2006
Annual Report

Connecting the new
Filipino generation

SOLID GROUP INC.

Contents

President's Message

Dear fellow shareholders

From the moment we sold our first television set, repaired a stereo component system, installed a speech lab facility or integrated a broadcast studio, we understood that we had to have a relationship with our customers so that we could deliver the right products and technical support for their products. Indeed the value they were paying for was not just the products but also our professional commitment to provide support to keep their equipment operating well.

Today, we are delivering cable television and high-speed Internet services, building WIFI ready high-rise residential building, operating IP Camera, Fiber Transmission and Satellite systems for a major news network and several clients in the financial and consumer goods sector. This indicates the significant transition the Solid Group is undergoing – the transition from purely product manufacturing and box sales to delivering integrated multimedia systems.

We provide the solutions that enable customers' electronic devices to connect to data networks and video delivery systems. We are now supporting customers' VOIP communication and enjoyment of cable television and other multimedia content. Our cable television partner, Global Destiny Cable, is fast becoming the favorite option in Metro Manila due to its affordability and great entertainment value. We operate the largest and most dependable consumer electronics service center network in the country.

One of our major goals in 2006 was to strengthen our network capability to support more bandwidth intensive multimedia services and speed up technical support response time. As a result, our customer feedback and independent speed tests have indicated that our data speeds are much faster to similarly priced DSL and other service providers. While our competitors were capping their customers to maximum speeds, we enabled our customers to burst to megabit speeds whenever network capacity was available. But that was just one of our goals.

We also aimed to enhance our ability to provide full system integration services and 2006 provided us an opportunity to integrate a major international broadcast center for the last ASEAN Summit Meeting held in Cebu. This follows our previous success in integrating the international broadcast center for the 2005 South East Asian (SEA) Games. In both cases, we integrated the full range of broadcast and data transmission requirements, provided a contiguous fiber, satellite and IP based network and kept their equipment functioning with professional technical support.

The groundwork has been laid and we are confidently taking our next step forward: to provide major communication products and multimedia services to our customers. We are set to introduce a selection of mobile phones that will provide not only their regular voice services but also significant new technology services including MP3, MPEG4, WIFI, GPRS and GPS access. Indeed, they are not just communication tools but full personal entertainment devices. Developed and marketed under our own brand, we will fully support them with the same nationwide service capability we have given our other products.

We also intend to make VOIP services available to more of our customers and make their international voice communications even more affordable. We have acquired our own VOIP license to operate VOIP services but will continue to seek strong partners whose technology and capabilities will provide greater service value to our customers.

We learned a great deal from our first major property development project – the Zen Towers located in N. Lopez St. in Ermita, Manila. We understood our customer needs for a well priced but thoughtfully designed residential units that met his lifestyle needs. To achieve this, we combined the value of a great location with the expertise of international architects and experienced contractors. This experience has concretized our strategic property development direction and we are preparing a comprehensive property development plan for high potential local and international locations.

Business transitions are always challenging. But we are confident that 2007 will mark the major changeover from the old historical core businesses to the new mobile products, internet based services and strategic property developments. We look forward with anticipation and excitement to bring to the market the products and services that will give our customers more communication and lifestyle choices.

Thank you very much.

David S. Lim
Director, President and
Chief Executive Officer

Helping our customers stay connected is our top priority. We strive to maintain one of the fastest download speeds and customer service response time in the industry.

Broadband

We operate the largest contiguous broadband cable network in the country and provide High Speed Internet access for our subscribers as well as cable access for our cable television operator – Global Destiny. It operates in the sixteen cities and municipalities of Metropolitan Manila and also provides services in Antipolo City and in the Municipality of Cainta.

MyDestiny High Speed Internet services managed modest subscriber growth in 2006 despite aggressive pricing of competitor DSL services of both PLDT and Globe as well as their bundling of telephone services along with Internet access. We expect that the initial market advantage of lower pricing will weaken in 2007 as customers migrate from low priced and low speed services to slightly higher value packages of cable broadband with significantly higher speed services.

To maintain our competitiveness in this highly dynamic market, we implemented a major system reconfiguration program to improve our data and Internet access speeds by at least 50% in most service areas. The significant improvement in our service levels to our customers was verified by speed tests conducted on independent speed test websites, which generally rated MyDestiny download speeds as faster than the leading DSL service provider. We also launched a more aggressive sales campaign, which acquired more than 140 new Internet Café operators and 200 Business Users.

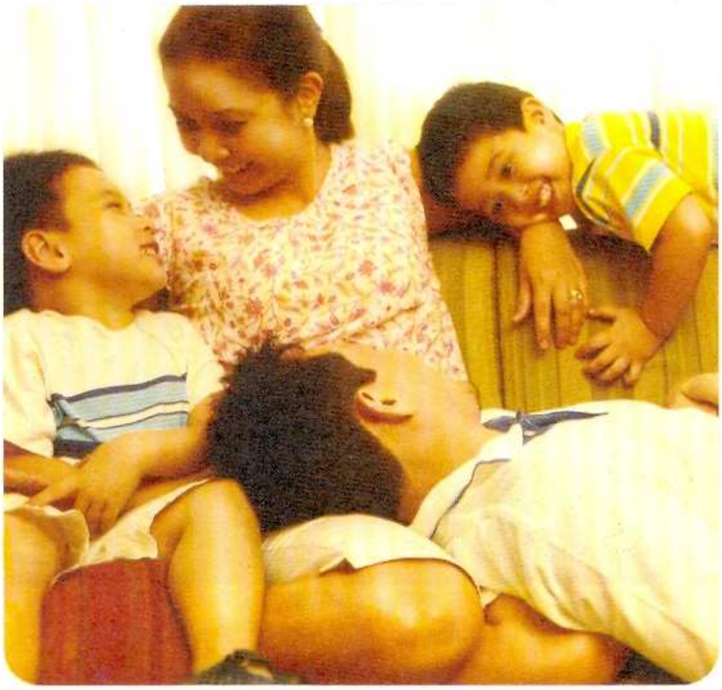
We have been working to lay the groundwork for the launching of other added value services for our subscribers including our VOIP service scheduled for 2007 in line with the liberalization of the service by the National Telecommunications Commission (NTC).

Review of Operations

Real Estate

The first building of Zen Tower's tri-tower development went into full swing construction and achieved its 2006-yearend targets. As a result, it was able to begin sales of its high-rise residential units in the first half of 2007. Buyer response has been very good and its inventory of 200 units is expected to be sold out by the first quarter of 2008. Marketing focus is on the convenient Manila location, superior unit design and complimentary high-speed internet service for residents.

Other properties in our inventory accumulated by our historical core business continue to be managed to maximize their value until market values permit profitable disposal or strategic development.



Growing family relationships in friendly living spaces and with advanced technology services.

Manufacturing and Support Services

We continue to maximize the value of the remaining operations of SGI's historical core businesses to deliver additional revenue to the business group. Our after-sales service operations of Solid Electronics Corporation (SEC) delivered a slightly higher income despite a decrease in total revenue due to a combination of the effect of its continuing efficiency programs as well as the growth in the market of higher value products including digital cameras and large projection televisions.

Omni Logistics contributed Php 107 Million from servicing the warehouse and logistics needs of major consumer electronics brands including Sony, Sanyo and TCL . Revenues from plastic injection operations of Solid Laguna Corporation declined with the decreased demand from local industrial manufacturers.

Trading and Distribution

Solid Video Corporation maintained a strong presence in broadcast and professional equipment market in the country and achieved sales revenue of Php 151 Million. Aside from regular sales of specialized broadcast equipment and supplies, it also won the prestigious supply and system integration contracts such as the Asean Summit Meeting recently held in Cebu. AA Plastics, on the other hand, maintained its business of trading and supply of plastic resins with revenues of Php 150 Million.

Financing, Investments & Others

Revenues reached Php 180 Million as the weakening of the US dollar held back our earnings from financial investments despite our continued diversification into bond investments.

Board of Directors

Corporate Officers

Elena S. Lim
Chairman Emeritus

Quintin Chua
Independent Director

David S. Lim
Director
President
and
Chief Executive Officer

Susan L. Tan
Director
Chairman of the Board

Lita L. Joaquin
Director
Treasurer

Vincent S. Lim
Director
Senior Vice President
Finance and Investments

Jason S. Lim
Director
Senior Vice President
and
Chief Operating Officer

James H. Uy
Senior Vice President
Broadband Services

Melinda T. Corpuz
Chief Accounting Officer

Danilo M. Reig
Chief
Internal Audit

Ireneo D. Tubio, Jr.
Senior Vice President
and
Chief Financial Officer

Statement of Management's Responsibility for Financial Statements

The management of Solid Group, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2006 and 2005. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

SUSAN L. TAN
Chairman of the Board

DAVID S. LIM
President and Chief Executive Officer

IRENEO D. TUBIO
Chief Financial Officer

Report of Independent Auditors

The Board of Directors and Stockholders
Solid Group Inc. and Subsidiaries
2285 Don Chino Roces Avenue Extension
Makati City

Punongbayan & Araullo

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated balance sheets as of December 31,2006 and 2005, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2006 and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and subsidiaries as of December 31, 2006 and 2005, and of their financial performance and their cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

Punongbayan & Araullo

April 25, 2007

Consolidated Balance Sheets

December 31, 2006 and 2005
(Amounts in Philippine Pesos)

	Notes	2006	2005
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	**P 1,373,706,187**	P 1,382,850,803
Financial assets at fair value through profit or loss	7	**147,159,284**	488,291,583
Trade and other receivables - net	8	**384,746,648**	489,546,651
Advances to related parties	26	**46,820,938**	52,724,220
Available-for-sale financial assets	9	**514,904,785**	499,411,952
Inventories - net	10	**73,206,232**	95,558,427
Real estate inventories - net	11	**815,860,191**	525,065,741
Other current assets	14	**151,245,393**	99,091,146
Total Current Assets		**3,507,649,658**	3,632,540,523
NON-CURRENT ASSETS			
Trade and other receivables	8	**547,900,179**	587,657,761
Available-for-sale financial assets - net	9	**14,509,980**	22,237,451
Property, plant and equipment - net	12	**1,511,512,339**	742,740,864
Investment property - net	13	**1,741,044,416**	2,576,007,985
Retirement benefit asset	22	**45,998,327**	43,766,077
Deferred tax assets - net	23	**36,112,069**	14,497,152
Other non-current assets	14	**44,545,607**	41,186,647
Total Non-current Assets		**3,941,622,917**	4,028,093,937
TOTAL ASSETS		**P 7,449,272,575**	P 7,660,634,460

See Notes to Consolidated Financial Statements.

	Notes	2006	2005
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	15	**P446,885,511**	P 596,583,614
Trade and other payables	16	**393,184,480**	333,152,506
Advances from related parties	26	**98,483,666**	98,093,656
Estimated liability for land and land development costs		**17,249,351**	19,934,298
Income tax payable		**5,490,654**	3,279,417
Total Current Liabilities		**961,293,662**	1,051,043,491
NON-CURRENT LIABILITIES			
Refundable deposits	17	**7,349,795**	5,495,516
Retirement benefit obligation	22	**3,503,995**	3,336,728
Deferred tax liabilities - net	23	**35,000**	1,429,716
Total Non-current Liabilities		**10,888,790**	10,261,960
Total Liabilities		**972,182,452**	1,061,305,451
EQUITY ATTRIBUTABLE TO PARENT COMPANY			
Capital stock	1,24	**2,030,975,000**	2,030,975,000
Additional paid-in capital	1,24	**4,641,701,922**	4,641,701,922
Treasury shares - At cost		**(115,614,380)**	(115,614,380)
Revaluation reserves	24	**(36,819,816)**	(4,099,860)
Deficit		**(297,194,160)**	(211,400,057)
Equity Attributable to Equity Holders of the Parent Company		**6,223,048,566**	6,341,562,625
MINORITY INTEREST		**254,041,557**	257,766,384
Total Equity		**6,477,090,123**	6,599,329,009
TOTAL LIABILITIES AND EQUITY		**P 7,449,272,575**	P 7,660,634,460

See Notes to Consolidated Financial Statements.

