



MEGAWORLD

Annual Report 2011

A pair of hands is shown from the bottom, cupping a clear glass globe. Inside the globe, a detailed miniature cityscape is visible, featuring numerous high-rise buildings in various colors (yellow, orange, blue, green), roads, and green spaces. The background behind the hands is a light blue, slightly blurred pattern, possibly a shirt or a wall.

**Our Growing
WORLD**







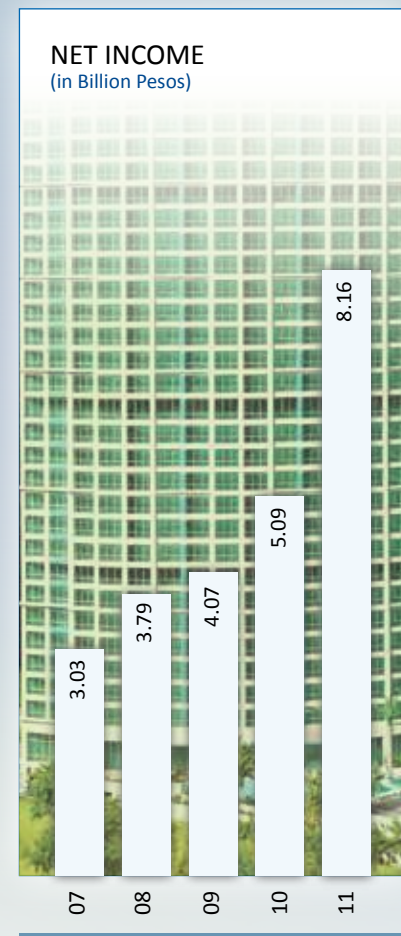
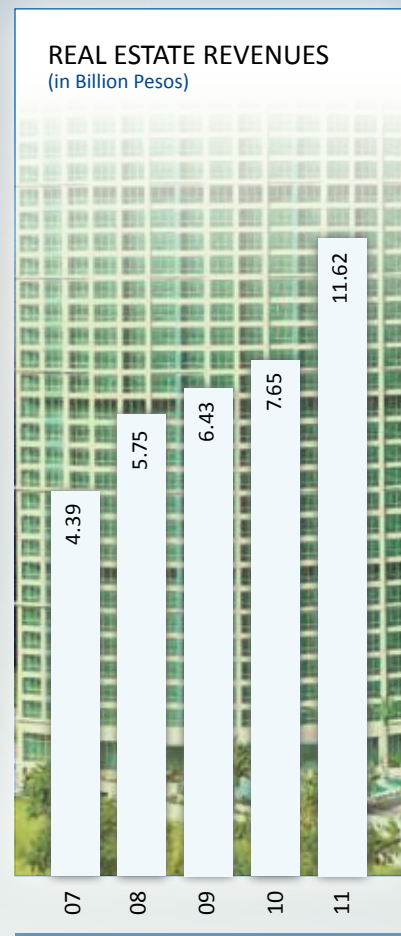
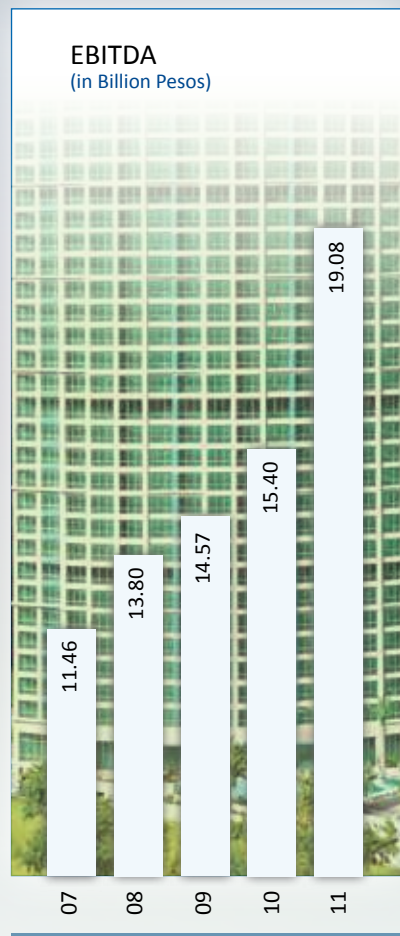
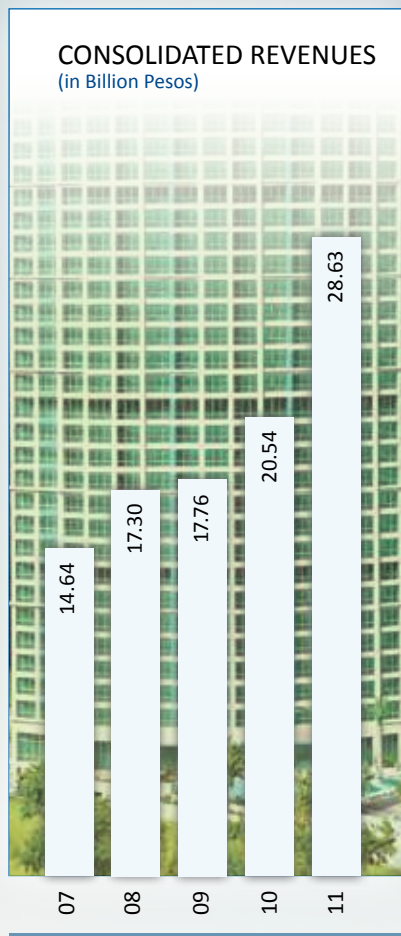
Financial Highlights

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	2007	2008	2009	2010	2011
Consolidated Revenues	14.64	17.30	17.76	20.54	28.63
Real Estate Revenues	11.46	13.80	14.57	15.40	19.08
EBITDA	4.39	5.75	6.43	7.65	11.62
Net Income	3.03	3.79	4.07	5.09	8.16







Chairman's Message

The year 2011 saw a modest expansion in the local economy as the country's gross domestic product grew by 3.7%, compared to 7.6% growth in the previous year. The economy's rather lethargic movement in 2011 was attributed to a relatively weak export sector as well as cautious government spending. Despite the country's sluggishness in 2011, however, the resulting growth rate still fell within the government's official projection of around 3.6% to 4% for the year.

One of the few bright spots in the country's economy in 2011 was the Philippine real estate industry which experienced another landmark year. In fact, 2011 proved to be a much stronger year for the local property industry than the previous one, buoyed largely by the increased demand for business process outsourcing (BPO) office space and the continued vibrancy of the middle-income residential property market.

The spike in foreign investments in real estate during the year manifested an exponential increase in investor confidence resulting from a marked growth in private infrastructure initiatives. Indeed, extensive property development activities in 2011 continued to transform metropolitan areas into growing world-class cities. Moreover, real estate development continued in nearby towns and cities such as Cavite, Laguna, and Batangas, slowly but surely shaping up to be supplementary economic growth areas.

In 2011, Megaworld outdid itself and turned in another sterling performance, riding the crest of an increased demand for your Company's BPO office spaces and the continued strong sales performance of its integrated townships. During the year, consolidated net income amounted to P8.16 billion, a gain of 60.37% from the previous year's net income of P5.09 billion.

Consolidated total revenues composed of real estate sales, rental income, hotel income, and other revenues grew by a substantial 39.35% from P20.54 billion the previous year to P28.63 billion, on the back of strong property sales and increased leasing income and nonrecurring gain from the sale of shares. Rental income contributed 13.37% to the consolidated revenue figure and

amounted to P3.83 billion for 2011, 42.02% higher than the P2.70 billion in revenues the previous year. The growth in rental income, in turn, is attributed to the escalation and completion of additional leasing properties and the increase in demand for BPO office space.

As the Philippines surges ahead in the global job outsourcing industry, more and more foreign investors set up shop in the country. These investors hope to take advantage of friendly foreign investment policies and low labor costs to establish voice and non-voice outsourcing operations here in the country.

We foresaw this development and started constructing office buildings optimized for BPO operations as early as a few years ago, even before the local BPO boom. I am proud to say that we are now reaping the fruits of this move of ours. Because of this, Megaworld has risen to become the leading BPO office space provider in the country with a total BPO office space inventory of 400,000 square meters as of end-2011, largest in the country.

To complement the success of our BPO office space development projects, our fully integrated mega-communities continue to attract buyers, owing to the success of our pioneering “live-work-play-learn-shop” development concept. We have always made sure that our integrated townships provide basically everything that residents need within the community. This has allowed our communities to stand out above the rest in terms of comfort, convenience and plenitude which, in turn, made them highly attractive to our market and caused them to perform excellently in sales.

Right now, Megaworld continues to proudly carry the distinction of being the largest middle-income residential property developer in the country. To ensure that we keep this distinction, we have launched, in 2011 alone, nine new residential projects, including the 10-story Belmont Luxury Hotel in Newport City and the 8 Newtown Boulevard in Cebu City. We expect these new projects to be completed in two to four years.

The 8 Newtown Boulevard residential project is situated in a piece of prime property in Cebu that is part of our 25-hectare land bank in that province. All-in-all, Megaworld has set in place a land bank with a total of around 230 hectares in key growth areas, including 55 hectares of prime land in Iloilo, 25 hectares in Cebu, within Fort Bonifacio, it has 7.1 hectares of the former NAPOLCOM land near the international schools. And 8.5 hectares at the North Central Business District in North Bonifacio. These have a total land area of 2.29 million square meters, of which around one million square meters will be developed into

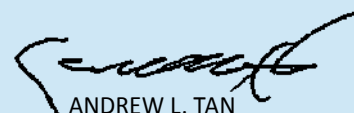
residential areas and around 886,000 square meters will be allocated for office spaces. The remaining land will be used for retail and leisure development projects.

Moreover, plans are afoot to develop the huge 34.5-hectare Joint United States Military Advisory Group (Jusmag) property in Fort Bonifacio over the next 20 years. We intend to turn this property located behind Forbes Park into a mixed-use complex at an estimated cost of at least P22 billion. This piece of prime land brings to around 105 hectares our total development portfolio in Fort Bonifacio.

The year 2011 was another kind year for Megaworld, with our targets achieved and our plans accomplished. As we gear up for another year, we foresee both challenges and opportunities for us. Reports show that the residential, commercial and office segments of the local real estate industry have recently been showing significant growth both in the number of projects and in sales. If this continues on to 2012 and beyond, we should expect the Philippines to eventually become replete with bustling metropolitan areas with modern skylines and complete mega-communities.

As increasing income from a slowly stabilizing economy fuel growth in residential property sales and the continued influx of foreign investors establishing job outsourcing businesses here drives office space sales and rentals upwards, we continue to ensure that we are both ready and capable to grab opportunities and overcome challenges that will come our way and provide our market with the best projects we can offer.

Again, we thank our stockholders for their undying support all these years. We extend our appreciation as well to our management and staff for their commitment to our ideals and objectives. Without your help, we would not have been able to succeed not only in changing the Philippine landscape but improving it and bringing it up to par with global standards. More than anything else, without your support, we would not have been able to make our world grow in more ways than one.



ANDREW L. TAN
Chairman and President



Our Growing WORLD



Megaworld is currently the country's largest residential condominium developer and BPO office space provider. These distinctions were earned through years of careful planning, prudent decision-making, and sustained trend-setting. As a leading community developer, Megaworld always ensures that its residential projects not only stand out above the rest in the field as completely integrated townships but also that its projects continuously expand as living, growing communities until their eventual completion. With its growing world of first-rate communities and impressive achievements, Megaworld is inexorably on its way to becoming a distinctive global brand.

EASTWOOD CITY

Eastwood City is Megaworld's pioneering integrated township project. It is a highly successful mega-community that offers facilities, amenities, and establishments for living, working, playing, and shopping. Aside from being the very first "live-work-play" community in the country, the expansive 18-hectare Eastwood City is also Megaworld's most successful township project to date, housing 15 completed luxury condominium towers, nine high-end corporate buildings, and some seven ongoing residential projects. It is currently home to more than 20,000 residents and over a hundred office tenants and BPO companies.


Eastwood City is also the site of 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). The cyberpark was designed to meet the growing demand for prime office space with facilities that support IT-based operations. Right now, the cyberpark is home to several corporate offices and headquarters as well as big and medium-sized BPO companies. Eastwood City is regarded as the top employer and dollar-earner among all the 70 IT special economic zones in the Philippines.

The Eastwood Mall, in turn, has become the focal point of middle-class and upscale shopping not only within the community but in that district of Quezon City as well. Adjudged the "Best Shopping Center of the Year" by the Philippine Retailers Association in 2010, the Eastwood Mall provides a complete shopping experience with four levels



LIVE

in Our Growing World of **Comfort**



of commercial space housing several upper-class boutiques, specialty shops, a huge atrium, restaurants, and seven modern cinemas. Adding to the whole affluent shopping ambience is the mall's Central Park, a wide open area with a botanical garden and a lagoon.

More than 15 years after its inception, Eastwood City continues to grow. In fact, the newest project to be launched in the City is the 45-story Tower 1 of One Eastwood Avenue, a two-tower project with a total floor count of 97 stories. One Eastwood Avenue was designed to cater to young executives and professionals who work in Eastwood City and nearby metropolitan areas. The Tower 1 project was unveiled in 2011 and is expected to be completed in the fourth quarter of 2015.

A landmark achievement for the Company, Eastwood City is envisioned to be a sprawling community of 22 high-rise residential towers housing 8,087 condominium units upon its completion. It will have more than 270,000 square meters of high-grade office buildings and 60,000 square meters of entertainment and retail space.

FORBES TOWN CENTER


Forbes Town Center is the latest landmark to emerge in Bonifacio Global City, the newest center of business in Metropolitan Manila. Forbes Town Center is an expansive five-hectare mega-community with 12 residential towers which will house a total of 3,552 units when completed. Forbes Town Center is adjacent to the Manila Polo Club, Forbes Park, and the Manila Golf and Country Club which provides residents of Forbes Town Center a cool half-a-kilometer-long view of its golf course.

The main area of activity in the community is Forbes Town Road, a retail strip with 37 restaurants and shops that cater to the diverse needs of residents of the community's



WORK

in Our Growing World of Opportunities



three Bellagio towers, the six towers of Forbeswood Heights, the two towers of Forbeswood Parklane, and the 53-story Eight Forbes Town Road Golf View Residences. Burgos Circle, in turn, is an enclave with residential condominiums and a small park at its center. It is a leisure destination aimed at the hip, young residents and visitors of Forbes Town Center.

MCKINLEY HILL

With a total land area of 50 hectares, McKinley Hill is Megaworld's largest and most important development project in Metro Manila to date. Still a work in progress, McKinley Hill is envisioned to be the perfect "live-work-play-learn-shop" community with complete residential and office facilities and amenities. It will have single detached homes, townhouses, a mid-rise condominium, high-rise luxury residences, BPO office buildings, a Venetian-themed mall, and an events venue. These projects are ongoing and are in different stages of development.

