2014
ANNUAL REPORT

Inspired by the Filipino People

SOLID GROUP INC.

MESSAGE TO SHAREHOLDERS & PARTNERS

David S. Lim
President & CEO

> *"We must re-invent ourselves in what we do and how we do things to meet challenges of rapid technology and market competition."*

When I took on the leadership of SGI, our goal was to develop businesses that utilize affordable technology to create quality Filipino branded products and services that would significantly impact the lives of ordinary Filipinos. In line with this, our efforts today are focused on three areas of operation: Digital Mobile Devices, Property & Building Services, and Technical Support & Solutions.

In 2014, our operations in each of these three businesses have established themselves as respected leaders in their respective field. We achieved a new milestone of Php 5 billion in revenues despite the highly competitive industries we operate in. However, we had a setback in profitability as we registered a consolidated net loss of Php188 million for the year.

Nevertheless, we will be able to declare dividends for our shareholders this year as we have done in recent years. Furthermore, we expect to rebound and achieve positive results in 2015.

My|phone continues to be our banner brand in digital mobile devices business. Revenues grew 19% to reach Php4 billion led by the successful RIO smartphones. However severe competition reduced our gross margins and contributed to financial losses. Also, significant losses were incurred from liquidating inventories. We are addressing these challenges squarely, working hard to reduce our costs by diversifying our technology supplier mix, deepening our involvement in product specifications, and improving overall product appeal based on market needs as we further strengthen dealer partnerships and provide even greater customer value.

My|house, our brand for modular structures doubled its revenues to Php66 million and continued to promote modular technology as an effective alternative solution for schoolhouses, residences and commercial outfits.

In late 2014, SGI launched its newly repurposed headquarters now known as **Green Sun** in Makati City. This investment serves as a model for inspiring creativity of Filipino artists and advocating environment- friendly projects. We expect Green Sun's operations to ramp up as more clients discover our unique offerings.

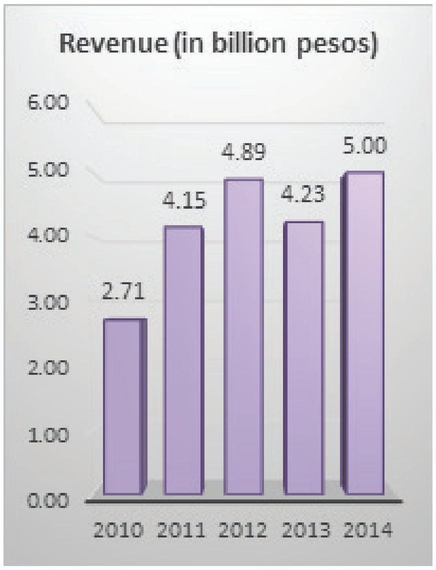
Meanwhile SGI's real estate business registered negative results in both revenue and profits for the year due to a cancelled rental contract from the shutdown of a tenant's factory, delays in some project start-ups, fair value loss of Php 37 million, and a Php 142 million recorded loss in Fil-Dragon China project which is still awaiting official government approval to register revenues and corresponding profits.

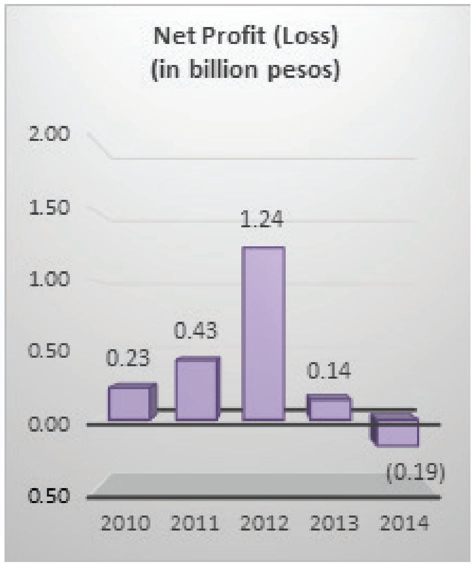
Improved economic environment fueled growth for our business involving Technical Support and Solutions. **Solid Video Corporation** posted a revenue of Php 198 million up 107% from previous year consisting of sales, service and integration of broadcast and professional equipment. **Solid Electronics Corporation** which operates 40 service branches for Sony and my|phone nationwide grew an 11% to achieve Php 183 million in revenue and expects to grow further in 2015 with its appointment as service provider of ABS-CBN's digital set-up boxes. **Omni Solid Services Inc.** achieved 11% increase in revenue reaching Php 224 million and earning Php 32 million from logistics, test laboratory and television assembly operations.

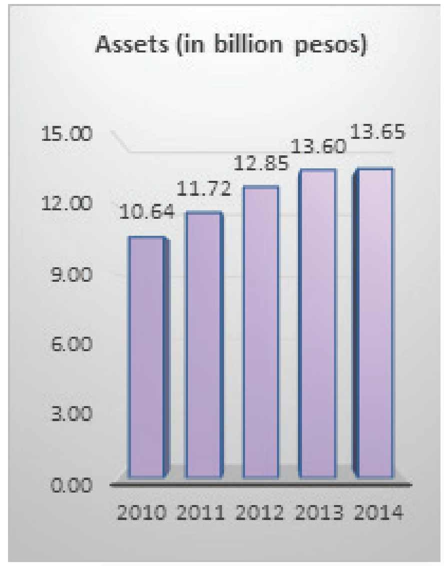
We are thankful for the support of our stockholders and partners. As the country is forecasted to continue growing 6-7% in the coming years, we are gearing up to take advantage of this momentum. We must re-invent ourselves in what we do and how we do things to meet challenges of rapid technology and market competition. We must work hard with passion and creativity to excel in customer service and as always be inspired by the Filipino people and nation we serve.

FINANCIAL PERFORMANCE OVERVIEW 2014

On a consolidated basis, the Company posted growth in revenues by 18% reaching Php 5 billion in 2014 from Php 4.2 billion in 2013. Net loss amounted to Php 188 million in 2014 vs. Php 145 million net income in 2013 mainly due to mylphone operation losses and real estate business. Assets grew steadily on a year on year basis.







Key Indicators continue to reflect a strong financial position despite the setback in the year's performance.

Revenue / Income (Loss) (in million Php)	2012	2013	2014
Distribution [1]			
Revenues	3,963	3,543	4,338
% Growth (Decline)	27	(11)	22
Net Income (Loss)	252	(7)	(156)
Real Estate [2]			
Revenues	273	293	216
% Growth (Decline)	(8)	7	(26)
Net Income (Loss)	217	86	(73)
Support Services & Others [3]			
Revenues	716	478	504
% Growth (Decline)	(13)	(33)	5
Net Income (Loss)	769	65	40

Balance Sheet (in billion Php)	2012	2013	2014
Cash and Cash Equivalents	3.02	2.33	1.62
Total Assets	12.85	13.60	13.66
Total Liabilities	3.18	3.85	4.17
Total Equity	9.67	9.75	9.49
Retained Earnings	2.77	2.82	2.59
Key Performance Ratios	**2012**	**2013**	**2014**
Current Ratio	3.14 : 1	2.60 : 1	2.31 : 1
Debt to Equity Ratio	0.33 : 1	0.39 : 1	0.44 : 1
Asset Turnover	53%	32%	37%
EPS (in Php)	0.68	0.09	(0.07)

[1] mylphone, mylhouse, Solid Video Corp.
[2] Solid Manila, Fil-Dragon, Zen Towers, Kita, Casa Bocobo
[3] Omni, Solid Service, SMFI, BRL, SGI

CORPORATE SOCIAL RESPONSIBILITY

SGI's subsidiaries donated classrooms to Yolanda affected areas in Tacloban and Ormoc Cities in Leyte province and conducted medical missions in Bulacan.

MYPHONE

Redefining directions to meet challenges

Rio series dual core android

Infinity octa-core Smartphone

Despite severe competition due to the proliferation of both local and foreign brands, myIphone managed to regain back its market share through the introduction of aggressive marketing campaigns of strategically priced and featured packed quad-core and octa-core models. From a decline in 2013, MyPhone grew 19% in value to achieve a record of Php 4 billion in revenue in 2014. In particular, the RIO-series of smartphones was a huge success nationwide.

The business suffered a setback in income as we posted a net loss of Php156 million due to lower gross margins as well as higher impairment and liquidation related losses from prior years' obsolete models. We expect profitability to improve with our new directions on supplier diversification and specifications planning as well as tighter operations control.

PBA Street Party

Teen Invasion mall concert

Ms. EARTH endorsing MyPhone

Marketing campaigns for 2014 included major sponsorships such as PBA Official Mobile Phone and Ms. Earth, a beauty pageant which promotes environmental awareness. Our "grassroots marketing" approach targeted the youth market through concerts tagged as MyPhone Teen Invasion held in Puerto Galera, Boracay, Davao, Bacolod, Palawan, and Ilocos Norte.

A record breaking event was the open air Post-Yolanda Concert held last June 28, 2014 in Tacloban featuring our brand endorser Daniel Padilla.

In social media, myIphone continued to be active with over one million likes on Facebook. In partnership with PayPal, BPI, LBC, Palawan pawnshop and Cebuana Lhullier , we also launched our own line store http://themyphonestore.com servicing the Philippines and the world.

Endorser Daniel Padilla

Open Air Concert

MYHOUSE

Creating new markets

MyHouse distributed by Solid Group Technologies Corporation (SGTC) continued to strengthen its efforts towards promoting modular structures for houses, offices and schools. Revenues for the business doubled to Php 68 million.