Consolidated Income Statements

For the Years Ended December 31, 2006, 2005 and 2004
(Amounts in Philippine Pesos)

	Notes	2006	2005	2004
REVENUES				
Rendering of services		P493,657,814	P 506,272,144	P 441,830,145
Sale of goods		439,186,300	489,899,827	500,893,736
Rentals	3	107,189,748	117,194,101	110,354,171
Sale of land		11,952,900	6,459,750	220,857,086
		1,051,986,762	1,119,825,822	1,273,935,138
COST OF SALES, SERVICES AND RENTALS				
Cost of services	18, 20	460,167,153	482,367,187	485,100,862
Cost of sales	18, 20	409,141,037	433,661,630	425,079,125
Cost of rentals	18, 20	62,990,373	65,717,411	61,531,059
Cost of land sold	20	8,481,841	5,925,376	170,139,677
		940,780,404	987,671,604	1,141,850,723
GROSS PROFIT		111,206,358	132,154,218	132,084,415
OTHER OPERATING EXPENSES (INCOME)				
General and administrative expenses	20	301,682,442	293,451,028	238,305,278
Selling and distribution costs	20	22,180,132	27,070,089	19,649,221
Other operating income	19	(187,253,887)	(225,214,223)	(246,464,772)
		136,608,687	95,306,894	(11,489,727)
OPERATING PROFIT (LOSS)		(25,402,329)	36,847,324	120,594,688
OTHER INCOME (CHARGES)				
Finance costs	15	(29,575,943)	(20,257,994)	(8,833,348)
Other gains (losses) -net	21	(29,247,820)	36,351,692	55,919,104
		(58,823,763)	16,093,698	47,085,756
INCOME (LOSS) BEFORE TAX FROM CONTINUING OPERATIONS		(84,226,092)	52,941,022	167,680,444
TAX EXPENSE	23	5,292,838	9,891,432	46,520,878
INCOME (LOSS) FROM CONTINUING OPERATIONS		(89,518,930)	43,049,590	121,159,566
LOSS FROM DISCONTINUED OPERATIONS	4	—	—	(5 ,020,074)
NET INCOME (LOSS)		(P 89,518,930)	P 43,049,590	P 116,139,492
Attributable to:				
Equity holders of the parent company		(P 85,794,103)	P 48,716,330	P 101,046,964
Minority interest		(3,724,827)	(5,666,740)	15,092,528
		(P 89,518,930)	P 43,049,590	P 116,139,492
Earnings (Loss) Per Share for net income (loss) attributable to equity holders of the parent company	25	(P 0.05)	P 0.03	P 0.06

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

For the Years Ended December 31, 2006, 2005 and 2004 (Amounts in Philippine Pesos)

	Notes	2006	2005	2004
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
CAPITAL STOCK - P1 par value				
Authorized - 5,000,000,000 shares				
Subscribed and issued				
Balance at beginning of year		P 2,030,975,000	P 2,030,975,000	P 2,255,436,752
Effects of revaluation of Destiny, Inc.'s net assets	1, 24	—	—	(224,461,752)
Balance at end of year		2,030,975,000	2,030,975,000	2,030,975,000
ADDITIONAL PAID-IN CAPITAL				
Balance at beginning of year		4,641,701,922	4,641,701,922	4,664,902,932
Effects of revaluation of Destiny, Inc.'s net assets	1, 24	—	—	(23,201,010)
Balance at end of year		4,641,701,922	4,641,701,922	4,641,701,922
TREASURY SHARES - At cost		(115,614,380)	(115,614,380)	(115,614,380)
REVALUATION RESERVES	24			
Balance at beginning of year				
As previously reported		(4,099,860)	—	—
Effects of transition to PFRS, net of taxes	2	—	14,425,419	11,052,500
As restated		(4,099,860)	14,425,419	11,052,500
Currency differences on translating balances of foreign operations		(34,195,400)	(18,329,519)	3,368,934
Fair value gains (losses) on available-for-sale financial assets, net of tax		1,475,444	(195,76)	3,985
Balance at end of year		(36,819,816)	(4,099,860)	14,425,419
DEFICIT				
Balance at beginning of year				
As previously reported		(211,400,057)	(315,307,469)	(403,544,625)
Effects of transition to PFRS, net of taxes	2	—	55,191,082	42,381,274
As restated		(211,400,057)	(260,116,387)	(361,163,351)
Net income (loss) attributable to equity holders of the parent company		(85,794,103)	48,716,330	101,046,964
Balance at end of year		(297,194,160)	(211,400,057)	(260,116,387)
Total Equity Attributable to Equity Holders of the Parent Company		6,223,048,566	6,341,562,625	6,311,371,574
MINORITY INTEREST				
Balance at beginning of year				
As previously reported		257,766,384	—	—
Effects of Transition to PFRS	2	—	263,433,124	264,045,089
As restated		257,766,384	263,433,124	264,045,089
Purchase by the Group of minority interest	1	—	—	(15,704,493)
Net income (loss) attributable to minority interest		(3,724,827)	(5,666,740)	15,092,528
Total Equity Attributable to Minority Interest		254,041,557	257,766,384	263,433,124
TOTAL EQUITY		P 6,477,090,123	P 6,599,329,009	P 6,574,804,698
Net Gains (Losses) Recognized Directly in Equity		(P 32,719,956)	(P 18,525,279)	P 3,372,919

See Notes to Consolidated Financial Statements.

Consolidated Cash Flow Statements

For the Years Ended December 31, 2006, 2005 and 2004
(Amounts in Philippine Pesos)

	2006	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax from continuing operations	(P 84,226,092)	P 52,941,022	P 167,680,444
Adjustments for:			
Depreciation and amortization	119,635,295	129,054,878	151,410,835
Finance costs	29,575,943	20,257,994	(8,833,348)
Unrealized foreign currency losses (gains) - net	39,805,739	50,667,757	(4,372,750)
Recognition (reversal) of impairment loss on investment property	21,103,136	—	(16,807,098)
Gain on sale of property and equipment	(184,209)	(663,779)	(8,647,523)
Fair value gains on financial assets at fair value through profit or loss	(29,821,299)	(32,691,738)	(20,447,356)
Interest income	(118,875,323)	(103,603,700)	(144,876,587)
Gain from insurance proceeds	—	(45,448,725)	—
Gain on sale of investment property	—	(4,953,667)	—
Gain on return of investment in an associate	—	—	(26,730,000)
Negative goodwill recognized in income	—	—	(19,298,410)
Operating income (loss) before working capital changes	(22,986,810)	65,560,042	86,744,903
Decrease (increase) in trade and other receivables	144,557,585	(249,999,079)	(76,843,326)
Decrease (increase) in inventories	22,352,195	24,879,621	(3,165,016)
Decrease (increase) in financial assets at fair value through profit or loss	370,953,598	(127,297,279)	(114,191,524)
Decrease (increase) in available-for-sale financial assets	(40,499,318)	(96,345,328)	31,475,522
Decrease (increase) in real estate inventories	(265,101,612)	(103,013,949)	170,179,989
Decrease (increase) in other current assets	(52,154,247)	(16,707,959)	30,949,522
Increase in retirement benefit asset	(2,232,250)	(5,489,516)	(8,140,916)
Decrease in other non-current asset	(3,358,960)	3,999,427	34,703,481
Decrease (increase) in trade and other payables	63,609,612	(58,723,555)	(39,719,657)
Increase (decrease) in estimated liability for land and land development costs	(2,684,947)	117,850	(8,369,145)
Increase in refundable deposits	1,854,279	742,083	641,857
Increase (decrease) in retirement benefit obligation	167,267	669,306	(2,451,722)
Cash generated from (used in) operations	214,476,392	(561,608,336)	101,813,968
Interest received	118,875,323	103,603,700	144,876,587
Cash paid for income taxes	(26,077,234)	(39,230,692)	(43,015,258)
Net Cash From (Used in) Continuing Operating Activities	307,274,481	(497,235,328)	203,675,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in advances to related parties	5,903,282	25,660,543	110,809,203
Proceeds from sale of property, plant and equipment	2,175,568	1,465,880	18,813,246
Acquisitions of investment property	(19,959,231)	(2,585,175)	(55,375,256)
Acquisitions of property, plant and equipment	(82,271,303)	(92,535,636)	(76,131,406)
Proceeds from insurance claims	—	48,321,580	—
Proceeds from sale of investment property	—	6,795,455	—
Proceeds from return of investment in an associate	—	—	26,730,000
Net cash from an acquired division	—	—	21,342,086
	(94,151,684)	(12,877,353)	46,187,873
Balance Carried Forward			

	2006	2005	2004
Balance Brought Forward	(94,151,684)	(12,877,353)	46,187,873
Purchase of equity interest from minority shareholders	—	—	(6,525,072)
Net Cash From (Used in) Investing Activities	(94,151,684)	(12,877,353)	39,662,801
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	(33,153,581)	(12,349,525)	(7,606,775)
Proceeds (payments) of interest-bearing loans - net	(149,698,103)	334,171,009	(29,221,885)
Increase (decrease) in advances from related parties	390,010	1,396,171	(137,454,437)
Net Cash From (Used in) Financing Activities	(182,461,674)	323,217,655	(174,283,097)
Effect of Currency Rate Changes on Cash and Cash Equivalents	(39,805,739)	(49,467,744)	3,829,201
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING OPERATIONS	(9,144,616)	(236,362,770)	72,884,202
NET CASH FLOWS FROM DISCONTINUED OPERATIONS	—	—	(2,047,173)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(9,144,616)	(236,362,770)	70,837,029
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,382,850,803	1,619,213,573	1,548,376,544
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 1,373,706,187	P 1,382,850,803	P 1,619,213,573

Supplemental Information on Noncash Investing and Financing Activities:

In 2004, certain property and equipment of Solid Laguna Corporation, a subsidiary, were destroyed by fire. The related carrying value identified in 2004 and 2005 of the destroyed properties amounted to P2,362,158 and P510,697, respectively, which were written off in their respective years of identification and charged as receivables from an insurance company (see Note 12).

In 2004, Destiny, Inc. (now emerged with Solid Broadband Corporation), another subsidiary, through a non-cash transaction acquired certain assets amounting to P171,347,210 and assumed certain liabilities amounting to P192,689,296 of the Data Division of a related party.

In 2004, the Group, through Solid Corporation, acquired equity interest held by minority shareholders in SSEC, Inc. (now SolidGroup Technologies Corporation) for P33.5 million which was recorded as part of the Trade and Other Payable account in the 2004 consolidated balance sheet. The outstanding payable was fully paid in 2005.

Related to the recognition by SGI of the consecutive issuance of 224,461,752 shares of stock in its acquisition of DI from DCI in 2003, in 2004, the Company and DCI agreed that certain receivables from and payables to related parties with a net amount of P247,662,762 were to be excluded from the original valuation of DI's net assets in 2003 resulting to a reduction in trade and other receivables and advances to related parties and reversal of the previously recognized capital stock issuance and the related additional paid-in capital in 2004 (see Notes 1 and 24).

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2006, 2005 and 2004 (Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or the Company) and its subsidiaries (collectively referred to herein after as the Group), are incorporated in the Philippines, except for Brilliant Reach Limited (BRL), which was incorporated in the British Virgin Islands (BVI).

The Company holds interests in the following companies:

Investee Company	Percentage of Ownership 2006	2005	2004	Notes	Nature of Operations
Subsidiaries:					
Brilliant Reach Limited (BRL)	100%	100%	100%		Investing
Kita Corporation (Kita)	100	100	100	1.2(c)	Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	100	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	100	100	100	1.2(a)	Broadband cable and satellite services
Solid Corporation (SC)	100	100	100		Real estate
SolidGroup Technologies Corporation (SGTC, formerly SSEC, Inc.)	100	100	100	a, b	Information and communications technology systems
Precos, Inc. (Precos)	100	100	100	1.3(b) a, b	Real estate
Interstar Holdings Company, Inc. (Interstar)	73	73	73	1.3(c) a, b	Investment holding
Laguna International Industrial Park, Inc. (LIIP)	50	50	50	a, c	Real estate
Solid Electronics Corporation (SE Corp.)	100	100	100	1.2(b)	Repair services for audio and video products
Solid Laguna Corporation (SLC)	100	100	100	d	Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	100	100	100		Real estate
Skyworld Corporation (Skyworld)	75	75	75	e	Investment holding company
Starworld Corporation (Starworld)	50	50	50	e, f	Real estate
Solid Manila Finance, Inc. (SMFI)	100	100	100		Financing
Solid Video Corporation (SVC)	100	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (Zen)	100	100	-	g, 1.3(a),	Real estate
Destiny, Inc. (DI)	-	-	100	1.2(a), 1.3(d) 1.4(a)	Broadband cable and satellite services
Destiny Communication Corporation (DCC)	-	-	100	b, 1.2(a)	No operations
Destiny Multimedia Corporation(DMC)	-	-	100	b, 1.2(a)	No operations
Destiny On-line Corporation(DOC)	-	-	100	b, 1.2(a) 1.4(a)	No operations
Omni Distribution Services, Inc. (ODSI)	-	-	100	b, 1.2(a)	No operations
Associate:					
Sony Philippines, Inc. (SPH)	-	-	33	1.5	Manufacturing and distribution of electronic equipment

Notes:

- a Indirectly owned through SC
- b Pre-operating or non-operating
- c LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- d SLC is 87.6% owned by the Company and 12.4% owned by SC
- e Indirectly owned through SMC
- f Starworld is 20% owned by SMC and 40% owned by Skyworld
- g Incorporated in 2005 and has not yet started commercial operations

SBC holds a provisional authority, granted by the National Telecommunications Commission to use its legislative franchise under Republic Act No. 9116 "An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines".

SMFI is subject to the rules and regulations provided under Republic Act 8556 (RA 8556), The Financing Company Act of 1998.

1.2 Changes in Corporate Structure in Prior Years

The Company had initiated structural reorganization of its various units to sustain operational efficiency through mergers. The results of the said mergers executed in prior years are discussed below.

(a) SBC and DI and its subsidiaries

On November 5, 2003, the stockholders of SBC and DI and its subsidiaries approved the merger of the companies. The merger dissolved DI and its subsidiaries and transferred all their operations, assets and liabilities to SBC, the surviving company. The Securities and Exchange Commission (SEC) approved the merger on August 26, 2005. Prior to the merger, the companies were wholly-owned subsidiaries of SGI. The merger was accounted for at historical cost in a manner similar to that of pooling of interest method. The combined net assets of SBC and DI after the merger amounted to P724,252,155 and P733,234,499 as of December 31, 2005 and 2004, respectively.

In 2005 and 2004, combined net loss of SBC and DI amounted to P87,174,539 and P130,627,948, respectively.

(b) SE Corp., Solid Electronic Services, Inc. (SESI) and AA Electronics Corporation (AAEC)

On December 2, 2003, the stockholders of SE Corp., SESI and AAEC approved the merger of the three companies. The merger dissolved SESI and AAEC and transferred all their operations, assets and liabilities to SE Corp., the surviving company. The SEC approved the merger on April 12, 2004. Prior to the merger, SESI and AAEC were wholly owned subsidiaries of SC and SGI, respectively. The merger was accounted for at historical cost in a manner similar to that of pooling of interest method. The combined net assets of the SE Corp, SESI and AAEC after the merger amounted to P72,083,706 in December 31, 2004. In 2004, combined net income of SE Corp., SESI and AAEC amounted to P10,653,691.