McKinley Hill is also home to three international schools--the Chinese International School of Manila, the first English-Mandarin bilingual school in the country; the Enderun Colleges, a world-class hospitality management school; and the Korean International School, the first Korean school in the country--and three embassies--the British, Korean, and Qatar embassies.

Moreover, upon completion, McKinley Hill will have 34 residential condominium buildings with a total of around 4,713 condominium units, 482 residential lots, and 17 different offices with a total area of around 300,000 square meters.

The center of business in the community is the 14-hectare McKinley Hill Cyberpark, a sprawling PEZA-accredited economic zone. The cyberpark hosts several BPO buildings like





PLAY

in Our Growing World of Excitement

the One World Square, Two World Square, and the Three World Square, all of which boast of scalable layouts that allow the edifices to be tailor-fit to the needs and preferences of corporate tenants.

The 18 and 20 Upper McKinley Road buildings, in turn, offer 17,142 square meters of office space spread out in two 10-story buildings that are designed specifically for BPO office use. There is also 8 Park Avenue, 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 to help decrease operating costs.

The Commerce and Industry Plaza is one of the biggest BPO buildings in McKinley Hill. It features 15 stories of open-plan floors with 2,000 square meters of uninterrupted office space, suiting the needs of BPO offices that usually have multiple modular workspace layouts. The Philippine Chamber of Commerce and Industry (PCCI) has its headquarters in the building.

McKinley Hill showcases several residential projects, the most important of which is The Venice Luxury Residences, designed from the ground up to capture the visual grandeur and the romantic ambience of Venice, Italy itself. The Venice features seven residential towers, with each one designed to resemble a *fërro* – the gondola’s uniquely shaped iron head. The Venice’s main draw, however, is the man-made Grand Canal, the first of its kind in the country, where people can enjoy rides in authentic gondolas while taking in the sights of reconstructed Venetian landmarks and enjoying the music of singing gondoliers.

The other residential projects in McKinley Hill are the affluent McKinley Hill Village, the Spanish-Mediterranean-inspired McKinley Garden Villas, the Stamford Executive Residences, the Italian-themed Tuscany, the affordable yet luxurious Woodridge Residences, and the three-tower Morgan Suites Executive Residences.



LEARN

in Our Growing World of Knowledge



The newest residential projects in McKinley Hill are the first two towers of The Viceroy, an upscale four-tower condominium project. The 21-story Tower 1 has a total number of 319 units while the 19-story Tower 2 has 304 units. Both projects were launched in 2011 and are expected to be completed in 2016.

The focal point of attention inside the community is The Venice Piazza, a world-class Italian-inspired mall that sits at the heart of McKinley Hill Town Center, the community's commercial center. The Venetian Mall is strategically located near the residential projects, effectively providing the "shop" aspect of the community's "live-work-play-learn-shop" principle. The mall showcases European-inspired landmarks like the Clock Tower and a replica of St. Mark's Tower, another well-known Venetian icon.

MANHATTAN GARDEN CITY

The 5.7-hectare Manhattan Garden City was launched in 2006 with the aim of creating a residential project right at the heart of the busy metropolis that would seamlessly integrate with the city's mass-transit system. The first of its kind in the country, this new transit-oriented residential development project also stands as Megaworld's share in the Quezon City government's redevelopment plan for the once-glorious Araneta Center, the premier commercial center in the city several decades back.

Manhattan Garden City is situated at the heart of the Araneta Center and is considered the largest single residential development in the country with a total of about 9,000 units upon completion. The complex also has a 720-meter elevated garden walkway which connects the project's 20 towers, another first in local real estate development. The walkway also links the condominium complex to the Light Rail Transit 2 and Metro Rail Transit 3 systems, allowing residents easy access to trains bound for other parts of the metropolis.



SHOP

in Our Growing World of Style

The complex moved nearer completion with the launch of its newest project--Tower B of Manhattan Heights, a four-tower residential complex with a total of around 1,600 units. The 370-unit Tower B was launched in 2011 and will be completed by the fourth quarter of 2014.

The completion of Manhattan Garden City is expected to revive the former glory of Araneta Center and once again make it an important hub of activity not only in Quezon City but in the whole of Metro Manila.

NEWPORT CITY

In just a few years after its launch in 2005, Newport City has become a destination synonymous to total entertainment. Seven years after its inception, Newport City is now a full-fledged tourist city, a definite first in the country, and is right on track to putting the Philippines in the global tourism map.

The 25-hectare Newport City was actually designed to fully integrate luxury residences with prime office spaces and a world-class entertainment complex. The P7.64-billion development project is located in Pasay City, right across the new Terminal 3 of the Ninoy Aquino International Airport (NAIA).

There are several ongoing projects in Newport City, including The Residential Resort, which will host 16 medium-rise buildings with a total floor area of around 140,000 square meters, and The Palmtree Villas which will have four 10-story luxury condominium buildings made mostly of glass with bedroom units that offer a refreshing view of gardens and recreational facilities.

The newest residential project in the complex, however, is 101 Newport Boulevard, a condominium project with four clusters rising 10 stories each. The French Art Deco-inspired 101 Newport Boulevard was debuted in 2011 and is expected to be finished by the second



Lucky
Chinatown

quarter of 2016. The project will have a total of 336 units. All in all, Newport City will be offering a total of more than 4,000 world-class condominium units.

The Newport City Cyberpark is the complex's business district designed to accommodate BPO offices as well as cargo logistics services and airline-related businesses that require proximity to the airport. The Cyberpark is also home to the Star Cruises Centre, its very first locator, which hosts the offices of Megaworld affiliate Travellers International Hotel Group Inc. and Genting Hong Kong, formerly known as Star Cruises Ltd.

The heart and soul of Newport City, however, is undoubtedly Resorts World Manila, the country's first integrated tourism estate. This nine-hectare project of AGI subsidiary Travellers International has come to be known as the "Leisure Capital" of the Philippines with multi-cultural fine dining restaurants, a high-end performing arts theater that features world-class acts and musicals, an upscale shopping mall, a first-rate gaming center, 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.

With its world-class attractions, state-of-the-art facilities, and first-rate show offerings, Newport City has been doing its share in reviving the country's tourism industry in more ways than one.

CITYPLACE

There has never been a more important development project in the Binondo area in recent times than Cityplace. This 2.5-hectare residential and commercial complex is the largest and most modern real estate development project in Binondo in the last two decades. More importantly, it is designed to bring back the former glory of Old Manila by enhancing and modernizing Chinatown's aging landscape and creating a "New Chinatown" which combines the best of the old and the new worlds.

Within Cityplace is the Lucky Chinatown Mall, a world-class shopping center of 108,000 square meters. This three-level mall offers Hong Kong-style shopping that's perfect for the Oriental culture prevalent in Binondo. There is also the 200-meter Chinatown Walk and a public car park facility, an essential addition in that congested part of Manila. Bypass roads are also being constructed to make going to and from Cityplace more convenient for commuters and motorists.

Cityplace will also have 525 residential condominium units that are designed so that shop-owners who own stores, restaurants and offices in the lower floors can set up their homes in the upper levels. This makes doing business in Cityplace all the more favorable.

Cityplace is indeed not only a breath of fresh air in the crowded Binondo area, it has also become an important landmark that effectively stands as testament to the modernization of old Manila.

PROJECTS IN MAKATI, SAN JUAN

Even though Megaworld's long-standing strategy has been to tap new areas and mould them to become important business centers and picturesque residential districts; every now and then, the Company looks to the established business and residential districts for complementary real estate development projects. Two key cities that Megaworld has tapped for residential projects are Makati City, particularly the Makati Central Business District (CBD), and San Juan.

Megaworld's ongoing projects in Makati City are the Greenbelt Chancellor, a 35-story condominium project, the Company's first pre-furnished condominium in the area; the Greenbelt Excelsior, a 35-story residential tower that follows a modernist architectural style; Three Central, a 50-story residential tower on Valero Street in Salcedo Village; and the 31-story Greenbelt Madison, located on Salcedo Street in Legaspi Village near Ayala Avenue. Megaworld's project in San Juan, in turn, is aptly named Greenhills Heights, a

community of 215 residential units designed for families who want privacy and peace of mind in a low-density setting.

NORTH BONIFACIO CENTRAL DISTRICT AND JUSMAG

On top of all the residential projects it is currently undertaking, Megaworld is developing a huge 8.38-hectare property in the North Bonifacio Central District into a master-planned, mixed-use complex with more than 500,000 square meters of floor space. The Company is investing around P15.6 billion over the next 20 years to develop the property which is located in the northern district of Fort Bonifacio, near the school zone occupied by the British, Japanese and American international schools.

The Company will also be investing around P22 billion over the next two decades to develop the 34.5-hectare Jusmag property in Fort Bonifacio, at the back of Forbes Park, and turn it into a mixed-use complex. Around 60 percent of the entire property will be used for residential development projects while the rest will be used for leisure amenities, access roads and wide open spaces with lush greenery. This project will bring the total development portfolio of Megaworld at the Bonifacio Global City to more than 100 hectares.

Megaworld is also currently developing Uptown Bonifacio in Bonifacio Global City under a joint venture arrangement with the Bases Conversion and Development Authority. The 15-hectare Uptown Bonifacio is Megaworld's newest township project in the area and is envisioned to be a huge community of modern condominiums, offices, and retail establishments.

The community will be developed in phases and will eventually have 500,000 square meters of residential space, 400,000 square meters of office space and 90,000 square meters of commercial space. The very first residential development project in the community is One Uptown Residence, a 45-story, 660-unit condominium that was launched in 2011 and is expected to be completed by the third quarter of 2016.

A GROWING WORLD

Through the years, Megaworld has grown to become a leader in the Philippine real estate development industry. The Company has proven that it not only creates meaningful, world-class communities, it also substantially contributes to the country's infrastructure development.

When Megaworld launched Eastwood City in 1996, the Company set in motion an aggressive property development program that has seen high-end residential condominiums, modern corporate buildings, and huge integrated communities being constructed non-stop. In fact, Megaworld has even expanded beyond Metro Manila and Luzon with its brand-new township project in Cebu City: The Mactan Newtown, a 16-hectare integrated community that has everything that its urban counterparts have come to be known for. Indeed, Megaworld's growth through the years has been relentless, both as a company and in its real estate development projects.





Projects Launched



THE VICEROY TOWER 1 AND TOWER 2

The Viceroy was designed with young professionals and career-oriented couples in mind. The four-tower condominium project in McKinley Hill will offer affordable studio and one-bedroom units that are perfect for go-getters and startup families. In the first quarter of 2011, Megaworld unveiled the construction of the first two towers of the project with a total of 40 floors and 623 units. The two towers are slated for completion by the second quarter of 2016. The residential project will have all the facilities and amenities that are found in the most modern condominiums in the country. Moreover, as part of McKinley Hill, Megaworld's largest and most important township by far, The Viceroy is conveniently near leisure spots, retail establishments, business centers, and corporate offices.

101 NEWPORT BOULEVARD

Megaworld launched the construction of 101 Newport Boulevard in 2011 as a way for those who can't get enough of Newport City to enjoy the fun and excitement of the country's first and only tourism estate all-year-round. As its name suggests, 101 Newport Boulevard sits right on Newport Boulevard, the main avenue where most of Newport City's first-rate attractions are found. Moreover, Resorts World—with its shopping mall, gaming center, performing arts theater, casual and fine-dining restaurants, retail stores, movie houses, and other leisure establishments—is just a stone's throw away. Residents who opt for a more laid-back activity also have easy access to the Villamor Golf Course nearby.

The 101 Newport Boulevard residential condominium project has four clusters with a total of 336 units, all of which will be ready for occupancy by the second quarter of 2016. The most interesting thing about the project is its French Art Deco-inspired architectural design which is a throwback to the 1930s and which makes the building stand out among all the other buildings in the vicinity.





Projects Launched



GREENBELT HAMILTON

Greenbelt Hamilton is Megaworld's newest offering in Makati City. This residential project follows at the footsteps of the highly successful Greenbelt Madison which is just a block away. Greenbelt Hamilton is located in Legaspi Village and will have 31 stories and a total of 425 units upon completion. The project was unveiled late 2011 and will be completed by the second quarter of 2016. Situated at the heart of the Makati Central Business District--considered the most prestigious and most desired real estate in the city--Greenbelt Hamilton is close to around 3,000 dining establishments, six five-star hotels, and the country's top shopping malls and nightspots. Moreover, the project's proximity to upscale schools, hospitals, churches, banks, and leisure spots allows Greenbelt Hamilton residents full access to the active, affluent Makati lifestyle.





ONE UPTOWN RESIDENCE

One Uptown Residence is the very first phase of Uptown Bonifacio, Megaworld's ambitious township project in Bonifacio Global City. Uptown Bonifacio is a 15-hectare masterfully planned integrated mega-community that brings together luxury condominiums, corporate hubs, retail establishments and recreation centers within the country's newest center of business and leisure activity.

One Uptown Residence rises 45 stories high and features a streamlined glass-and-aluminum facade. The corners of the building showcase 20-meter-high rock walls with a water cascade feature. The condominium project also features sky lounges, air-conditioned badminton courts, bi-level sky gardens, stores, and restaurants. Upon completion, One Uptown Residence will have a basement-level walkway that is lined with commercial establishments and which serves to connect the condominium to the three-level Uptown Place mall.





Projects Launched



ONE EASTWOOD AVENUE TOWER 1

One Eastwood Avenue is Megaworld's latest residential project in Eastwood City, the company's most successful integrated township to date. In 2011, Megaworld launched the construction of One Eastwood Avenue's Tower 1 which is expected to be completed by the fourth quarter of 2015. The condominium project sits across Citibank Square, Eastwood Corporate Plaza, IBM Plaza, Cyber One and a host of establishments like retail shops, cinemas, gyms, health spas and fine and casual dining restaurants. Tower 1 will have a total of 988 units in its 45 floors. One Eastwood Avenue will have all the modern features, facilities, and amenities that Megaworld residential projects have come to be known for.



8 NEWTOWN BOULEVARD

Megaworld recently unveiled its newest township project, The Mactan Newtown, a 16-hectare mega-community in Lapu-Lapu City, Mactan Island, Cebu. With this new project, Megaworld has effectively crossed the boundaries of Metro Manila and Luzon and went south of the country to Cebu, right at the heart of the tourist and resort zone. The Mactan Newtown has everything that its counterpart townships in Metro Manila are known for: a prime location, modern condominiums with state-of-the-art facilities and amenities, and an integrated live-work-play environment.

Eight Newtown Boulevard is the first residential condominium in the brand-new community. The project was launched in the third quarter 2011 and is expected to be completed in less than three years. Upon completion, Eight Newtown Boulevard will have 17 stories with a total of 716 units.

