boys Town
23 Golden Acres
24 Child Hope Asia
25 United Way Philippines Inc.
26 Create a Job for the Disabled
27 Worldwide Anti-Crime and Child Abuse Assistance Group, Inc.

B. Minor Sponsorships

1 Central Luzon Conference of Seventh-Day Adventist Church
2 Episcopal Commission on Prison Pastoral Care
3 National Blind Masseurs
4 Masonic District NCR-A
5 Philippine Institute of Certified Public Accountants
6 Easter Heart Draw

OUTREACH/ACTIVITIES

1 CSR Expo 2010
2 PBSP Corporate Citizenship Workshop
3 La Mesa Eco-Park Tree Planting
4 Association of Foundations General Assembly
5 Philippine Council for NGO Council General Assembly
6 Medical Mission – Barangay Central BIR Road
7 Cottolengo Filipino Bahay Para sa May Kapansanan
8 Hospicio de San Jose
9 10.10.10. A Run for Ilog Pasig

BOARD OF DIRECTORS

ANDREW L. TAN
CHAIRMAN OF THE BOARD AND PRESIDENT

MIGUEL B. VARELA
INDEPENDENT DIRECTOR/VICE CHAIRMAN

KATHERINE L. TAN
DIRECTOR

KINGSON U. SIAN
DIRECTOR

ENRIQUE SANTOS L. SY
DIRECTOR

GERARDO C. GARCIA
INDEPENDENT DIRECTOR

ROBERTO S. GUEVARA
INDEPENDENT DIRECTOR

ANDREW L. TAN

Chairman of the Board/President

Mr. Tan is the founder of the Company. He has served as Chairman of the Board and President of the Company since its incorporation in 1989. He has extensive experience in real estate, the food and beverage industry and quick service restaurants. He concurrently serves as the Chairman of the Board of Empire East Land Holdings, Inc., Alliance Global Group, Inc., Global-Estate Resorts, Inc. (formerly Fil-Estate Land, Inc.), Alliance Global Brands, Inc., Suntrust Properties, Inc., Adams Properties, Inc., Travellers International Hotel Group, Inc., Consolidated Distillers of the Far East, Inc. and Emperador Distillers, Inc. Mr. Tan serves in the boards of Megaworld subsidiaries, Eastwood Cyber One Corporation, Inc., Megaworld Cayman Islands, Inc., Megaworld Central Properties, Inc., Forbes Town Properties & Holdings, Inc., and Townsquare Development, Inc. He is also Chairman of the Board and President of Megaworld Newport Property Holdings, Inc., The Bar Beverage, Inc., Megaworld Land, Inc., Megaworld Globus Asia, Inc., Richmonde Hotel Group International Limited and Yorkshire Holdings, Inc. He sits in the boards of Travellers International Hotel Group, Inc., The Andresons Group, Inc. and Raffles & Co. He is also a Director and Treasurer of Andresons Global Inc. In recognition of Mr. Tan's role in spurring economic and societal development of the City of Taguig through the investments and development projects of the Company, the City of Taguig in April 2005 conferred on him the Forward Taguig Award in the Field of Business and Entrepreneurship. In 2004, the Quezon City government named Mr. Tan "Businessman of the Year" in recognition of his "visionary leadership" in transforming Eastwood City into a "magnet for investments" and the 31 "most dynamic growth center in Quezon City".

MIGUEL B. VARELA

Independent Director/Vice Chairman

A man who wears many hats, Miguel B. Varela holds significant positions in various public and private institutions.

Mr. Varela has been a member of the Company's Board of Directors since 30 June 2006. He is presently a Director of Manila Bulletin being formerly the President, Director of Ausphil Tollways Corporation, Director, NPC Alliance Corporation, among others. He is the Chairman of the Philippine Chamber of Commerce and Industry (PCCI), Chairman of the Employers Confederation of the Philippines (ECOP), Trustee of Philippines Trade Foundation, Inc. Chairman of Pribadong Institusyon Laban sa Kahirapan (PILAK). He is also Chairman for International and Trade Affairs of the PCCI, Chairman of the Philippine Association of Voluntary Arbitration Foundation (PAVAF), and Vice Chairman of Philippine Dispute Resolution Center, Inc. (PDRCI). He is also Vice President of the International Labor Organization Foundation, Inc. and Commissioner and Corporate Secretary of the Streetwatch Commission and Foundation for Crime Prevention. He is an accredited international arbitrator of the Paris-based International Court of Arbitration. A member of the Philippine Bar, he pursued his Bachelor of Laws in the Ateneo de Manila Law School and his Associate in Liberal Arts from the San Beda College. He is a member of the Philippine Bar Association, a Commissioner of the Consultative Commission on Constitutional Reform and a Lifetime Member of the Philippine Constitution Association (PHILCONSA). He is the recipient of various awards and citations such as San Beda College's Outstanding Alumni Award for Business Leadership, and San Beda Hall of Fame Awardee. Presidential Medal of Merit for Outstanding Service to the Republic of the Philippines, Tamaraw Leadership Award, Katipunan Leadership Award and Leadership Award from ECOP, PCCI and ASEAN Productivity Organization. He was also conferred by the Central Luzon State University with the degree of Doctor of Humanities (honoris causa), with Her Excellency, then President Gloria Macapagal Arroyo presiding at the Conferment rites, and by the Eulogio "Amang" Rodriguez University of Science and Technology with a Doctorate in Business Technology (honoris causa).

KATHERINE L. TAN

Director

Ms. Tan has served as Director since 1989. She served as Treasurer of the Company from 1989 to 1994. She is concurrently Director and Treasurer of Alliance Global Group, Inc., Chairman and President of Andresons Global, Inc. and Choice Gourmet Banquet, Inc., Director and President of The Andresons Group, Inc., Consolidated Distillers of the Far East, Inc. and Raffles & Company, Inc., and is Director and Treasurer of Alliance Global Brands, Inc., Yorkshire Holdings, Inc., New Town Land Partners, Inc., and Emperador Distillers, Inc.