(c) Kita and Clark Plastics Manufacturing Corporation (CPM)

On December 2, 2003, the stockholders of Kita and CPM approved the merger of these two companies. The merger dissolved CPM, a company engaged in the business of manufacturing, importing, exporting, buying, selling, or otherwise dealing in, at wholesale, plastic injection molding parts, and transferred all its operations, assets and liabilities to Kita, the surviving company. SEC approved the merger on April 12, 2004. Prior to the merger, CPM was a wholly-owned subsidiary of SGI. The merger was accounted for at historical cost in a manner similar to that of pooling of interest method. The combined net liabilities of Kita and CPM after the merger amounted to P522,816,668 as of December 31, 2004. In 2004, the combined net income of Kita and CPM amounted to P19,947,360.

1.3 Acquisition and Incorporation of Subsidiaries and a Subsidiary's Division in Prior Years

(a) In 2005, Zen was incorporated and took over the development of the Tri-Tower Condominium Project from SMC.

(b) SC increased its interest in the then SSEC, Inc. (now SGTC) to 100% in 2004, from 67.50% in 2003, by acquiring the 32.50% minority interest for a consideration of P33.5 million.

As of December 31, 2004, the unpaid amount forms part of the Trade and Other Payables account in the 2004 consolidated balance sheet.The amount was fully paid in 2005.

(c) In prior years, SC holds 60% interest in Precos. The investment was previously accounted for using the cost method because SC had no control or significant influence over the operating and financial policies of Precos. In 2004, SC increased its interest in Precos to 100% by acquiring the remaining 40% interest for a consideration of P6.5 million thereby making Precos a wholly-owned subsidiary of SC. The acquisition was accounted for using the purchase method of accounting and the excess of the fair value of the net assets acquired over total purchase price amounting to P19,298,410 was recognized as negative goodwill and was directly recognized as income, included as part of Other Gains (Losses) account in the 2004 consolidated income statement (See Note 21). The investment, which initially formed part of the Other Non-current Assets account, was reclassified to the Investments in and Advances to Subsidiaries account in SC's financial statements. Moreover, Precos is consolidated in the Group's financial statements starting in 2004 when the Group obtained control over the subsidiary.

(d) In May 2003, the Company acquired from Destiny Cable, Inc. (DCI) the entire issued and outstanding shares of DI in exchange for the constructive issuance of 224,461,752 shares of the Company's common stock. The acquisition was in accordance with the stockholders' approval in November 2002. The acquisition was approved by the Bureau of Internal Revenue (BIR) on May 15, 2003. A notice of exemption for the issuance of actual shares of common stock under the Revised Securities Act was filed with the SEC on November 6, 2003. The acquisition of DI was accounted for similar to that of pooling of interest method of accounting.

Upon further review of the assets and liabilities of DI, certain receivables from and payables to related parties were removed from the valuation of DI's net assets for purposes of the acquisition which resulted in a change in its financial position from a net asset to a net liability of P23,201,010. The Company and DCI agreed that the Company would no longer issue shares of stock to DCI as payment for its acquisition of DI but instead assume DI's net liability representing the excess of the estimated fair value of DI's broadband cable infrastructure and its existing cable internet subscriber base over their aggregate book value which, in accordance with the pooling of interest accounting applied to this transaction, was charged to additional paid-in capital in 2004 (see Note 24.1).

1.4 Quasi-Reorganization in 2004

(a) On August 20, 2004, the SEC approved the conversion of P440 million advances from SGI to additional paid-in capital and the application of the resulting balance against DI's deficit as of December 31, 2003. The quasi-reorganization eliminated the entire deficit of DI as of December 31, 2003 amounting to P577 million. The remaining amount of additional paid-in capital in the books of DI after quasi-reorganization is not allowed to be used to wipe out losses that may be incurred in the future without prior approval of SEC.

(b) On August 2, 2004, DI's Board of Directors approved the conversion of a portion of DI's advances to DOC amounting to P3 million to equity in relation to DOC's quasi-reorganization. This transaction was also approved by the SEC on August 20, 2004.

1.5 Return of Investment in an Associate in 2004

In August 2004, the common shareholders of SPH, including the Company, received a partial return of their investment in SPH. The Company's investment in SPH has zero net book value and the Company has stopped recognizing equity share in net loss after the recognized accumulated share in net losses already equalled the acquisition cost of the investment. The amount received of P26,730,000 was taken up as Gain from Return of Investment in an Associate under the Other Gains (Losses) account in the 2004 consolidated income statement (see Note 21).

The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan (Sony) covering the Company's investment in SPH expired on May 8, 2005. Prior to the expiration of the JVA, on April 11, 2005, the Company received a formal notice from Sony Holding (Asia) B.V. The Company and Sony have agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration.

In 2005, the Company determined that it no longer has significant influence over SPH and as a result, it classified the cost of the remaining investment in SPH and the related accumulated impairment loss to Available-for-Sale Financial Assets (see Notes 9).

1.6 Other Corporate Information

The registered office and principal place of business of the Company and its subsidiaries, except those listed below, is located at 2285 Don Chino Roces Avenue Extension, Makati City. The registered offices and principal places of business of the other subsidiaries are as follows:

BRL	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands (registered office and principal place of business)
Kita	-	7170 Clark Special Economic Zone, Clarkfield, Pampanga (registered office and principal place of business)
Omni	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna (registered office and principal place of business)
Precos	-	26F Tower I, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City (registered office)
SC	-	17 A. Fernando St., Marulas, Valenzuela, Metro Manila (registered office and principal place of business)
SMC	-	1000 J. Bocobo St., Ermita, Manila (registered office and principal place of business)
SGTC	-	1172 E delos Santos Avenue, Balintawak, Quezon City (registered office)
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City (registered office and principal place of business)
Starworld	-	Bo. Prinza, Calamba City (registered office and principal place of business)
Zen	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila (registered office and principal place of business)

The Group mainly operates within the Philippines, except for BRL which operates in the BVI.

1.7 Approval for Release of Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2006 (including comparatives for the years ended December 31, 2005 and 2004) were authorized for issue by the Board of Directors on April 25, 2007.

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 years presented, unless otherwise stated.

2.1 Basis of Preparation

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

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

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

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

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

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

(b) *Transition to PFRS in 2005*

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

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

The Group's transition to PFRS in 2005 resulted in the restatement of the balance of Equity as of January 1, 2005 and 2004. The total adjustments to Equity, particularly in the balance of Revaluation Reserves, Deficit and Minority Interest, arising from the transition amounted to P333,049,625 and P317,478,863, respectively, and are broken down as follows:

	Relevant PFRS	Revaluation Reserves	Deficit	Minority Interest	Total Adjustment
January 1, 2005:					
Reclassification to equity of Minority Interest	PAS 1	P —	P —	P 263,433,124	P 263,433,124
Remeasurement of available-for-sale financial assets	PAS 32/39	11,056,485	5,801,637	—	16,858,122
Remeasurement of refundable deposits	PAS 32/39	—	6,886,663	—	6,886,663
Recognition of transitional liability and increase in defined benefit expense	PAS 19	—	(2,667,422)	—	(2,667,422)
Recognition of transitional asset and reduction in defined benefit expense	PAS 19	—	50,047,206	—	50,047,206
Accumulated translation adjustments	PAS21	3,368,934	(3,368,934)	—	—
Deferred tax adjustments	PAS 12	—	(1,508,068)	—	(1,508,068)
		P 14,425,419	P 55,191,082	P 263,433,124	P 333,049,625

	Relevant PFRS	Revaluation Reserves	Deficit	Minority Interest	Total Adjustment
January 1, 2004:					
Reclassification to equity of Minority Interest	PAS 1	P —	P —	P 264,045,089	P 264,045,089
Remeasurement of available-for-sale financial assets	PAS 39	11,052,500	(1,780,000)	—	9,272,500
Remeasurement of refundable deposits	PAS 39	—	7,528,520	—	7,528,520
Recognition of transitional liability	PAS 19	—	(2,862,835)	—	(2,862,835)
Recognition of transitional asset					
Deferred tax adjustments	PAS 19	—	40,639,497	—	40,639,497
	PAS 12	—	1,143,908	—	(1,143,908)
		P 11,052,500	P 42,381,274	P 264,045,089	P 317,478,863

In addition to the foregoing adjustments to Equity, the structure of the consolidated balance sheets and income statements was also revised.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Group's functional currency (except for BRL whose functional currency is US Dollars), and all values represent absolute amounts except when otherwise indicated (see also Note 2.14).

(d) *Reclassifications of Accounts*

Certain accounts in the 2005 and 2004 consolidated financial statements were reclassified to conform to the 2006 consolidated financial statement presentation.

2.2 Impact of New Standards and Amendments and Interpretations to Existing Standards that are Relevant to the Group

(a) *Effective in 2006*

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

PAS 19 (Amendment)	:	Employee Benefits
PAS 39 (Amendment)	:	The Fair Value Option
PAS 39 and PFRS 4 (Amendment)	:	Financial Guarantee Contracts
Philippine Interpretation IFRIC 4	:	Determining Whether an Arrangement Contains a Lease

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

(i) PAS 19 (Amendment) Introduces an option for an alternative recognition approach for actuarial gains and losses. It also adds new disclosure requirements and imposes additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. Because the Group did not change its current accounting policy for recognition of actuarial gains and losses and did not participate in any multi-employer plans, the adoption of this amendment only affected the format and extent of disclosures presented in the accounts affected.

(ii) PAS 39 (Amendment) Changed the definition of financial instruments classified as at fair value through profit or loss and restricted the ability to designate financial instruments as part of this category. The adoption of this amendment did not result in a material reclassification of financial instruments because their current designation conforms with the amendments to PAS 39.

(iii) PAS 39 and PFRS 4 (Amendment) Required the recognition of guarantee liability, at its fair value, of the parent company in relation to a third party loan to a subsidiary guaranteed by the parent company. The Group's adoption of the amendment did not result in any adjustment to the consolidated financial statements as the Company did not guarantee the loan of BRL or any of its subsidiaries.

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

(b) *Effective Subsequent to 2006*

There are a few new standards, and amendments and interpretation to existing standards that are effective for periods subsequent to 2006. Of these new standards, amendments and interpretations, the following are relevant to the Group, which the Group opted not to apply early but will apply in 2007 in accordance with their transitional provisions:.

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

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

(ii) Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment, is effective for annual periods beginning on or after November 1, 2006. It prohibits the impairment losses recognized in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group is currently evaluating the impact of this interpretation on its financial statements and has initially determined that such may not have significant effects on the financial statements for 2007, as well as for prior and future periods.

2.3 Principles of Consolidation

The consolidated financial statements comprise the accounts of the Company and its subsidiaries listed in Note 1, after elimination of material intercompany transactions and balances.

Subsidiaries are all entities (including special purpose entities if any) over which the Company has the power to govern 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 fully consolidated from the date the Company obtains control until such time that such control ceases.

The separate Company's and its subsidiaries' financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of the Company and its subsidiaries are prepared for the same reporting period, except for the financial statements of Skyworld, Starworld, and LIIP which are prepared as of and for fiscal years ended October 31. Adjustments, if any, were made for the effects of significant transactions or events that occur between those dates and the date of the Group's financial statements.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group, except for companies under common control which are accounted for in a manner similar to that of pooling of interest method of accounting. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the consolidated income statements.

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

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

2.5 Financial Assets

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

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

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

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

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

This category include financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months from the balance sheet date.

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

(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 Company provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

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

Loans and receivables are presented as Trade and Other Receivables and Advances to Related Parties in the balance sheets.

(c) Available-for-sale Financial Assets

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

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

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

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

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

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

2.6 Inventories

At the balance sheet date, inventories are valued at the lower of cost and net realizable value.

Cost incurred in bringing each product to its present location and condition is accounted for as follows:

(a) Merchandise Inventories, raw materials, service parts and supplies – purchase cost on a moving average basis; and,

(b) Finished goods and work-in-process – determined on a moving average method; cost includes direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity.

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

2.7 Real Estate Inventories

Real estate inventories include land and land development costs, and property development costs.

(a) *Land and Land Development Costs (Starworld and LIIP)*

Acquisition costs of raw land intended for future development and sale, including other costs and expenses incurred to effect the transfer of property title are included in the Land and Development Costs account.

(b) *Property Development Costs (Zen)*

Property development costs include the cost of land used as a building site for a condominium project and the accumulated costs incurred in developing and constructing the property for sale.

Land and land development costs and property development costs are carried at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business less estimated costs of completion and the estimated costs necessary to make the sale.

2.8 Property, Plant and Equipment

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

Construction in progress is stated at cost. This includes cost of construction of property, plant and equipment and other direct costs. Construction in progress is not depreciated until such time as the relevant assets are completed and put into operational use. Depreciation is computed on the straight-line basis over the estimated useful lives of the assets as follows:

Buildings and improvements	10-25 years
Test, communication and other equipment	5-20 years
Machinery and equipment	5-10 years
Cable system equipment	2-20 years
Furniture, fixtures and office equipment	2-5 years
Transportation equipment	5 years
Computer system	5 years
Tools and equipment	2 years

Leasehold improvements are amortized from 2-15 years or over the term of the lease, whichever is shorter.

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

The residual values and estimated useful life and depreciation and amortization method are reviewed and adjusted, if appropriate, at each balance sheet date (see Note 3.2).