The condominium was designed to cater to Cebuanos who want to experience Megaworld's brand of upscale living as well as local and foreign retirees who plan on spending their twilight years in a tropical setting amid friendly and hospitable people. Megaworld even partnered with the Philippine Retirement Authority to provide retirees special purchase privileges. The partnership also allows the facilitating of applications for the Special Resident Retiree's Visa of qualified foreign clients investing in real estate products. This early, Eight Newtown Boulevard has already captured the interest of people from nearby Asian countries such as Japan.





Projects Launched



MANHATTAN HEIGHTS TOWER B

When Manhattan Garden City was launched in 2006, it sought to redefine commuting in Metro Manila by seamlessly integrating the huge residential complex with the city's main mass-transit system. Now moving steadily towards completion, Manhattan Garden City—located at the Araneta Center in Cubao, Quezon City—has raised the bar high for mass-based residential projects.

The four-tower Manhattan Heights is the newest residential phase of the condominium complex. In the first quarter of 2011, Megaworld launched the construction of the phase's Tower B, which is slated for completion before the end of 2014. Tower B will have 33 stories with a total of 370 units. As part of 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, offering unprecedented convenience to commuting residents. Moreover, since the condominium complex is located at the Araneta Center, residents will enjoy easy access to a whole range of commercial establishments.



BELMONT LUXURY HOTEL

The Belmont Luxury Hotel is the latest component to Newport City, the country's first-ever integrated tourism estate. This project is the first of its kind in Newport City and is Megaworld's first condotel, which allows investors to purchase their very own luxury hotel suites and place them under the hotel's management group. Investors and unit-owners thus have the option of offering their units for rent much like regular hotel rooms or live in them and enjoy all the facilities and amenities of a first-class hotel 24 hours a day. Moreover, the Belmont Luxury Hotel is within Newport City where the action literally never stops. The Belmont Luxury Hotel project was launched in the second quarter of 2011 and is expected to be finished by the end of 2015. It will have 10 floors and a total of 480 hotel suites.



Results of Operations

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

REVIEW OF 2011 VERSUS 2010

During the year 2011 consolidated net income including its newly acquired subsidiaries amounting to Php8.16 billion, 60.37% higher than the previous year net income of Php5.09 billion. Consolidated total revenues composed of real estate sales, rental income, hotel income, and other revenues elevated by 39.35% from Php20.54 billion to Php28.63 billion resulting from strong property sales and increased leasing income and nonrecurring gain from sale of shares.

Development. Among product portfolios, the bulk of generated consolidated revenues came from the sale of condominium units and residential lots amounting to Php15.89 billion in 2011 compared to Php13.11 billion in 2010, an increase of 21.18%. The Group's registered sales mostly came from the following projects: Eight Forbestown in Fort Bonifacio Taguig; Eastwood Le Grand in Eastwood City; Mckinley West, Morgan Suites and The Venice Luxury Residences in Mckinley, Taguig City; Manhattan Heights in Quezon City; Newport Palmtree Villas, 81 Newport Boulevard and Newport City in Pasay.

Leasing. Rental income contributed 13.37% to the consolidated revenue and amounted to Php3.83 billion compared to Php2.70 billion reflected last year, a 42.02% increase. Contributing to the growth are the escalation and completion of additional leasing properties and increase in demand for office space from BPO Companies.

Hotel Operations. The Group's hotel operations posted an amount of Php392.17 million in 2011, an increase of 68.49%, from Php232.76 million in 2010. 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 32.32% from Php15.46 billion in 2010 to Php20.45 billion in 2011 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 2011 amounting to Php2.00 billion resulted to a 24.01% increase from 2010 reported amount of Php1.61 billion due to higher taxable income. 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.





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 including its newly acquired subsidiaries as of December 31, 2011 amounted to Php129.00 billion posted an increase of 32.94% compared to Php97.03 billion as of December 31, 2010. Cash and cash equivalents increased by 37.64% from Php22.03 billion in 2010 to Php30.32 billion in 2011 due to efficient collection of receivables and proceeds from bonds issuance as part of the company's financing activities. A 25.67% increase from its current and non-current trade and other receivables – Php37.39 billion as of December 31, 2011 compared to Php29.75 billion as of December 31, 2010, was due to higher sales for the period. An increase by 210.15% from Php6.29 billion in 2010 to Php19.50 billion in 2011 in residential and condominium units for sale pertains to additional construction cost attributable to ongoing projects, including on-going projects of newly acquired subsidiaries. Property development costs increased by 130.47% from last year-end's amount of Php3.80 billion to Php8.75 billion in 2011 due to the costs attributable to the development of various projects and including on-going projects of newly acquired subsidiaries. The company shows steady liquid position by having current assets amounting to Php77.66 billion in 2011 with an increase of 65.91% from December 31, 2010 balance of Php46.81 billion. On the other hand the group's current obligations stood at Php23.16 billion which reflected a 33.01% 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 decreased by 58.27%, from Php6.21 billion in 2010 to Php2.59 billion in 2011 was due to disposal and market value changes of its different invested securities. Trade and other payables amounted to Php7.30 billion and Php4.04 billion as of December 31, 2011 and 2010, respectively. The increase of 80.72% was due to an increase in amounts payable to the Company's suppliers and contractors in relation to its real estate developments and consolidation of new subsidiaries. Current customer's deposits as of December 31, 2011 amounted to P3.61 billion compared to Php1.01 billion

as of December 31, 2010 with a 256.37% increase due to aggressive marketing and pre-sales of various projects. The combined effect of current and non-current deferred income on real estate sales increased by 38.00% which amounted to Php5.26 billion as of December 31, 2011 compared to Php3.81 billion as of December 31, 2010 due to increase in unearned revenue. The Interest-bearing loans and borrowings current and non-current amounted to Php7.17 billion representing a 3.66% decrease from previous year-end's Php7.44 billion mainly due to principal payments. Other non-current liabilities amounted to P2.60 billion from P1.02 billion as of December 31, 2011 and 2010, respectively. The increase of 159.69% was due to increase in deferred rent arising from new lease contracts. On the other hand, bonds payable posted a net increase of 60.87% due to new issuance and settlement. Total Equity (including minority interest) increased by 24.36% from Php58.52 billion as of December 31, 2010 to Php72.77 billion as of December 31, 2011 due to the Group's continuous profitability.

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

	Year 2011	Year 2010
Current Ratio *1	3.35:1	2.69:1
Quick Ratio *2	1.31:1	1.27:1
Debt to Equity Ratio *3	0.34:1	0.27:1
Return on Assets *4	6.23%	5.18%
Return on Equity *5	13.18%	8.70%

*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.





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 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 has been designated as the new signing partner for the audit of the Company's financial statements as of 31 December 2009.

EVALUATION SYSTEM

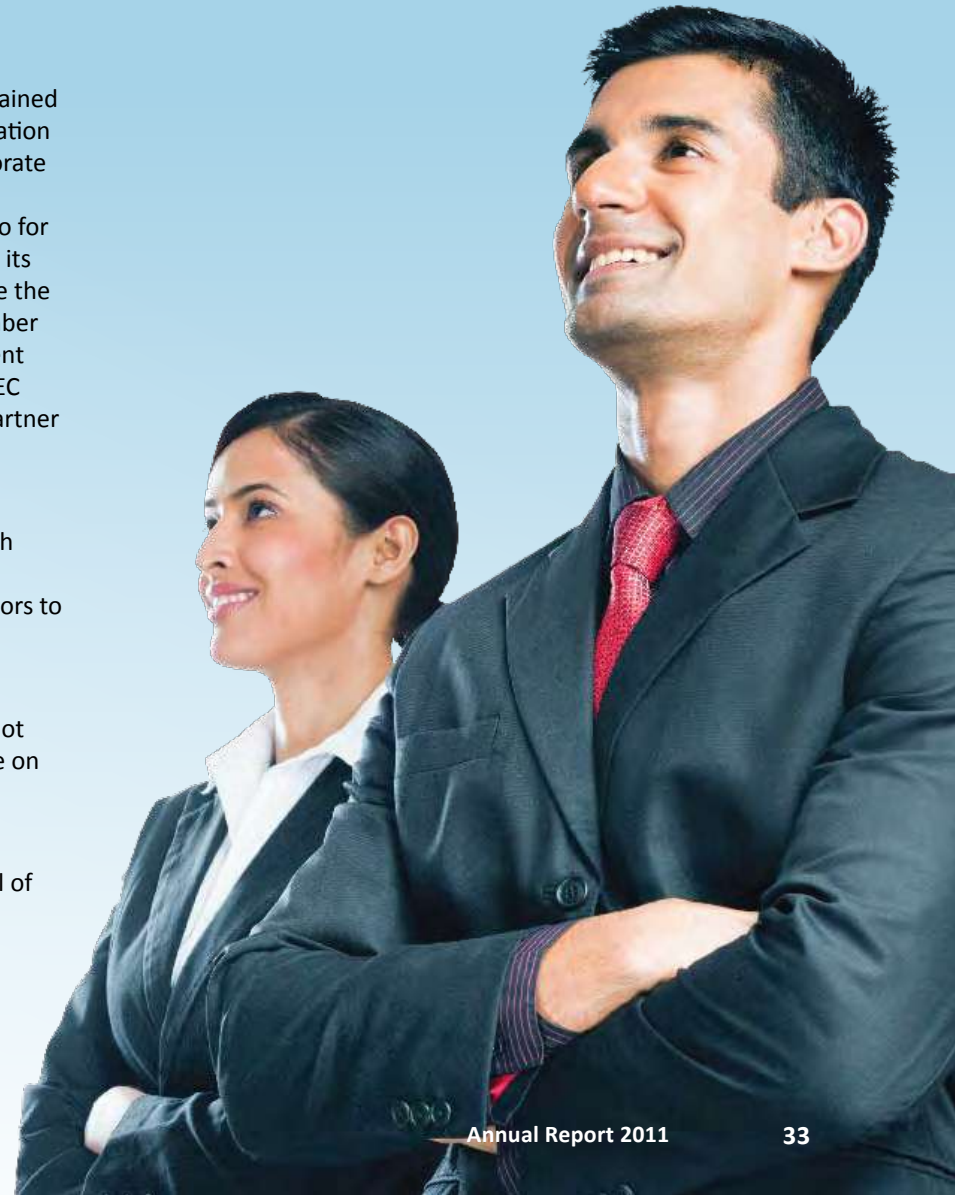
The Company has designated a Compliance Officer who is tasked with monitoring compliance with the provisions and requirements of its Manual on Corporate Governance. The Compliance Officer has established an evaluation system patterned after the CG Scorecard of the Institute of Corporate Directors to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

DEVIATIONS FROM MANUAL AND SANCTIONS IMPOSED

In 2011, 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 noncompliance 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 has revised its Manual of Corporate Governance to make the same compliant with the Revised Code of Corporate Governance.





Corporate Social Responsibility

Beyond the profits of Megaworld Corporation, the service the company renders and the contributions it makes to our society is what the company considers real success.

In today's business environment, Megaworld Corporation stands by on the principle that a corporation exists to serve others. Megaworld believes in both doing well and doing good, which is why the company does not limit itself to performing well in the real estate sector alone. Good corporate management, more than ever, translates to increased corporate social responsibility. For Megaworld, responsibility breeds a culture of service. The company believes that every corporation should embrace stewardship for the impact of its activities on customers, employees and stakeholders.

MEGAWORLD FOUNDATION, INC.

Corporate social responsibility programs are channeled through the company's socio-civic arm, Megaworld Foundation. Since its establishment in 1999, Megaworld Foundation has placed socio-economic development and the empowerment of the less privileged at the core of its endeavors.

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.

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.

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.

Vision

Megaworld Foundation, Inc. envisions 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 provide financial assistance to foundations and socio-civic organizations that share the same vision as the Foundation

Officers of Megaworld Foundation, Inc.

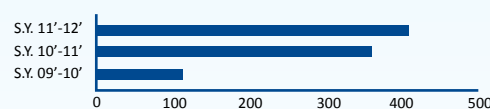
- Andrew L. Tan – Chairman
 - Francisco C. Canuto – President
 - Kevin L. Tan – Treasurer
 - Lourdes G. Clemente – Corporate Secretary
 - Monica T. Salomon
- Daniilo I. Madlansacay- Executive Director

THE PROGRAMS

Scholarship Program

As its first major initiative in 1999, the Foundation launched a college scholarship program in two pilot universities in Metro Manila, to help bright but needy students in realizing their dreams. With the need for continuous investment in human development, the program has grown for the past years. From 2009 of having one-hundred (111) scholars it increased to four-hundred seven (407) this 2011. This was possible through partnership with twenty-one universities and colleges.

Increase of Number of Scholars for the Past 3 Years



Total number of Scholars per school year

S.Y. 11'-12' - 111
 S.Y. 10'-11' - 361
 S.Y. 09'-10' - 407

The 21 Partner Universities and Colleges

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

The Foundation's Scholarship program aims to integrate this new generation of professionals into society – whose drive for excellence equals their passion for community involvement. The academic skills and knowledge of these future professionals, in the fields of Engineering, Architecture, Interior Design, Information Technology, Accountancy, Finance, Business and Legal courses, combined with a desire to be socially responsible, shall be the Foundation's contribution to the country's industrial advancement and economic progress.

INSTITUTION PARTNERSHIP- SPONSORSHIP AND DONATIONS

In addition to its scholarship grants, the Foundation has extended time and money to charitable causes. As exemplified by its partnerships from January 2011 to December 2011, Megaworld Foundation gave financial support to more than fifty (50) institutions.

The Foundation aspires to help improve the delivery of Philippine health care by donating to major hospitals and institutions focused on health care like, Philippine General Hospital, National Center for Mental Health and Philippine Red Cross and also health advocates- Philippine Cancer Society, Philippine Foundation for Breast Care Inc., EPCALM Adult Leukemia Foundation and Kythe Foundation.

It also espouses welfare projects for the Children and Youth, Women and the Elderly sectors by giving financial assistance to groups such as, UNICEF, World Vision Philippines, Children's Hour, HERO (Help Educate and Rear Orphans) Foundation, Inc., Boy Scout of the Philippines, Dynamic Teen Company-Kariton

Klasrum, C.R.I.B.S (Create Responsive Infants By Sharing), Virlaine Foundation, Tuloy Foundation and Casa Miani.

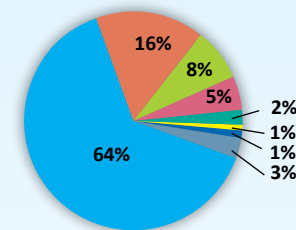
Aside from youth welfare, the Foundation also reaches out to the disadvantaged and people with disabilities and to the abandoned elderly, children and mentally challenged persons, by recognizing the sector's contributions through giving support to Cottolengo Filipino, Philippine Cerebral Palsy, Create a Job for the Disabled, Angelique Vizoro Deaf Ministry Foundation, Inc., Autism Society Philippines and Philippine Foundation for the Rehabilitation of the Disabled, Inc..