SGTC continued to build advocacy project for Provincial Government of Cavite and various Non-Government Organizations as well as private institutions. Noteworthy is the project of 88 housing units in the New Era Sports Complex of the Iglesia ni Cristo in Bulacan.

The company is optimistic that the business will grow steadily in both revenue and profits as more projects from NGOs and local governments materialize. The company is also sourcing for alternative modular and fabricated solutions based on client needs.

Housing Complex for INC Bulacan

Gabay Guro PLDT Project

Tacloban School Project

SVC

Providing Technology Solutions

SVC 30 years

OB Van

Inside OB Van

Solid Video Corporation (SVC) continued to upgrade its operations to go beyond box-selling and become a system integration and turn-key solutions provider for the broadcast and professional industry including television stations, educational and medical institutions and commercial establishments.

2014 revenue grew 107% to achieve Php 198 million with a net income of Php 9.4 million. SVC also invested in a new fiber optic cable repair facility to expand its client services.

With the roll-out of ISDB-T broadcast as well as other developments such as 4K, *broadcast over IP*, etc, SVC aims to maximize potential through stronger client and supplier partnerships and continued investment in technical training.

Sony equipment demo

REAL ESTATE

Re-investing for the future

Green Sun Facade

In 2014, Solid Manila Corporation launched Green Sun, a Php 360 million investment in its re-purposed building in Makati which includes corporate offices, a 144-room business hotel and three fully equipped event venues namely SOMA, AXON & The EYE.

The real estate business of SGI is expected to recover in 2015 from its 26% decline in revenue and its net loss of Php 73 million in 2014, which includes a Php 35 million fair value loss after tax of KITA Corporation in Clark, Pampanga and a Php142 million loss from the China JV project expected to be recovered once corresponding revenue and profit are recognized.

Other developments are ongoing preparations for a dorm-type modular building in Quezon City and active negotiations for the sale of a major property to pave way for future re-investments.

SOMA Cafe

AXON Gallery

The EYE - 18ft high 360^{o} video wall

SUPPORT SERVICES

Towards Customer Service Beyond Expectation

SONY Authorized Service Center

Solid Electronics Corporation (SolidService) and Omni Solid Services, Inc. (OMNI) both grew their revenues by 11% through expansion of customer-base and services. Combined Support Services reached Php 407 million in revenue and Php 33 million in net income.

OMNI Bicutan Warehouse

SolidService maintained its strong network of nationwide service centers for Sony and mylphone and was appointed as sole service provider of ABS CBN's digital set-up box in late 2014.

Material Handling Training

OMNI continued to improve overall performance from higher volumes of operations in logistics (warehouse rentals and deliveries), assembly of LED television and test lab services for the electronics and appliance industry.

BOARD OF DIRECTORS

David S. Lim
President & CEO

Elena S. Lim
Chair Emeritus, Director

Quintin Chua
Independent Director

Susan L. Tan
Chairman of the Board

Joseph A. Lim
Founder, Director

Jason S. Lim
SVP & COO, Director

Beda T. Manalac
VP, Director

Vincent S. Lim
SVP & CFO, Director

**Not in Photo : Luis Zabaljauregui - Independent Director*

CORPORATE OFFICERS

Left to right:
Mellina Corpuz - VP & Chief Accounting Officer • Ericson Salvador - Senior Audit Manager • Josephine Santiago - Chief Information Officer • Atty. Roberto San Jose - Corporate Secretary • Vincent Lim - SVP & CFO • Lita Joaquin - VP & Treasurer • Atty. Ana Maria Katigbak-Lim - Assistant Corporate Secretary

SENIOR EXECUTIVES

First row (L-R): Joji Tan - GM, Solid Electronics Corp.• Beda Manalac - President Solid Manila Corp. • Abbe Daza - GM, Omni Solid Services Inc. **Second row (L-R):** Jaime Alcantara - President, My Solid Technologies & Devices Corp. • Jonathan Joseph Lim - President, Solid Group Technologies Corp. • Christopher James Tan - GM, Solid Video Corporation • Mel Santos - GM, Green Sun Hotel Inc. • Lita Joaquin - GM, Solid Manila Finance Inc.

SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc.**, is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2014 and 2013, in accordance with Philippine Financial Reporting Standards (PFRS), including the List of Supplementary Information filed separately from the basic consolidated financial statements.

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

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

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

SUSAN L. TAN	**DAVID S. LIM**	**VINCENT S. LIM**
Chairman	President & Chief Executive Officer	SVP & Chief Financial Officer
Passport No. EC2411790	Passport No. EB4305124	Passport No. EB5665582
Date/Place Issued:	Date/Place Issued:	Date/Place Issued:
October 14, 2014, Manila	December 20, 2011, Manila	June 15, 2012, Manila

14 APR 2015

Signed this ______ day of _________ 2015.

14 APR 2015

SUBSCRIBED AND SWORN to before me this _________ day of ___________, affiants exhibiting to me their passport with details shown above.

Doc No. 353;
Page No. 72;
Book No. 267
Series of 2015

RUBEN T.M. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31, 2015
2734 M. AURORA ST., MAKATI CITY
APPT. NO. M-17 (2014-2015)
IBP NO. 978780 / CY 2015
ROLL NO. 28947/MCLE-4 NO. 00[illegible]
PTR MKT 4750751/1-5-15 MAKATI CITY

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Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2014 and 2013, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2014, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and subsidiaries as at December 31, 2014 and 2013, and their consolidated financial performance and their consolidated cash flows for each of the three years in the period ended December 31, 2014 in accordance with Philippine Financial Reporting Standards.

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 4748310, January 5, 2015, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Apr. 30, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 7, 2015

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	P 1,623,834,847	P 2,327,335,632
Financial assets at fair value through profit or loss	6	746,071,954	294,286,160
Trade and other receivables - net	7	1,438,189,029	1,132,677,373
Advances to related parties	25	28,980,645	24,735,439
Merchandise inventories and supplies - net	9	594,629,960	844,245,080
Real estate inventories - net	10	2,371,682,863	2,423,235,917
Other current assets	13	574,294,025	425,932,898
Total Current Assets		7,377,683,323	7,472,448,499
NON-CURRENT ASSETS			
Trade and other receivables	7	582,579,966	722,200,488
Available-for-sale financial assets - net	8	9,456,527	7,236,527
Property and equipment - net	11	1,739,229,451	1,560,681,049
Investment property - net	12	3,653,879,915	3,648,811,016
Retirement benefit asset	21	123,066,094	82,223,774
Deferred tax assets - net	22	127,125,734	77,579,849
Other non-current assets - net	13	44,270,694	32,848,159
Total Non-current Assets		6,279,608,381	6,131,580,862
TOTAL ASSETS		P 13,657,291,704	P 13,604,029,361

	Notes	2014	2013
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 844,408,549**	P 684,002,914
Trade and other payables	15	**732,391,095**	731,274,757
Customers' deposits	10	**1,502,205,749**	1,306,036,566
Advances from related parties	25	**36,873,493**	81,323,563
Estimated liability for land and land development costs			
Estimated liability for land and land development costs	10	**68,304,647**	68,304,647
Income tax payable		**9,404,626**	4,695,146
Total Current Liabilities		**3,193,588,159**	2,875,637,593
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**13,313,947**	15,127,106
Retirement benefit obligation	21	**20,705,704**	26,520,678
Deferred tax liabilities - net	22	**938,404,585**	935,309,237
Total Non-current Liabilities		**972,424,236**	976,957,021
Total Liabilities		**4,166,012,395**	3,852,594,614
EQ Attributable to the Parent Company's stockholders			
Attributable to the Parent Company's stockholders			
Parent Company's stockholders			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital		**4,641,701,922**	4,641,701,922
Treasury shares - at cost	23	**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**21,082,300**	(16,786,209)
Retained earnings	23	**2,590,367,022**	2,820,926,308
Total equity attributable to the Parent Company's stockholders		**9,168,511,864**	9,361,202,641
Non-controlling interests	2	**322,767,445**	390,232,106
Total Equity		**9,491,279,309**	9,751,434,747
TOTAL LIABILITIES AND EQUITY		**P 13,657,291,704**	P 13,604,029,361

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippines Pesos)

	Notes	2014	2013	2012
REVENUES				
Sale of goods	2	**P 4,337,704,615**	P 3,513,602,388	P 3,959,978,189
Rendering of services	25, 26	**453,582,408**	414,705,645	630,331,311
Rentals	12, 25, 27	**150,962,708**	151,962,662	136,716,722
Interest	7, 20, 25	**27,085,794**	39,263,000	64,387,678
Sale of real estate	2	**28,321,991**	113,835,646	98,968,685
		4,997,657,516	4,233,369,341	4,890,382,585
COSTS OF SALES, SERVICES, RENTALS AND REAL ESTATE SALES				
Cost of sales	17	**3,854,962,630**	2,983,775,449	3,092,129,708
Cost of services	17	**374,197,647**	332,503,851	488,402,762
Cost of rentals	17	**35,951,543**	34,971,661	35,382,941
Cost of real estate sales	18	**22,179,971**	70,127,647	45,917,227
		4,287,291,791	3,421,378,608	3,661,832,638
GROSS PROFIT		**710,365,725**	811,990,733	1,228,549,947
OTHER OPERATING EXPENSES (INCOME)				
Selling and distribution costs	18	**552,366,111**	451,129,327	361,066,027
General and administrative expenses	18	**379,815,905**	288,610,394	352,143,479
Other operating income	19	**(86,040,883)**	(53,336,385)	(553,926,007)
Gain on sale of assets	26	**-**	-	(267,133,735)
		846,141,133	686,403,336	(107,850,236)
OPERATING PROFIT (LOSS)		**(135,775,408)**	125,587,397	1,336,400,183
TOTAL COMPREHENSIVE INCOME (LOSS)				
Finance costs	20	**(112,012,001)**	(20,598,454)	(49,088,095)
Finance income	20	**33,194,746**	62,749,912	163,702,479
Other gains – net	20	**3,182,343**	22,683,695	60,902,970
		(75,634,912)	64,835,153	175,517,354
PROFIT (LOSS) BEFORE TAX		**(211,410,320)**	190,422,550	1,511,917,537
TAX EXPENSE (INCOME)	22	**(22,678,893)**	44,903,108	274,668,827
NET PROFIT (LOSS) FOR THE YEAR		**(188,731,427)**	P 145,519,442	P 1,237,248,710
Net profit (loss) for the year attributable to the:				
Parent Company's stockholders		**(121,266,766)**	P 157,821,890	P 1,239,948,309
Non-controlling interests		**(67,464,661)**	(12,302,448)	(2,699,599)
		(188,731,427)	P 145,519,442	P 1,237,248,710
Earnings (loss) per share attributable to the Parent Company's stockholders	24	**(0.07)**	P 0.09	P 0.68