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

2.9 Investment Property

Investment property consists of land and/or building held for rentals, capital appreciation or for unspecified purposes. Investment property is stated at cost less accumulated depreciation and impairment in value. The cost of investment property comprises its purchase price and directly attributable costs.

Depreciation on buildings and improvements classified as investment property is computed using the straight-line basis over the estimated useful lives of the asset of 10 to 25 years.

The carrying amount of investment property is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

2.10 Financial Liabilities

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

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

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

Trade and other payables and advances from related parties are recognized initially at their nominal values and subsequently measured at amortized cost less settlement payments.

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

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

2.11 Provisions

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

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

A reserve for warranty based on a certain percentage of sales of equipment (net of consumable items) is maintained for expected warranty claims on products sold during the year. Sales of equipment are covered by one year warranty on services. The sufficiency of reserve is assessed annually based on the Group's past experience of the level of repairs and returns. Any excess provision over the actual claims is reversed on the year following the recognition of provision for warranty.

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

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

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

2.12 Revenue and Cost Recognition

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

(a) Rendering of services – Revenue is recognized when services are rendered.

(b) Sale of goods and investments – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer.

(c) Sale of land – Revenue from sale of land is accounted for using the full accrual method. Under this method, income is recognized when it is probable that the economic benefits from the sale will flow to the Group and collectibility of the sales price is reasonably assured. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Development Costs account in the consolidated balance sheets.

(d) Rental – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.13).

(e) Interest income on loans receivables – Revenue is recognized when earned using effective interest method. In accordance with RA No. 8556, interest income is not recognized on loans receivable that remain outstanding beyond their maturity dates.

(f) Other interest – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Cost and expenses are recognized in the consolidated income statements upon the consumption of goods and/or utilization of the services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. Finance costs are reported on an accrual basis.

2.13 Leases

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 payments or receipts are recognized as expense or income in the consolidated income statements on a straight-line basis over the lease term.

2.14 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transaction and Balances

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

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

(c) Translation of Financial Statements of a Foreign Subsidiary

The operating results and financial position of BRL, which are measured using the U.S. dollar, BRL's functional currency, are translated to Philippine Pesos, the Group's functional currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet; and

(ii) Income and expenses for each income statement are translated at the monthly 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 BRL is taken to equity under Revaluation Reserves. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statements as part of the gain or loss on sale.

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

2.15 Impairment of Non-financial Assets

The Group's property, plant and equipment, investment property and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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 or reduction of the impairment loss.

2.16 Employee Benefits

(a) Retirement Benefit Obligations

Pension benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension plan remains with 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 defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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

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

(b) Termination Benefits

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

(c) Compensated Absences

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

2.17 Income Taxes

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

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

2.19 Equity

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

Additional paid-in capital includes any premiums received on the issuance of capital stock, as well as equity adjustments as a result of uniting of interest of companies under common control. Any transaction costs associated with the issuing of shares are deducted from additional paid-in capital, net of any related income tax benefits.

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

Revaluation reserves comprise accumulated gains and losses from remeasurement of the foreign subsidiaries balances and transactions into the Group's functional currency, and gains and losses due to revaluation of certain financial assets.

Deficit includes all current and prior period results as disclosed in the consolidated income statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The 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.

3.1 Judgments

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

(a) Functional Currency

The Group has determined that its functional currency is the Philippine peso which is the currency of the primary economic environment in which the Group operates, except for BRL (which has the US dollars as its functional currency)

(b) Impairment of Available-for-sale Financial Assets

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

Allowance for impairment losses recognized on available-for-sale financial assets amounted to P10.9 million and P17.9 million as of December 31, 2006 and 2005, respectively (see Note 9).

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

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

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

(d) Operating and Finance Leases

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

Rentals charged to operations amounted to P40.5 million in 2006, P59.2 million 2005 and P55.5 million in 2004 (see Note 20). Rental revenue earned in 2006, 2005 and 2004 amounted to P107.2 million, P117.2 million and P110.4 million, respectively.

(e) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Note 2.11 and relevant disclosures are presented in Notes 16 and 30.

3.2 Estimates

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

(a) Determining Net Selling Prices of Inventories

In determining the net selling prices of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes. Changes on these may cause significant adjustments to the Group's inventories within the next financial year.

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

The Group estimates the useful lives of depreciable property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of property, plant and equipment 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 factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of property, plant and equipment would increase recorded operating expenses and decrease non-current assets.

Property, plant and equipment net of accumulated depreciation, amortization and impairment losses amounted to P1,511.5 million and P742.7 million as of December 31, 2006 and 2005, respectively (see Note 12).

Investment property net of accumulated depreciation and impairment losses amounted to P1,741.0 million and P2,576.0 million as of December 31, 2006 and 2005, respectively (see Note 13).

(c) Allowance for Impairment of Trade and Other Receivables

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

Allowance for impairment losses on trade and other receivables as of December 31, 2006 and 2005 amounted to P139.2 million and P113.5 million, respectively (see Note 8).

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

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

Financial assets at fair value through profit or loss amounted to P147.2 million and P488.3 million as of December 31, 2006 and 2005, respectively (see Note 7). Available-for-sale financial assets amounted to P529.4 million and P521.6 million as of December 31, 2006 and 2005, respectively (see Note 9).

(e) Realizable Amount of Deferred Tax Assets

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

Total recognized deferred tax assets amounted to P43.4 million and P27.0 million as of December 31, 2006 and 2005, respectively (see Note 23.1).

(f) Impairment of Non-financial Assets

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

Accumulated impairment losses recognized on property, plant and equipment amounted to P350.0 million in both 2006 and 2005 (see Note 12) while accumulated impairment losses recognized on investment property amounted to P69.3 million and P48.2 million as of those dates, respectively (see Note 13).

(g) Retirement Benefits

The determination of the Group's obligation and cost of pension is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit obligation and unrecognized actuarial gains amounted to P78.6 million and P30.0 million, respectively, in 2006 and P66.9 million and P6.3 million, respectively, in 2005 (see Note 22.2).

4. DISCONTINUED OPERATIONS

In prior years, the Company and Sony entered into an agreement granting SLC exclusive rights to manufacture certain Sony products and related parts and components in the Philippines. The agreement, which further binds Sony to purchase certain products exclusively from SLC, was terminated on September 30, 2002. As a result, SLC's manufacturing operations of Sony products was discontinued in December 2002.

Presented below are the amounts relating to the discontinued operations that have been segregated from continuing operations and presented under the Loss from Discontinued Operations account in the 2004 consolidated income statement and the Cash Flows from Discontinued Operations which is presented in the 2004 consolidated cash flow statement.

Loss from Discontinued Operations

Revenues:	
Rental	P 2,694,545
Interest	168,696
	2,863,241
Costs and expenses:	
Depreciation	2,972,901
Taxes and licenses	2,727,061
Repairs and maintenance	520,846
Outside services	500,000
Miscellaneous	1,162,507
	7,883,315
	P 5,020,074

Cash flows from Discontinued Operations

Loss from discontinued operations	P 5,020,074
Adjustment for depreciation	2,972,901
	P 2,047,173

In 2005, Omni began negotiations with SLC to lease SLC's manufacturing plant on an annual basis. Consequently, the property and equipment under discontinued operations (previously presented as Property Under Discontinued Operations under Other Non-current Assets) were reclassified to Property, Plant and Equipment in the 2005 consolidated balance sheet in accordance with PFRS. Also, income and expenses relating to the use of the assets for 2006 and 2005 are now presented as part of income and expenses from continuing operations in the 2006 and 2005 consolidated income statements.

5. SEGMENT INFORMATION

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Broadband Services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure. Manufacturing and Manufacturing Support Services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for Sony products (see Note 28.1). Real Estate segment activities include leasing and development and sale of industrial and other real estate properties. Trading segment is involved in the sale of plastic resins and professional audio and video equipment and peripherals. Lastly, Investing, Financing and Others segment is presently engaged in the business of fund investments, automotive and consumer financing, and credit extension. Segment accounting policies are the same as the policies described in Note 2.

The following tables present certain assets and liability information regarding industry segments as of December 31, 2006, 2005 and 2004 and the related revenue and profit information for the years then ended (in thousands).

	Broadband Services	Manufacturing and Manufacturing Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2006							
REVENUES							
Sales to external customers	P 198,187	P 427,988	P 104,398	P 302,071	P 19,343	P -	P 1,051,987
Intersegment sales	-	2,651	13,113	-	5,040	(20,804)	-
Total revenues	P 198,187	P 430,639	P 117,511	P 302,071	P 24,383	(P 20,804)	P 1,051,987
RESULTS							
Segment results	(P 101,359)	(P 16,305)	P 1,230	P 13,540	(P 72,308)	P 149,800	(P 25,402)
Finance cost	-	(85)	-	-	(29,491)	-	(29,576)
Other gains (losses) – net	-	695	(29,975)	32	-	-	(29,248)
Income (loss) before tax	(101,359)	(15,695)	(28,745)	13,572	(101,799)	149,800	(84,226)
Tax expense	45	9,584	6,178	3,560	(14,074)	-	5,293
Net income (loss)	(P 101,404)	(P 25,279)	(P 34,923)	P 10,012	(P 87,725)	P 149,800	(P 89,519)
ASSETS AND LIABILITIES							
Segment assets	P 798,806	P 536,742	P3,992,000	P 126,981	P 2,232,447	(P 284,524)	P 7,402,452
Investments in subsidiaries – at cost	-	-	421,389	-	4,520,469	(4,941,858)	-
Advances to related parties	104,169	-	(7,175)	-	104,169	(154,342)	46,821
Total assets	P 902,975	P 536,742	P4,406,214	P 126,981	P 6,857,085	(P 5,380,724)	P 7,449,273
Segment liabilities	P 104,083	P 116,355	P 187,459	P 22,684	P 467,942	(P 24,824)	P 873,699
Advances from related parties	100,472	263	99,958	236	1,951	(104,396)	98,484
Total liabilities	P 204,555	P 116,618	P 287,417	P 22,920	P 469,893	(P 129,220)	P 972,183
OTHER SEGMENT INFORMATION							
Capital expenditures	P 59,725	P 21,926	P 20,229	P 286	P 65	P -	P 102,231
Depreciation and amortization	56,833	28,034	32,571	2,021	176	-	119,635
Impairment losses	12,442	88	29,703	311	154,557	(140,295)	56,806
Other non-cash expenses	-	-	-	2,057	(13,111)	-	(11,054)

	Broadband Services	Manufacturing and Manufacturing Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2005							
REVENUES							
Sales to external customers	P 192,575	P 570,715	P 110,594	P 223,525	P 22,417	P -	P 1,119,826
Intersegment sales	9,900	-	6,012	-	8,092	(24,004)	-
Total revenues	P 202,475	P 570,715	P 116,606	P 223,525	P 30,509	(P 24,004)	P 1,119,826
RESULTS							
Segment results	(P 87,109)	P 6,266	P 120,385	P 24,028	P 81,040	(P 107,763)	P 36,847
Finance cost	-	(107)	(106)	-	(20,045)	-	(20,258)
Other gains (losses) – net	-	45,890	(5,860)	(651)	(37,452)	34,424	36,351
Income (loss) before tax	(87,109)	52,049	114,419	23,377	23,543	73,339	52,941
Tax expense	65	18,018	(8,914)	1,322	(600)	-	9,891
Net income (loss)	(P 87,174)	P 34,031	P 123,333	P 22,055	P 24,143	P 73,339	P 43,050
ASSETS AND LIABILITIES							
Segment assets	P 819,170	P 568,478	P 3,812,177	P 143,544	P 2,264,541	P -	P 7,607,910
Investments in subsidiaries – at cost	-	-	142,687	-	4,126,078	(4,268,765)	-
Advances to related parties	117,163	-	557,226	717	480,049	(1,102,431)	52,724
Total assets	P 936,333	P 568,478	P 4,512,090	P 144,261	P 6,870,668	(P 5,371,196)	P 7,660,634
Segment liabilities	P 105,325	P 123,421	P 187,934	P 18,534	P 527,997	P -	P 963,211
Advances from related parties	106,756	53,156	780,193	26,807	135,603	(1,004,423)	98,094
Total liabilities	P 212,081	P 176,577	P 968,127	P 45,341	P 663,600	(P 1,004,421)	P 1,061,305
OTHER SEGMENT INFORMATION							
Capital expenditures	P 43,392	P 35,416	P 16,057	P 164	P 92	P -	P 95,121
Depreciation and amortization	60,852	29,147	36,795	1,615	646	-	129,055
Impairment losses	11,701	88	6,339	-	8,338	(12,106)	14,360
Other non-cash expenses	-	-	742	2,192	2,360	-	5,294

	Broadband Services	Manufacturing and Manufacturing Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2004							
REVENUES							
Sales to external customers	P 178,139	P 529,971	P 315,284	P 227,895	P 22,646	P -	P 1,273,935
Intersegment sales	9,900	-	7,217	-	7,590	(24,707)	-
Total revenues	P 188,039	P 529,971	P 322,501	P 227,895	P 30,236	(P 24,707)	P 1,273,935
RESULTS							
Segment results	(P 130,080)	P 28,279	P 43,616	P 28,066	P 56,931	P 93,783	P 120,595
Finance cost	(482)	(206)	(50)	-	(8,647)	552	(8,833)
Other gains (losses) – net	-	46,468	29,378	(1,352)	(4,778)	(13,798)	55,918
Income (loss) before tax	(130,562)	74,541	72,944	26,714	43,506	80,537	167,680
Tax expense	66	20,097	12,765	923	12,670	-	46,521
Income from continuing operations	(130,628)	54,444	60,179	25,791	30,836	80,537	121,159
Loss from discontinued operations	-	(5,020)	-	-	-	-	(5,020)
Net income (loss)	(P 130,628)	P 49,424	P 60,179	P 25,791	P 30,836	P 80,537	P 116,139
ASSETS AND LIABILITIES							
Segment assets	P 827,047	P 636,270	P 3,604,931	P 115,001	P 2,107,387	P -	P 7,290,636
Investments in subsidiaries - at cost	-	-	133,335	-	4,053,255	(4,186,590)	-
Advances to related parties	100,864	-	501,261	5,405	291,030	(820,175)	78,385
Total assets	P 927,911	P 636,270	P 4,239,527	P 120,406	P 6,451,672	(P 5,006,765)	P 7,369,021
Segment liabilities	P 102,436	P 101,268	P 225,182	P 9,990	P 258,644	P -	P 697,520
Advances from related parties	92,242	42,442	635,874	31,807	72,738	(778,406)	96,697
Total liabilities	P 194,678	P 143,710	P 861,056	P 41,797	P 331,382	(P 778,406)	P 794,217
OTHER SEGMENT INFORMATION							
Capital expenditures	P 60,009	P 14,429	P 55,782	P 957	P 329	P -	P 131,506
Depreciation and amortization	90,870	25,927	32,627	1,124	862	-	151,410
Impairment losses	9,679	-	6,703	-	145,399	(146,483)	15,298
Other non-cash expenses	-	-	-	1,004	1,430	-	2,434

6. CASH AND CASH EQUIVALENTS

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

	2006	2005
Cash on hand and in banks	P 205,235,912	P 198,777,987
Short-term placements	1,168,470,275	1,184,072,816
	P 1,373,706,187	P 1,382,850,803

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 30 to 60 days and earn interest at the respective short-term placement rates ranging from 3.2% to 9.0% per annum in 2006 and 3.4% to 9.0% per annum in 2005.