BOARD OF DIRECTORS

KINGSON U. SIAN

Director

Mr. Sian has been a director of the Company since April 13, 2007. He joined the Megaworld Group in September 1995 as Senior Vice President and is currently Executive Director of the Company. He is concurrently Director and President of Alliance Global Group, Inc., Travellers International Hotel Group, Inc. Forbes Town Properties & Holdings, Inc., Adams Properties, Inc. and Eastwood Cyber One Corporation. He is also Chairman and President of Prestige Hotels & Resorts, Inc. He is the Chief Operating Officer of Megaworld Land, Inc. Mr. Sian was formerly a Vice President of FPB Asia Ltd/First Pacific Bank in Hong Kong from 1990 to 1995. Prior to that, he was connected with Citicorp Real Estate, Inc. in the United States from 1988 to 1990. Mr. Sian graduated from the University of the Philippines with the degree of Bachelor of Science in Business Economics. He obtained his Masters Degree in Business Administration for Finance and Business Policy from the University of Chicago.

ENRIQUE SANTOS L. SY

Director

Mr. Sy joined the Company in August 1989. He was Vice President for Corporate Communications & Advertising Division until his retirement on 31 March 2011. He is concurrently a Director of Empire East Land Holdings, Inc. He also serves on the boards of First Oceanic Property Management Inc. and Eastin Holdings, Inc. He is a Director and the Corporate Secretary of Asia Finest Cuisine, Inc. Mr. Sy previously worked as Advertising Manager of Consolidated Distillers of the Far East, Inc., Creative Director of AdCentrum Advertising, Inc., Copy Chief of Admakers, Inc. and Peace Advertising Corporation, and Creative Associate of Adformatix, Inc. Mr. Sy graduated with honors from the Ateneo de Manila University with the degree of Bachelor of Arts in Communication Arts.

GERARDO C. GARCIA

Independent Director

Mr. Garcia has served in the Company's Board of Directors since 1994. He concurrently serves as independent director in the boards of Empire East Land Holdings, Inc., Megaworld Land, Inc. and Suntrust Properties, Inc. From October 1994 to December 1997, Mr. Garcia served as President of Empire East Land Holdings, Inc. Prior to joining Empire East Land Holdings, Inc., Mr. Garcia was Executive Vice President of UBP Capital Corporation. He holds a bachelor's degree in Chemical Engineering and a Masters Degree in Business Administration from the University of the Philippines.

ROBERTO S. GUEVARA

Independent Director

Mr. Guevara has been a member of the Company's Board of Directors since June 20, 2001. He is Chairman of the Board of Directors of Seed Capital Ventures, Inc. and First Centro Corp. He serves on the board of other companies, such as G & S Transport Corporation, a licensee of Avis Car Rentals, Tin Can Mobile Solutions Corp., Guevent Industrial Development Corporation and Radiowealth Finance Corporation. Mr. Guevara graduated from San Beda College in 1974 and pursued a post graduate course at the Institute for Management Development (IMD), in Lausanne, Switzerland.

KEY OFFICERS

ANDREW L. TAN
PRESIDENT

KINGSON U. SIAN
EXECUTIVE DIRECTOR AND SENIOR VICE PRESIDENT

LOURDES G. CLEMENTE
SENIOR VICE PRESIDENT FOR FINANCE AND ADMINISTRATION

PHILIPPS C. CANDO
FIRST VICE PRESIDENT FOR OPERATIONS

ENRIQUE SANTOS L. SY
VICE PRESIDENT FOR CORPORATE COMMUNICATIONS AND ADVERTISING

Retired as of March 31, 2011

FRANCISCO C. CANUTO
FIRST VICE PRESIDENT AND TREASURER

GIOVANNI C. NG
FINANCE DIRECTOR

MONICA T. SALOMON
FIRST VICE PRESIDENT FOR CORPORATE MANAGEMENT

GARRY V. DE GUZMAN
FIRST VICE PRESIDENT FOR LEGAL AFFAIRS

MA. VICTORIA M. ACOSTA
MANAGING DIRECTOR FOR INTERNATIONAL SALES

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Megaworld Corporation and Subsidiaries** is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2010, 2009 and 2008, in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

Signed under oath by the following:

ANDREW L. TAN
Chairman of the Board

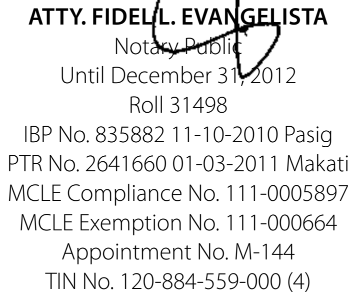
ANDREW L. TAN
Chief Executive Officer (President)

FRANCISCO C. CANUTO
Chief Financial Officer (Treasurer)

SUBSCRIBED AND SWORN to before me on this 4th day of April 2011 at Makati City, Philippines affiants exhibiting to me their Community Tax Certificate Nos. as follows:

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

Doc. No. 484;
Page No. 98;
Book No. 17;
Series of 2011



ATTY. FIDEL L. EVANGELISTA
Notary Public
Until December 31, 2012
Roll 31498
IBP No. 835882 11-10-2010 Pasig
PTR No. 2641660 01-03-2011 Makati
MCLE Compliance No. 111-0005897
MCLE Exemption No. 111-000664
Appointment No. M-144
TIN No. 120-884-559-000 (4)

REPORT OF INDEPENDENT AUDITORS

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

We have audited the accompanying consolidated financial statements of Megaworld Corporation and Subsidiaries (the Group), which comprise me consolidated statements of financial position as at December 31, 2010, 2009 and 2008, and the consolidated statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Megaworld Corporation and Subsidiaries as at December 31, 2010, 2009 and 2008, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Dalisay B. Duque
Partner

CPA Reg. No. 0022692
TIN 140-240 -854
PTR No. 2641851, January 3, 2011, Makati City
Partner's SEC Accreditation No. 0012-AR-2
(until Feb. 1, 2012)
BIR A.N 08-0025 11-9-2008 (until Nov. 24, 2011)
Firm's BOA/PRe Cert. of Reg. No. 0002
(until Dec. 31, 2012)
Firm's SEC Accreditation No. 0002-FR-2
(until Feb. 1, 2012)