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHESIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippines Pesos)

	Notes	2014	2013	2012
NET PROFIT (LOSS) FOR THE YEAR		(188,731,427)	P 145,519,442	P 1,237,248,710
OTHER COMPREHENSIVE INCOME (LOSS)				
Item that will not be reclassified subsequently to profit or loss –				
Remeasurement of post-employment defined benefit plan	21, 23	54,522,138	7,356,907	3,086,609
Tax expense	22, 23	(15,481,707)	(2,207,070)	(925,983)
		39,040,431	5,149,837	2,160,626
Items that will be reclassified subsequently to profit or loss:				
Currency exchange differences on translating financial statements of foreign operations	2, 23	(1,325,922)	P 41,312,873	(28,033,335)
Fair value gains (losses) on available-for-sale financial assets	8	P 220,000	P 1,461,842	(853,830)
Deferred tax income on changes in fair value of available-for-sale financial assets	22	(66,000)	(1,156,237)	(300,000)
Reclassification adjustments for losses recognized in profit or loss	8	-	-	P 12,145,053
		(1,171,922)	P 41,618,478	(17,042,112)
Other Comprehensive Income (Loss) - net of tax		P 37,868,509	P 46,768,315	(P 14,881,486)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		(P 150,862,918)	P 192,287,757	P 1,222,367,224
Total comprehensive income (loss) for the year attributable to:				
Parent Company's stockholders		(P 83,398,257)	P 204,590,205	P 1,225,031,823
Non-controlling interests		(67,464,661)	(12,302,448)	(2,664,599)
		(P 150,862,918)	P 192,287,757	P 1,222,367,224

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in Philippines Pesos)

	Notes	2014	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit (loss) before tax		(211,410,320)	P 190,422,550	P 1,511,917,537
Adjustments for:				
Interest expense	20	P 58,225,272	P 2,610,444	P 6,227,444
Fair value gains on investment property - net	12, 19	(52,676,235)	(23,784,336)	(149,569,182)
Depreciation and amortization	11	P 47,575,708	P 32,328,211	P 46,467,220
Interest income		(34,372,990)	(62,453,275)	(147,707,834)
Gain on redemption of financial assets at fair value through profit or loss	6, 20	(13,689,363)	(1,006,736)	-
Fair value gain on financial assets at fair value through profit or loss	6, 20	(5,750,303)	(144,292)	-
Unrealized foreign currency losses - net		P 4,662,070	P 3,239,177	P 14,111,262
Gain on derecognition of liabilities	20	(2,108,461)	(15,825,655)	(25,117,698)
Loss on sale of investment property	12, 20	P 1,766,286	-	-
Interest amortization on refundable deposits	16, 20	P 150,003	P 388,412	P 1,930,812
Impairment losses on available-for-sale financial assets	8	-	800,000.00	-
Reversal of impairment losses on property, plant and equipment - net	19	-	-	(350,000,000)
Gain on sale of assets	26	-	-	(267,133,735)
Reversal of impairment losses on available-for-sale financial assets	20	-	-	(990,643)
Operating profit (loss) before working capital changes		(207,628,333.00)	126,574,500.00	P 640,135,183
Increase in trade and other receivables		(165,891,134)	(3,817,099)	(128,025,521)
Decrease (increase) in advances to related parties		(4,245,206)	(3,102,051)	P 106,910,011
Decrease (increase) in merchandise inventories and supplies		P 249,615,120	(452,382,192)	P 148,246,101
Decrease (increase) in real estate inventories		P 51,553,054	(406,957,264)	(335,284,669)
Increase in other current assets		(135,368,972)	(167,417,555)	(147,125,720)
Decrease (increase) in retirement benefit asset		(1,801,889)	(5,512,330)	P 18,320,016
Decrease (increase) in other non-current assets		(11,422,535)	(10,616,455)	P 1,534,754
Increase in trade and other payables		P 3,074,796	P 117,809,349	P 61,587,376
Increase in customers' deposits		P 196,169,183	P 424,136,901	P 195,586,019
Increase (decrease) in advances from related parties		(44,450,070)	P 69,693,744	(95,865,412)
Increase in refundable deposits		(1,813,159)	(918,290)	(997,074)
Increase (decrease) in retirement benefit obligation		(5,814,974)	P 10,384,223	(4,394,864)
Cash generated from (used in) operations		(78,024,119)	(302,124,519)	P 460,626,200
Interest received		P 27,085,794	P 29,125,499	P 90,845,815
Cash paid for income taxes		(33,446,241)	(2,137,686)	(43,387,647)
Net Cash From (Used in) Operating Activities		(84,384,566)	(275,136,706)	P 508,084,368
CASH FLOWS FROM INVESTING ACTIVITIES				
Acquisitions of financial asset at fair value through profit or loss	6	(2,224,255,643)	(868,225,031)	-
Proceeds from redemption of financial assets at fair value through profit or loss	6	P 1,791,909,515	P 575,089,899	-
Acquisitions of property and equipment	11	(179,721,034)	(157,777,542)	(143,682,133)
Additions to investment property	12	(8,597,740)	(2,083,670)	(5,153,524)
Proceeds from disposal of investment property	12	P 8,035,714	P 2,461,000	-
Interest received	20	P 7,287,196	P 33,327,776	P 56,862,020
Acquisition of available-for-sale financial assets	8	(2,000,000)	-	-
Proceeds from disposal of available-for-sale financial asset	8	-	2,501,842	P 56,269,192
Proceeds from sale of assets	26	-	-	P 1,164,718,639
Net Cash From (Used in) Investing Activities		(607,341,992)	(414,705,726)	P 1,129,014,194
		(691,726,558)	(689,842,432)	P 1,637,098,562

	Notes	2014	2013	2012
Balance forwarded		**(691,726,558)**	**(689,842,432)**	**P 1,637,098,562**
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from interest-bearing loans	14	**P 160,405,635**	P 112,335,992	-
Dividends paid	23	**(109,292,520)**	(109,292,520)	(109,292,520)
Interest paid	14	**(58,225,272)**	(2,610,444)	(6,726,796)
Repayments for interest-bearing loans	14	**-**	-	(207,731,833)
Net Cash From (Used in) Financing Activities		**(7,112,157)**	P 433,028	(323,751,149)
Effect of Exchange Rate Changes on Cash and Cash Equivalents		**(4,662,070)**	(3,239,177)	(14,111,262)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(703,500,785)**	(692,648,581)	P 1,299,236,151
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**P 2,327,335,632**	P 3,019,984,213	P 1,720,748,062
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 1,623,834,847**	P 2,327,335,632	P 3,019,984,213

Supplemental Information on Non-cash Investing Activities:

In 2014 and 2013, SMC transferred investment properties with a carrying amount of P46.4 million and P386.8 million, respectively, to Property, Plant and Equipment account (see Notes 11 and 12).

In 2013, ZTC transferred investment properties with a carrying amount of P5.2 million, previously classified as Investment Property to Real Estate Inventories (see Note 12).

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2014, 2013 AND 2012

(Amounts in Philippines Pesos)

		Attributable to the Parent Company's Stockholders							
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares - at Cost	Revaluation Reserves	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2014		P 2,030,975,000	P 4,641,701,922	(115,614,380)	(16,786,209)	P 2,820,926,308	P 9,361,202,641	P 390,232,106	P 9,751,434,747
Dividends declared	23	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Total comprehensive income (loss) for the year	8, 21, 22	-	-	-	P 37,868,509	(121,266,766)	(83,398,257)	(67,464,661)	(150,862,918)
Balance at December 31, 2014	23	**P 2,030,975,000**	**P 4,641,701,922**	**(115,614,380)**	**P 21,082,300**	**P 2,590,367,022**	**P 9,168,511,864**	**P 322,767,445**	**P 9,491,279,309**
Balance at January 1, 2013		P 2,030,975,000	P 4,641,701,922	(115,614,380)	(63,554,524)	P 2,772,396,938	P 9,265,904,956	P 402,534,554	P 9,668,439,510
Dividends declared	23	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Total comprehensive income for the year	8, 21, 22	-	-	-	P 46,768,315	P 157,821,890	P 204,590,205	(12,302,448)	P 192,287,757
Balance at December 31, 2013	23	P 2,030,975,000	P 4,641,701,922	(115,614,380)	(16,786,209)	P 2,820,926,308	P 9,361,202,641	P 390,232,106	P 9,751,434,747
Balance at January 1, 2012		P 2,030,975,000	P 4,641,701,922	(115,614,380)	(48,638,038)	P 1,641,741,149	P 8,150,165,653	P 405,199,153	P 8,555,364,806
Dividends declared	23	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Total comprehensive income for the year	8, 21, 22	-	-	-	(14,916,486)	P 1,239,948,309	P 1,225,031,823	(2,664,599)	P 1,222,367,224
Balance at December 31, 2012	23	P 2,030,975,000	P 4,641,701,922	(115,614,380)	(63,554,524)	P 2,772,396,938	P 9,265,904,956	P 402,534,554	P 9,668,439,510

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2014, 2013 AND 2012
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1933. On February 22, 1982, the SEC approved the extension of SGI's corporate life for another 50 years. SGI currently conducts business as an investment holding company. On September 4, 1996, SGI listed its shares of stock in the Philippine Stock Exchange (PSE).