Dollar-denominated cash and cash equivalents amounted to P660,340,558 and P889,997,307 as of December 31, 2006 and 2005, respectively (see Note 31).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of the following:

	2006	2005
Mutual funds	P 147,159,284	P 484,712,907
Equity securities	—	3,578,676
	P 147,159,284	P 488,291,583

The amounts for mutual funds have been determined directly by reference to net asset value per share quoted in mutual fund statements. The fair values of equity securities have been determined directly by reference to published prices in an active market.

The Group recognized the net increase in value of financial assets at fair value through profit or loss of P29,821,299 in 2006, P32,691,738 in 2005 and P20,447,356 in 2004, which were included in the line item Other Operating Income in the consolidated income statements (see Note 19).

8. TRADE AND OTHER RECEIVABLES

This account includes the following (see Note 26):

	2006	2005
Current:		
Trade receivables	P 304,071,086	P 407,564,052
Finance receivables	77,218,963	69,824,510
Advances to contractors	39,793,183	51,499,928
Other receivables	102,868,107	74,177,335
	523,951,339	603,065,825
Allowance for impairment losses	(139,204,691)	(113,519,174)
	P 384,746,648	P 489,546,651
Non-current:		
Cash surrender value of life insurance	P 439,953,477	P 461,755,119
Finance receivables - net of current portion	107,946,702	125,297,498
Receivables from sale of land	—	605,144
	P 547,900,179	P 587,657,761

A reconcilation of the allowance for impairment at beginning and end of 2006 and 2005 is shown below

	Notes	2006	2005
Balance at beginning of year		P 113,519,174	P 116,482,969
Impairment loss during the year	20	25,685,517	19,565,838
Reversal of impairment loss on receivables	19	—	(19,856,635)
Write off of receivables		—	(2,672,998)
Balance at end of year		P 139,204,691	P 113,519,174

Trade and other receivables are usually collected within 30 to 90 days and do not bear any effective interest rate. All trade and other 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 and third parties.

Advances to contractors pertain to downpayments made by Zen in relation to the construction of the Tri-Towers condominium building, which is expected to be completed in 2007, and SMC and others for their on-going construction.

Interest rates per annum on finance receivables range from 9% to 18% per annum in 2006 and 9% to 22% in 2005. Certain business loans of SMFI are secured by land and shares of stock of companies which are owned by certain stockholders of the Company.

Investment in cash surrender value of life insurance pertains to insurance policies purchased by BRL for its directors. The beneficiary of the insurance policies is SGI and the investment is accounted for under the Cash Surrender Value method. Under this method, initial cash surrender value of the insurance policies is recognized immediately by BRL. The difference between initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid Insurance under Other Non-Current Assets and is amortized over 10 years (see Note 14). The investment in cash surrender values of life insurance is used as collateral for interest-bearing loans of BRL (see Note 15).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the consolidated balance sheets comprise the following financial assets:

	2006	2005
Current -		
Investment in foreign currency denominated bonds	P 514,904,785	P 499,411,952
Non-current:		
Club shares	14,230,000	26,170,000
Investment in equity securities	8,580,000	13,680,324
Others	2,634,971	277,127
	25,444,971	40,127,451
Allowance for impairment losses	(10,934,991)	(17,890,000)
	14,509,980	22,237,451
	P 529,414,765	P 521,649,403

A reconciliation of the carrying amounts of available-for-sale financial assets is shown below:

	Notes	2006	2005
Balance at beginning of year		P 521,649,403	P 443,780,354
Additions		306,607,732	453,135,905
Disposals		(297,839,438)	(375,120,097)
Impairment losses	21	(8,600,000)	—
Fair value gains - net		8,418,743	729,645
Foreign currency losses - net	24	(821,675)	(1,016,404)
Reversal of impairment losses		—	140,000
		P 529,414,765	P 521,649,403

Investment in equity securities include P8,580,000 investment in shares of stock of SPH, which was reclassified from the Investment in an Associate account since management believes that the Company no longer has significant influence over the investee company (see Note 1.5). The investment in SPH is fully provided with allowance for impairment loss.

The Group's management has determined that there is objective evidence that the decline in the values of certain equity securities and club shares is other than temporary. Accordingly, the Group recognized impairment losses amounting to P8,600,000 in 2006. Impairment losses on permanent decline of value of available-for-sale financial assets are presented as part of Other Gains (Losses) in the consolidated income statements (see Note 21).

Investments in foreign currency denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 15).

The fair value of investment in SPH has been determined by discounting expected future cash flows on the investment using a discount rate for similar financial instruments. The fair values of other available-for-sale financial assets have been determined directly by reference to published prices in active market.

10. INVENTORIES

The details of inventories are shown below (see Note 18.2):

	2006	2005
Merchandise and finished goods	P 30,409,716	P 36,601,637
Work in process	2,459,891	6,645,348
Raw materials	13,193,852	19,623,731
Service parts, supplies and others	69,838,712	77,330,051
	115,902,171	140,200,767
Allowance for obsolescence	(42,695,939)	(44,642,340)
	P 73,206,232	P 95,558,427

The movement in allowance for obsolescence is as follows:

	Notes	2006	2005
Balance at beginning of year		P 44,642,340	P 69,957,085
Write-off of inventories previously provided with an allowance		(2,602,725)	—
Loss from inventory obsolescence during the year	20	1,417,413	1,902,649
Reversal of allowance	19	(761,089)	(27,217,394)
		P 42,695,939	P 44,642,340

11. REAL ESTATE INVENTORIES

This account is composed of:

	Notes	2006	2005
Land and land development costs:			
Land		P 183,925,699	P 165,613,570
Land development costs		146,976,115	150,403,643
		330,901,814	316,017,213
Allowance for impairment		(2,022,800)	(2,022,800)
		328,879,014	313,994,413
Property development costs:			
Land	13, 30.5	129,801,264	103,589,162
Construction in progress and development costs		357,179,913	107,482,166
		486,981,177	211,071,328
		P 815,860,191	P 525,065,741

Land and land development costs pertain to cost of land and related improvements held by Starworld and LIIP for sale. Property development costs pertain to cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by Zen for sale.

Allowance for impairment loss pertains to the estimated cost of parcels of land deemed unsaleable by management. No additional impairment were recognized in 2006 and 2005.

Under its registration with the Board of Investments (BOI), Starworld shall develop 118 hectares of land. As of December 31, 2006 and 2005, lot areas totaling 65 hectares have been acquired and developed while 18 hectares of land already acquired are still under development.

The Group, through Zen, has initiated the planning and construction of the Tri-Towers condominium building. Related to this, Zen has entered into several construction contracts with various contractors for the construction of the building. It is expected that the construction of the condominium building will be completed in 2007. In October 2006, the Company obtained its permit to sell that would allow preselling of the condominium units. There were no preselling transactions yet in 2006. The revenue from sale of condominiums will be accounted for using percentage-of-completion method.

12. PROPERTY, PLANT AND EQUIPMENT

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

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2006, net of accumulated depreciation, amortization and impairment loss	P 121,200,000	P 81,808,889	P 20,670,806	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 742,740,864
Additions	-	5,208,617	5,094,216	4,573,539	6,034,800	54,162,406	3,441,506	2,981,314	636,478	138,427		82,271,303
Reclassifications	-	-	-	2,151	-	3,219,233	-	(2,151)	-	-	(3,219,233)	-
Transfer from investment property (see note 13)	776,654,682	-	-	-	-	-	-	-	-	-	-	776,654,682
Disposals	-	-	-	-	(1,722,569)	-	-	-	-	(268,790)	-	(1,991,359)
Depreciation and amortization charges for the year	-	(10,785,733)	(4,231,588)	(6,352,966)	(7,355,150)	(45,597,748)	(6,098,896)	(3,259,130)	(2,342,471)	(2,139,469)	-	(88,163,151)
Balance at December 31, 2006 net of accumulated depreciation, amortization and impairment losses	P 897,854,682	P 76,231,773	P 21,533,434	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,511,512,339
December 31, 2006												
Cost	P 897,854,682	P 185,140,212	P 137,999,219	P 107,098,955	P 65,662,047	P 1,155,722,528	P 109,286,027	P 59,289,080	P 38,148,727	P 17,359,439	P 18,630,474	P 2,792,191,390
Accumulated depreciation and amortization	-	(108,908,439)	(116,465,785)	(89,575,041)	(49,105,061)	(397,272,864)	(67,009,709)	(54,123,749)	(32,685,205)	(15,533,198)	-	(930,679,051)
Accumulated impairment loss	-	-	-	-	-	(350,000,000)	-	-	-	-	-	(350,000,000)
Net carrying amount	P 897,854,682	P 76,231,773	P 21,533,434	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,511,512,339

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2005, net of accumulated depreciation, amortization and impairment loss	P 121,200,000	P 78,853,265	P 30,770,746	P 20,988,699	P 19,002,913	P 396,967,127	P 51,491,591	P 6,536,070	P 9,372,415	P 387,392	P 13,812,387	P 749,382,605
Additions	-	9,200,338	5,148,844	5,870,044	9,324,907	44,330,563	2,042,041	3,322,575	887,645	4,371,359	8,037,320	92,535,636
Reclassifications	-	-	(852,427)	-	-	-	394,959	(402,665)	-	860,133	-	-
Disposals	-	(5,662)	(127,294)	(533,976)	(528,691)	-	-	-	(14,000)	(103,175)	-	(1,312,798)
Depreciation and amortization charges for the year	-	(6,239,052)	(14,269,063)	(7,023,577)	(8,199,224)	(44,631,917)	(8,994,883)	(4,010,682)	(3,076,545)	(1,419,636)	-	(97,864,579)
Balance at December 31, 2005 net of accumulated depreciation, amortization and impairment losses	P 121,200,000	P 81,808,889	P 20,670,806	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 742,740,864
December 31, 2005												
Cost	P 121,200,000	P 132,852,827	P 131,871,211	P 106,593,820	P 94,965,188	P 1,098,340,889	P 105,844,521	P 56,307,766	P 37,512,249	P 17,528,200	P 21,849,707	P 1,924,866,378
Accumulated depreciation and amortization	-	(51,043,938)	(111,200,405)	(87,292,630)	(75,365,283)	(351,675,116)	(60,910,813)	(50,862,468)	(30,342,734)	(13,432,127)	-	(832,125,514)
Accumulated impairment loss	-	-	-	-	-	(350,000,000)	-	-	-	-	-	(350,000,000)
Net carrying amount	P 121,200,000	P 81,808,889	P 20,670,806	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 742,740,864

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and building and improvements amounts to P1,019.5 million and P153.7 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date.

In 2005, SLC wrote off the cost amounting to P1,093,373 and the related accumulated depreciation amounting to P582,676 of furniture and fixtures that were determined to have been affected by the fire which occurred in December 2004. The net amount written-off was covered by the amount of insurance policies collected in 2005 (see Note 21).