Environmental concern is also a prime importance for the Megaworld Foundation. Partnering with ABS-CBN Foundation's projects like Bantay Kalikasan-Eco Park Project and Takbo Para Sa Ilog Pasig just to name a few of its endeavors in helping to answer some of the environmental issues the country faces.

But for this year, with the calamities the country faced, Megaworld Foundation invested heavily in the relief assistance and the rehabilitation efforts through partnering with institutions such as; GMA Kapuso Foundation, ABS-CBN Sagip Kapamilya, Philippine Business for Social Progress, Community and Family Services International (CFSI), UNICEF, Philippine Red Cross.

DISTRIBUTION OF DONATION GIVING

- Calamity Disaster/Response
- Children and Youth/ Women/ Elderly
- Educational Support
- Health Delivery
- Person with Disability
- Environment
- Community Projects
- Others



EMPLOYEE VOLUNTEERISM AND INVOLVEMENT

With the belief that the employees are a key component in its CSR efforts, Megaworld Foundation promotes a culture of volunteerism and community involvement among its ranks. It organized activities where more than two-hundred individuals participated and totaling more than three thousand volunteer hours in various projects; ranging from feeding projects, medical missions, hospital repainting and also environmental advocacies. Partnerships were forged with He Cares Mission, Dalaw Kalinga Inc, ABS-CBN Bantay Kalikasan and Hands-on Manila.

The spirit of the Megaworld's Corporate Social Responsibility was encapsulated by Dr. Andrew L. Tan, Chairman of Megaworld Foundation, in one of his statements. He highlighted that, "We at the Megaworld Foundation, believe that we are a part of the communities we serve. Our sense of solidarity is reflected in our passion to uplift the youth and build the nation through education and charity."



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 and has served as its Chairman and President since its incorporation in 1989. He pioneered the live-work-play-learn model in real estate development through the Company's integrated township communities, fueling the growth of the business process outsourcing (BPO) industry. He has recently embarked on the development of integrated tourism estates through Alliance Global Group, Inc. and Global- Estate Resorts, Inc., which he both chairs, while continuing to focus on consumer-friendly food and beverage and quick service restaurants. Mr. Tan serves as Chairman of the Board of Empire East Land Holdings, Inc., a publicly-listed subsidiary of the Company, and Suntrust Properties, Inc., a subsidiary engaged in the development and marketing of affordable housing projects. He also serves in the boards of other Megaworld subsidiaries including Eastwood Cyber One Corporation, Megaworld Land, Inc., Megaworld Central Properties, Inc., Townsquare Development, Inc. and Richmonde Hotel Group International Limited. Mr. Tan is Chairman of Megaworld Foundation, the Company's corporate social responsibility arm, which primarily focuses on the promotion of education through scholarship programs for financially handicapped but deserving students, and supports causes that promote poverty alleviation, people empowerment, social justice, good governance and environmental conservation. He is a director of Travellers International Hotel Group, Inc., which owns Resorts World Manila, and the food and beverage companies, Emperador Distillers, Inc. Alliance Global Brands, Inc., Consolidated Distillers of the Far East, Inc. and Golden Arches Development Corporation.

KATHERINE L. TAN

DIRECTOR

Ms. Tan, has served as Director of the Company since 1989 and served as Treasurer of the Company from 1989 to 1994. She

is concurrently Director of Empire East Land Holdings, Inc. and Director and Treasurer of Alliance Global Group, Inc. She has extensive experience in the food and beverage industry and is currently Director of The Bar Beverage, Inc. and Choice Gourmet Banquet, Inc. She is Director and President of Consolidated Distillers of the Far East, Inc. and Raffles & Company, Inc. and is Director and Treasurer of Alliance Global Brands, Inc. and Emperador Distillers, Inc.

KINGSON U. SIAN

DIRECTOR/SENIOR VICE PRESIDENT AND EXECUTIVE DIRECTOR

Mr. Sian has served as Director of the Company since April 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., which owns Resorts World Manila, and Eastwood Cyber One Corporation. He is also Chairman and President of Prestige Hotels & Resorts, Inc., which operates the Company's Richmond Hotel and Eastwood Richmond Hotel. He is the Senior Vice President/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 has served as Director of the Company since July 2009. He was Vice President for the Corporate Communications & Advertising Division of the Company until his retirement in March 2011. He is concurrently a Director of Empire East Land Holdings, Inc. and First Oceanic Property Management Inc. He is a Director and the Corporate Secretary of Asia Finest Cuisine, Inc. and is Corporate Secretary of Empire East Communities, 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.

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 June 2006. He is presently the President of the Philippine Chamber of Commerce and Industry (PCCI) was formerly President and now presently Director of Manila Bulletin Publishing Corporation, Director of Ausphil Tollways Corporation, Director, NPC Alliance Corporation, Vice Chairman Richmond Hotel, among others. Chairman of the Employers Confederation of the Philippines (ECOP), Board of Trustee of Philippines Trade Foundation, Inc. Chairman of Pribadong Institusyon Laban sa Kahirapan (PILAK). Chairman of the Philippine Association of Voluntary Arbitration Foundation (PAVAF), and Vice Chairman of Philippine Dispute Resolution Center, Inc. (PDRCI). Also the Vice President of the International Labor Organization, Inc., and Vice Chairman and Trustee, 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 attended a Top Management and Productivity Program from the Asian Institute of Management (AIM) as well as special courses sponsored by ILO, Geneva, Switzerland, Asian Productivity Organization (APO), and the Nikkeren, Japan, covering areas of Managerial Management and Organizational Development, Productivity, Legal Management, Labor and Industrial Relations, Development of SME's among others. 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 and Confederation of Asia-Pacific Chamber of Commerce and Industry (CACCI) Medallion for Distinguished Service Award. He was also conferred by the Central Luzon State University with the degree of Doctor of Humanities (honoris causa), and by the Eulogio "Amang" Rodriguez University of Science and Technology with a Doctorate in Business Technology (honoris causa).

GERARDO C. GARCIA

INDEPENDENT DIRECTOR

Mr. Garcia has served as Director of the Company since 1994. He concurrently serves as independent director in the boards of Empire East Land Holdings, Inc. and Global-Estate Resorts, Inc. He also serves as independent director in Megaworld Land, Inc. and Suntrust Properties, Inc. He is a director of Philippine Tech. & Development Ventures, Inc. From October 1994 to December 1997, Mr. Garcia served as President of Empire East Land Holdings, Inc. Prior to that, Mr. Garcia served as 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 2001. He is Chairman of the Board of Directors of Seed Capital Ventures, Inc. and First Centro, Inc. 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. He is also the President of Seed Capital Corporation and RFC (HK) Limited. Mr. Guevara graduated from San Beda College in 1974, and received graduate degree from the Asian Institute of Management and 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



FRANCISCO C. CANUTO
Senior Vice President for Treasury

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, 2011 and 2010, in accordance with Philippine Financial Reporting Standards (PFRS), including the following additional supplemental information file separately from the basic financial statements:

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

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

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


ANDREW L. TAN
Chairman of the Board

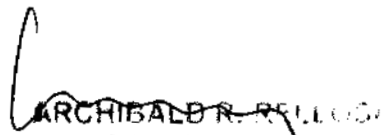

ANDREW L. TAN
Chief Executive Officer (President)


FRANCISCO C. CANUTO
SVP - (Treasurer)

SUBSCRIBED AND SWORN to before me on this 3rd day of April 2012 at Makati City, Philippines affiants exhibiting to me their Community Tax Certificate Nos. as follows:

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

Doc. No. 38;
 Page No. 7;
 Book No. 17;
 Series of 2012


ARCHIBALD R. BELLIDO
NOTARY PUBLIC
UNTIL DEC. 31, 2013
PTR NO. 3184588, MAKATI CITY
IBP NO. 867717 PASIG CITY
APPOINTMENT NO. M-245 (2012-2013)
MCLE EXEMPTION NO. 1-003083
ROLL NO. 4375



Statement of Management's Responsibility for Financial Statements

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The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

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


ANDREW L. TAN
Chairman of the Board

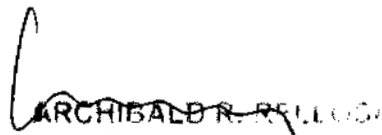

ANDREW L. TAN
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Report of Independent Auditors

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 the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

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

PUNONGBAYAN & ARAULLO


By: **Nelson J. Dinio**
Partner

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

March 26, 2012



Consolidated Statements of Financial Position

December 31, 2011 And 2010 (Amounts in Philippine Pesos)

	Notes	2011	2010		Notes	2011	2010
ASSETS				LIABILITIES AND EQUITY			
CURRENT ASSETS				CURRENT LIABILITIES			
Cash and cash equivalents	5	P 30,324,479,180	P 22,031,584,943	Interest-bearing loans and borrowings	14	P 1,879,292,646	P 1,311,354,897
Trade and other receivables - net	6	17,178,451,090	14,133,801,384	Bonds payable	15	-	3,416,062,159
Financial assets at fair value through profit or loss	7	109,203,260	125,000,000	Trade and other payables	16	7,296,966,494	4,037,713,348
Residential and condominium units for sale	3	19,497,662,902	6,286,477,215	Customers' deposits	2	3,610,212,295	1,013,053,489
Property development costs	3	8,753,452,084	3,798,108,537	Income tax payable		36,897,538	29,061,975
Prepayments and other current assets - net		1,801,123,705	437,227,590	Reserve for property development	2	5,107,725,787	3,640,068,354
				Deferred income on real estate sales	2	3,446,835,596	2,220,540,650
				Other current liabilities	17	1,778,496,717	1,741,665,060
Total Current Assets		77,664,372,221	46,812,199,669	Total Current Liabilities		23,156,427,073	17,409,519,932
NON-CURRENT ASSETS				NON-CURRENT LIABILITIES			
Trade and other receivables	6	20,209,042,452	15,617,214,463	Interest-bearing loans and borrowings	14	5,288,591,409	6,128,583,476
Advances to landowners and joint ventures	9	3,888,345,313	2,708,026,497	Bonds payable	15	13,538,914,490	5,000,000,000
Land for future development	2	4,366,523,063	1,482,561,015	Customers' deposits	2	456,003,854	1,222,422,709
Investments in available-for-sale securities	8	2,591,747,678	6,211,184,496	Reserve for property development	2	3,719,081,747	2,487,557,735
Investments in and advances to associates and other related parties	10	6,745,964,129	13,671,332,490	Deferred income on real estate sales	2	1,809,305,117	1,588,240,851
Investment property - net	11	12,372,290,665	9,716,530,045	Deferred tax liabilities - net	22	5,112,895,527	3,249,030,654
Property and equipment - net	12	540,859,730	360,518,201	Advances from other related parties	23	210,242,443	289,868,257
Deferred tax assets - net	22	7,333,579	7,860,539	Retirement benefit obligation	21	285,421,740	116,039,185
Other non-current assets	13	609,047,834	442,095,396	Other non-current liabilities	17	2,646,537,985	1,019,123,375
Total Non-current Assets		51,331,154,443	50,217,323,142	Total Non-current Liabilities		33,066,994,312	21,100,866,242
				Total Liabilities		56,223,421,385	38,510,386,174
TOTAL ASSETS		P 128,995,526,664	P 97,029,522,811	EQUITY	24		
				Total equity attributable to parent company's shareholders		60,956,151,542	57,776,023,630
				Non-controlling interests		11,815,953,737	743,113,007
				Total Equity		72,772,105,279	58,519,136,637
				TOTAL LIABILITIES AND EQUITY		P 128,995,526,664	P 97,029,522,811

See Notes to Consolidated Financial Statements.



Consolidated Statements of Income

For the Years Ended December 31, 2011, 2010 and 2009 (Amounts in Philippine Pesos)

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

See Notes to Consolidated Financial Statements.



Consolidated Statements of Comprehensive Income

For the Years Ended December 31, 2011, 2010 and 2009 (Amounts in Philippine Pesos)

	Notes	2011	2010	2009
NET PROFIT FOR THE YEAR				
		P 8,155,689,969	P 5,085,512,604	P 4,066,612,476
OTHER COMPREHENSIVE INCOME (LOSS)				
Net unrealized gains (losses) on available-for-sale (AFS) securities	8	(690,525,167)	4,031,843,227	1,211,879,519
Reclassification adjustments for gains (losses) on disposed AFS financial securities included in profit or loss	8	(2,997,737,000)	(473,319,584)	276,543,393
Reversal of unrealized losses on AFS securities of a deconsolidated subsidiary		-	63,656,553	-
Share in other comprehensive income (loss) of associates	10	(147,365)	71,176,649	-
		(3,688,409,532)	3,693,356,845	1,488,422,912
Translation adjustments		(12,808,786)	(186,558,030)	(86,806,621)
Less related tax	22, 24	3,842,636	55,967,408	26,041,986
		(8,966,150)	(130,590,622)	(60,764,635)
		(3,697,375,682)	3,562,766,223	1,427,658,277
TOTAL COMPREHENSIVE INCOME FOR THE YEAR				
		P 4,458,314,287	P 8,648,278,827	P 5,494,270,753
Total comprehensive income attributable to:				
Parent company's shareholders		P 4,334,508,829	P 8,588,946,798	P 5,483,059,468
Non-controlling interests		123,805,458	59,332,029	11,211,285
		P 4,458,314,287	P 8,648,278,827	P 5,494,270,753

See Notes to Consolidated Financial Statements.



Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2011, 2010 and 2009 (Amounts in Philippine Pesos)

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

See Notes to Consolidated Financial Statements.