The Parent Company holds ownership interests in the following subsidiaries (the Parent Company and the subsidiaries are collectively referred to herein as "the Group"):

Subsidiaries	Percentage of Ownership 2014	2013	2012	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	(a)	Investment holding company
Kita Corporation (Kita)	**100**	100	100		Leasing of real estate properties
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services and sale of LCD televisions
Solid Group Technologies Corporation (SGTC)	**100**	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	**100**	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products
Solid Manila Corporation (SMC)	**100**	100	100		Leasing of real estate properties and hotel operations
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	100	(b)	Hotel operations
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 (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	100	100	(f)	Investment holding company
My Solid Technologies & Devices Corporation (My Solid)	**100**	100	100		Sale of mobile phones, devices and accessories
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)]	**100**	100	100	(i)	Logistics and assembly of consumer electronics products
MyApp Corporation (MyApp)	**100**	-	-	(h)	Investment holding company
Skyworld Corporation (Skyworld)	**75**	75	75	(b), (c)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	51	51	(g)	Real estate
Starworld Corporation (Starworld)	**50**	50	50	(b), (e)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	50	(b), (d)	Real estate

Notes:

(a) Incorporated and domiciled in the British Virgin Islands
(b) Indirectly owned through SMC
(c) Pre-operating or non-operating
(d) LIIP is 22.5% owned by SMC and 37.5% owned by Interstar
(e) Starworld is 20% owned by SMC and 40% owned by Skyworld
(f) Indirectly owned through Precos
(g) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC)
(h) Incorporated on October 23, 2014; has not yet started commercial operation as of December 31, 2014
(i) On March 19, 2012, the SEC approved the change in corporate name of SLC to OSSI.

SBC holds a provisional authority, granted by the National Telecommunications Commission (NTC), to use its legislative franchise under Republic Act (RA) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 26.3).

SMFI is subject to the rules and regulations provided under RA No. 8556, *The Financing Company Act of 1998*.

1.2 Status of Operations and Mergers

(a) Sale of SBC's Assets

In a special meeting held on May 11, 2012, the Board of Directors (BOD) of SBC approved the sale, assignment, transfer and conveyance of the assets, contracts and licenses of SBC to a third party. The assets identified to be included in the sale are SBC's property and equipment, a significant portion of its trade receivables and inventories, as well as contracts, permits and licenses that are used in carrying out its operations. Such sale transaction was consummated in 2012 (see Note 11). Consequently, SBC's ownership on the identified assets, related contracts and licenses directly attributable to SBC's operations has been transferred to the third party (see Note 26.3).

(b) Mergers of Certain Subsidiaries

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of Solid Corporation (SC) and SMC; and of Omni Logistics Corporation (OLC) and OSSI, respectively, whereby SMC and OSSI were the surviving entities (see Note 15). Both mergers became effective on January 1, 2012; hence, starting that date, SC started to operate under the corporate name of SMC and OLC under the corporate name of OSSI.

On May 28, 2012, the SEC approved the merger of Mytel Mobility Solutions, Inc. and My Solid, wherein My Solid became the surviving entity. The merger became effective on June 1, 2012.

1.3 Other Corporate Information

The registered offices and principal places of business of the Parent Company and its subsidiaries, except those listed below, are located at 2285 Don Chino Roces Avenue, 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
Kita	-	N7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Solid Street, LIIP, Mamplasan, Biñan, Laguna
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC
My Solid	-	2000 East Service Road Bicutan, Parañaque City

1.4 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2014 (including the comparative financial statements for December 31, 2013 and 2012) were authorized for issue by the Parent Company's BOD on April 7, 2015.

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 and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income separate from the consolidated statement of income.

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

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

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

2.2 *Adoption of Amended PFRS and Interpretation*

(a) *Effective in 2014 that are Relevant to the Group*

In 2014, the Group adopted for the first time the following amendments and interpretation to PFRS that are relevant to the Group and effective for consolidated financial statements for the annual periods beginning on or after January 1, 2014:

PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Assets – Amount Disclosures for Non-financial Assets
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting
PFRS 10, 12 and PAS 27 (Amendments)	:	Consolidated Financial Statements, Disclosures of Interests in Other Entities and Separate Financial Statements – Exemption from Consolidation for Investment Entities
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 21	:	Levies

Discussed below and in the succeeding pages are the relevant information about these amended standards and interpretation.

(i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities.* The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. As the Group does not currently present any of its financial assets and financial liabilities on a net basis in accordance with the provisions of PAS 32, the amendment had no material effect on the Group's consolidated financial statements for any period presented.

(ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets.* The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as, but not limited to, the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the consolidated financial statements. This amendment did not result in additional disclosures in the consolidated financial statements since the Group did not recognize impairment losses on any of its non-financial assets during the periods presented (see Notes 11 and 12).

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting.* The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Group's consolidated financial statements.

(iv) PFRS 10 (Amendment), *Consolidated Financial Statements*, PFRS 12 (Amendment), *Disclosure of Interests in Other Entities* and PAS 27 (Amendment), *Separate Financial Statements – Exemption from Consolidation for Investment Entities*. The amendments define the term "investment entity" and provide to such an investment entity an exemption from consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39 or PFRS 9, *Financial Instruments*, both in its consolidated financial statements or separate financial statements, as the case may be. The amendments also require additional disclosure about the details of the entity's unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. These amendments did not have a significant impact on the Group's consolidated financial statements as there were no transactions entered by the Group involving an investment entity.

(v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the consolidated financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group's consolidated financial statements.

(b) Effective Subsequent to 2014 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods subsequent to 2014, which are issued by the FRSC, subject to the approval of the BOA. Management will adopt the following relevant pronouncements in accordance with their transitional provisions, and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements:

(i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from July 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit.

(ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the consolidated financial statements.

(iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(iv) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

(v) PFRS 10 (Amendment), *Consolidated Financial Statements*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.

(vi) PFRS 10 (Amendment), *Consolidated Financial Statements* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate the subsidiary.

(vii) PFRS 11 (Amendment), *Joint Arrangements* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combination under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.

(viii) PFRS 12 (Amendment), *Disclosures of Interests in Other Entities* (effective from January 1, 2016). The amendment clarifies that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12.

(ix) IFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2017). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard has not yet been adopted in the Philippines; however, management is currently assessing the impact of this standard on the Group's consolidated financial statements in preparation for the adoption of this standard in the Philippines.

(x) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:

- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,

- a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

In accordance with the financial asset classification principle of PFRS 9 (2014), a financial asset is classified and measured at amortized cost if the asset is held within a business model whose objective is to hold financial assets in order to collect the contractual cash flows that represent solely payments of principal and interest (SPPI) on the principal outstanding. Moreover, a financial asset is classified and subsequently measured at fair value through other comprehensive income if it meets the SPPI criterion and is held in a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets. All other financial assets are measured at FVTPL.

In addition, PFRS 9 (2014) allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The amendment also requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather than in profit or loss.

The Group does not expect to implement and adopt PFRS 9 (2014) until its effective date. In addition, management is currently assessing the impact of PFRS 9 (2014) on the consolidated financial statements of the Group and it will conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(xi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) effective for annual periods beginning on or after July 1, 2014, and to PFRS (2012-2014 Cycle) effective for annual periods beginning on or after January 1, 2016, made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect those to have material impact on the Group's consolidated financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the consolidated financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.

(c) PFRS 3 (Amendment), *Business Combinations*. This amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

(d) PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further classifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if the amount is regularly provided to the chief operating decision maker.

(e) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.

(b) PFRS 3 (Amendment), *Business Combinations*. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11 in the consolidated financial statements of the joint arrangement itself.

(c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

Annual Improvements to PFRS (2012-2014 Cycle)

(a) PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

(b) PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.1, after the elimination of intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries and non-controlling interests (NCI) as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are entities (including structured entities) over which the Parent Company has control. The Parent Company controls an entity when it has power over the investee, it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control.

The Parent Company reassesess whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

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

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

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

(b) *Transactions with NCI*

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

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

2.4 Segment Reporting

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

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

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

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

- post-employment benefit expenses; and,
- revenue, costs and fair value gains from investment property.

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

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

2.5 Financial Assets

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

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

A more detailed description of the categories currently relevant to the Group is as follows:

(a) Financial Asset at FVTPL

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

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

(b) Loans and Receivables

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables (excluding Advances to suppliers), Advances to Related Parties and Refundable deposits, Restricted cash and Cash bond, presented as part of Other Current Assets and Other Non-Current Assets accounts, in the consolidated statement of financial position. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred), discounted at the financial assets' original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in profit or loss.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of reversal is recognized in the profit or loss.