The amount of depreciation and amortization computed on property, plant and equipment is allocated as follows:

	Notes	2006	2005
Cost of services	18.1	P 57,102,390	P 64,127,872
Cost of sales	18.2	5,436,189	12,430,189
General and administrative expenses		19,714,189	17,390,892
Selling and distribution expenses		5,910,383	3,915,626
		P 88,163,151	P 97,864,579

13. INVESTMENT PROPERTY

A reconciliation of the carrying amounts at the beginning and end of 2006 and 2005 and the gross carrying amounts and the accumulated depreciation and impairment loss of investment property is shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
Balance at January 1, 2006, net of accumulated depreciation and impairment loss	P 2,169,794,196	P 406,213,789	P —	P 2,576,007,985
Additions	4,398,782	4,249,154	11,311,295	19,959,231
Transfer to property, plant and equipment	(776,654,682)	—	—	(776,654,682)
Transfer to property development costs (see note11)	(25,692,838)	—	—	(25,692,838)
Impairment loss - net of recovery of impairment loss	(21,103,136)	—	—	(21,103,136)
Depreciation charge for the year	(557)	(31,471,587)	—	(31,472,144)
Balance at December 31, 2006, net of accumulated depreciation and impairment loss	P 1,350,741,765	P 378,991,356	P 11,311,295	P 1,741,044,416
December 31, 2006				
Cost	P 1,419,758,484	P 578,374,319	P 11,311,295	P 2,009,444,098
Accumulated depreciation and amortization	(4,438,219)	(194,639,846)	—	(199,078,065)
Accumulated impairment loss	(64,578,500)	(4,743,117)	—	(69,321,617)
Net carrying amount	P 1,350,741,765	P 378,991,356	P 11,311,295	P 1,741,044,416
Balance at January 1, 2005, net of accumulated depreciation and impairment loss	P 2,275,727,960	P 434,316,099	P —	P 2,710,044,059
Additions	—	2,585,175	—	2,585,175
Transfer to property development costs	(103,589,162)	—	—	(103,589,162)
Disposal	(1,841,788)	—	—	(1,841,788)
Depreciation charge for the year	(502,814)	(30,687,485)	—	(31,190,299)
Balance at December 31, 2005, net of accumulated depreciation and impairment loss	P 2,169,794,196	P 406,213,789	P —	P 2,576,007,985
December 31, 2005				
Cost	P 2,218,395,298	P 783,522,580	—	P 3,001,917,878
Accumulated depreciation and amortization	(5,125,738)	(372,565,674)	—	(377,691,412)
Accumulated impairment Loss	(43,475,364)	(4,743,117)	—	(48,218,481)
Net carrying amount	P 2,169,794,196	P 406,213,789	P —	P 2,576,007,985

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and improvements and buildings and improvements amounted to P1,911.0 million and P530.5 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Based on this report, the Group recognized impairment losses amounting to P64.6 million on certain parcels of land and it reversed the P43.5 million impairment on the parcel of land held by Precos. Impairment loss, net of reversal, is recorded under Other Gains (Losses) account in the consolidated income statements (see Note 21).

In 2006, the Group transferred parcels of land costing P776,654,682 from Investment Property to Property, Plant and Equipment as management determined that these parcels of land were substantially used by the members of the Group rather than held for rentals to third parties or held for capital appreciation (see Note 12).

Certain land properties of SMC and SC are a subject of ongoing litigation brought up by third parties and expropriation coverage under agrarian reform, respectively (see Note 30.4).

Depreciation charge on investment property is shown as part of Cost of Rentals account in the consolidated income statements (see Note 18.3).

14. OTHER ASSETS

The composition of these accounts as of December 31 is shown below:

	Notes	2006	2005
Current:			
Input value-added tax		P 80,493,583	P 35,200,278
Creditable withholding taxes		37,166,283	38,657,059
Prepaid expenses		24,657,918	17,730,097
Refundable deposits		5,986,172	
Others		2,941,437	7,503,712
		P 151,245,393	P 99,091,146
Non-current:			
Prepaid insurance	8	P 19,047,346	P 24,682,124
Refundable deposits		13,290,150	13,870,525
Others - net	14,29	12,208,111	2,633,998
		P 44,545,607	P 41,186,647

15. INTEREST-BEARING LOANS

This account pertains to short-term loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of life insurance and all current available-for-sale securities (see Notes 8 and 9). The loans bear interest at prevailing market rates per annum ranging from 1.98% to 6.56% in 2006 and 1.60% to 5.82% in 2005. Interest expense arising from these loans are presented as Finance Cost in the consolidated income statements.

The fair value of loans obtained is equal to the carrying values since the interest rates used are equal to effective interest rates as of balance sheet date.

16. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2006	2005
Trade	26.2	P 103,945,818	P 129,985,524
Accrued expenses		90,731,084	71,171,274
Refundable deposits	17	6,519,560	10,987,126
Provisions for warranty	28.2	3,158,051	2,191,763
Output value-added tax		—	3,883,663
Others	26.2,29	188,829,967	114,933,156
		P 393,184,480	P 333,152,506

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

Provision is recognized for expected warranty claims on products sold based on the Group's past experience of the level of repairs and returns. SVC accrues warranty costs for products sold to customers (see Note 28.2).

The changes in provisions for warranty are as follows:

	2006	2005
Balance at beginning of year	P 2,191,763	P 1,004,016
Additional provisions	1,611,699	2,191,763
Reversals and application during the year	(645,411)	(1,004,016)
Balance at end of year	P 3,158,051	P 2,191,763

17. REFUNDABLE DEPOSITS

Refundable deposits represents long-term rental deposits returnable to various tenants totalling P12,990,096 with respect to lease agreements expiring or terminating by 2009 to 2011. The refundable deposits were remeasured at amortized cost using the effective interest rate of 15.24% to 15.77% for nine and ten years, respectively, at the inception of the lease term in 1999 and 2000. Interest expense recognized in 2006, 2005 and 2004 is presented under Other Gains (Losses) account in the consolidated income statements (see Note 21). The present value of these non-current refundable deposits in 2006 and 2005 amounted to P7,349,795 and P5,495,516, respectively.

The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 16).

18. COST OF SALES, SERVICES AND RENTALS

18.1 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services (see also note 20):

	Note	2006	2005	2004
Employee benefits		P 101,967,249	P 83,000,184	P 104,537,605
Materials and other consumables		75,758,604	81,057,966	73,376,058
Depreciation and amortization	12	57,102,390	64,127,872	93,382,703
Communication, light and water		41,819,591	38,869,506	32,022,502
Transponder rental and leased line		40,399,563	41,717,081	58,382,963
Rentals	30.3	38,857,726	40,156,870	36,363,537
Manpower services		31,484,728	45,253,042	42,600,020
Repairs and maintenance		25,940,717	47,063,406	11,498,097
Transportation and travel		19,236,662	15,162,679	9,645,266
Cable services		5,075,250	6,854,000	10,206,055
Others		22,524,673	19,104,581	13,086,056
		P 460,167,153	P 482,367,187	P 485,100,862

18.2 Cost of Sales

The details of this account are shown below (see also note 20):

	Note	2006	2005	2004
Merchandise and finished goods at beginning of year		P 36,601,637	P 27,383,375	P 14,560,349
Net purchases of Merchandise during the year		272,764,218	202,964,214	214,209,707
Cost of goods manufactured:				
Raw materials at beginning of year		19,623,731	29,342,021	24,214,986
Work-in-process at beginning of year		6,645,348	3,051,116	3,433,593
Net purchases of raw materials during the year		55,846,851	132,393,767	111,795,252
Direct labor		22,741,002	19,565,284	24,036,399
Manufacturing overhead	12	40,010,376	81,528,416	90,073,262
Raw materials at end of year	10	(13,193,852)	(19,623,731)	(29,345,021)
Work-in process at end of year	10	(2,459,891)	(6,645,348)	(3,051,116)
		129,213,565	239,611,525	221,160,355
Goods available for sale		438,579,420	469,959,114	449,930,411
Merchandise and finished goods at end of year	10	(30,409,716)	(36,601,637)	(27,383,375)
Impairment loss from inventory obsolescence		971,333	304,153	2,532,089
		P 409,141,037	P 433,661,630	P 425,079,125

18.3 Cost of Rentals

The details of this account are as follows (see also note 20):

	Note	2006	2005	2004
Depreciation	13	P 31,472,144	P 31,190,299	P 31,158,679
Taxes and licenses		13,639,389	11,179,677	5,575,873
Light and water		7,201,448	7,859,549	6,095,313
Security and janitorial services		3,596,262	3,789,026	2,276,221
Rental		2,285,640	3,056,981	8,458,274
Repairs and maintenance		2,035,839	2,903,871	3,473,027
Employee benefits		849,946	848,356	572,220
Others		1,909,705	4,889,652	3,921,452
		P 62,990,373	P 65,717,411	P 61,531,059

19. OTHER OPERATING INCOME

Presented below are the details of this account:

	Note	2006	2005	2004
Interest income		P 118,875,323	P 103,603,700	P 144,876,587
Fair value gains on financial assets at fair value through profit or loss - net	7	29,821,299	32,691,738	20,447,356
Increase in cash surrender value of investment in life insurance	8	13,177,887	4,760,029	3,054,936
Gain on sale of available-for-sale financial assets - net	9	7,508,465	15,465,100	7,008,121
Reversal of impairment of receivables, and inventories,	8, 10	1,421,250	47,074,029	32,136,098
Foreign currency gains - net		—	—	3,930,132
Others		16,449,663	21,619,627	35,011,542
		P 187,253,887	P 225,214,223	P 246,464,772

20. OPERATING EXPENSES BY NATURE

Operating expenses is composed of the following:

	Note	2006	2005	2004
Net purchases of merchandise inventories	18.2	P 272,764,218	202,964,214	P 214,209,707
Salaries and employee benefits	22	218,783,088	253,695,018	245,474,317
Materials, supplies and other consumables		149,222,433	239,949,730	216,625,594
Depreciation and amortization	12, 13	119,635,295	129,054,878	151,410,835
Communication, light and water		74,988,181	82,721,426	73,288,725
Foreign currency losses - net		61,065,963	50,418,973	—
Manpower and other outside services	30.3	60,531,478	85,350,163	74,964,748
Rentals		40,502,990	59,205,434	55,509,756
Repairs and maintenance		39,868,888	67,443,584	29,933,244
Transponder rental and leased line		39,186,031	41,717,081	58,382,963
Transportation and travel		34,418,432	30,473,630	23,652,698
Taxes and licenses		27,572,073	27,851,232	33,237,373
Impiarment loss on receivables and inventories	8, 10	27,102,930	21,468,487	11,441,340
Change in merchandise, finished goods and work-in-process inventories		10,377,378	(12,812,494)	(12,440,549)
Cost of land sold		8,481,841	5,925,376	170,139,677
Others		80,141,759	42,765,989	53,974,794
		P 1,264,642,978	P1,308,192,721	P 1,399,805,222

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

	Note	2006	2005	2004
Cost of services		P 460,167,153	P 482,367,187	P 485,100,862
Cost of sales		409,141,037	433,661,630	425,079,125
Cost of rentals		62,990,373	65,717,411	61,531,059
Cost of land sold		8,481,841	5,925,376	170,139,677
General and administrative expenses		301,682,442	293,451,028	238,305,278
Selling and distribution costs		22,180,132	27,070,089	19,649,221
		P 1,264,642,978	P 1,308,192,721	P 1,399,805,222

21. OTHER GAINS (LOSSES)

This account consists of the following:

	Note	2006	2005	2004
Impairment of land and leasehold rights held as investment property	13	(P 21,103,136)	P —	P 16,807,098
Other impairment losses	9	(8,600,000)	—	—
Gain on sale of property and equipment		184,209	663,779	8,647,543
Gain from insurance proceeds	12	—	45,448,725	—
Gain from return of investment in an associate	1.5	—	—	26,730,000
Recognition of negative goodwill as income	1.3(c)	—	—	19,298,410
Others - net	17	271,107	(9,760,812)	(15,563,947)
		(P 29,247,820)	P 36,351,692	P 55,919,104

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expense recognized for salaries and employee benefits is summarized below (see Note 20 and 26.6)

	2006	2005	2004
Salaries, wages and other short-term benefits	P 213,245,448	P 226,500,126	P 237,949,514
Retirement - defined benefit plan	5,059,243	3,354,766	5,923,474
Termination benefits	478,397	3,840,126	1,601,329
	P 218,783,088	P 233,695,018	P 245,474,317

22.2 Employee Retirement Benefit Obligation

The Group maintains a tax-qualified and noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

The Group obtained an actuarial valuation to determine the retirement benefit obligation as of December 31, 2005. The Company did not obtain an updated actuarial valuation report in 2006 since there were no significant movements or changes in the actuarial assumptions used in 2005. However, the Company was provided with additional plan information applicable in 2006 based on the same assumptions used in 2005.

The amounts of total retirement benefit asset of the subsidiaries that is recognized in the consolidated balance sheets are determined as follows:

	2006	2005	2004
Fair value of plan assets	P 111,842,541	P 83,663,336	P 69,730,419
Present value of the obligation	47,482,490	39,929,141	24,318,969
Excess of plan assets	64,360,051	43,734,195	45,411,450
Unrecognized actuarial losses (gains)	(18,361,724)	31,882	(7,134,889)
Retirement benefit asset	P 45,998,327	P 43,766,077	P 38,276,561

The mounts of retirement benefit liability of SGI that is recognized in the consolidated balance sheets are determined as follows:

	2006	2005	2004
Fair value of plan assets	P 39,199,902	P 29,920,673	P 25,407,921
Present value of the obligation	31,074,244	26,943,023	24,614,841
Excess of plan assets	8,125,658	2,977,650	793,080
Unrecognized actuarial gains	(11,629,653)	(6,314,378)	(3,460,502)
Retirement benefit obligation	P 3,503,995)	P 3,336,728	P 2,667,422

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

	2006	2005	2004
Fair value of plan assets	P 151,042,443	P 113,584,009	P 95,138,340
Present value of the obligation	78,556,734	66,872,164	48,933,810
Net excess in the plan	P 72,485,709	P 46,711,845	P 46,204,530

Experience adjustments arising from the plan assets amounted to P23.4 million in 2006, P2.2 million in 2005 and P6.9 million in 2004. Management has determined that experience adjustments on plan liabilities are not material for all years presented.