March 15, 2011

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

	Notes	2010	2009	2008
CAPITAL STOCK	24			
Balance at beginning of year		**P 25,829,203,626**	P 20,701,646,901	P 20,701,646,901
Additional issuance during the year		**-**	5,127,556,725	-
Balance at end of year		**25,829,203,626**	25,829,203,626	20,701,646,901
ADDITIONAL PAID-IN CAPITAL	24	**8,432,990,413**	8,432,990,413	8,432,990,413
TREASURY STOCK - at cost	24			
Balance at beginning of year		**(1,188,836,744)**	(1,188,836,744)	(871,543,094)
Reduction representing the shares held by a deconsolidated subsidiary		**555,115,114**	-	-
Additions during the year		**-**	-	(317,293,650)
Balance at end of year		**(633,721,630)**	(1,188,836,744)	(1,188,836,744)
NET UNREALIZED GAINS (LOSSES) ON AVAILABLE-FOR-SALE FINANCIAL ASSETS	8			
Balance at beginning of year		**116,256,567**	(1,372,166,345)	(69,461,589)
Other comprehensive income (loss) for the year		**3,693,356,845**	1,488,422,912	(1,302,704,756)
Balance at end of year		**3,809,613,412**	116,256,567	(1,372,166,345)
ACCUMULATED TRANSLATION ADJUSTMENTS	2.4			
Balance at beginning of year		**(121,744,648)**	(60,980,013)	(459,544,862)
Other comprehensive income (loss) for the year, net of tax		**(130,590,622)**	(60,764,635)	398,564,849
Balance at end of year		**(252,335,270)**	(121,744,648)	(60,980,013)

	Notes	2010	2009	2008
RETAINED EARNINGS				
Balance at beginning of year		**16,043,977,969**	12,467,638,543	9,098,865,349
Net profit attributable to parent company's shareholders		**5,026,180,575**	4,055,401,191	3,771,127,007
Cash dividends	24	**(479,885,465)**	(4 79,061,765)	(402,353,813)
Balance at end of year		**20,590,273,079**	16,043,977,969	12,467,638,543
Total Equity Attributable to Parent Company's Shareholders		**57,776,023,630**	49,111,847,183	38,980,292,755
NON-CONTROLLING INTEREST				
Balance at beginning of year		**723,869,377**	712,658,092	772,956,023
Deductions		**(40,088,399)**	-	(83,697,168)
Net profit attributable to non-controlling interest		**59,332,029**	11,211,285	23,399,237
Balance at end of year		**743,113,007**	723,869,377	712,658,092
TOTAL EQUITY		**P 58,519,136,637**	P 49,835,716,560	P 39,692,950,847

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

	Notes	2010	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 6,694,614,129**	P 5,504,153,607	P 4,745,627,548
Adjustments for:				
Interest income	19	**(835,944,617)**	(690,238,144)	(1,486,040,236)
Finance costs	20	**516,440,321**	556,326,705	766,416,111
Depreciation and amortization	18	**443,203,639**	365,795,590	238,834,323
Equity in net earnings of associates	10, 19	**(442,281,307)**	(157,958,213)	(109,464,838)
Fair value losses (gains) - net	19, 20	**(83,500,000)**	(24,100,000)	42,653,717
Dividend income	19	**(40,630,134)**	(44,247,127)	(48,880,085)
Operating profit before working capital changes		**6,251,902,031**	5,509,732,418	4,149,146,540
Increase in trade and other receivables		**(5,467,069,558)**	(6,201,387,858)	(5,394,041,435)
Decrease (increase) in residential and condominium units for sale		**412,044,886**	127,249,526	(37,609,566)
Decrease (increase) in property development costs		**(77,405,610)**	112,428,459	557,922,101
Decrease (increase) in prepayments and other current assets		**(69,471,133)**	22,311,370	104,566,830
Increase in advances to landowners and joint ventures		**(1,500,000,001)**	(872,978,395)	(165,664,462)
Increase (decrease) in trade and other payables		**204,094,188**	854,376,714	(222,761,682)
Increase (decrease) in customers' deposits		**382,569,679**	(141,485,147)	(397,825,551)
Increase in deferred income on real estate sales		**1,075,230,757**	537,798,066	871,380,840
Increase in reserve for property development		**1,636,248,793**	669,276,522	1,228,583,888
Increase in other liabilities		**424,798,078**	415,691,663	283,434,290
Cash generated from operations		**3,272,942,110**	1,033,013,338	977,131,793
Cash paid for income taxes		**(946,782,440)**	(559,614,717)	(568,856,191)
Net Cash From Operating Activities		**2,326,159,670**	473,398,621	408,275,602
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment property	11	**(991,266,588)**	(2,261,263,607)	(1,759,545,786)
Land for future development		**(213,000,015)**	-	(204,162,180)
Property and equipment	12	**(62,373,098)**	(33,162,257)	(64,209,436)
Interest received		**835,944,617**	689,655,133	1,228,937,506
Net decrease (increase) in other non-current assets		**(221,527,843)**	17,607,943	(19,963,210)
Net decrease (increase) in available-for-sale securities		**472,360,615**	2,912,115,871	(1,237,996,955)
Net increase in investments in and advances to associates and other related parties		**(408,034,396)**	(238,527,057)	(2,631,219,346)
Dividends received	19	**40,630,134**	44,247,127	48,880,085
Payments made for the subscribed common stock of an associate	10	**-**	(1,583,687,182)	(1,967,194,514)
Proceeds from disposals of property and equipment		**-**	-	341,384
Proceeds from sale of investments in subsidiaries and associate		**-**	-	1,205,107,503
Net decrease in financial assets at fair value through profit or loss		**-**	-	1,016,639,571
Payments made for the acquisitions of new subsidiaries		**-**	-	(140,725,295)
Net Cash Used in Investing Activities		**(547,266,574)**	(453,014,029)	(4,525,110,673)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from exercise of stock rights	24	**2,272,642,649**	2,854,914,076	-
Interest paid		**(1,323,861,629)**	(896,733,166)	(519,186,181)
Payments of long-term liabilities		**(1,052,209,181)**	(348,831,328)	(457,345,854)
Cash dividends paid	24	**(519,885,465)**	(479,061,765)	(402,353,813)
Proceeds from long-term liabilities	14	**-**	7,400,000,000	4,500,000,000
Acquisition of treasury stock	24	**-**	-	(317,293,650)
Net Cash From (Used in) Financing Activities		**(623,313,626)**	8,530,287,817	2,803,820,502
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**1,155,579,470**	8,550,672,409	(1,313,014,569)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**20,876,005,473**	12,325,333,064	13,638,347,633
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P22,031,584,943**	P 20,876,005,473	P 12,325,333,064

Supplemental Information on Non-cash Investing and Financing Activities

In the normal course of business, the Group enters into non-cash transactions such as exchanges or purchases on account of real estate and other assets. Other non-cash transactions include transfers of property from Land for Future Development to Property Development Costs or Investment Property as the property goes through its various stages of development. These non-cash activities are not reflected in the consolidated statements of cash flows (see Notes 9 and 11) .