(c) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of reporting period. The Group's AFS financial assets include proprietary membership club shares, equity securities and corporate bonds.

All financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserves account in equity, except for interest and dividend income, impairment losses and foreign exchange differences on monetary assets, which are recognized in profit or loss.

When the financial asset is disposed of or is determined to be impaired, that is, when there is significant prolonged decline in the fair value of the security below its cost, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income even though the financial asset has not been derecognized.

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

Except for interest income earned by SGI, SMFI, BRL, Starworld and Interstar, which is presented as Interest under the Revenues section of the consolidated statement of income, all income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented as part of Finance Income and Finance Cost in the consolidated statement of income, respectively.

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.

The financial assets are derecognized when the rights to receive cash flows from the financial instruments expire or when substantially all of the risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

2.6 Merchandise Inventories and Supplies

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Merchandise inventories, service parts, supplies, and others include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value of merchandise inventories is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. Net realizable value of spare parts, supplies and others is the current replacement cost.

2.7 Real Estate Inventories

Real estate inventories consist of the following:

(a) Land and Land Development Costs

Land and land development costs include the acquisition cost of raw land intended for future development and sale, as well as other costs and expenses incurred to effect the transfer of property title.

(b) Property Development Costs

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 Other Assets

Other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

2.9 Property and Equipment

Property and equipment, except land, are carried at acquisition cost or construction cost less subsequent depreciation, amortization and any impairment losses. Land held for use in production or administration is stated at cost less any impairment losses.

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

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

Buildings and improvements	10 to 25 years
Test, communication and other equipment	5 to 20 years
Machinery and equipment	5 to 10 years
Transportation equipment	5 years
Computer system	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the terms of the relevant leases, whichever is shorter.

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

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 2.18).

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

An item of property and equipment, including the related accumulated depreciation, amortization and any impairment losses, 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 statement of income in the year the item is derecognized.

2.10 Investment Property

Investment property represents property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 30.4).

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains or losses on investment property under Other Operating Income in the consolidated statement of income.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

For tax purposes, investment property is carried at cost less accumulated depreciation computed on a straight-line basis over the estimated net useful lives of the assets ranging from 11 to 25 years.

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans, trade and other payables [excluding output value-added tax (VAT) and other tax-related liabilities, advances from customers, reserve for warranty costs], advances from related parties and refundable deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

Interest-bearing loans 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, advances from related parties and refundable deposits are initially recognized at their fair values and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company's BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the consolidated statement of financial position when the Group currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy, and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.13 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated statement of financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

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

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

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

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

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

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

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

(a) *Rendering of services (other than commission income)* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.

(b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer i.e., generally when the customer has acknowledged delivery of goods.

(c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.

(e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

Subsequent cancellations of prior years' real estate sales are deducted from revenues and cost of real estate sales in the year in which such cancellations are made.

If the transaction does not yet qualify as a sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. 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 Land Development Costs account in the consolidated statement of financial position.

(f) *Interest income on loans receivables* – Revenue is recognized as the interest accrues using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.

(h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.

(i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.

(j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon receipt of the goods or utilization of 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. All finance costs are reported in the consolidated statement of income on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term (see Note 2.15).

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

2.17 Foreign Currency Transactions and Translation

(a) *Transactions and Balances*

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates. The accounting records of BRL and Fil-Dragon are maintained in United States (U.S.) dollar and Chinese yuan renminbi (RMB), respectively.

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 statement of income as part of Finance Income or Finance Costs.

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

The operating results and financial position of BRL and Fil-Dragon are translated to Philippine pesos, the Parent Company's functional and presentation currency, as presented below.

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

(ii) Income and expenses for each statement of income account 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 rates prevailing at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

On consolidation, exchange differences arising from the translation of the net investments in BRL and Fil-Dragon are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is partially disposed of or sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

2.18 Impairment of Non-financial Assets

The Group's property 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, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. Except for impairment losses on goodwill, an impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as defined contribution plans, and other employee benefits which are recognized as follows:.

(a) *Post-employment Defined Benefit Plan*

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

The liability recognized in the consolidated statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Gains under the Other Income (Charges) account in the consolidated statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment and curtailment.

(b) *Post-employment Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) *Profit-sharing and Bonus Plans*

The Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Group's shareholders after certain adjustments. The Group recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) *Compensated Absences*

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

2.20 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

2.21 Income Taxes

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the 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 deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Transactions and Relationships

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

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

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

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

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

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the remeasurements of post-employment defined benefit plan, cumulative translation adjustments and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared, if any.

Non-controlling interests represent the portion of net assets and profit or loss not attributable to the Parent Company's stockholders which are presented separately in the Group's consolidated statement of income and consolidated statement of comprehensive income and within equity in the Group's consolidated statement of financial position and consolidated statement of changes in equity.

2.24 Earnings Per Share

Basic earnings (loss) per share is computed by dividing net profit attributable to the Parent Company's stockholders by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted earnings (loss) per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Revenue Recognition Criteria on Real Estate Sales

The Group recognizes revenues from real estate sales under the full accrual method. Under this method, critical judgment is made by management in determining whether the collectibility of the sales price is reasonably assured. Management considers the collectibility of real estate sales as reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

(b) Impairment of AFS Financial Assets

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

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are permanently impaired as of December 31, 2014 and 2013, as disclosed in Note 8. Future changes in those information and circumstances might significantly affect the carrying amount of the assets.

(c) Costing of Merchandise Inventories and Supplies

The Group's inventory costing policies and procedures were based on a careful evaluation of present circumstances and facts affecting production operations. A review of the benchmarks set by management necessary for the determination of inventory costs and allocation is performed regularly. Actual data are compared to the related benchmarks and critical judgment is exercised to assess the reasonableness of the costing policies and procedures which are currently in place and to make the necessary revisions in light of current conditions.

(d) Distinguishing Investment Property, Owner-occupied Properties and Real Estate Inventories

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the properties but also to other assets used in the production or supply process. On the other hand, real estate inventories are properties intended to be sold in the normal course of business.

(e) Distinguishing 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. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, all of the Group's lease agreements were determined to be operating leases.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Notes 26 and 27.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Trade and Other Receivables and Advances to Related Parties

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectibility of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, their current credit status, average age of accounts, collection experience and historical loss experience. The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Company to reduce any differences between loss estimate and actual loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7. There were no impairment losses recognized on advances to related parties for the years ended December 31, 2014, 2013 and 2012 based on management's assessment (see Note 25).

(b) *Fair Value Measurement of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 6 and 8, respectively.

(c) *Determining Net Realizable Value of Merchandise Inventories and Supplies*

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time 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 in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 9). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next reporting period.

(d) *Determining Net Realizable Value of Real Estate Inventories*

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. Net realizable value for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. Net realizable value in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

The carrying amounts of the real estate inventories are disclosed in Note 10.

(e) *Estimating Useful Lives of Property and Equipment*

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

The carrying amounts of property and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2014 and 2013, there is no change in the estimated useful lives of property and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) *Fair Value Measurement of Investment Property*

The Group's investment property composed of parcels of land and buildings and improvements are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 30.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of fair value gains recognized on investment property are disclosed in Notes 12 and 19.

(g) *Determining Realizable Amount of Deferred Tax Assets*

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

The carrying value of recognized deferred tax assets, which management assessed may be fully utilized in the coming years, as of December 31, 2014 and 2013 is disclosed in Note 22.2. Further, certain deferred tax assets were not recognized since management believes that there is no assurance that the related tax benefits will be realized in the coming years.

(h) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). 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 those 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.

Based on management's assessment, there were no impairment losses recognized on the Group's non-financial assets in 2014, 2013 and 2012.

(i) *Estimating Liability for Land and Land Development Costs*

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2014 and 2013 is disclosed in Note 10.

(j) *Estimating Reserve for Warranty Costs*

The Group offers warranty, for a period ranging from one to two years, for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales, as determined based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from expectations. Warranty costs also include the actual cost of materials used in repairing the electronic products.

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are disclosed in Note 15.

(k) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of the present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

(a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones, and prefabricated modular houses;

(b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties; and,

(c) Other related services segment is presently engaged in the business of broadband services, after sales services, investing, financing and others.

Segment accounting policies are the same as the policies described in Note 2.4.

4.2 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

4.3 Intersegment Transactions

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

4.4 *Analysis of Segment Information*

The following tables present certain asset and liability information regarding business segments as of December 31, 2014, 2013 and 2012 and the related revenue and profit information for the years then ended (in thousands).