Consolidated Statements of Cash Flows

For the Years Ended December 31, 2011, 2010 and 2009 (Amounts in Philippine Pesos)

	Notes	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		P 10,151,159,117	P 6,694,614,129	P 5,504,153,607
Adjustments for:				
Gain on sale of investments in available-for-sale securities	8	(2,178,458,080)	-	-
Interest income	19	(1,618,727,549)	(835,944,617)	(690,238,144)
Finance costs	20	884,058,862	516,440,321	556,326,705
Equity in net earnings of associates	10, 19	(597,834,536)	(442,281,307)	(157,958,213)
Depreciation and amortization	18	566,641,137	443,203,639	365,795,590
Dividend income	19	(32,661,662)	(40,630,134)	(44,247,127)
Fair value losses (gains) - net	19	7,851,631	(83,500,000)	(24,100,000)
Operating profit before working capital changes		7,182,028,920	6,251,902,031	5,509,732,418
Increase in trade and other receivables	(	2,332,556,852)	(5,467,069,558)	(6,201,387,858)
Decrease (increase) in residential and condominium units for sale	(	1,056,701,557)	412,044,886	127,249,526
Decrease (increase) in property development costs	(	236,023,249)	(77,405,610)	112,428,459
Decrease (increase) in prepayments and other current assets	(	660,103,590)	(69,471,133)	22,311,370
Decrease (increase) in advances to landowners and joint ventures		698,482,342	(1,500,000,001)	(872,978,395)
Increase in trade and other payables		2,461,337,793	204,094,188	854,376,714
Increase (decrease) in customers' deposits	(	543,697,574)	382,569,679	(141,485,147)
Increase in deferred income on real estate sales		1,195,329,212	1,075,230,757	537,798,066
Increase in reserve for property development		1,535,423,535	1,636,248,793	669,276,522
Increase in other liabilities		149,045,609	424,798,078	415,691,663
Cash generated from operations		8,392,564,589	3,272,942,110	1,033,013,338
Cash paid for income taxes	(	1,259,507,902)	(946,782,440)	(559,614,717)
Net Cash From Operating Activities		7,133,056,687	2,326,159,670	473,398,621
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investment property	11	(2,874,137,207)	(991,266,588)	(2,261,263,607)
Land for future development		(2,803,899,896)	(213,000,015)	-
Property and equipment	12	(87,466,426)	(62,373,098)	(33,162,257)
Net increase in investments in and advances to associates and other related parties	(	2,049,692,784)	(408,034,396)	(238,527,057)
Net decrease in investment in available-for-sale securities		3,880,528,366	472,360,615	2,912,115,871
Interest received		1,618,727,549	835,944,617	689,655,133
Net decrease (increase) in other non-current assets	(	179,971,650)	(221,527,843)	17,607,943

	Notes	2011	2010	2009
Dividends received	19	32,661,662	40,630,134	44,247,127
Payments made for the subscribed common stock of an associate	10	-	-	(1,583,687,182)
Net Cash Used in Investing Activities		(2,463,250,386)	(547,266,574)	(453,014,029)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from long-term liabilities	14, 15	9,013,788,580	-	7,400,000,000
Payments of long-term liabilities		(4,934,748,567)	(1,052,209,181)	(348,831,328)
Interest paid		(884,058,862)	(1,323,861,629)	(896,733,166)
Cash dividends paid	24	(599,265,803)	(519,885,465)	(479,061,765)
Proceeds from exercise of stock rights	24	-	2,272,642,649	2,854,914,076
Net Cash From (Used in) Financing Activities		2,595,715,348	(623,313,626)	8,530,287,817
NET INCREASE IN CASH AND CASH EQUIVALENTS		7,265,521,649	1,155,579,470	8,550,672,409
BEGINNING BALANCE OF CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		1,624,146,150	-	-
PREACQUISITION CHANGES IN CASH AND CASH EQUIVALENTS OF ACQUIRED SUBSIDIARIES		(596,773,562)	-	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		22,031,584,943	20,876,005,473	12,325,333,064
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 30,324,479,180	P 22,031,584,943	P 20,876,005,473

Supplemental Information on Non-cash Investing and Financing Activities

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

See Notes to Consolidated Financial Statements.



Notes to Consolidated Financial Statements

December 31, 2011, 2010 and 2009 (Amounts in Philippine Pesos)

1. Corporate Information

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

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

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

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

The Company holds interests in the following subsidiaries and associates:

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

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

Explanatory Notes:

- (a) Wholly owned subsidiary of MLI.
- (b) Acquired subsidiaries in 2008 but have not yet started commercial operations as of December 31, 2011.
- (c) In March 2011, the Company acquired 59% ownership in SPI. On December 31, 2011, the Company held a 42.48% share in SHDI and a 61.13% share in EELHI. However, since SHDI and EELHI in turn own 8% and 33% of SPI, respectively, this results to an additional indirect ownership of 23.5%. As a result, the Company owns SPI by 82.45%.
- (d) On various dates in 2011, the Company acquired an additional 12.75% ownership in EELHI, thereby making EELHI a subsidiary of the Company. As of December 31, 2011, the Company's ownership in EELHI stands at 61.13%.
- (e) MBPHI was incorporated in October 2011 and has not yet started commercial operations as of December 31, 2011. MBPHI is also 50% owned by TIHGI, thereby increasing the Company's ownership to 55%. TIHGI is 10% owned by the Company.
- (f) MREI was incorporated in 2007. MREI owns 60% of TDI as of December 31, 2011 resulting in the Company's indirect interest of 31% of TDI.
- (g) PIPI was incorporated in 2002 and acquired by the Company in 2006; has not yet started commercial operations as of December 31, 2011.
- (h) In November 2007, MREI acquired 100% ownership in GPMAI which resulted in the Company's indirect interest of 51% as of December 31, 2007. In 2008, MREI's ownership in GPMAI decreased to 60%; it further decreased to 28.85% in 2010. GPMAI was consolidated starting 2007 up to 2009; in 2010, it was deconsolidated and treated as an associate of the Group. As of December 31, 2011, EELHI has a 51.92% ownership in GPMAI bringing the Company's indirect ownership to 46.45%. Consequently, GPMAI became a subsidiary of the Company through EELHI, its intermediate parent company.
- (i) TDI was incorporated in 2006 and is owned by MREI at 60%. In this regard, the Company has indirect interest in TDI of 31%.
- (j) In February 2009, RHGI acquired 44.34% ownership in AGPL, which resulted in the Company's indirect interest of 44.34% as of December 31, 2009. In October 2010, AGPL issued additional shares of stock which resulted in the decrease in RHGI's ownership in AGPL to 39.44%. AGPL is considered

- as an associate due to the Company's significant influence, but not control, on AGPL.
- (k) TIHGI was incorporated in 2003 and started commercial operations in August 2009. In 2008, the Company acquired 10% ownership in TIHGI through a share swap agreement. In August 2010, the Company's investment in TIHGI was converted to 10.0 million common shares and 990.0 million preferred shares of TIHGI. Subsequently, in November 2010, TIHGI redeemed the 430.0 million preferred shares held by the Company. The conversion of common shares and the redemption of preferred shares did not change the Company's ownership in TIHGI. Although the Company's percentage ownership is only 10%, TIHGI was considered as an associate due to the Company's significant influence on TIHGI.
 - (l) MGEL was registered with the Securities and Exchange Commission on March 14, 2011 and has not yet started commercial operations as of December 31, 2011.

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

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

EELHI and SHDI are publicly listed companies in the Philippines.

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

2. Summary of Significant Accounting Policies

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

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

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



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- (ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Classification of Rights Issues* (effective from February 1, 2010). The amendment addresses the accounting for rights issues (e.g., rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. In particular, rights (and similar derivatives) to acquire a fixed number of an entity's own equity instruments for a fixed price stated in a currency other than the entity's functional currency, would be classified as equity instruments, provided the entity offers the rights pro rata to all of its existing owners of the same class of its own non-derivative equity instruments. The amendment has no effect on the consolidated financial statements as the Group has no rights issues denominated in a currency other than the Group's functional currency.
- (iii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits* that are subject to a minimum funding requirement. The adoption to the amendment did not have a material effect on its consolidated financial statements because it does not usually make substantial advance contributions to its retirement fund and the Group is not subject to a minimum funding requirement.
- (iv) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
 - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
 - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
 - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.
- The adoption of the interpretation did not have a material effect on the Group's consolidated financial statements as it did not extinguish financial liabilities through equity swap during the year.
- (v) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the consolidated financial statements which did not have any material impact:
- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group opted to continue to present other comprehensive income in the statement of comprehensive income.
 - PAS 27 (Amendment), *Consolidated and Separate Financial Statements* (effective from July 1, 2010). This amendment clarifies that the consequential amendments made to PAS 21, *The Effect of Changes in Foreign Exchange Rates*, PAS 28, *Investment in Associate*, and, PAS 31, *Investment in Joint Ventures*, arising from the PAS 27 (2008) amendments apply prospectively, to be consistent with the related PAS 27 transition requirements.
 - PAS 34 (Amendment), *Interim Financial Reporting – Significant Event and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report.
 - PFRS 3 (Amendments), *Business Combinations* (effective from July 1, 2010). The amendment clarifies that contingent consideration arrangement and balances arising from business combinations with acquisition dates prior to the entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances.
- It further clarifies that the choice of measuring non-controlling interest (NCI) at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of NCI are measured at fair value unless PFRS requires another measurement basis.
- This amendment also clarifies accounting for all share-based payment transactions that are part of a business combination, including unreplaced and voluntary replaced share-based payment awards. Specifically, this provides guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the acquisition, thus resulting to the accounting for these awards being the same as for the awards that the acquirer is obliged to replace.
- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security.

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

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

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

(c) *Effective Subsequent to 2011 but not Adopted Early*

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

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial assets, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.
- (ii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.
- (iii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and the Philippine Securities and Exchange Commission after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage of completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue upon

completion or after delivery. The Company is currently evaluating the impact of this interpretation on its financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines.

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

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

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

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

(v) *Consolidation Standards*

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associate, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.



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

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

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the

Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

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

(b) Investments in Associates

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

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

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

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

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

(c) Interests in Jointly Controlled Operations

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

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

(d) Transactions with Non-controlling Interests

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

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

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

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

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

2.4 Foreign Currency Transactions

(a) Transactions and Balances

Except for MCII, RHGI and AGPL, which use the U.S. dollars as their functional currency, the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

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

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

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end reporting period;
- (ii) Income and expenses for each profit or loss account are translated at the annual average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of equity.

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

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

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

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

2.5 Financial Assets

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

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



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

(a) *Financial Assets at FVTPL*

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

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

(b) *Loans and Receivables*

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

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

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

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

(c) *AFS Financial Assets*

This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included as Investments in AFS

Securities under non-current assets section in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months of the reporting period.

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

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

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

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

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

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

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

2.6 Real Estate Transactions

Acquisition costs of raw land intended for future development, including other costs and expenses incurred to effect the transfer of title of the property to the Company, are charged to the Land for Future Development account. These costs are reclassified to Property Development Costs account when the development of the property starts. Related property development costs are then accumulated in this account. Borrowing costs on certain loans incurred during the development of the real estate properties are also capitalized by the Company as part of the property development costs. Once a revenue transaction occurred, on a per project basis, up to the stage the unit is sold, the related property development costs are reclassified to Residential and Condominium Units for Sale. The cost of real estate property sold before completion of the development is determined based on the actual costs incurred to date plus estimated costs to complete the development of the property. The estimated expenditures for the development of sold real estate property, as determined

by the project engineers, are charged to the cost of residential and condominium units sold presented in the statement of income with a corresponding credit to the liability account, Reserve for Property Development account.

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

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

2.7 Investment Property

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

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

2.8 Property and Equipment

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

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing costs (see Note 2.17) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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

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

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

2.9 Financial Liabilities

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

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

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

Trade and Other Payables are initially recognized at their fair value and subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments.

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

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

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

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



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2.10 Business Combination

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

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

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

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

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

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

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

2.11 Segment Reporting

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

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

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

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

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

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

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

2.12 Provisions and Contingencies

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

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

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

2.13 Revenue and Expense Recognition

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2.14 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

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

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

2.15 Impairment of Non-financial Assets

The Group's Investments in Associates, Goodwill (included as part of Other Non-current Assets), Investment Property, Land for Future Development, and Property and Equipment are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of its fair value less costs-to-sell, and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows.



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

2.16 Employee Benefits

(a) Post-employment Benefit

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

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

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

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

(b) Compensated Absences

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

2.17 Borrowing Costs

For financial reporting purposes, borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the

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

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

2.18 Income Taxes

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

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

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

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

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

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

2.19 Related Party Transactions

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or

under common control with the Company; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Company that gives them significant influence over the Company and close members of the family of any such individual.

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

2.20 Equity

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

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

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

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

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

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

2.21 Earnings Per Share

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

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

2.22 Events after the Reporting Period

Any post-year-end event that provides additional information about the Group's financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. Significant Accounting Estimates and Judgments

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of Investments in AFS Securities

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

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

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

(c) Operating and Finance Leases

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

(d) Provisions and Contingencies

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



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3.2 Key Sources of Estimation Uncertainty

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

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

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

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

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

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

The carrying values of the Company's Residential and Condominium Units for Sale and Property Development Costs amounted to P19.5 billion and P8.8 billion, respectively, as of December 31, 2011 and P6.3 billion and P3.8 billion, respectively, as of December 31, 2010.

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

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

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

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

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

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

(e) Allowance for Impairment of Trade and Other Receivables

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

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

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

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

(g) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the balance of deferred tax assets as at December 31, 2011 and 2010 will be utilized within the next two to three years.

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

(h) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.15. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

(i) *Post-employment Benefit*

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

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

4. Segment Information

4.1 Business Segments

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

4.2 Segment Assets and Liabilities

Segment assets are allocated based on their physical location and use or direct association with a specific segment and they include all operating assets used by a segment and consist principally of operating cash,

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

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

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

2011

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
TOTAL REVENUES						
Sales to external customers	P 19,076,553,675	P 3,826,341,215	P 392,171,105	P 3,023,156,092	P -	P 26,318,222,087
Intersegment sales	-	53,969,793	-	166,500,934	(220,470,727)	-
Total revenues	<u>P 19,076,553,675</u>	<u>P 3,880,311,008</u>	<u>P 392,171,105</u>	<u>P 3,189,657,026</u>	<u>(P 220,470,727)</u>	<u>P 26,318,222,087</u>
RESULTS						
Segment results	<u>P 3,532,707,027</u>	<u>P 2,903,020,448</u>	<u>P 99,220,101</u>	<u>P 2,384,111,424</u>	<u>P 25,888,853</u>	<u>P 8,944,947,853</u>
Unallocated expenses						(199,278,575)
Income from operations						8,745,669,278
Interest income	-	-	-	1,618,727,549	-	1,618,727,549
Finance costs	-	-	-	(884,058,862)	-	(884,058,862)
Equity in net earnings of associates	-	-	-	597,834,536	-	597,834,536
Foreign currency gains – net	-	-	-	65,503,537	-	65,503,537
Dividend income	-	-	-	32,661,662	-	32,661,662
Fair value gains (losses) – net	-	-	-	(7,851,631)	-	(7,851,631)
Profit before tax						10,168,486,069
Tax expense						(1,995,469,148)

(Forward)



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2011

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
Net profit before non-controlling interests and preacquisition income						8,173,016,921
Preacquisition income of a subsidiary						(17,326,952)
Non-controlling interests' share in net profit						(123,805,458)
Net profit attributable to parent company's shareholders						<u>P 8,031,884,511</u>

ASSETS AND LIABILITIES

Segment assets	<u>P 93,027,684,188</u>	<u>P 13,098,763,945</u>	<u>P 261,591,040</u>	<u>P 13,444,018,245</u>	<u>P -</u>	<u>P 119,832,057,418</u>
Investments in and advances to associates and other related parties - net	-	-	-	6,745,964,129	-	6,745,964,129
Unallocated assets	-	-	-	2,417,505,117	-	2,417,505,117
Total assets	<u>P 93,027,684,188</u>	<u>P 13,098,763,945</u>	<u>P 261,591,040</u>	<u>P 22,607,487,491</u>	<u>P -</u>	<u>P 128,995,526,664</u>
Segment liabilities	<u>P 46,802,707,496</u>	<u>P 1,853,118,305</u>	<u>P 111,753,205</u>	<u>P 7,455,842,379</u>	<u>P -</u>	<u>P 56,223,421,385</u>