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

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

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

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

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

The Company holds interests in the following subsidiaries and associates:

Subsidiaries/Associates	Explanatory Notes	Percentage of Ownership 2010	2009	2008
Subsidiaries:				
Megaworld Land, Inc. (MLI)		**100%**	100%	100%
Prestige Hotels and Resorts, Inc. (PHRI)	(a)	**100%**	100%	100%
Mactan Oceanview Properties and Holdings, Inc. (MOPHI)		**100%**	100%	100%
Megaworld Cayman Islands, Inc. (MCII)		**100%**	100%	100%
Richmonde Hotel Group International (RHGI)		**100%**	100%	100%
Eastwood Cyber One Corporation (ECOC)		**100%**	100%	100%
Forbes Town Properties and Holdings, Inc. (FTPHI)		**100%**	100%	100%
Megaworld Newport Property Holdings, Inc. (MNPHI)		**100%**	100%	100%
Oceantown Properties, Inc. (OPI)		**100%**	100%	100%
Piedmont Property Ventures, Inc. (PPVI)	(b)	**100%**	100%	100%
Stonehaven Land, Inc. (SLI)	(b)	**100%**	100%	100%
Streamwood Property, Inc. (SPI)	(b)	**100%**	100%	100%
Megaworld-Daewoo Corporation (MDC)		**60%**	60%	60%
Megaworld Central Properties, Inc. (MCPI)		**51%**	51%	51%
Megaworld Resort Estates, Inc. (MREI)	(c)	**51%**	51%	51%
Megaworld Globus Asia, Inc. (MGAI)		**50%**	50%	50%
Philippine International Properties, Inc. (PIPI)	(d)	**50%**	50%	50%
Townsquare Development, Inc. (TDI)	(e)	**31%**	31%	31%
Associates:				
Empire East Land Holdings, Inc. (EELHI)		**48.38%**	48.38%	48.38%
Suntrust Home Developers, Inc. (SHDI)		**42.48%**	42.48%	42.48%
Palm Tree Holdings and Development Corporation (PTHDC)		**40%**	40%	40%
Gilmore Property Marketing Associates, Inc. (GPMAI)	(f)	**39.83%**	31%	31%
Alliance Global Properties Ltd. (AGPL)	(g)	**39.44%**	44.34%	-
Travellers International Hotel Group, Inc. (TIHGI)	(h)	**10%**	10%	10%

Explanatory Notes:

(a) Wholly owned subsidiary of MLI.

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

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

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

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

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

(g) In February 2009, RHGI acquired 44.34% ownership in AGPL, which resulted in the Company's indirect interest of 44.34% as of December 31, 2009. In October 2010, AGPL issued additional shares of stock

which resulted in the decrease in RHGI's ownership in AGPL to 39.44%. AGPL is considered as an associate due to the Company's significant influence, but not control, on AGPL.

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

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

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

EELHI and SHDI are publicly listed companies in the Philippines.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 *Basis of Preparation of Consolidated Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

The consolidated financial statements have been prepared using the measurement basis specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS 1) (Revised 2007), *Presentation of Financial Statements*. The Group presents all items of income and expense in two statements: a consolidated statement of income and a consolidated statement of comprehensive income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively or makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

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

(c) Functional and Presentation Currency

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

Items included in the consolidated financial statements of the Group are measured using the Company's functional currency. Functional currency is the currency of the primary economic environment in which an entity operates.

2.2 *Adoption of New Interpretations, Revisions and Amendments to PFRS*

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

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

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

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

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

(ii) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable assets. All acquisition-related

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

costs should be expensed. The adoption of the revised standard has no significant effect on the 2010 consolidated financial statements as the Group did not have any business acquisition during the year.

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

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

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

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

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

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

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

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

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

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

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

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

(b) *Effective Subsequent to 2010*

There are new PFRS and revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2010. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 12 (Amendment), *Income Taxes* (effective from January 1, 2012). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, *Investment Property*, it can be difficult and subjective to assess whether recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made.

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

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

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

(iii) PAS 32 (Amendment), *Financial Instruments: Presentation – Classification of Rights Issues* (effective from February 1, 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. In particular, when the amendment is applied, rights (and similar derivatives) to acquire a fixed number of an entity's own equity instruments for a fixed price stated in a currency other than the entity's functional currency, would

be equity instruments, provided the entity offers the rights pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The adoption of this amendment is not expected to have a significant effect on the Group's financial statements as it does not frequently issue rights that are denominated in currency other than its functional currency.

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

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

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

- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement;*
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

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

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

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

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

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

2.3 *Basis of Consolidation*

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

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

(a) Investments in Subsidiaries

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

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

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

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

(b) Investments in Associates

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

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

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

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has commitments, has incurred obligations or made payments on behalf of the associate.

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

(c) Interests in Jointly Controlled Operations

For interests in jointly controlled operations, the Group recognized in its consolidated financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

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

(d) Transactions with Non-controlling Interest

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

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

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

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

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

2.4 *Foreign Currency Transactions*

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

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

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized under Interest and Other Charges – net in the consolidated statement of income.

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

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

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

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

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

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

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

The translation of the financial statements into Philippine pesos should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

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

2.5 *Financial Assets*

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

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

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

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meet certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

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

(b) Loans and Receivables

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

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

Loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, and Advances to Associates and Other Related Parties in the consolidated statement of financial position. Cash and cash equivalents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

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

(c) *AFS Financial Assets*

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

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

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

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

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

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

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

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

2.6 *Real Estate Transactions*

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

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

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

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

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

2.7 *Investment Property*

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

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

2.8 *Property and Equipment*

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see also Note 2.15).