	Distribution	Real Estate	Other Related Services	Total
2014				
SEGMENT RESULTS				
Sales to external customers	P 4,319,472	P 189,839	P 488,347	P 4,997,658
Intersegment sales	18,647	25,983	15,165	59,795
Total revenues	4,338,119	215,822	503,512	5,057,453
Cost of sales, services, and rentals	3,863,288	112,683	329,497	4,305,468
Other operating Expenses (income)	651,100	109,386	127,273	887,759
Operating profit (loss)	(176,269)	(6,247)	46,742	(135,774)
Finance income	918	13,690	18,587	33,195
Finance costs	(46,303)	(56,040)	(9,670)	(112,013)
Other gains – net	3,014	43	125	3,182
Profit (loss) before tax	(218,640)	(48,554)	55,784	(211,410)
Tax expense (income)	(62,713)	24,196	15,838	(22,679)
Net profit (loss) for the year	(P 155,927)	(P 72,750)	P 39,946	(P 188,731)
SEGMENT ASSETS AND LIABILITIES				
Total assets	P 2,206,908	P 8,136,646	P 10,629,513	P 20,973,067
Total liabilities	P 1,699,454	P 4,957,638	P 610,590	P 7,267,682
OTHER SEGMENT INFORMATION				
Capital expenditures	P 12,782	P 158,589	P 16,948	P 188,319
Depreciation and amortization	7,538	20,113	19,925	47,576
Impairment losses	10,068	-	3,068	13,136
Other non-cash expenses	803	2,476	3,299	6,578

	Distribution	Real Estate	Other Related Services	Total
2013				
SEGMENT RESULTS				
Sales to external customers	P 3,511,868	P 276,037	P 445,464	P 4,233,369
Intersegment sales	30,847	16,620	32,234	79,701
Total revenues	3,542,715	292,657	477,698	4,313,070
Cost of sales, services, and rentals	2,984,075	136,210	314,383	3,434,668
Other operating expenses (income)	558,004	75,297	121,655	754,956
Operating profit	636	81,150	41,660	123,446
Finance income	3,587	26,096	33,067	62,750
Finance costs	(13,812)	(717)	(6,069)	(20,598)
Other gains – net	3,514	2,101	17,069	22,684
Profit (loss) before tax	(6,075)	108,630	85,727	188,282
Tax expense	760	22,996	21,147	44,903
Net profit (loss) for the year	(P 6,835)	P 85,634	P 64,580	P 143,379
SEGMENT ASSETS AND LIABILITIES				
Total assets	P 2,217,610	P 8,882,306	P 10,749,406	P 21,849,322
Total liabilities	P 1,611,155	P 4,821,008	P 601,697	P 7,033,860
OTHER SEGMENT INFORMATION				
Capital expenditures	P 6,913	P 133,321	P 19,627	P 159,861
Depreciation and amortization	5,751	11,942	14,636	32,328
Impairment losses	10,158	505	2,937	13,600
Other non-cash expenses	24,329	212	-	24,541

		Distribution		Real Estate		Other Related Services		Total
2012								
SEGMENT RESULTS								
Sales to external customers	P	3,956,743	P	258,611	P	675,029	P	4,890,383
Intersegment sales		6,300		14,200		40,790		61,290
Total revenues		3,963,043		272,811		715,819		4,951,673
Cost of sales, services, and rentals		3,094,531		106,973		474,922		3,676,426
Other operating expenses (income)		496,230		118,946		175,412		790,588
Operating profit		372,282		46,892		65,485		484,659
Finance income		2,389		39,531		121,782		163,702
Finance costs	(	22,742)	(	5,169)	(	21,178)	(	49,089)
Other gains – net		4,860		229,132		678,651		912,643
Profit before tax		356,789		310,386		844,740		1,511,915
Tax expense		105,061		93,588		75,922		274,571
Net profit for the year	P	251,728	P	216,798	P	768,818	P	1,237,344
SEGMENT ASSETS AND LIABILITIES								
Total assets	P	1,867,473	P	7,369,709	P	11,153,529	P	20,390,711
Total liabilities	P	1,249,849	P	3,962,200	P	568,502	P	5,780,551
OTHER SEGMENT INFORMATION								
Capital expenditures	P	9,234	P	84,602	P	54,683	P	148,519
Depreciation and amortization		4,162		11,768		30,779		46,709
Impairment losses		9,414		-		3,354		12,768
Other non-cash expenses		1,982		1,431		1,027		4,440

4.5 Reconciliations

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in thousands):

	Segment Totals	Intercompany Accounts	Consolidated Balances
2014			
Revenues	P 5,057,453	(P 59,795)	P 4,997,658
Net loss for the year	(188,731)	-	(188,731)
Total assets	20,973,067	(7,315,775)	13,657,292
Total liabilities	7,267,682	(3,101,670)	4,166,012
Other segment information:			
Capital expenditures	188,319	-	188,319
Depreciation and amortization	47,576	-	47,576
Impairment losses	13,136	-	13,136
Other non-cash expenses	6,578	-	6,578
2013			
Revenues	P 4,313,070	(P 79,701)	P 4,233,369
Net profit for the year	143,379	2,140	145,519
Total assets	21,849,322	(8,245,293)	13,604,029
Total liabilities	7,033,860	(3,181,265)	3,852,595
Other segment information:			
Capital expenditures	159,861	-	159,861
Depreciation and amortization	32,328	-	32,328
Impairment losses	13,600	-	13,600
Other non-cash expenses	24,541	-	24,541
2012			
Revenues	P 4,951,673	(P 61,290)	P 4,890,383
Net profit for the year	1,237,344	(95)	1,237,249
Total assets	20,390,711	(7,542,848)	12,847,863
Total liabilities	5,780,551	(2,601,128)	3,179,423
Other segment information:			
Capital expenditures	148,519	317	148,836
Depreciation and amortization	46,709	(242)	46,467
Impairment losses	12,768	-	12,768
Other non-cash expenses	4,440	-	4,440

5. CASH AND CASH EQUIVALENTS

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

	2014	2013
Cash on hand and in banks	**P 353,183,816**	P 424,429,746
Short-term placements	**1,270,651,031**	1,902,905,886
	P 1,623,834,847	P 2,327,335,632

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual interests ranging from 1.0% to 3.9% in 2014, 1.4% to 4.0% in 2013 and 0.8% to 4.7% in 2012 (see Note 20.2).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of unit investments in trust funds (UITF) which have been classified as financial assets at FVTPL upon initial recognition.

The reconciliation of the carrying amounts of these financial assets at the beginning and end of 2014 and 2013 follows:

	Note	2014	2013
Balance at beginning of year		**P 294,286,160**	P -
Additions		**2,224,255,643**	868,225,031
Fair value gains	20.2	**5,750,303**	144,292
Redemptions		**(1,778,220,152)**	(574,083,163)
Balance at end of year		**P 746,071,954**	P 294,286,160

Financial assets at FVTPL are stated at their fair values which have been determined directly by reference to published prices. As of December 31, 2014 and 2013, the fair value of these financial assets were derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period), as published by banks and the Investment Company Association of the Philippines.

The Company recognized gain on redemption of financial assets at FVTPL amounting to P13.7 million and P1.0 million in 2014 and 2013, respectively, and is presented as part of Finance Income under Other Income (Charges) account in the consolidated statements of income (see Note 20.2).

In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL. The disposals of financial assets at FVTPL resulted in a gain of P2.1 million in 2012 which is presented as part of Gain on sale of financial assets – net shown under Finance Income in the 2012 consolidated statement of income (see Note 20.2).

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2014	2013
Current:			
Trade receivables	25.3, 26.1	**P 992,576,279**	P 796,315,556
Advances to suppliers	25.6	**240,813,791**	242,349,914
Loans receivables	25.4, 25.7	**195,173,248**	45,655,849
Interest receivable		**23,643,317**	20,284,738
Rental receivable		**10,541,882**	4,467,108
Other receivables		**49,783,028**	62,296,795
		1,512,531,545	1,171,369,960
Allowance for impairment		**(74,342,516)**	(38,692,587)
		1,438,189,029	1,132,677,373
Non-current:			
Trade receivables		**22,427,768**	28,932,349
Loans receivables	25.4	**21,832,209**	178,210,751
Cash surrender value of investment in life insurance		**538,319,989**	515,057,388
		582,579,966	722,200,488
		P 2,020,768,995	P 1,854,877,861

Trade receivables include amounts due from the Group's real estate buyers arising from the sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Group fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment (see Note 20.2).

Advances to suppliers mainly include advance payments made by My Solid to Solid Trading Limited (STL) for future purchases of mobile phone inventories (see Note 25.6). These also include advances made to various contractors for the construction of ZTC's Tri Towers condominium building (see Note 10) and to various suppliers for CBHI's acquisition of supplies.

Interest income recognized on the Group's loans receivables amounted to P12.4 million, P10.3 million and P12.0 million in 2014, 2013 and 2012, respectively, and are presented as part of Interest under the Revenues section of the consolidated statements of income. The effective interest rates on loans receivables range from 7.5% to 30.0% in 2014, 2013 and 2012.

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 19).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 14).

Other receivables consist primarily of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the Unit Owners.

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recognized.

A reconciliation of the allowance for impairment at beginning and end of 2014 and 2013 is shown below.

	Notes	2014	2013
Balance at beginning of year		**P 38,692,587**	P 31,512,861
Impairment losses during the year	20.1	**39,421,272**	13,599,854
Write-off of receivables previously provided with allowance		**(3,059,152)**	(83,988)
Reversal of impairment losses	20.2	**(965,468)**	(6,336,140)
Reversal of previously written-off trade and other receivable	20.2	**253,277**	-
Balance at end of year		**P 74,342,516**	P 38,692,587

Certain loans receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 25.4).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	2014	2013
Current:		
Investments in foreign currency-denominated bonds	**P 52,237,573**	P 52,237,573
Allowance for impairment	**(52,237,573)**	(52,237,573)
	-	-
Non-current:		
Club shares	**11,472,400**	9,252,400
Equity securities	**8,580,000**	8,580,000
Others	**634,127**	634,127
	20,686,527	18,466,527
Allowance for impairment	**(11,230,000)**	(11,230,000)
	9,456,527	7,236,527
	P 9,456,527	P 7,236,527

A reconciliation of the allowance for impairment at the beginning and end of 2014 and 2013 is shown below.