OTHER SEGMENT INFORMATION

Project and capital expenditures						P 19,825,843,992
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2010

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
TOTAL REVENUES						
Sales to external customers	P15,399,973,187	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	<u>P15,399,973,187</u>	<u>P 2,746,325,419</u>	<u>P 232,757,023</u>	<u>P 988,363,450</u>	<u>(P 231,900,800)</u>	<u>P19,135,518,279</u>
RESULTS						
Segment results	<u>P 3,042,478,040</u>	<u>P 2,062,875,628</u>	<u>P 38,125,649</u>	<u>P 752,871,759</u>	<u>P 25,888,853</u>	<u>P 5,922,239,929</u>
Unallocated expenses						(117,450,295)
Income from operations						5,804,789,634
Interest income	-	-	-	835,944,617	-	835,944,617
Finance costs	-	-	-	(516,440,321)	-	(516,440,321)
Equity in net earnings of associates	-	-	-	442,281,307	-	442,281,307

(Forward)

2010

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
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	-	<u>3,908,758</u>
Profit before tax						6,694,614,129
Tax expense						(1,609,101,525)
Net profit before non-controlling interests						5,085,512,604
Non-controlling interests' share in net profit						(59,332,029)
Net profit attributable to parent company's shareholders						<u>P 5,026,180,575</u>

2010

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
ASSETS AND LIABILITIES						
Segment assets	<u>P 63,241,644,678</u>	<u>P 5,919,037,407</u>	<u>P 178,376,810</u>	<u>P 13,025,093,222</u>	<u>P -</u>	<u>P82,364,152,117</u>
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	<u>P63,241,644,678</u>	<u>P 5,919,037,407</u>	<u>P 178,376,810</u>	<u>P27,690,463,916</u>	<u>P -</u>	<u>P97,029,522,811</u>
Segment liabilities	<u>P32,027,981,425</u>	<u>P 1,530,032,850</u>	<u>P 78,854,006</u>	<u>P 4,873,517,893</u>	<u>P -</u>	<u>P38,510,386,174</u>
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P13,460,175,204

2009

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
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	<u>P 14,566,449,663</u>	<u>P 2,062,525,365</u>	<u>P 216,143,646</u>	<u>P 130,156,924</u>	<u>(P 133,160,401)</u>	<u>P16,842,115,197</u>

(Forward)

2009

	<u>Real Estate</u>	<u>Rental</u>	<u>Hotel Operations</u>	<u>Corporate and Others</u>	<u>Elimination</u>	<u>Consolidated</u>
RESULTS						
Segment results	<u>P 3,721,385,850</u>	<u>P 1,535,784,727</u>	<u>P 44,321,641</u>	<u>P 31,021,942</u>	<u>P 25,888,853</u>	P 5,358,403,013
Unallocated expenses						(206,001,589)
Income from operations						5,152,401,424
Interest income	-	-	-	690,238,144	-	690,238,144
Finance costs	-	-	-	(556,326,705)	-	(556,326,705)
Equity in net earnings of associates	-	-	-	157,958,213	-	157,958,213
Dividend income	-	-	-	44,247,127	-	44,247,127
Fair value gains – net	-	-	-	24,100,000	-	24,100,000
Foreign currency loss – net	-	-	-	(8,464,596)	-	(8,464,596)
Profit before tax						5,504,153,607
Tax expense						(1,437,541,131)
Net profit before non-controlling interests						4,066,612,476
Non-controlling interests' share in net profit						(11,211,285)
Net profit attributable to parent company's shareholders						<u>P 4,055,401,191</u>
ASSETS AND LIABILITIES						
Segment assets	<u>P 55,378,759,577</u>	<u>P 5,072,588,995</u>	<u>P 182,070,130</u>	<u>P 11,172,314,788</u>	<u>P -</u>	P 71,805,733,490
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	<u>P 55,378,759,577</u>	<u>P 5,072,588,995</u>	<u>P 182,070,130</u>	<u>P 24,620,353,743</u>	<u>P -</u>	<u>P 85,253,772,445</u>
Segment liabilities	<u>P 28,887,111,381</u>	<u>P 1,102,204,707</u>	<u>P 51,504,125</u>	<u>P 5,377,235,672</u>	<u>P -</u>	<u>P 35,418,055,885</u>
OTHER SEGMENT INFORMATION						
Project and capital expenditures						P 10,700,484,872

5. Cash and Cash Equivalents

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

	<u>2011</u>	<u>2010</u>
Cash on hand and in banks	P 2,049,865,776	P 1,109,041,947
Short-term placements	28,274,613,404	20,922,542,996
	<u>P 30,324,479,180</u>	<u>P 22,031,584,943</u>

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

6. Trade and other Receivables

This account is composed of the following:

	<u>2011</u>	<u>2010</u>
Current:		
Trade	P 15,414,359,792	P 12,899,356,339
Allowance for impairment	(18,458,087)	(3,324,211)
	15,395,901,705	12,896,032,128
Advances to contractors and suppliers	1,173,135,782	710,223,731
Others	609,413,603	527,545,525
	<u>17,178,451,090</u>	<u>14,133,801,384</u>
Non-current:		
Trade	20,207,201,820	15,617,214,463
Allowance for impairment	(12,224,936)	-
	20,194,976,884	15,617,214,463
Others	14,065,568	-
	<u>20,209,042,452</u>	<u>15,617,214,463</u>
	<u>P 37,387,493,542</u>	<u>P 29,751,015,847</u>



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

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

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

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

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

7. Financial Assets At Fair Value Through Profit Or Loss

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

8. Investments In Available-For-Sale Securities

AFS securities comprise the following as of December 31:

	<u>2011</u>		<u>2010</u>
Investments in equity instruments	P 2,030,052,709	P	5,535,716,669
Investments in debt instruments	561,694,969		675,467,827
	<u>P 2,591,747,678</u>	P	<u>6,211,184,496</u>

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

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

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

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

9. Advances to Landowners and Joint Ventures

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

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

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

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

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

	<u>2011</u>		<u>2010</u>
Total commitment for cash advances	P 20,000,000	P	1,500,000,000
Total cash advances granted	(20,000,000)	(	<u>1,500,000,000)</u>
Net Commitment	P -	P	<u>-</u>

The net commitment for construction expenditures amounts to:

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

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

Parent company:

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

EELHI:

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

The aggregate amounts of the current assets, long-term assets, current liabilities, long-term liabilities, income and expenses as of and for the years ended December 31, 2011, 2010 and 2009 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, 2011 and 2010, the Group either has no other contingent liabilities with regard to these joint ventures or has assessed that the probability of loss that may arise from contingent liabilities is remote.

10. Investments in and Advances to Associates and Other Related Parties

10.1 Breakdown of Carrying Values

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

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

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

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



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

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

In October 2010, GPL issued additional 57.7 million common shares. Out of the total number of shares that GPL 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 GPL to 39.44% in 2010. No additional shares was issued by GPL in 2011.

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

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

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

10.2 Summarized Financial Information

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

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenues</u>	<u>Net Profit (Loss)</u>
2011:				
SHDI	P 346,218,249	P 238,560,591	P 174,125,973	(P 3,271,785)
PTHDC	1,137,402,691	1,005,276,839	115,409	(157,289)
MGEI	12,032,991	-	34,940	(467,014)
AGPL	6,043,588,479	8,263,874	295,614,455	282,114,487
TIHGI	<u>45,595,379,043</u>	<u>26,801,261,974</u>	<u>26,348,582,418</u>	<u>4,838,534,174</u>
	<u>P53,134,621,453</u>	<u>P28,053,363,278</u>	<u>P26,818,473,195</u>	<u>P 5,116,752,573</u>
2010:				
EELHI	P 27,802,956,436	P 8,272,469,687	P 2,252,537,377	P 250,265,682
SHDI	574,763,978	463,834,535	8,292,806	4,749,928
PTHDC	1,137,581,235	1,005,298,094	64,128	(178,157)
GPMAI	749,039,928	157,143,964	185,277,507	166,260,340
AGPL	6,352,873,392	7,846,770	205,630,984	95,518,781
TIHGI	<u>40,779,934,827</u>	<u>26,822,878,282</u>	<u>14,876,965,463</u>	<u>3,220,646,817</u>
	<u>P 77,397,149,796</u>	<u>P 36,729,471,332</u>	<u>P 17,528,768,265</u>	<u>P 3,737,263,391</u>

11. Investment Property

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

	<u>Land</u>	<u>Buildings</u>	<u>Condominium Units</u>	<u>Total</u>
December 31, 2011				
Cost	P 1,412,634,527	P 7,960,842,147	P 4,977,714,772	P 14,351,191,446
Accumulated depreciation	-	(1,191,162,815)	(787,737,966)	(1,978,900,781)
Net carrying amount	<u>P 1,412,634,527</u>	<u>P 6,769,679,332</u>	<u>P 4,189,976,806</u>	<u>P12,372,290,665</u>

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	<u>P 1,412,634,527</u>	<u>P 4,948,618,105</u>	<u>P 3,355,277,413</u>	<u>P 9,716,530,045</u>
January 1, 2010				
Cost	P 1,427,094,149	P 5,621,910,029	P 3,219,937,754	P 10,268,941,932
Accumulated depreciation	(-)	(724,584,211)	(438,572,652)	(1,163,156,863)
Net carrying amount	<u>P 1,427,094,149</u>	<u>P 4,897,325,818</u>	<u>P 2,781,365,102</u>	<u>P 9,105,785,069</u>

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

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

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

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

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

12. Property and Equipment

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

	<u>Condominium Units</u>	<u>Office Furniture, Fixtures and Equipment</u>	<u>Office and Land Improvements</u>	<u>Transportation Equipment</u>	<u>Land</u>	<u>Total</u>
December 31, 2011						
Cost	P 707,071,366	P 295,154,303	P 146,350,111	P 99,645,611	P 81,095,000	P 1,329,316,391
Accumulated depreciation and amortization	(463,382,815)	(180,626,286)	(82,351,477)	(62,096,083)	-	(788,456,661)
Net carrying amount	<u>P 243,688,551</u>	<u>P 114,528,017</u>	<u>P 63,998,634</u>	<u>P 37,549,528</u>	<u>P 81,095,000</u>	<u>P 540,859,730</u>
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	<u>P 209,816,335</u>	<u>P 70,304,535</u>	<u>P 56,667,018</u>	<u>P 23,730,313</u>	<u>P -</u>	<u>P 360,518,201</u>

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	Condominium Units	Office Furniture, Fixtures and Equipment	Office and Land Improvements	Transportation Equipment	Land	Total
January 1, 2010 Cost	P 636,068,482	P 164,774,710	P 110,228,731	P 68,340,932	P -	P 979,412,855
Accumulated depreciation and amortization	(384,211,287)	(112,828,976)	(62,091,448)	(39,104,161)	-	(598,235,872)
Net carrying amount	<u>P 251,857,195</u>	<u>P 51,945,734</u>	<u>P 48,137,283</u>	<u>P 29,236,771</u>	<u>P -</u>	<u>P 381,176,983</u>

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

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

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

13. Other Non-Current Assets

This account consists of:

	2011	2010
Goodwill	P 345,053,732	P 264,768,344
Guarantee and other deposits	260,906,603	174,767,810
Others	3,087,499	2,559,242
	<u>P 609,047,834</u>	<u>P 442,095,396</u>

Goodwill is subject to impairment testing at least annually. No impairment losses were recognized in 2011 and 2010.

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

14. Interest-Bearing Loans and Borrowings

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

	<u>2011</u>		<u>2010</u>
Current:			
Megaworld Corporation	P 1,203,380,952	P	1,203,380,952
SPI	400,000,000		-
EELHI	221,870,556		-
ECOC	54,041,138		107,973,945
	<u>P 1,879,292,646</u>	P	<u>1,311,354,897</u>
Non-current:			
Megaworld Corporation	4,871,214,286		6,074,595,238
EELHI	417,377,123		-
ECOC	-		53,988,238
	<u>5,288,591,409</u>		<u>6,128,583,476</u>
	<u>P 7,167,884,055</u>	P	<u>7,439,938,373</u>

14.1 Megaworld Corporation

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

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

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

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

14.2 EELHI

EELHI has outstanding secured and unsecured loans from local banks. The loans bear annual interest rates ranging from 9.5% to 10.5% in 2011. Certain properties with an estimated carrying value of P1.6 billion as of December 31, 2011, are used as collateral for the P639.2 million bank loan.

Bank loans also include amounts arising from trade receivables discounted on a with-recourse basis (see Note 6). Finance costs that are directly attributable to construction of the EELHI's projects are capitalized as part of Residential and Condominium Units for Sale. The remaining interest costs are expensed outright and are presented as part of Interest and Other Charges - net in the 2011 consolidated statement of income.

Included also in the balance is the portion of a P400.0 million loan obtained in 2006. This loan bears annual interest of 10.5%. The principal amount is payable in seven equal annual amortization beginning March 15, 2007.

14.3 SPI

In 2011, SPI availed of short-term loans from a local bank amounting to P400.0 million. This loan bears an annual interest rate of 5.5% upon maturity in 2012.

14.4 ECOC

The amount payable by ECOC pertains to the balance of a long-term loan facility obtained in 2002 with an original amount of U.S. \$25 million (approximately P1.3 billion) from a foreign financial institution. The proceeds of the loan were used in the construction of several information technology buildings at the Eastwood CyberPark which is operated by ECOC. The drawdown from the loan facility amounting to U.S.\$20 million (P1.0 billion) was made on October 15, 2002. The loan is payable in 10 years, inclusive of a two-and-a-half year grace period on principal payment. Interest is payable every six months at London Inter-bank Offer Rate plus certain spread. Collaterals for the loan consisted of a mortgage over ECOC's certain Investment Property (see Note 11), and a full guarantee from the parent company.

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

Total finance costs attributable to these loans amounted to P523.4 million, P620.6 million in 2011 and 2010, respectively. Of these amounts, the balance of the interest is presented as part of Finance Costs under Interest and Other Charges - net in the consolidated statements of income (see Note 20). Interest charges capitalized in 2011 and 2010 amount to P355.6 million and P384.1 million, respectively. Capitalization rate used in determining the amount of interest charges qualified for capitalization is 8.29%.

15. Bonds Payable

On April 15, 2011, the Group issued seven-year term bonds totaling U.S. \$200 million. The bonds bear interest at 6.75% per annum payable semi-annually in arrears every April 15 and October 15 each year starting October 15, 2011. The bond will mature on April 15, 2018.