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

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

2.9 *Financial Liabilities*

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

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

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

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

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

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

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

2.10 *Business Combination*

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

2.11 *Segment Reporting*

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

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

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

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

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

2.12 *Provisions and Contingencies*

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the consolidated financial statements. Similarly, probable inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.13 *Revenue and Expense Recognition*

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

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

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

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

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

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

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

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

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

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

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

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

Costs of residential and condominium units sold before completion of the projects include the acquisition cost of the land, development costs incurred to date, applicable borrowing costs (see Note 2.17) and estimated costs to complete the project, determined based on estimates made by the project engineers (see also Note 2.6).

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

2.14 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

(b) Group as Lessor

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

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

2.15 Impairment of Non-financial Assets

The Group's Investments in Associates, Goodwill (included as part of Other Non-current Assets), Investment Property, Land for Future Development, and Property and Equipment are subject to impairment testing. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

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

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

2.16 Employee Benefits

(a) Post-employment Benefit

Post-employment benefit is provided to employees through a defined benefit plan.

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

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

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

(b) Compensated Absences

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

2.17 Borrowing Costs

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

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

2.18 Income Taxes

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

Current income tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the profit or loss.

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

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

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

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

2.19 Related Party Transactions

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

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

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

2.20 Equity

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

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

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

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

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

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

2.21 Earnings Per Share

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGMENTS

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Securities

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

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

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

(c) *Operating and Finance Leases*

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

(d) *Provisions and Contingencies*

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

3.2 *Key Sources of Estimation Uncertainty*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

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

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ had the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. The carrying amounts of cash and cash equivalents, financial assets at FVTPL and AFS financial assets are disclosed in Notes 5, 7 and 8, respectively.

(g) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

(h) Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(i) Post-employment Benefit

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

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

4. SEGMENT INFORMATION

4.1 Business Segments

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

4.2 Segment Assets and Liabilities

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

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

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

2010

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 15,399,973,187	P 2,694,310,554	P 232,757,023	P 808,477,515	P -	P19,135,518,279
Intersegment sales	-	52,014,865	-	179,885,935	(231,900,800)	-
Total revenues	P 15,399,973,187	P 2,746,325,419	P 232,757,023	P 988,363,450	(P 231,900,800)	P19,135,518,279
RESULTS						
Segment result	P 3,042,478,040	P 2,062,875,628	P 38,125,649	P 752,871,759	P 25,888,854	P 5,922,239,930
Unallocated expenses						(117,450,295)
Income from operations						5,804,789,635

(Forward)

2010

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
Interest income	-	-	-	835,944,617	-	835,944,617
Finance costs	-	-	-	(516,440,321)	-	(516,440,321)
Equity in net earnings of associates	-	-	-	442,281,306	-	442,281,306
Fair value gains – net	-	-	-	83,500,000	-	83,500,000
Dividend income	-	-	-	40,630,134	-	40,630,134
Foreign currency gains – net	-	-	-	3,908,758	-	3,908,758
Profit before tax						6,694,614,129
Tax expense						(1,609,101,525)
Net profit before non-controlling interest						5,085,512,604
Non-controlling interest share in net profit						(59,332,029)
Net profit attributable to parent company's shareholders						P 5,026,180,575
ASSETS AND LIABILITIES						
Segment assets	P63,241,644,678	P 5,919,037,407	P 178,376,810	P13,025,093,222	P -	P82,364,152,117
Investments in and advances to associates and other related parties - net	-	-	-	13,671,332,490	-	13,671,332,490
Unallocated assets	-	-	-	994,038,204	-	994,038,204
Total assets	P63,241,644,678	P 5,919,037,407	P 178,376,810	P27,690,463,916	P -	P97,029,522,811
Segment liabilities	P32,027,981,425	P 1,530,032,850	P 78,854,006	P 4,873,517,893	P -	P38,510,386,174
OTHER SEGMENT INFORMATION						
Project and capital expenditures	P11,043,392,051	P 2,364,995,996	P 27,258,790	P 24,528,367	P -	P13,460,175,204
Depreciation and amortization	18,632,235	378,357,035	22,631,161	23,583,208	-	443,203,639

2009

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P 14,566,449,663	P 2,000,477,427	P 216,143,646	P 59,044,461	P -	P16,842,115,197
Intersegment sales	-	62,047,938	-	71,112,463	(133,160,401)	-
Total revenues	P 14,566,449,663	P 2,062,525,365	P 216,143,646	P 130,156,924	(P 133,160,401)	P16,842,115,197
RESULTS						
Segment results	P 3,721,385,850	P 1,535,784,727	P 44,321,641	P 31,021,942	P 25,888,853	P 5,358,403,013
Unallocated expenses						(206,001,589)
Income from operations						5,152,401,424
Interest income	-	-	-	690,238,144	-	690,238,144
Finance costs	-	-	-	(556,326,705)	-	(556,326,705)
Equity in net earnings of associates	-	-	-	157,958,213	-	157,958,213
Dividend income	-	-	-	44,247,127	-	44,247,127
Fair value gains – net	-	-	-	24,100,000	-	24,100,000
Foreign currency loss – net	-	-	-	(8,464,596)	-	(8,464,596)
Profit before tax						5,504,153,607
Tax expense						(1,437,541,131)
Net profit before non-controlling interest						4,066,612,476
Non-controlling interest share in net profit						(11,211,285)
Net profit attributable to parent company's shareholders						P 4,055,401,191
ASSETS AND LIABILITIES						
Segment assets	P55,378,759,577	P 5,072,588,995	P 182,070,130	P11,172,314,788	P -	P71,805,733,490
Investments in and advances to associates and other related parties - net	-	-	-	12,665,714,849	-	12,665,714,849
Unallocated assets	-	-	-	782,324,106	-	782,324,106
Total assets	P55,378,759,577	P 5,072,588,995	P 182,070,130	P24,620,353,743	P -	P85,253,772,445
Segment liabilities	P28,887,111,381	P 1,102,204,707	P 51,504,125	P 5,377,235,672	P -	P35,418,055,885
OTHER SEGMENT INFORMATION						
Project and capital expenditures	P 8,450,184,072	P 2,212,988,366	P 36,106,669	P 1,205,765	P -	P10,700,484,872
Depreciation and amortization	13,553,509	325,257,171	7,729,572	19,255,338	-	365,795,590