	Note	2014	2013
Balance at beginning of year		**P 63,467,573**	P 62,667,573
Impairment loss during the year	20.1	**-**	800,000
Balance at end of year		**P 63,467,573**	P 63,467,573

A reconciliation of the net carrying amounts of AFS financial assets is shown below.

	Notes	2014	2013
Balance at beginning of year		**P 7,236,527**	P 9,076,527
Additions		**2,000,000**	-
Fair value gains	23.3	**220,000**	1,461,842
Disposals		**-**	(2,501,842)
Impairment loss	20.1	**-**	(800,000)
Balance at end of year		**P 9,456,527**	P 7,236,527

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Company's investment in SPI expired on May 8, 2005. On April 11, 2005, the Parent Company received a formal notice of the expiry of the JVA. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration.

As a result of the above events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, it reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS financial assets in 2005.

The Parent Company's management has determined that there is an objective evidence that the decline in the fair values of SPI shares and of some of its club shares is permanent. Accordingly, the Parent Company recognized impairment losses on the SPI shares and such club shares in prior years. The Parent Company's investment in SPI is fully provided with allowance for impairment losses as of December 31, 2014 and 2013.

In 2012, the Group reclassified fair value adjustments recognized in profit or loss from prior years amounting to P12.1 million (see Note 23.3).

The fair values of the Group's investments in club shares, which represent proprietary membership club shares, as of December 31, 2014 and 2013 have been determined directly by reference to published prices in active markets (see Note 30.2).

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Notes 17.1 and 25.2).

	2014	2013
Merchandise inventories	**P 656,074,999**	P 846,213,717
Service parts, supplies and others	**40,180,389**	62,348,017
	696,255,388	908,561,734
Allowance for inventory obsolescence	**(101,625,428)**	(64,316,654)
	P 594,629,960	P 844,245,080

The movements in the allowance for inventory obsolescence are as follows:

	Notes	2014	2013
Balance at beginning of year		**P 64,316,654**	P 41,584,410
Provisions for inventory obsolescence	17.1, 18	**39,178,193**	24,880,491
Write-off of inventory previously provided with allowance		**(1,477,160)**	-
Reversal of allowance for inventory obsolescence	17.1, 18	**(392,259)**	(2,148,247)
		P 101,625,428	P 64,316,654

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as of December 31, 2014 and 2013.

10. REAL ESTATE INVENTORIES

This account is composed of:

	Note	2014	2013
Land and land development costs:			
Land		**P 9,725,593**	P 9,725,593
Land development costs		**438,069,675**	457,288,818
		447,795,268	467,014,411
Allowance for impairment		**(2,022,800)**	(2,022,800)
		445,772,468	464,991,611
Property development costs – Construction in progress and development costs	12	**1,925,910,395**	1,958,244,306
		P2,371,682,863	P 2,423,235,917

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to the cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by ZTC and Fil-Dragon, which are also for sale.

Borrowing costs incurred from loans availed of by Fil-Dragon were capitalized as part of Property development costs. Borrowing cost incurred in 2013 relating to these loans amounted to ¥6.8 million (P46.9 million) and is capitalized as part of Real Estate Inventories (see Notes 14 and 25.8). No borrowing cost was capitalized in 2014.

The allowance for impairment recognized in prior years pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2014, 2013 and 2012.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2014 and 2013, lot areas totaling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building (see Notes 7, 27.5 and 27.6). The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2014.

In addition, the balances of Property development costs as of December 31, 2014 and 2013 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 27.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of December 31, 2014 and 2013 amounting to P1,436.6 million (¥199.9 million) and P1,228.6 million (¥168.0 million), respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2014 and 2013 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 27.4).

11. PROPERTY AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property and equipment at the beginning and end of 2014 and 2013 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2014											
Cost	P 1,277,854,682	P 323,788,521	P 124,527,734	p 199,360,565	P 120,963,265	P 103,495,972	P 68,538,753	P 83,853,786	P 45,171,444	P 10,654,183	P 2,358,208,905
Accumulated depreciation and amortization	-	(35,912,391)	(36,852,590)	(148,595,553)	(97,538,721)	(102,812,248)	(67,972,327)	(66,771,863)	(27,523,761)	-	(583,979,454)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	**P 1,277,854,682**	**P 252,876,130**	**P 87,675,144**	**P 50,765,012**	**P 23,424,544**	**P 683,724**	**P 566,426**	**P 17,081,923**	**P 17,647,683**	**P 10,654,183**	**P 1,739,229,451**
December 31, 2013											
Cost	P 1,207,854,682	P 155,408,061	P 46,032,938	P 154,774,686	P 109,596,633	P 103,054,255	P 68,158,644	P 80,393,594	P 29,038,254	P 177,773,048	P 2,132,084,795
Accumulated depreciation and amortization	-	(30,678,741)	(30,703,750)	(136,263,157)	(89,006,051)	(101,851,777)	(67,254,980)	(56,402,307)	(24,242,983)	-	(536,403,746)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	P 1,207,854,682	P 89,729,320	P 15,329,188	P 18,511,529	P 20,590,582	P 1,202,478	P 903,664	P 23,991,287	P 4,795,271	P 177,773,048	P 1,560,681,049
January 1, 2013											
Cost	P 897,854,682	P 78,478,803	P 42,488,916	P 145,637,594	P 102,727,626	P 102,529,259	P 67,729,139	P 66,254,133	P 26,627,769	P 57,155,448	P 1,587,483,369
Accumulated depreciation and amortization	-	(30,032,581)	(26,878,414)	(126,470,571)	(81,867,374)	(100,721,086)	(66,420,081)	(49,642,025)	(22,043,403)	-	(504,075,535)
Accumulated impairment losses	-	(35,000,000)	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	P 897,854,682	P 13,446,222	P 15,610,502	P 19,167,023	P 20,860,252	P 1,808,173	P 1,309,058	P 16,612,108	P 4,584,366	P 57,155,448	P 1,048,407,834

A reconciliation of the carrying amounts at the beginning and end of 2014 and 2013 of property and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2014 net of accumulated depreciation, amortization and impairment losses	P 1,207,854,682	P 89,729,320	P 15,329,188	P 18,511,529	P 20,590,582	P 1,202,478	P 903,664	P 23,991,287	P 4,795,271	P 177,773,048	P 1,560,681,049
Additions	-	93,101,118	33,979,607	20,663,067	11,366,632	441,717	380,109	3,460,192	11,668,904	4,659,688	179,721,034
Reclassification (see Note 12)	70,000,000	75,279,342	44,515,189	23,922,812	-	-	-	-	4,464,286	(171,778,553)	46,403,076
Depreciation and amortization charges for the year	-	(5,233,650)	(6,148,840)	(12,332,396)	(8,532,670)	(960,471)	(717,347)	(10,369,556)	(3,280,778)	-	(47,575,708)
Balance at December 31, 2014 net of accumulated depreciation, amortization and impairment losses	**P 1,277,854,682**	**P 252,876,130**	**P 87,675,144**	**P 50,765,012**	**P 23,424,544**	**P 683,724**	**P 566,426**	**P 17,081,923**	**P 17,647,683**	**P 10,654,183**	**P 1,739,229,451**
Balance at January 1, 2013 net of accumulated depreciation, amortization and impairment losses	P 897,854,682	P 13,446,222	P 15,610,502	P 19,167,023	P 20,860,252	P 1,808,173	P 1,309,058	P 16,612,108	P 4,584,366	P 57,155,448	P 1,048,407,834
Additions	-	105,374	3,544,022	9,137,092	6,869,007	524,996	429,505	12,039,258	2,410,485	122,717,803	157,777,542
Reclassification (see Note 12)	310,000,000	76,823,884	-	-	-	-	-	2,100,203	-	(2,100,203)	386,823,884
Depreciation and amortization charges for the year	-	(646,160)	(3,825,336)	(9,792,586)	(7,138,677)	(1,130,691)	(834,899)	(6,760,282)	(2,199,580)	-	(32,328,211)
Balance at December 31, 2013 net of accumulated depreciation, amortization and impairment losses	P 1,207,854,682	P 89,729,320	P 15,329,188	P 18,511,529	P 20,590,582	P 1,202,478	P 903,664	P 23,991,287	P 4,795,271	P 177,773,048	P 1,560,681,049

In 2014 and 2013, the Group transferred certain land and building improvements from Investment Property to Property and Equipment as the Company intends to use such properties for the expansion of the Groups' hotel operations. The amount recognized as deemed cost represents the fair value of the properties at the time of transfers (see Note 12).

Construction in progress in prior years pertains to the construction of the Green Sun Hotel of SMC. Construction was completed in 2014 and, accordingly, amounts have been reclassified to the appropriate accounts. Further, construction in progress also includes costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use.

In 2012, SBC reversed the allowance for impairment provided on its cable system, following the sale of its assets used in business operations [see Notes 1.2 (a) and 26.3]. The reversal amounted to P350.0 million and is presented as part of Other Operating Income in the 2012 consolidated statement of income (see Note 19).

No additional impairment losses were recognized in 2014, 2013 and 2012 based on management's assessment.

The amount of depreciation and amortization computed on property and equipment is presented as part of the following accounts:

	Notes	**2014**	2013	2012
Cost of services	17.2	**P 21,794,967**	P 13,860,376	P 29,405,353
Cost of rentals	17.3	**1,623,687**	2,199,631	3,428,898
General and administrative expenses		**24,157,054**	16,268,204	13,632,969
	18	**P 47,575,708**	P 32,328,211	P 46,467,220

There were no restrictions on titles and items of property and equipment as of December 31, 2014 and 2013.