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

	2006	2005	2004
Balance at beginning of year	P 66,872,164	P 48,933,810	P 52,691,641
Current service and interest cost	14,201,770	10,975,909	12,140,125
Benefits paid	(2,517,200)	(557,563)	(295,600)
Actuarial losses (gains)	—	7,520,008	(15,602,356)
Balance at end of year	P 78,556,734	P 66,872,164	P 48,933,810

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

	2006	2005	2004
Balance at beginning of year	P 113,584,009	P 95,138,340	P 76,529,968
Contributions paid into the plan	7,124,225	8,174,977	19,268,671
Benefits paid by the plan	(2,517,200)	(557,563)	(295,600)
Expected return on plan assets	9,115,264	7,611,067	6,216,652
Actuarial losses (gains)	23,736,145	3,217,188	(6,581,351)
Balance at end of year	P 151,042,443	P 113,584,009	P 95,138,340

Actual returns on plan assets amounted to P32,835,723 and P9,803,293 gains in 2006 and 2005, respectively and a loss of P750,352 in 2004.

The Group expects to pay P3.6 million in contributions to retirement benefit plans in 2007.

The plan assets consist of the following:

	2006	2005	2004
Government securities	P 138,005,262	P 107,459,790	P 87,367,434
Mutual and trust funds	11,147,047	3,884,047	6,867,680
Other securities and debt instruments	1,472,526	1,391,201	—
Loans and discounts	—	961,138	988,688
Others - net	417,608	(112,167)	(85,462)
	P 151,042,443	P 113,584,009	P 95,138,340

The amount of retirement benefit expense recognized in the consolidated income statements is as follows:

	2006	2005	2004
Current service costs	P 6,707,541	P 4,046,206	P 5,772,389
Interest costs - net	7,494,229	6,929,702	6,367,737
Expected return on plan assets	(9,115,264)	(7,611,067)	(6,216,652)
Net actuarial gain recognized during the year	(27,263)	(10,075)	—
	P 5,059,243	P 3,354,766	P 5,923,474

For determination of the retirement benefit expense, the following actuarial assumptions were used:

	2006	2005	2004
Discount rates	10.2% - 12.0%	11.6% - 14.5%	12.0% - 14.5%
Expected rate of return on plan assets	8.0%	8.0%	8.0%
Expected rate of salary increases	10.0%	10.0%	10.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 27 years for both males and females.

The overall expected long-term rate of return on assets is 8%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

23. TAXES

23.1 Current and Deferred Tax Expense

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

	2006	2005	2004
Consolidated income statements:			
Current tax expense:			
Regular corporate income tax (RCIT) at 35% in 2006, 35% and 32% in 2005 and 32% in 2004	P 17,537,525	P 27,472,829	P 16,646,663
Final taxes at 20% and 7.5%	9,730,448	9,119,310	19,881,593
Preferential taxes at 5%	1,009,589	861,760	3,891,616
Minimum corporate income tax (MCIT) at 2%	10,909	77,640	834,439
	28,288,471	37,531,539	41,254,311
Deferred tax expense (income):			
Relating to origination and reversal of temporary differences	(22,822,739)	(24,722,255)	5,343,218
Benefit from previously unrecognized MCIT and Net operating loss carry over (NOLCO)	(172,894)	(2,378,627)	(76,651)
Resulting from an increase in RCIT rate	—	(539,225)	—
	(22,995,633)	(27,640,107)	5,266,567
Tax expense reported in the consolidated income statements	P 5,292,838	P 9,891,432	P 46,520,878
Consolidated statements of changes in equity:			
Deferred tax on fair value gains of available-for-sale financial assets	P 14,000	P 49,000	P —

Kita is duly registered with Clark Development Corporation (CDC) while SMC and Starworld are registered with Philippine Economic Zone Authority (PEZA) which entitle them to tax and duty-free importation of goods and exemption from national and local taxes (see Note 27).

The reconciliation of tax on pretax income computed at the applicable statutory rate to tax expense attributable to continuing operations reported in consolidated income statements is shown below:

	2006	2005	2004
Tax on pre-tax income at 35% in 2006 and 2005 and 32% in 2004	(P 29,479,132)	P 18,529,358	P 53,657,742
Adjustment for income subject to lower tax rates	(21,889,935)	(19,573,976)	(35,219,327)
Tax effects of:			
Derecognized and unrecognized deductible temporary differences	54,296,279	35,959,535	39,513,205
Nondeductible expenses	14,392,256	38,845,693	24,383,765
Amortization of goodwill attributable to property, plant and equipment	7,105,351	7,105,351	6,496,321
Intercompany income and expenses eliminated during consolidation	4,231,580	2,085,580	(2,395,290)
Non-taxable income	(51,597)	—	(4,500,016)
Fair value gains of financial assets at fair value through profit or loss	(10,460,762)	(11,465,831)	(6,543,154)
Income of foreign subsidiary not subject to taxes	(12,851,202)	(11,475,971)	(10,403,415)
Benefit from previously unrecognized diferred tax assets	—	(50,020,040)	(1,751,547)
Increase in temporary differences due to increase in RCIT rate	—	(539,225)	—
Gain from return of investment	—	—	(8,553,600)
Negative goodwill recognized in income	—	—	(6,175,491)
Others - net	—	440,958	(1,988,315)
Tax expense reported in the consolidated income statements	P 5,292,838	P 9,891,432	P 46,520,878

The net deferred tax assets of subsidiaries having a net deferred tax asset position as of December 31 relates to the following:

	Consolidated Balance Sheets	
	2006	2005
Deferred tax assets:		
Allowance for impairment of receivables	P 20,799,205	P 16,052,556
Unrealized foreign currency loss	16,935,656	—
Advance rental	446,189	2,102,530
Unamortized past service costs	2,736,830	1,263,344
Provisions for warranty	1,105,318	—
Deferred rent expense - PAS 17	755,335	—
Allowance for inventory obsolescence	610,289	350,000
Accrued employee benefits	—	529,773
	43,388,822	20,298,203
Deferred tax liabilities:		
Deferred rent income – PAS 17	(4,290,974)	(3,111,571)
Retirement benefits	(2,985,779)	(2,689,480)
Benefit from previously unrecognized MCIT	—	—
	(7,276,753)	(5,801,051)
Net Deferred Tax Assets	P 36,112,069	P 14,497,152

	Consolidated Income Statements		
	2006	2005	2004
Deferred tax assets:			
Allowance for impairment of receivables	(P 4,746,649)	(P14,483,830)	P 31,629
Unrealized foreign currency loss	(16,935,656)		
Advance rental	1,656,341	(1,681,704)	(420,826)
Unamortized past service costs	(1,473,486)	(885,754)	61,846
Provisions for warranty	(1,105,318)	—	—
Deferred rent expense - PAS 17	(755,335)	—	—
Allowance for inventory obsolescence	(260,289)	(30,000)	—
Accrued employee benefits	529,773	1,182,523	192,764
	(23,090,619)	(15,89,765)	(134,587)
Deferred tax liabilities:			
Deferred rent income – PAS 17	1,179,403	3,111,571	—
Retirement benefits	296,299	2,689,80	—
Benefit from previously unrecognized MCIT	—	(2,378,627)	(76,651)
	(1,475,702)	(3,422,424)	(76,651)
Deferred Tax Income	(P 21,614,917)	(P12,476,341)	(P 211,238)

The net defered tax liabilities of subsidiaries which have a net deferredtax liability position as of December 31 relates to the following:

	Consolidated Balance Sheets	
	2006	2005
Deferred tax assets:		
Unamortized past service costs	P —	P 2,231,362
Deferred revenue	—	1,590,909
Accrued employee benefits	—	1,167,855
Provision for warranty	—	767,117
Allowance for impairment of receivables	—	406,108
Allowance for inventory obsolescence	—	338,429
Allowance for impairment of prepayments	—	231,056
NOLCO	—	—
MCIT	—	—
		6,732,836
Deferred tax liabilities:		
Unrealized foreign currency gain	—	(5,395,010)
Retirement benefits	—	(1,400,875)
Deferred costs	—	(1,317,667)
Deferred rent income - PAS 17	—	—
Deferred tax liability on change in fair value of available-for-sale financial assets and tax expense recognized directly in equity (note 24.2)	(35,000)	(49,000)
	(35,000)	(8,162,552)
Net Deferred Tax Liabilities	(P 35,000)	(P 1,429,716)

	Consolidated Income Statements and Statements of Changes in Equity		
	2006	2005	2004
Deferred tax assets:			
Unamortized past service costs	**P 2,231,362**	(P 224,773)	(P 899,493)
Deferred revenue	**1,590,909**	(1,590,909)	—
Accrued employee benefits	**1,167,855**	(1,167,855)	693,484
Provision for warranty	**767,117**	(767,117)	—
Allowance for impairment of receivables	**406,108**	(406,108)	509,794
Allowance for inventory obsolescence	**338,429**	(338,429)	—
Allowance for prepayments	**231,056**	(231,056)	—
Net operating loss carry over (NOLCO)	—	5,275,176	2,128,242
MCIT	—	145,329	—
	6,732,836	694,258	2,432,027
Deferred tax liabilities:			
Unrealized foreign currency gain	**(5,395,010)**	(15,874,684)	1,224,077
Retirement benefits	**(1,400,875)**	(107,193)	364,160
Deferred costs	**(1,317,667)**	1,317,667	(1,244,098)
Deferred rent income - PAS 17	—	(1,193,814)	2,701,639
	(8,113,552)	(15,858,024)	3,045,778
Deferred Tax Expene (Income) recognized in consolidated income statements	**(P 1,380,716)**	(P15,163,766)	P 5,477,805
Deferred tax liability on change in fair value of available-for-sale financial assets and tax expense recognized directly in equity	**P 14,000**	P 49,000	P —

The movements in the Group's recognized and unrecognized NOLCO and MCIT are as follows:

Year	Original Amount	Applied in Previous Year	Applied in Current Year
NOLCO:			
2006	P 137,000,227	P —	P —
2005	119,237,175	—	493,983
2004	142,411,891	—	—
2003	222,810,617	—	11,688,485
2002	177,421,013	8,424,566	78,468,235
2001	171,357,050	300,147	—
	P 970,237,973	P 8,724,713	P 90,650,703
MCIT:			
2006	P 10,929	P —	P 10,929
2005	77,640	—	—
2004	728,628	—	679,941
2003	1,876,633	338,098	1,383,673
2002	2,739,758	867,140	1,849,000
2001	4,350,784	1,042,719	—
	P 9,784,372	P 2,247,957	P 3,923,543

Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:			
2006	P —	P 137,000,227	2009
2005	—	118,743,192	2008
2004	—	142,411,891	2007
2003	211,122,132	—	2006
2002	90,528,212	—	2005
2001	171,056,903	—	2004
	P 472,707,247	P 398,155,310	
MCIT:			
2006	P —	P —	2009
2005	—	77,640	2008
2004	—	48,687	2007
2003	154,862	—	2006
2002	23,618	—	2005
2001	3,308,065	—	2004
	P 3,486,545	P 126,327	

The NOLCO, MCIT and other deductible temporary differences as of the end of 2006 for which the related deferred tax assets have not been recognized are shown below.

	2006		2005	
	Amount	**Tax Effect**	Amount	Tax Effect
NOLCO	**P 398,155,310**	**P 139,354,359**	P 472,771,198	P 165,469,920
Allowance for impairment of property, plant and equipment	**350,000,000**	**122,500,000**	385,000,000	134,750,000
Allowance for impairment of trade and other receivables	**86,643,649**	**30,325,277**	60,258,029	21,090,310
Allowance for inventory obsolescence	**37,804,063**	**13,231,422**	37,804,063	13,231,422
Allowance for impairment loss on available for-sale financial asset	**5,220,000**	**1,827,000**	5,220,000	1,827,000
Unamortized past service cost	**4,126,560**	**1,444,296**	4,708,183	1,647,864
Unrealized foreign currency gain	**5,790,654**	**2,026,729**	2,475,045	866,266
MCIT	**126,327**	**126,327**	281,189	281,189
	P 887,866,563	**P 310,835,410**	P 968,517,707	P 339,163,971

23.2 Recent Changes in Tax Regulation

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

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

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

(c) 12% VAT was now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

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

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

24. EQUITY

24.1 Capital Stock and Additional Paid-in Capital Stock

In 2003, the Company recognized the constructive issuance of 224,461,752 of the Company's shares of stock to DCI for the acquisition of DI. In 2004, the Company and DCI agreed to exclude the receivable and payable accounts of certain related parties from the net asset valuation for the acquisition of DI. The revaluation changed DI's financial position from net assets to net liability. Consequently, the Company and DCI agreed that the 224,461,752 shares of stock would no longer be issued to DCI. Instead, the Company would assume the net liability of DI representing the deficiency of the estimated fair value of DI's broadband cable infrastructure and its existing cable internet subscriber base over their aggregate book value. The change in the acquisition value for DI resulted in the reversal of the capital stock issuance recognized in the previous year and the decrease in additional paid-in capital recorded for the acquisition of DI amounting to P23,201,010, representing the net liability position assumed by the Company (see Note 1.3).