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

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

16. Trade and Other Payables

This account consists of:

	<u>2011</u>	<u>2010</u>
Trade payables	P 5,241,397,638	P 2,203,109,184
Retention payable	1,349,444,587	1,211,950,863
Accrued interest	303,706,055	285,314,152
Accrued construction cost	64,837,800	77,369,336
Miscellaneous	337,580,414	259,969,813
	<u>P 7,296,966,494</u>	<u>P 4,037,713,348</u>

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:

	<u>2011</u>	<u>2010</u>
Current:		
Unearned income	P 1,513,744,516	P 939,203,207
Deferred rent	27,698,235	797,618,036
Other payables	<u>237,053,966</u>	<u>4,843,817</u>
	<u>P 1,778,496,717</u>	<u>P 1,741,665,060</u>
Non-current:		
Deferred rent – net	P 1,943,654,006	P 732,378,814
Other payables	<u>702,883,979</u>	<u>286,744,561</u>
	<u>P 2,646,537,985</u>	<u>P 1,019,123,375</u>

Other payables mainly comprised of commission payable to the Group's real estate agents and SPI's liability on assigned receivables.

18. Operating Expenses

Presented below are the details of this account.

	Notes	<u>2011</u>	<u>2010</u>	<u>2009</u>
Commission		P 934,748,085	P 467,977,819	P 471,837,004
Salaries and employee benefits	21	775,558,589	437,045,219	343,257,217
Advertising and promotions		572,052,650	189,619,585	148,996,615
Depreciation and amortization	11, 12	566,641,137	443,203,639	365,795,590
Utilities and supplies		215,840,286	141,065,957	79,752,963
Taxes and licenses		196,304,569	110,188,073	134,286,970
Professional fees and outside services		176,664,004	68,426,284	28,773,878
Rent		163,714,850	60,263,992	47,103,336
Transportation		142,590,321	103,626,296	100,083,640
Association dues		103,023,327	51,261,055	28,355,868
Miscellaneous		<u>269,087,243</u>	<u>67,547,715</u>	<u>59,877,805</u>
		<u>P 4,116,225,061</u>	<u>P 2,140,225,634</u>	<u>P 1,808,120,886</u>

19. Equity in Net Earnings of Associates, Interest and Other Income

Presented below are the details of this account.

	Notes	2011	2010	2009
Gain on sale of available-for-sale securities		P 2,242,526,309	P 646,720,788	P -
Interest income		1,618,727,549	835,944,617	690,238,144
Equity in net earnings of associates	10	597,834,536	442,281,307	157,958,213
Construction income – net		138,492,457	101,962,175	26,473,236
Foreign currency gains – net		65,503,537	3,908,758	-
Dividend income		32,661,662	40,630,134	44,247,127
Fair value gains (losses) – net	7	(7,851,631)	83,500,000	24,100,000
Miscellaneous – net		642,137,327	59,794,552	32,571,224
		<u>P 5,330,031,746</u>	<u>P 2,214,742,331</u>	<u>P 975,587,944</u>

20. Interest and Other Charges

Presented below are the details of this account.

	Notes	2011	2010	2009
Finance costs	14, 15	P 884,058,862	P 516,440,321	P 556,326,705
Foreign currency losses – net	7	-	-	8,464,596
Underwriting fees		-	-	21,505,376
Miscellaneous – net		19,467,573	27,960,793	1,247,492
		<u>P 903,526,435</u>	<u>P 544,401,114</u>	<u>P 587,544,169</u>

Finance costs pertain to interest expense incurred from the bonds payable and interest-bearing loans.

21. Employee Benefits

21.1 Salaries and Employee Benefits

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

	2011	2010	2009
Salaries and wages	P 562,075,202	P 271,233,637	P 229,301,717
Retirement benefit expense	77,666,352	37,271,665	23,547,960
13 th month and other employee benefits	135,817,035	128,539,917	90,407,540
	<u>P 775,558,589</u>	<u>P 437,045,219</u>	<u>P 343,257,217</u>

21.2 Post-employment Benefit

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

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

	2011	2010
Present value of the obligation	P 557,555,467	P 209,714,448
Fair value of plan assets	(76,027,689)	(53,207,861)
Deficiency of plan assets	481,527,778	156,506,587
Unrecognized past service costs	(3,656,813)	-
Unrecognized actuarial losses	(192,449,225)	(40,467,402)
	<u>P 285,421,740</u>	<u>P 116,039,185</u>

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

	2011	2010
Balance at beginning of year	P 209,714,448	P 163,802,833
Actuarial loss	150,015,737	11,732,057
Balance carried from new subsidiaries (EELHI and SPI)	121,158,535	-
Current service costs	54,081,117	23,934,917
Interest costs	25,966,462	15,086,241
Benefits paid	(3,380,832)	(4,841,600)
Balance at end of year	<u>P 557,555,467</u>	<u>P 209,714,448</u>



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

	2011		2010
Balance at beginning of year	P 53,207,861	P	40,427,396
Contributions paid into the plan	13,900,000		12,000,000
Expected return on plan assets	3,316,664		2,425,644
Additions due to consolidation of EELHI and SPI	3,104,807		-
Actuarial gain	5,879,189		3,196,421
Benefits paid	(3,380,832)	(	4,841,600)
Balance at end of year	<u>P 76,027,689</u>	P	<u>53,207,861</u>

The Group's plan assets as of December 31, 2011 and 2010 are solely in the form of cash and cash equivalents which are being administered by a trustee. The contributions to the plan are made annually by the Group based on availability of funds.

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

	2011		2010		2009
Current service costs	P 54,081,117	P	23,934,917	P	14,995,640
Interest costs	25,966,462		15,086,241		10,363,160
Expected return on plan assets	(3,316,764)	(	2,425,644)	(	1,545,814)
Past service cost	199,580		-		-
Net actuarial losses (gains) recognized during the year	<u>735,957</u>		<u>676,151</u>	(	<u>265,026</u>)
	<u>P 77,666,352</u>	P	<u>37,271,665</u>	P	<u>23,547,960</u>

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

	2011	2010	2009	2008	2007
Present value of the obligation	P557,555,467	P209,714,448	P 163,802,833	P 91,871,990	P 128,399,196
Fair value of plan assets	(76,027,689)	(53,207,861)	(40,427,396)	(26,200,243)	(21,000,000)
Deficiency of plan assets	<u>P481,527,778</u>	<u>P 156,506,587</u>	<u>P 123,375,437</u>	<u>P 65,671,747</u>	<u>P 107,399,196</u>

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

	2011	2010
Discount rates	8.0%	9.2%
Expected rate of return on plan assets	6.0%	6.0%
Expected rate of salary increases	10.0%	10.0%

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

22. Current And Deferred Taxes

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

	2011		2010		2009
<i>Reported in consolidated statements of income:</i>					
<i>Current tax expense:</i>					
Regular corporate income tax (RCIT) at 30%	P 1,054,538,463	P	813,802,554	P	512,512,346
Final tax at 20% and 7.5%	181,904,031		111,933,084		86,375,275
Special tax rate at 5%	18,802,816		19,479,041		15,866,373
Minimum corporate income tax (MCIT) at 2%	<u>1,029,759</u>		<u>425,765</u>		<u>26,324</u>
	<u>1,256,275,069</u>		<u>945,640,444</u>		<u>614,780,318</u>
Deferred tax expense relating to origination and reversal of temporary differences	<u>739,194,079</u>		<u>663,461,081</u>		<u>822,760,813</u>
	<u>P 1,995,469,148</u>	P	<u>1,609,101,525</u>	P	<u>1,437,541,131</u>

<i>Reported in consolidated statements of comprehensive income –</i>					
<i>Deferred tax income relating to origination and reversal of temporary differences</i>					
	<u>(P 3,842,636)</u>	(P	<u>55,967,408)</u>	(P	<u>26,041,986)</u>

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

	2011	2010	2009
Tax on pretax profit at 30%	P 3,045,347,735	P 2,008,384,239	P 1,651,246,082
Adjustment for income subjected to lower income tax rates	(310,945,790)	(152,228,235)	(139,778,356)
Tax effects of:			
Non-taxable income	(1,215,511,134)	(462,560,168)	(170,042,598)
Non-deductible expenses	461,886,444	214,450,368	50,688,383
Net operating loss carry over (NOLCO)	10,266,270	1,000,962	8,483,984
Non-deductible interest expense	5,576,527	49,245,102	38,308,284
Excess of optional standard deduction over itemized deductions	(4,906,889)	(5,784,318)	(3,672,931)
Unrecognized deferred tax assets	2,789,101	10,225,726	3,514,346
Dividend income	(1,858,980)	(52,444,145)	(1,356,764)
Miscellaneous	2,825,864	(1,188,006)	150,701
Tax expense	P 1,995,469,148	P 1,609,101,525	P 1,437,541,131

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

	2011	2010
Deferred tax assets:		
Retirement benefit obligation	P 3,818,787	P 3,186,559
NOLCO	2,881,547	4,141,606
Accrued rent expense	35,829	68,417
Others	597,416	463,957
	P 7,333,579	P 7,860,539
Deferred tax liabilities:		
Uncollected gross profit	P 4,184,468,051	P 2,697,434,301
Capitalized interest	785,595,394	443,717,090
Difference between the tax reporting base and financial reporting base of:		
- Investment property	163,048,030	201,696,863
- Property and equipment	(19,520,145)	(19,790,916)
Uncollected rental income	76,840,485	-
Accrued retirement cost	(55,361,532)	(43,301,756)
Translation adjustments	(31,481,851)	(70,281,317)
Bond issuance cost	23,908,448	-
Others	(14,601,353)	39,556,389
	P 5,112,895,527	P 3,249,030,654

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

	Consolidated Statements of Income			Consolidated Statements of Comprehensive Income		
	2011	2010	2009	2011	2010	2009
Changes in deferred tax assets:						
NOLCO	P 1,260,059	P 793,817	(P 4,890,626)	P -	P -	P -
Retirement benefit obligation	(632,228)	(601,240)	(597,588)	-	-	-
Accrued rent expense	32,588	149,927	140,151	-	-	-
Allowance for impairment losses on receivables	-	-	24,859	-	-	-
Others	(133,459)	(315,330)	(146,236)	-	-	-
Changes in deferred tax liabilities:						
Uncollected gross profit	1,487,033,750	402,504,512	767,095,402	-	-	-
Capitalized interest	341,878,304	221,065,942	114,550,647	-	-	-
Uncollected rental income	76,840,485	-	(32,091,485)	-	-	-
Difference between tax reporting base and financial reporting base of:						
- Investment property	(38,648,833)	52,892,299	(24,060,932)	-	-	-
- Property and equipment	270,771	259,714	(572,373)	-	-	-
Bond issuance cost	23,908,448	-	-	-	-	-
Accrued retirement cost	(12,059,776)	(10,131,499)	(74,389)	-	-	-
Translation adjustments	-	-	-	(3,842,636)	(55,967,408)	(26,041,986)
Others	(11,171,036)	(3,157,061)	3,383,383	-	-	-
	1,868,579,073	663,461,081	822,760,813	(3,842,636)	(55,967,408)	(26,041,986)
Effect of consolidation of EELHI, SPI and GPMAL	(1,129,384,994)	-	-	-	-	-
Deferred Tax Expense (Income)	P 739,194,079	P 663,461,081	P 822,760,813	(P 3,842,636)	(P 55,967,408)	(P 26,041,986)

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



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

Subsidiary	Year incurred	Amount	Valid Until
MNPHI	2011	P 133,459	2014
	2010	233,530	2013
	2009	230,427	2012
MLI	2011	308,076	2014
	2010	37,479	2013
	2009	83,571	2012
FTPHI	2011	4,556	2014
	2010	7,052	2013
	2009	2,386	2012
		<u>P 1,040,536</u>	

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

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

Subsidiary	Year incurred	Amount	Valid Until
MCPI	2011	P 11,471,042	2014
	2010	39,698,367	2013
	2009	29,346,465	2012
MLI	2010	12,118,518	2013
	2009	9,932,923	2012
OPI	2010	4,508,189	2013
	2009	4,036,439	2012
FTPHI	2010	159,226	2013
	2009	320,405	2012
PIPI	2010	81,682	2013
	2009	83,140	2012
		<u>P 111,756,396</u>	

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

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

	Assets	Retained Earnings (Deficit)	Revenues	Net Profit (Loss)
2011				
OPI	P 1,083,452,864	(P 12,564,220)	P 6,023,863	(P 718,719)
MLI	135,872,604	(54,422,304)	20,304,951	5,206,285
MNPHI	115,434,685	3,263,008	102,240,730	1,052,383
MCPI	107,535,283	(148,029,736)	76,280,512	(9,690,045)
FTPHI	106,476,993	6,389,513	3,848,171	(17,932,137)
PIPI	5,113,748	42,252	178,147	58,774
	<u>P 1,553,886,177</u>	<u>(P 205,321,487)</u>	<u>P 208,876,374</u>	<u>(P 22,023,459)</u>

2010

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

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

In 2011, 2010 and 2009, the Group opted to continue claiming itemized deductions, except for MDC which opted to use OSD for 2011, 2010 and 2009.

23. Related Party Transactions

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

23.1 Sale of Goods and Rendering of Services to Related Parties

	Amount of Transactions		
	2011	2010	2009
Associates	P 1,626,503,151	P 5,289,782	P 3,381,056
Other related parties under common ownership	<u>14,085,487</u>	<u>13,659,040</u>	<u>13,809,067</u>
	<u>P 1,640,588,638</u>	<u>P 18,948,822</u>	<u>P 17,190,123</u>

Sale of Goods and Services rendered are usually on a cost-plus basis, allowing a certain margin agreed upon by the parties.

23.2 Obtaining Services from Related Parties

	Amount of Transactions			Outstanding Balances		
	2011	2010	2009	2011	2010	2009
Associates	P -	P -	P 2,286,178	P -	P -	P -
Other related parties under common ownership	<u>109,239,723</u>	<u>126,454,782</u>	<u>146,626,602</u>	<u>89,006,474</u>	<u>84,088,445</u>	<u>81,408,167</u>
	<u>P 109,239,723</u>	<u>P 126,454,782</u>	<u>P 148,912,780</u>	<u>P 89,006,474</u>	<u>P 84,088,445</u>	<u>P 81,408,167</u>

Services obtained are usually on a cost-plus basis, allowing a margin ranging from 10% to 20%. There are no outstanding payables for services obtained from the associates as of December 31, 2011 and 2010. The outstanding balances of payable to other related parties pertain to unpaid commissions presented as part of Other Liabilities in the consolidated statements of financial position (see Note 17).