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

2008

	Real Estate	Rental	Hotel Operations	Corporate and Others	Elimination	Consolidated
TOTAL REVENUES						
Sales to external customers	P13,795,323,274	P 1,300,910,039	P 246,919,573	P 310,557,611	P -	P15,653,710,497
Intersegment sales	-	76,532,769	-	76,702,719	(153,235,488)	-
Total revenues	P13,795,323,274	P 1,377,442,808	P 246,919,573	P 387,260,330	(P 153,235,488)	P15,653,710,497
RESULTS						
Segment results	P 3,081,106,749	P 998,942,887	P 54,807,975	P 194,364,735	P 25,888,852	P 4,355,111,198
Unallocated expenses						(267,810,547)
Income from operations						4,087,300,651
Interest income	-	-	-	1,486,040,236	-	1,486,040,236
Finance costs	-	-	-	(766,416,111)	-	(766,416,111)
Foreign currency loss – net	-	-	-	(176,988,434)	-	(176,988,434)
Equity in net earnings of associates	-	-	-	109,464,838	-	109,464,838
Dividend income	-	-	-	48,880,085	-	48,880,085
Fair value losses – net	-	-	-	(42,653,717)	-	(42,653,717)
Profit before tax						4,745,627,548
Tax expense						(951,101,304)
Net profit before non-controlling interest						3,794,526,244
Non-controlling interest share in Net profit						(23,399,237)
Net profit attributable to parent company's shareholders						P 3,771,127,007
ASSETS AND LIABILITIES						
Segment assets	P40,952,630,176	P 3,013,855,655	P 167,402,312	P 9,289,609,706	P -	P53,423,497,849
Investment in and advances to associates and other related parties - net	-	-	-	10,982,670,783	-	10,982,670,783
Unallocated assets	-	-	-	495,106,830	-	495,106,830
Total assets	P40,952,630,176	P 3,013,855,655	P 167,402,312	P20,767,387,319	P -	P64,901,275,462
Segment liabilities	P19,236,885,198	P 553,618,261	P 54,366,165	P 5,363,454,991	P -	P25,208,324,615
OTHER SEGMENT INFORMATION						
Project and capital expenditures	P 8,688,100,952	P 1,978,303,096	P 1,875,428	P 142,646,426	P -	P10,810,925,902
Depreciation and amortization	17,368,238	182,199,244	796,349	38,470,492	-	238,834,323

5. CASH AND CASH EQUIVALENTS

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

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

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

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

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

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

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

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

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by postdated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

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

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

8. INVESTMENTS IN AVAILABLE-FOR-SALE SECURITIES

AFS financial assets comprise the following as of December 31:

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

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

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

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

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

9. ADVANCES TO LANDOWNERS AND JOINT VENTURES

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

The Group also grants noninterest-bearing, secured cash advances to a number of landowners and joint ventures under agreements they entered into with landowners covering the development of certain parcels of land. Under the terms of the agreements, the Group, in addition to providing specified portion of total project development costs, also commits to advance mutually agreed-upon amounts to the landowners to be used for pre-development expenses such as the relocation of existing occupants.

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

The net commitment for construction expenditures amounts to:

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

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

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

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

As of December 31, 2010 and 2009, the Group either has no other contingent liabilities with regard to these joint ventures or has assessed that the probability of loss that may arise from contingent liabilities is remote.

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

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

	% Interest Held as of End of 2010 (see Note 1)	2010	2009	2008
Investments in associates – at equity				
Acquisition costs:				
EELHI	48.38%	**P 5,726,128,415**	P 5,726,128,415	P 5,726,128,415
SHDI	42.48%	**875,445,000**	875,445,000	875,445,000
PTHDC	40.00%	**64,665,000**	64,665,000	64,665,000
GPMAI	39.83%	**98,806,194**	-	-
AGPL	39.44%	**2,463,056,417**	1,583,687,182	-
TIHGI	10.00%	**570,000,000**	1,000,000,000	1,000,000,000
		9,798,101,026	9,249,925,597	7,666,238,415

(Forward)

	% Interest Held as of End of 2010 (see Note 1)	2010	2009	2008
Accumulated equity in comprehensive income :				
Balance at beginning of year		**1,403,518,676**	1,245,560,463	1,148,146,700
Dividends received from TIHGI		**(90,736,000)**	-	-
Equity in net earnings for the year (see Note 19)		**442,281,307**	157,958,213	109,464,838
Share in other comprehensive income		**71,176,649**	-	-
Deduction due to sale of investment		**-**	-	(12,051,075)
Balance at end of year		**1,826,240,632**	1,403,518,676	1,245,560,463
Advances to associates and other related parties (see Note 23.3)		**2,046,990,832**	2,012,270,576	2,070,871,905
		P13,671,332,490	P 12,665,714,849	P 10,982,670,783

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

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

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

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

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

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

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

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

	Assets	Liabilities	Revenues	Net Profit (Loss)
2010:				
EELHI	P 27,830,579,495	P 8,313,108,199	P 2,313,768,713	P 225,222,976
SHDI	574,744,907	463,771,003	8,263,029	4,730,857
PTHDC	1,137,581,235	1,005,298,094	64,128	(178,157)
GPMAI	748,619,721	157,143,964	252,107,804	165,840,133
AGPL	6,352,873,392	7,846,770	205,630,984	95,518,781
TIHGI	41,043,334,923	27,086,278,378	14,876,965,463	3,220,646,817
	P 77,687,733,673	**P 37,033,446,408**	**P 17,656,800,121**	**P 3,711,781,407**
2009:				
EELHI	P 25,401,749,839	P 7,459,494,647	P 2,171,236,867	P 155,035,423
AGPL	2,786,358,428	8,288,592	242,641,296	182,881,935
SHDI	569,630,769	463,451,254	7,987,805	3,917,117
PTHDC	1,142,753,539	1,010,292,242	350,027	21,676
TIHGI	23,125,565,794	7,186,796,066	2,305,037,279	5,430,402
	P 53,026,058,369	P 16,128,322,801	P 4,727,253,274	P 347,286,553
2008:				
EELHI	P 26,023,446,296	P 8,567,842,527	P 1,978,904,355	P 215,545,491
SHDI	581,036,188	478,773,790	9,716	(74,297,845)
PTHDC	1,143,271,195	1,010,831,573	4,558,843	663,210
TIHGI	16,072,026,556	138,687,230	303,496,167	115,680,708
	P 43,819,780,235	P 10,196,135,120	P 2,286,969,081	P 257,591,564