24.2 Revaluation Reserves

The components of this account and their movement are as follows:

	Note	2005	2005	2004
Fair value gains on available-for-sale financial assets:				
Balance at beginning of year		P 10,860,725	P 11,056,485	P 11,052,500
Foreign currency gains (losses)		(821,675)	(1,016,404)	200,079
Fair value gains (losses) for the year - net of fair value gains recognized in consolidated income statements		2,311,119	869,644	(196,094)
Tax expense on fair value gains	23	(14,000)	(49,000)	—
Balance at end of year		12,336,169	10,860,725	11,056,485
Foreign currency difference:				
Balance at beginning of year		(14,960,585)	3,368,934	—
Currency differences on translating financial statements of foreign operations		(26,786,679)	(18,329,519)	3,368,934
Unrealized foreign currency loss on equity advances of SGI to BRL		(7,408,721)	—	—
Balance at end of year		(49,155,985)	(14,960,585)	3,368,934
		(P 36,819,816)	(P 4,099,860)	P 14,425,419

25. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share for net income (loss) attributable to equity holders of the parent company were computed as follows:

	2005	2005	2004
Net income (Loss) (a):			
Continuing operations	(P 85,794,103)	P 48,716,330	P 106,067,038
Discontinued operations	—	—	(5,020,074)
	(P 85,794,103)	P 48,716,330	P 101,046,964
Weighted average shares outstanding (b):			
Number of shares issued	2,030,975,000	2,030,975,000	2,030,975,000
Treasury shares	(209,433,000)	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
Earnings (loss) per share (a/b)	(P 0.05)	P 0.03	P 0.06

Earnings per share from discontinued operations in 2004 is less than P0.01.

There were no outstanding potentially dilutive instruments as of December 31, 2006, 2005 and 2004, hence, no information on diluted earnings (loss) per share is presented.

26. RELATED PARTY TRANSACTIONS

The Group's related parties include other companies owned by the company's majority stockholders and the Company's key management personnel.

26.1 Sale of Goods and Services

	Amount of Transactions			Outstanding Balance	
	2006	2005	2004	2006	2005
Sale of goods:					
Professional equipment, accessories and tapes	P —	P 345,041	P 18,258,886	P —	P 82,871
Sale of services:					
Use of cable infrastrcuture	65,096,591	43,008,182	29,850,000	234,260,547	237,274,339
Commissions	1,895,244	4,157,050	1,354,366	—	46,241,770
Management services	1,200,000	1,200,000	1,700,000	—	—
	68,191,835	48,365,232	32,904,366	234,260,547	283,516,109
	P 68,191,835	P 48,719,273	P 51,163,252	P 234,260,547	P 283,598,980

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Company's majority stockholders. SVC also earns commissions from the sales of a company owned by the ultimate majority stockholders, to customers in the Philippines.

SBC's broadband cable infrastructure is used by DCI, a company also owned by SGI's majority stockholders. Billings were based on a fixed fee per subscriber and per type of service.

SGI provides management services to CPD Access Corporation (CPD), a company also owned by SGI's majority stockholders in accordance with a management contract.

Revenue from Sale of Goods and Services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables (see Note 8).

26.2 Purchase of Goods and Services

	Amount of Transactions			Outstanding Balance	
	2006	2005	2004	2006	2005
Purchase of goods	P 72,099,355	P 76,070,918	P 69,701,748	P 25,800	P 2,268,262
Availment of management services	4,370,370	3,344,498	4,052,259	—	—
	P 76,469,725	P 79,415,416	P 73,754,007	P 25,800	P 2,268,262

SE Corp. purchases parts and supplies from CPD while SMC avails of management services from AA Commercial, a company also owned by SGI's majority stockholders.

Purchases of goods and availment of management services are recorded as part of Cost of Services and General and Administrative Expenses, respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 16).

26.3 Lease of Real Property

	Amount of Transactions			Outstanding Balance	
	2006	2005	2004	2006	2005
Group as lessor	P 593,333	P 826,213	P 1,321,845	P 18,211	P —
Group as lessee	P 190,269	P 190,269	P 185,734	P —	P —

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rental in the consolidated income statements. Uncollected billings, on the other hand, forms part of Trade and Other Receivables account in the consolidated balance sheets (see Note 8).

SLC rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated income statements (see Note 20). There are no outstanding liabilities related to this lease in both 2006 and 2005.

26.4 Granting of Loans

	Business Loans	Car Loans	Total
Amount of transactions:			
2006	P —	P —	P —
2005	35,000,000	3,394,000	38,394,000
2004	60,000,000	4,294,650	64,294,650
Interest income earned:			
2006	4,388,339	321,629	4,709,968
2005	4,179,533	837,720	5,017,253
2004	2,502,250	320,773	2,823,023
Outstanding balance:			
2006	46,000,000	1,490,594	47,490,594
2005	51,201,200	3,747,785	54,948,985

SMFI grants interest-bearing business and other loans to companies owned by the ultimate majority stockholders. Interest rates range from 9% to 12% for 2006, 2005 and 2004. Interest earned on these loans are presented as part of rendering of services in the consolidated income statements (see Note 19) while outstanding balances are shown as Finance Receivables under the Trade and Other Receivables account in the consolidated balance sheets (see Note 8).

26.5 Advances to and from Related Parties

Certain subsidiaries of the Company grants and obtains advances to and from the other companies owned by the Group's majority stockholders for working capital, acquisition of property and equipment and other purposes. Outstanding balances arising from these transactions are presented as Advances to Related Parties and advances from Related parties in the consolidated balance sheets, respectively.

26.6 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2006, 2005 and 2004 are as follows (see also note 22.1):

	2006	2005	2004
Salaries, professional fees and other short-term benefits	**P 24,577,115**	P 23,635,258	P 24,659,000
Retirement benefit expense	**P 1,243,537**	1,243,537	898,731
Termination benefits	—	1,500,000	—
	P 25,820,652	P 26,378,795	P 25,557,731

27. REGISTRATION WITH ECONOMIC ZONE AUTHORITIES

27.1 Registration with the Clark Development Corporation (CDC)

Kita is registered with the CDC under Republic Act No. 7227, The Bases Conversion and Development Act of 1992, as amended under Republic Act No. 9400, An Act Amending R.A. 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes. As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, the Company is subject to a 5% preferential tax rate on its registered activities. However, the 35% RCIT rate is applied to income which comes from sources other than the Company's registered activities.

27.2 Registration with the Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

28. SIGNIFICANT CONTRACTS AND AGREEMENTS

28.1 Memorandum of Understanding with SPH

SEC entered into a Memorandum of Understanding ("MOU") with SPH for Network Support for AIWA products in July 2003. Under the MOU, SPH authorized the Company to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee calculated as a percentage of SPH's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPH. Also, SPH agrees to pay the Company network support fee equal to 1% of net sales for SONY products and 1% or P50,000 per month whichever is higher for AIWA products. The MOU is still effective prospectively unless revoked by any party.

The breakdown of network support fees is shown below.

	Amount of Transactions			Outstanding Balance	
	2006	2005	2004	2006	2005
SONY Products	**P 29,903,703**	P 27,074,743	P 25,057,688	**P 9,878,105**	P 10,328,121
AIWA	**600,000**	600,000	1,550,000	—	275,000
Products	**P 30,503,703**	P 27,674,743	P 26,607,688	**P 9,878,105**	P 10,603,121

Network support fees earned are presented as part of Rendering of Services in the consolidated income statements. Outstanding receivables arising from this transaction are included in the Trade and Other Receivables account in the consolidated balance sheets (see Note 8).

28.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are under the 12 month-warranty period at its own costs and expenses. The Agreement is good for one year and renewable for another year upon mutual agreement between SVC and Sony HK.

29. EVENT AFTER BALANCE SHEET DATE

In previous years, the Company was involved in a litigation with a local bank concerning letters of credit issued in connection with shipments of electronic parts to the Company. On January 8, 2007, the Company and the bank's assignor agreed to a full settlement of the case for P50 million (which was subsequently paid in 2007). No additional expense was recognized by the Company in 2006 as the Company had enough provision accrued in prior years (see Note 16).

As a result of the settlement, cash in bank accounts under garnishment totaling P1.0 million as of December 31, 2006, was released to the Company in 2007. Garnished cash in bank accounts are presented as Other Non-current Assets in the consolidated balance sheets
(see Note 14).

30. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

30.1 Planned Acquisition of Land Registration Systems, Inc. (LARES)

In 2005, the Company, together with other investors, entered into a negotiation with LARES, a company engaged in computerizing and modernizing the land registration system of Land Registration Authority (LRA). Under the negotiation plan, the Group, thru SGTC, will acquire 51% interest in LARES. Realization of the planned acquisition depends on several conditions, including government's approval for LARES to continue the project.

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P1,992,000 in 2006 and P900,000 in 2005. The amount is unpaid as of December 31, 2006. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

(a) P3 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(b) The balance of P3 million shall be used for working capital and operating expenses of LARES.

As of December 31, 2006 and 2005, LARES has already obtained a portion of the loan amounting to P3,909,329 and P3,308,929, respectively.

Due to certain delays in the arbitration proceedings with the LRA, LARES still has not commenced its operation as of December 31, 2006. However, the Group's management is optimistic that the project will push in 2007 since it is in its final arbitration and is awaiting final approval from the Philippine Government.

30.2 Operating Lease Commitments – Company as Lessor

Certain subsidiaries lease various properties for a period of 1 to 10 years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum rentals receivable under these non-cancellable operating leases as of December 31 are as follows:

	2006	2005	2004
Within one year	P 71,857,133	P 75,138,776	P 65,823,711
After one year but not more than five years	156,753,601	173,991,314	185,689,511
More than five years	8,005,451	17,879,714	36,113,907
	P 236,616,185	P 267,009,804	P 287,627,129

30.3 Operating Lease Commitments – Company as Lessee

The Company is a lessee to non-cancellable operating leases on land. As of December 31, 2006, these leases have a remaining term of 13 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2006	2005	2004
Within one year	P 4,747,016	P 4,544,560	P 3,880,509
After one year but not more than five years	24,157,140	22,345,582	18,025,984
More than five years	70,753,956	77,794,530	76,738,689
	P 99,658,112	P 104,684,672	P 98,645,182

Total rental expense from these operating leases amounted to P7,415,493 in both 2006 and 2005 and P4,747,033 in 2004, and are shown as part of Rental under Cost of Services in the consolidated income statements (see Note 18.1).

30.4 Legal Claims

Certain subsidiaries are involved in litigation, which arose in the normal course of business described as follows.

(a) As of December 31, 2004, there are claims by a third party against SLC for alleged infringement of copyrights and sound recording. Based on a Supreme Court decision dated June 27, 2005, the reconsideration sought by the complainants was denied.

(b) SMC is involved in a number of litigation and is subject to certain claims such as:

(i) Portion of land in Pililla, Rizal, with a carrying value of P3.5 million, subject to expropriation coverage under the Agrarian Reform Act.

(ii) Land, with a carrying value of P59 million, subject to claims by third parties who filed court cases against SMC.

Management believes that the ultimate liability or loss from the above contingencies, if any, with respect to such litigations will not materially affect the financial position and results of operation of the individual companies or the Group.

30.5 Possible Impact of Government Project

In 2005, Zen received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri-Towers condominium building project might be affected by the plans of the National Government for the construction of the proposed 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the Zen's property will be affected by the road's right-of-way.

The Group decided to continue the Tri-towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project (see Note 11).

30.6 Others

There are contingent assets and liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying consolidated financial statements. Management believes that losses, if any, that may arise from contingencies will not have any material effects on the consolidated financial statements.

31. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated by its Board of Directors, and focuses on actively securing the Group's short-to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes. The more significant financial risks to which the Group is exposed to are described in the succeeding sections.

31.1 Foreign Currency Risk

The Group's net exposure to foreign currency risk as of December 31, 2006 is as follows:

	Notes	In U.S. Dollar	In Philippine Peso
Assets:			
Cash and cash equivalents	6	$ 13,440,132	P 660,340,558
Financial assets at fair value through profit and loss	7	69,262	3,402,981
Trade and other receivables	8	9,376,891	460,705,387
Available-for-sale financial assets	9	10,480,029	514,904,785
Other non-current assets	14	387,67	19,047,3461
		33,753,991	1,658,401,057
Liabilities:			
Interest-bearing loans	15	9,095,610	446,885,511
Trade and other payables	16	564,459	27,699,287
		9,660,069	474,584,798
Total net asset exposure to foreign currency risk		24,093,922	1,183,816,259
Net asset exposure that will be taken directly to equity		9,562,226	469,811,287
Net asset exposure that will directly impact profit and loss		$ 14,531,696	P 714,004,972

Net asset exposure that will be taken directly to equity pertains to the net asset position of BRL. Changes in foreign currency rates will increase or decrease the total assets and equity of the Group but will not affect the Company's consolidated income or loss.

The Group incurred net foreign currency losses of P61.1 million and P50.4 million in 2006 and 2005, respectively, and foreign currency gains of P3.9 million in 2004. In addition, foreign currency losses (gains) on translation of BRL's financial statements amounted to P34.2 million in 2006, P18.3 million in 2005 and (P3.4 million) in 2004.

US Dollar-denominated receivables are generally settled as soon as possible in order to avoid exposure to fluctuations in changes to foreign currency rates. In addition, the Group actively monitors the volatility of foreign currency notes to minimize foreign currency losses.

In 2006, the Company transferred a portion of its US dollar assets to BRL in order to mitigate the impact of foreign currency risk on the Group's consolidated income statements.

31.2 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated balance sheets (or in the detailed analysis provided in the notes to the financial statements). Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group has no significant concentrations of credit risk. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. Majority of SMFI's finance receivables are made to related parties and for a significant proportion of the receivables, collaterals are received to mitigate the credit risk. The Group has adopted a no-business policy with customers and tenants lacking an appropriate credit history where credit records are available.

31.3 Cash Flow and Fair Value Interest Rate Risks

The Group's interest rate risk arises from the cash equivalents of SGI and its subsidiaries and from the short-term borrowings of BRL. Market interest rate risk generally changes every 30 days.

As of December 31, 2006, the Group has P1,168.5 million cash equivalents which is subject to fluctuations in market interest rate. Market interest rate for 2006 ranged from 3.2% to 9.0% for peso cash equivalents and 4.5% to 5.3% for dollar cash equivalents.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest income and expense may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise.

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