23.3 Advances to Associates and Other Related Parties

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

	2011	2010
Advances to associates:		
PTHDC	P 1,004,987,335	P 1,004,986,820
SHDI	<u>18,164,964</u>	<u>338,598</u>
EELHI	<u>-</u>	<u>394,211,729</u>
	<u>1,023,152,299</u>	<u>1,399,537,147</u>
Advances to other related parties	<u>1,537,024,137</u>	<u>647,453,685</u>
	<u>P 2,560,176,436</u>	<u>P 2,046,990,832</u>

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

	2011	2010
Balance at beginning of year	P 2,046,990,832	P 2,012,270,576
Net additions	<u>513,185,604</u>	<u>34,720,256</u>
Balance at end of year	<u>P 2,560,176,436</u>	<u>P 2,046,990,832</u>

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

23.4 Advances from Other Related Parties

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

	2011	2010
TIHGI	P 3,049,847	P 12,906,530
EELHI	<u>-</u>	<u>209,116,174</u>
Other related parties under common control	<u>207,192,596</u>	<u>67,845,553</u>
	<u>P 210,242,443</u>	<u>P 289,868,257</u>



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The details of advances from other related parties are as follows:

	2011		2010
Balance at beginning of year	P 289,868,257	P	625,936,481
Net repayments	(79,625,814)	(	336,068,224)
Balance at end of year	<u>P 210,242,443</u>	P	<u>289,868,257</u>

23.5 Key Management Personnel Compensations

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

	2011		2010		2009
Short-term benefits	P 91,539,715	P	47,174,219	P	42,243,477
Post-employment benefits	<u>10,793,002</u>		<u>4,962,292</u>		<u>4,437,829</u>
	<u>P 102,332,717</u>	P	<u>52,136,511</u>	P	<u>46,681,306</u>

24. Equity

Capital stock consists of:

	Shares			Amount		
	2011	2010	2009	2011	2010	2009
Preferred shares Series A						
– P0.01 par value						
Authorized	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>6,000,000,000</u>	P 60,000,000	P 60,000,000	P 60,000,000
Issued and outstanding	<u>6,000,000,000</u>	<u>6,000,000,000</u>	<u>6,000,000,000</u>	P 60,000,000	P 60,000,000	P 60,000,000
Common shares – P1 par value						
Authorized	<u>30,140,000,000</u>	<u>30,140,000,000</u>	<u>30,140,000,000</u>	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	25,769,203,626	20,641,646,901	P25,769,203,626	P 25,769,203,626	P 20,641,646,901
Issued during the year	-	-	5,127,556,725	-	-	5,127,556,725
Balance at end of year	<u>25,769,203,626</u>	<u>25,769,203,626</u>	<u>25,769,203,626</u>	<u>P25,769,203,626</u>	<u>P 25,769,203,626</u>	<u>P 25,769,203,626</u>
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	<u>-</u>	<u>-</u>	<u>-</u>	<u>P -</u>	<u>P -</u>	<u>P -</u>
				<u>P25,829,203,626</u>	<u>P 25,829,203,626</u>	<u>P 25,829,203,626</u>

On June 15, 1994, the SEC approved the listing of the Company's shares totaling 140,333,333. The shares were initially issued at an offer price of P4.8 per share. As of December 31, 2011, there are 2,854 holders of the listed shares, which closed at P1.7 per share as of that date.

24.1 Preferred Shares Series "A"

The preferred shares are voting, cumulative, non-participating, non-convertible and non-redeemable with a par value of P0.01 per share. The shares earn dividends at 1% of par value per annum cumulative from date of issue. Dividends paid on cumulative preferred shares amounted to P600,000 in 2011 and 2010.

24.2 Common Shares

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

As a result of the stock rights offering, 5,127,556,725 common shares were subscribed and issued on June 1, 2009. Of the total exercise price, 50% was paid as of May 31, 2009 and the remaining 50% shall be paid within one year from issue date. Unpaid subscriptions amounting to P2.3 million as of December 31, 2009 were fully paid by the subscribers in 2010. Relative to the issuance of pre-emptive stock rights, 4,102,045,380 stock warrants were issued and these will be exercisable beginning on the second year until the fifth year from issue date.

24.3 Additional Paid-in Capital

The additional paid-in capital pertains to the excess of the total proceeds received from the Company's shareholders over the total par value of the common shares. There were no movements in the Company's Additional Paid-in Capital accounts in 2011, 2010 and 2009.

24.4 Cash Dividends

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

	2011	2010	2009
Declaration date / date of approval by BOD	June 16, 2011	May 18, 2010	June 19, 2009
Date of record	July 6, 2011	July 6, 2010	July 17, 2009
Date paid	July 29, 2011	July 30, 2010	August 12, 2009
Amounts declared and paid	<u>P 599,265,803</u>	<u>P 519,885,465</u>	<u>P 479,061,765</u>

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

24.5 Treasury Shares

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

This account also includes the Company's common shares held and acquired by RHGI and GPMAI. The number of treasury common shares aggregated to 537.4 million as of December 31, 2009. The changes in market values of these shares recognized as fair value gains (losses) by RHGI and GPMAI were eliminated in full and were not recognized in the consolidated financial statements. GPMAI was deconsolidated starting 2010 (see Note 10). Accordingly, in 2010, the cost of the treasury held by GPMAI of P555.1 million was removed from the Treasury Stock account presented under equity. In 2011, GPMAI is consolidated back and, accordingly, the cost of the treasury held by GPMAI amounting to P555.1 million is included as part of the Treasury Stock account presented under equity.

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

25. Earnings Per Share

Earnings per share amounts were computed as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net profit attributable to parent company's shareholders	P 8,031,884,511	P 5,026,180,575	P 4,055,401,191
Dividends on cumulative preferred shares series "A"	<u>(600,000)</u>	<u>(600,000)</u>	<u>(600,000)</u>
Profit available to parent company's common shareholders	P 8,031,284,511	P 5,025,580,575	P 4,054,801,191
Divided by weighted number of outstanding common shares	<u>25,149,519,186</u>	<u>25,130,015,061</u>	<u>23,088,192,857</u>
Basic and diluted earnings per share	P 0.319	P 0.200	P 0.176

There were no outstanding convertible preferred shares and bonds or other stock equivalents that may be considered as potential dilutive common shares as of December 31, 2011, 2010 and 2009.

26. Commitments and Contingencies

26.1 Operating Lease Commitments – Group as Lessor

The Group is a lessor under several operating leases covering real estate properties for commercial use (see Note 11). The leases have terms ranging from 3 to 20 years, with renewal options, and include annual escalation rates of 5% to 10%. The average annual rental covering these agreements amounts to about P3.8 billion for the consolidated balances. Future minimum lease payments receivable under these agreements are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Within one year	P 4,144,019,854	P 3,145,772,222	P 3,000,082,437
After one year but not more than five years	21,253,587,459	14,998,070,516	10,809,294,660
More than five years	6,704,886,317	<u>4,731,453,360</u>	<u>3,410,016,874</u>
	P 32,102,493,630	P 22,875,296,098	P 17,219,393,971

26.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under several operating leases covering condominium units for administrative use. The leases have terms ranging from 1 to 11 years, with renewal options, and include a 5% to 10% annual escalation rate. The average annual rental covering these agreements amounts to about P14.4 million for the consolidated balances. The future minimum rental payables under these non-cancelable leases as of December 31, are as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Within one year	P 19,395,713	P 12,247,168	P 16,891,737
After one year but not more than five years	41,710,168	19,039,825	17,951,311
More than five years	11,093,022	<u>18,908,935</u>	<u>23,528,646</u>
	P 72,198,903	P 50,195,928	P 58,371,694



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26.3 Others

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

27. Risk Management Objectives and Policies

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

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

27.1 Foreign Currency Sensitivity

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

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

	2011		2010	
	U.S. Dollars	Pesos	U.S. Dollars	Pesos
Financial assets	\$ 196,929,685	P 8,749,989,037	\$ 245,812,793	P 10,790,198,346
Financial liabilities	(195,759,303)	(8,599,314,640)	(7,098,646)	(311,602,166)
	<u>\$ 1,170,382</u>	<u>P 150,674,397</u>	<u>\$ 238,714,147</u>	<u>P 10,478,596,180</u>

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

Increase (decrease) in exchange rate	Effect on consolidated profit before tax			
	2011		2010	
P 1	P	1,170,382	P	238,714,147
(P 1)	(	1,170,382)	(	238,714,147)

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

27.2 Interest Rate Sensitivity

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

The Group's ratio of fixed to floating rate debt stood at 88.12 as of December 31, 2011 and 2010 and 87.13 as of December 31, 2009.

The following table illustrates the sensitivity of the consolidated net result for the year and consolidated equity to a reasonably possible change in interest rates of +1% and -1% in 2011, 2010 and 2009. The calculations are based on the Group's financial instruments held at each reporting date. All other variables are held constant.

	2011		2010	
	+1%	-1%	+1%	-1%
Consolidated net results for the year	(P 17,638,794)	P 17,638,794	(P 15,873,037)	P 15,873,037
Consolidated equity	(12,347,156)	12,347,156	(11,111,126)	11,111,126

27.3 Credit Risk

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

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

	Notes	2011	2010
Cash and cash equivalents	5	P 30,324,479,180	P 22,031,584,943
Trade and other receivables	6	36,214,357,760	29,040,792,116
Advances to subsidiaries, associates and other related parties	10, 23.3	2,560,176,436	2,046,990,832
AFS financial securities	8	561,694,969	675,467,827
		<u>P 69,660,708,345</u>	<u>P 53,794,835,718</u>

(a) *Cash and Cash Equivalents*

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

(b) *Trade and Other Receivables*

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

27.4 Liquidity Risk

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

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

As at December 31, 2011 and 2010, the Group's financial liabilities have contractual maturities which are presented below.

	2011			
	Current		Non-current	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later 5 Years
Interest-bearing loans and borrowings	P 1,166,666,892	P 712,625,754	P 5,288,591,409	P -
Bonds payable	-	-	5,000,000,000	8,538,914,490
Trade and other payables	2,590,019,174	4,706,947,320	-	-
Advances from other related parties	-	-	210,242,443	-
	<u>P 3,756,686,066</u>	<u>P 5,419,573,074</u>	<u>P 10,498,833,852</u>	<u>P 8,538,914,490</u>

	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	-
	<u>P 2,503,166,059</u>	<u>P 6,261,964,345</u>	<u>P 11,418,451,733</u>	<u>P -</u>

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

27.5 Other Price Risk Sensitivity

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

For corporate bonds and equity securities listed in other countries, an average volatility of 54%, 105% and 71% has been observed during 2011, 2010 and 2009, respectively. If quoted price for these securities increased or decreased by that amount, profit before tax would have changed by nil in 2011, P2.7 billion in 2010, and P14.6 million in 2009.

For equity securities listed in the Philippines, the observed volatility rates of the fair values of the Group's investments held at fair value and their impact on the Group's consolidated net profit in 2010 and 2009 and consolidated equity as of December 31, 2010 and 2009 are summarized as follows:

2010

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



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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	-	-
			<u>P 20,883,283</u>	<u>P 986,375,341</u>	<u>(P 20,883,283)</u>	<u>(P 900,762,327)</u>

There are no listed equity securities held by the Company in 2011.

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

28. Categories and Fair Values of Financial Assets and Liabilities

28.1 Comparison of Carrying Amounts and Fair Values

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

	Notes	2011		2010	
		Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	P 30,324,479,180	P 30,324,479,180	P 22,031,584,943	P 22,031,584,943
Trade and other receivables - net	6	36,214,357,760	36,214,357,760	29,040,792,116	29,040,792,116
Advances to associates and other related parties	10	2,560,176,436	2,560,176,436	2,046,990,832	2,046,990,832
		<u>P 69,099,013,376</u>	<u>P 69,099,013,376</u>	<u>P 53,119,367,891</u>	<u>P 53,119,367,891</u>
Financial assets at fair value through profit or loss	7	P 109,203,260	P 109,203,260	P 125,000,000	P 125,000,000
Available-for-sale financial securities:	8				
Equity instruments		P 2,030,052,709	P 2,030,052,709	P 5,535,716,669	P 5,535,716,669
Debt instruments		561,694,969	561,694,969	675,467,827	675,467,827
		<u>P 2,591,747,678</u>	<u>P 2,591,747,678</u>	<u>P 6,211,184,496</u>	<u>P 6,211,184,496</u>

Notes	2011		2010		
	Carrying Values	Fair Values	Carrying Values	Fair Values	
Financial Liabilities					
Financial liabilities at amortized cost:					
Interest-bearing					
loans and borrowings	14	P 7,167,884,055	P 7,167,884,055	P 7,439,938,373	P 7,439,938,373
Bonds payable	15	13,538,914,490	13,538,914,490	8,416,062,159	8,416,062,159
Trade and other payables	16	7,296,966,494	7,296,966,494	4,037,713,348	4,037,713,348
Advances from other related parties		210,242,443	210,242,443	289,868,257	289,868,257
		<u>P 28,214,007,482</u>	<u>P 28,214,007,482</u>	<u>P 20,183,582,137</u>	<u>P 20,183,582,137</u>

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

28.2 Fair Value Hierarchy

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

29. Capital Management Objectives, Policies and Procedures

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

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

	2011	2010
Interest-bearing loans and borrowings	P 7,167,884,055	P 7,439,938,373
Bonds payable	13,538,914,490	8,416,062,159
	<u>P 20,706,798,545</u>	<u>P 15,856,000,532</u>
Equity attributable to parent company's shareholders	<u>P 60,956,151,542</u>	<u>P 57,776,023,630</u>
Debt-to-equity ratio	<u>0.34 : 1.00</u>	<u>0.27 : 1.00</u>

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

30. Other Matters

30.1 Registration with Philippine Economic Zone Authority (PEZA)

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

30.2 International Organization for Standardization (ISO) Certification

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

30.3 Awards

As a testament to the Company's industry leadership, the Company was recognized by various award-giving bodies in 2011:

- Alpha Southeast Asia Most Organized Investor Relations and Strong Adherence to Corporate Governance
- World HRD Congress Best Employer
- Asia's Best Managed Company by Finance Asia
- Best in Investor Relations by Finance Asia



Corporate Information

OFFICE/POSTAL ADDRESS

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

SUBSIDIARIES

Megaworld Land, Inc.
Prestige Hotels and Resorts, Inc.
Mactan Oceanview Properties
and Holdings, Inc.
Megaworld Cayman Islands, Inc.
Richmonde Hotel Group
International Limited
Eastwood Cyber One Corporation
Empire East Land Holdings, Inc.
Forbes Town Properties
and Holdings, Inc.
Gilmore Property Marketing
Associates, 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

Suntrust Home Developers, Inc.
Palm Tree Holdings &
Development Corporation
Alliance Global Properties Ltd.
Travellers International Hotel Group, Inc.

STOCK TRANSFER AGENT

15/F BDO South Tower
Makati Avenue Corner
Dela Costa Avenue, Makati City
Tel. No.: (632) 840 7000
local 6975 to 6978

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

For particulars, please contact:

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