11. INVESTMENT PROPERTY

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

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

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

	Land	Buildings	Condominium Units	Total
Balance at January 1, 2010, net of accumulated depreciation	P 1,427,094,149	P 4,897,325,818	P 2,781,365,102	P 9,105,785,069
Additions	-	257,140,943	734,125,645	991,266,588
Transfers	-	(109,691)	-	(109,691)
Investment property of a deconsolidated subsidiary	(14,459,622)	-	-	(14,459,622)
Depreciation charges for the year	-	(205,738,965)	(160,213,334)	(365,952,299)

(Forward)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

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

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

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

12. PROPERTY AND EQUIPMENT

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

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

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

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

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 292,904,560	P 51,263,725	P 54,602,681	P 31,409,819	P -	P 430,180,785
Additions	3,666,730	20,837,324	395,705	8,262,498	-	33,162,257
Depreciation and amortization charges for the year	(44,714,095)	(20,155,315)	(6,861,103)	(10,435,546)	-	(82,166,059)
Balance at December 31, 2009 net of accumulated depreciation and amortization	P 251,857,195	P 51,945,734	P 48,137,283	P 29,236,771	P -	P 381,176,983

	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 300,751,195	P 49,022,875	P 62,555,209	P 22,348,375	P 66,000,000	P 500,677,654
Additions	31,109,680	19,992,105	185,825	12,921,826	-	64,209,436
Transfers	-	-	(16,607)	(324,777)	(66,000,000)	(66,341,384)
Depreciation and amortization charges for the year	(38,956,315)	(17,751,255)	(8,121,746)	(3,535,605)	-	(68,364,921)
Balance at December 31, 2008 net of accumulated depreciation and amortization	P 292,904,560	P 51,263,725	P 54,602,681	P 31,409,819	P -	P 430,180,785

13. OTHER NON-CURRENT ASSETS

This account consists of:

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

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

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

14. INTEREST-BEARING LOANS AND BORROWINGS

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

	2010	2009	2008
Current:			
Megaworld Corporation	**P 1,203,380,952**	P 736,690,476	P 232,000,000
ECOC	**107,973,945**	114,053,553	116,831,327
	1,311,354,897	850,744,029	348,831,327

(Forward)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

	2010	2009	2008
Non-current:			
Megaworld Corporation	**6,074,595,238**	7,277,976,191	5,614,666,667
ECOC	**53,988,238**	171,081,667	292,079,687
	6,128,583,476	7,449,057,858	5,906,746,354
	P 7,439,938,373	P 8,299,801,887	P 6,255,577,681

In 2008, the Company signed a financing deal with local bank in which the Company may avail of a P5.0 billion unsecured loan, divided into Tranche A (P3.5 billion) and Tranche B (P1.5 billion). The Company had availed of P4.5 billion out of the P5.0 billion facility in 2008 while the remaining P500.0 million was availed of in 2009. The proceeds of the loan were used to fund the development of the Group's various real estate projects. The loan is payable in seven years with a grace period of two years, divided into 21 consecutive equal quarterly payments. Interest is payable every quarter based on the Philippine Dealing System Treasury Fixing rate (PDSTF-R) plus a certain spread.

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

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

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

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

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

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

15. BONDS PAYABLE

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

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

16. TRADE AND OTHER PAYABLES

This account consists of:

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

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

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

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

17. OTHER LIABILITIES

This account consists of:

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

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

18. OPERATING EXPENSES

Presented below are the details of this account.

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

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

Presented below are the details of this account.

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

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

20. INTEREST AND OTHER CHARGES - Net

Presented below are the details of this account.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits

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

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

21.2 Post-employment Benefit

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

22. TAXES

22.1 Current and Deferred Tax

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

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

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

	Consolidated Statements of Income			Consolidated Statements of Comprehensive Income		
	2010	2009	2008	**2010**	2009	2008
Changes in deferred tax assets:						
NOLCO	**P 793,817**	(P 4,890,626)	(P 231,143)	**P -**	P -	P -
Retirement benefit obligation	**(601,240)**	(597,588)	(340,712)	**-**	-	-
Accrued rent expense	**149,927**	140,151	55,402	**-**	-	-
Allowance for impairment losses on receivables	**-**	24,859	947,948	**-**	-	-
Depreciation expense	**-**	-	(7,667)	**-**	-	-
Others	**(315,330)**	(146,236)	(425,483)	**-**	-	-
Changes in deferred tax liabilities:						
Uncollected gross profit	**402,504,512**	767,095,402	359,278,205	**-**	-	-
Capitalized interest	**221,065,942**	114,550,647	(26,071,447)	**-**	-	-
Difference between tax reporting base and financial reporting base of:						
- Investment property	**52,892,299**	(24,060,932)	32,345,673	**-**	-	-
- Property and equipment	**259,714**	(572,373)	2,592,215	**-**	-	-
Translation adjustments	**-**	-	-	**(55,967,408)**	(26,041,986)	11,728,077
Accrued retirement cost	**(10,131,499)**	(74,389)	(6,330,792)	**-**	-	-
Uncollected rental income	**-**	(32,091,485)	26,374,103	**-**	-	-
Amortization of preoperating expenses	**-**	-	30,415	**-**	-	-
Others	**(3,157,061)**	3,383,383	(3,071,965)	**-**	-	-
Deferred Tax Expense (Income)	**P 663,461,081**	P 822,760,813	P 385,144,752	**(P 55,967,408)**	(P 26,041,986)	P 11,728,077

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

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

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

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

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

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

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

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

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

2010

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

2009

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

2008

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

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

***22.2** Optional Standard Deduction*

Effective July 2008, Republic Act (RA) 9504 was approved giving corporate taxpayers an option to claim itemized deductions or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for that particular taxable year.

In 2010, 2009 and 2008, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD for 2010 and 2009.

***22.3** Change in Applicable Tax Rate*

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

23. RELATED PARTY TRANSACTIONS

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

***23.1** Rendering of Services to Related Parties and Rentals*

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

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

***23.2** Obtaining of Services from Related Parties*

	Amount of Transactions			Outstanding Balances		
	2010	2009	2008	**2010**	2009	2008
Associates	**P -**	P 2,286,178	P 3,048,237	**P -**	P -	P -
Other related parties	**126,454,782**	146,626,602	152,278,332	**84,088,445**	81,408,167	79,678,432
	P 126,454,782	P 148,912,780	P 155,326,569	**P 84,088,445**	P 81,408,167	P 79,678,432

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

***23.3** Advances to Associates and Other Related Parties*

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

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

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

***23.4** Advances from Other Related Parties*

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

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

***23.5** Key Management Personnel Compensations*

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

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

24. EQUITY

Capital stock consists of:

	Shares			Amount		
	2010	2009	2008	2010	2009	2008
Preferred shares Series A – P0.01 par value						
Authorized	6,000,000,000	6,000,000,000	6,000,000,000	P 60,000,000	P 60,000,000	P 60,000,000
Issued and outstanding:	6,000,000,000	6,000,000,000	6,000,000,000	P 60,000,000	P 60,000,000	P 60,000,000
Common shares – P1 par value						
Authorized	30,140,000,000	30,140,000,000	30,140,000,000	P30,140,000,000	P 30,140,000,000	P 30,140,000,000
Issued and outstanding:						
Balance at beginning of year	25,769,203,626	20,641,646,901	20,641,646,901	P25,769,203,626	P 20,641,646,901	P 20,641,646,901
Issued during the year	-	5,127,556,725	-	-	5,127,556,725	-
Balance at end of year	25,769,203,626	25,769,203,626	20,641,646,901	P25,769,203,626	P 25,769,203,626	P 20,641,646,901
Subscribed:						
Balance at beginning of year	-	-	-	P -	P	P -
Subscribed during the year	-	5,127,556,725	-	-	5,127,556,725	-
Issued during the year	-	(5,127,556,725)	-	-	(5,127,556,725)	-
Balance at end of year	-	-	-	P -	P -	P -
Total Capital Stock				P25,829,203,626	P 25,829,203,626	P 20,701,646,901

***24.1** Preferred Shares Series "A"*

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

***24.2** Common Shares*

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

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

24.3 *Additional Paid-in Capital*

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

24.4 *Cash Dividends*

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

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

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

24.5 *Treasury Shares*

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

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

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

25. EARNINGS PER SHARE

Earnings per share amounts were computed as follows:

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

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

26. COMMITMENTS AND CONTINGENCIES

26.1 *Operating Lease Commitments – Group as Lessor*

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

26.2 *Operating Lease Commitments – Group as Lessee*

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 11 years, with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to about P10.0 million for the consolidated balances. The future minimum rental payables under these non-cancelable leases as of December 31, are as follows:

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

26.3 *Others*

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

27. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

27.1 *Foreign Currency Sensitivity*

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

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

	2010		2009		2008	
	U.S. Dollars	Pesos	U.S. Dollars	Pesos	U.S. Dollars	Pesos
Financial assets	$ 245,812,793	P10,790,198,346	$ 186,778,590	P 8,658,308,333	$ 138,542,551	P 6,578,693,016
Financial liabilities	(7,098,646)	(311,602,166)	(87,449,638)	(4,053,815,436)	(90,043,539)	(4,275,717,458)
	$ 238,714,147	P10,478,596,180	$ 99,328,952	P 4,604,492,897	$ 48,499,012	P 2,302,975,558

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

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

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

27.2 *Interest Rate Sensitivity*

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

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

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

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

***27.3** Credit Risk*

Generally, the Group's credit risk is attributable to trade receivables, rental receivables and other financial assets. The Group maintains defined credit policies and continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on customers and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

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

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

(a) Cash and Cash Equivalents

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

(b) Trade and Other Receivables

All trade receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to Trade and Other Receivables as the amounts recognized resemble a large number of receivables from various customers. Certain receivables from trade customers are covered by post-dated checks. Certain past due accounts are not provided with allowance for impairment to the extent of the expected market value of the property sold to the customer. The title to the real estate properties remains with the Group until the receivables are fully collected.

***27.4** Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week, as well as on the basis of a rolling 30-day projection. Long-term needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

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

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

	2009			
	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P 192,026,776	P 658,717,253	P 5,672,557,858	P 1,776,500,000
Bonds payable	-	-	8,608,407,826	-
Trade and other payables	1,474,550,021	2,187,823,237	-	-
Advances from other related parties	-	-	625,936,481	-
	P 1,666,576,797	P 2,846,540,490	P 14,906,902,165	P 1,776,500,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

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

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

27.5 *Other Price Risk Sensitivity*

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

For corporate bonds and equity securities listed in other countries, an average volatility of 105%, 71% and 107% has been observed during 2010, 2009 and 2008, respectively. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by P2.7 billion, P14.6 million, P21.7 million in 2010, 2009 and 2008, respectively.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the Group's consolidated net profit in 2010 and consolidated equity as of December 31, 2010 are summarized as follows:

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

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

2009

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

2008

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

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

28. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

28.1 Comparison of Carrying Amounts and Fair Values

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

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

See Notes 2.5 and 2.9 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 27.

28.2 Fair Value Hierarchy

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

29. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2010, 2009 AND 2008 (Amounts in Philippine Pesos)

30. OTHER MATTERS

30.1 *Registration with Philippine Economic Zone Authority (PEZA)*

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

30.2 *International Organization for Standardization (ISO) Certification*

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

30.3 *Awards*

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

2009

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

2008

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

CORPORATE INFORMATION

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28th Floor The World Centre
330 Sen. Gil J. Puyat Avenue
Makati City, Philippines 1227

SUBSIDIARIES

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

ASSOCIATES

Empire East Land Holdings, Inc.
Suntrust Home Developers, Inc.
Palm Tree Holdings &
Development Corporation
Gilmore Property Marketing
Associates, Inc.
Alliance Global Properties Ltd.
Travellers International Hotel Group, Inc

STOCK TRANSFER AGENT

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Dela Costa Avenue, Makati City
Tel. No.: (632) 840 7000
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BANKERS

Banco de Oro
Bank of the Philippine Islands
Hong Kong and Shanghai
Banking Corporation
Chinatrust Commercial
Bank Corporation
Metropolitan Bank & Trust Company
Philippine National Bank
Planters Development Bank
Rizal Commercial Banking Corporation
Standard Chartered Bank
UnionBank of the Philippines

AUDITORS

Punongbayan & Araullo
Grant Thornton International

DATE OF INCORPORATION

August 24, 1989

DATE OF CONVERSION TO A PUBLIC COMPANY

June 15, 1994

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