Fully depreciated property and equipment still in use in the Group's operations amounted to P146.3 million and P139.0 million as of December 31, 2014 and 2013, respectively.

12. INVESTMENT PROPERTY

The Group's investment property, which is accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income and incur direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 17.3).

The fair values of the Group's investment property as of December 31, 2014 and 2013 were determined based on appraisal reports dated April 6, 2015 and March 20, 2014, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers (see Note 30.4).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position can be summarized as follows as of December 31:

	Land and Improvements	Buildings and Improvements	Total
2014:			
Balance at beginning of year	P 2,982,289,350	P 666,521,666	P 3,648,811,016
Fair value gains on investment property – net (see Note 19)	114,909,157	(62,232,922)	52,676,235
Additions	-	8,597,740	8,597,740
Disposal	-	(9,802,000)	(9,802,000)
Reclassifications from (to) property and equipment	(70,000,000)	23,596,924	(46,403,076)
Balance at end of year	**P 3,027,198,507**	**P 626,681,408**	**P 3,653,879,915**
2013:			
Balance at beginning of year	P 3,288,117,049	P 729,324,057	P 4,017,441,106
Fair value gains on investment property – net (see Note 19)	4,172,301	19,612,035	23,784,336
Additions	-	2,083,670	2,083,670
Disposal	-	(2,461,000)	(2,461,000)
Reclassifications to real estate inventories and property and equipment	(310,000,000)	(82,037,096)	(392,037,096)
Balance at end of year	P 2,982,289,350	P 666,521,666	P 3,648,811,016

Certain real estate properties owned by SMC are the subject of litigations brought up by third parties against the subsidiary (see Notes 13 and 27.3).

In 2014 and 2013, SMC transferred certain investment properties with a carrying amount of P46.4 million and P386.8 million, respectively, to Property and Equipment account, while ZTC transferred investment properties with carrying amount of P5.2 million to Real Estate Inventories account in 2013 (see Notes 10 and 11).

13. OTHER ASSETS

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

	Notes	2014	2013
Current:			
Prepayments		**P 254,525,544**	P 112,297,479
Creditable withholding taxes		**209,771,122**	174,610,896
Input VAT - net		**71,030,015**	110,967,327
Restricted cash		**16,317,217**	6,173,337
Refundable deposits	27.2	**8,510,304**	14,803,019
Advances to contractors		**4,006,750**	4,526,215
Others		**10,133,073**	2,554,625
		574,294,025	425,932,898
Non-current:			
Deferred input VAT		**26,519,873**	13,987,869
Land under litigation	12, 27.3	**4,935,606**	4,935,606
Deposits to suppliers		**3,661,213**	3,661,213
Refundable deposits - net	27.2	**4,739,045**	6,242,447
Investment in shares		**1,375,290**	1,375,290
Cash bond		**568,234**	568,234
Others		**2,471,433**	2,077,500
		44,270,694	32,848,159
		P 618,564,719	P 458,781,057

Prepayments include prepaid insurance, rentals and other business taxes.

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest based on daily bank deposit rates (see Note 20.2).

14. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of December 31, 2014 and 2013 are broken down as follows:

	2014			2013		
	USD	RMB	Total in PHP	USD	RMB	Total in PHP
BRL	$ 5,273,940	¥ -	P 235,307,381	$ 5,220,159	¥ -	P 231,848,142
Fil-Dragon	-	84,749,556	609,101,168	-	61,842,434	452,154,772
	$ 5,273,940	¥ 84,749,556	P 844,408,549	$ 5,220,159	¥ 61,842,434	P 684,002,914

The Group's short-term interest-bearing loans as of December 31, 2014 and 2013 amounting to P844.4 million and P684.0 million, respectively, are denominated in U.S. dollar and Chinese yuan RMB, and are currently due within 12 months after the end of reporting period; hence, classified as part of the Group's current liabilities in the consolidated statements of financial position.

Information relating to significant loan transactions of the Group are as follows:

(a) *Loans of BRL*

The loans of BRL are secured by the cash surrender value of investment in life insurance (see Note 7). The loans bear interest at prevailing market rates per annum of 1.4% in 2014, 1.3% in 2013 and 1.8% to 3.0% in 2012. Interest expense arising from these loans amounted to P3.3 million, P2.6 million and P6.2 million in 2014, 2013 and 2012, respectively, and is presented as part of Finance Costs in the consolidated statements of income (see Note 20.1).

(b) *Loans of Fil-Dragon*

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan RMB from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon (see Note 25.8). The loans bear interest at prevailing market rates per annum ranging from 6.0% to 15.0% in 2014, 2013 and 2012. Borrowing costs incurred in 2013 and 2012 relating to these loans amounted to ¥6.8 million (P46.9 million) and ¥5.0 million (P32.9 million) and are capitalized as part of Real Estate Inventories (see Notes 10 and 25.8). Borrowing cost incurred in 2014 amounting to ¥7.6 million (P55.0 million) is shown as part of Interest expense on interest-bearing loans under Finance Costs account in the 2014 consolidated statement of income (see Note 20.1).

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period. As of December 31, 2014 and 2013, the Group is not subjected to any covenants relating to the above loans.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2014	2013
Trade payables	25.2, 25.6	**P 430,716,156**	P 516,484,923
Accrued dealers' incentives		**94,206,270**	31,347,206
Accrued expenses		**51,870,459**	38,435,027
Advances from customers		**32,504,767**	36,488,366
Due to a related party	25.6	**25,163,043**	17,121,707
Refundable deposits	16	**22,462,909**	18,617,735
Rentals payable		**16,638,726**	17,656,928
Deferred output VAT		**9,247,138**	6,953,304
Output VAT		**5,890,577**	1,350,756
Withholding taxes payable		**5,608,783**	5,985,472
Reserve for warranty costs		**3,526,235**	9,290,348
Retention payable		**1,709,557**	1,756,300
Other payables		**32,846,475**	29,786,685
		P 732,391,095	P 731,274,757

Accrued dealers' incentives pertain to rebates awarded to dealers once certain sales levels were achieved during a particular period.

Accrued expenses include amounts charged for rentals, outside services, salaries and other operating expenses which remained unpaid as at the end of the reporting periods.

Reserve for warranty costs pertains to amounts recognized by My Solid and SVC for expected warranty claims on products sold based on their past experience of the level of repairs and returns. In addition, provision for warranty claims also includes the amounts recognized by OSSI for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders.

The movements in the Reserve for warranty costs account are as follows:

	Notes	2014	2013
Balance at beginning of year		**P 9,290,348**	P 14,545,332
Provisions for warranty claims during the year	18	**40,456,455**	34,108,528
Actual warranty claims during the year		**(43,066,166)**	(38,425,198)
Reversals during the year	19	**(3,154,402)**	(938,314)
Balance at end of year		**P 3,526,235**	P 9,290,348

The Group derecognized certain accrued expenses and other payables amounting to P2.1 million, P15.8 million and P25.1 million in 2014, 2013 and 2012, respectively, since management believes that the possibility of cash flows is remote as the purpose for which the liabilities were recognized no longer exists. The related Gain on derecognition of liabilities is presented as part of Other Gains under Other Income (Charges) account in the consolidated statements of income (see Note 20.3).

The outstanding deferred output VAT arises from the outstanding receivables on the Group's sale of services.

Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

16. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P13.3 million and P15.1 million as at December 31, 2014 and 2013, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.05% to 6.13% at the inception of the lease terms. The interest expense recognized amounting to P0.2 million in 2014, P0.4 million in 2013 and P1.9 million in 2012 is presented as part of Finance Costs in the consolidated statements of income (see Note 20.1). The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Sales

The details of this account are shown below.

	Notes	**2014**	2013	2012
Merchandise inventories at beginning of year	9	**P 846,213,717**	P 406,495,008	P 621,292,896
Net purchases of merchandise inventories during the year	18, 25.2 25.6	**3,626,037,578**	3,400,761,914	2,925,915,239
Goods available for sale		**4,472,251,295**	3,807,256,922	3,547,208,135
Merchandise inventories at end of year	9	**(656,074,999)**	(846,213,717)	(406,495,008)
Net provision (reversal of allowance) for inventory obsolescence	9, 18	**38,785,934**	22,732,244	(48,583,419)
	18	**P 3,854,962,230**	P 2,983,775,449	P 3,092,129,708

17.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

	Notes	2014	2013	2012
Materials, supplies and other consumables	25.2	**P 89,083,322**	P 75,893,537	P 94,017,131
Service fees	26.3(a)	**54,224,793**	53,624,045	59,347,325
Salaries and employee benefits	21.1	**53,323,404**	52,970,338	80,725,659
Subcontracting services		**48,650,916**	48,267,737	48,254,650
Outside services		**35,097,330**	31,139,187	24,560,909
Rentals	27.2	**23,145,362**	6,941,302	36,602,623
Depreciation and amortization	11	**21,794,967**	13,860,376	29,405,353
Communication, light and water		**15,611,204**	15,236,009	33,262,444
Transportation and travel		**13,109,575**	1,244,466	18,032,263
Repairs and maintenance		**6,001,267**	7,673,524	10,731,747
Transponder rental and leased line		**-**	11,756,596	27,803,313
Cable services		**-**	-	3,901,463
Others		**14,155,507**	13,896,734	21,757,882
	18	**P 374,197,647**	P 332,503,851	P 488,402,762

17.3 Cost of Rentals

The details of this account are as follows (see Note 12):

	Notes	2014	2013	2012
Taxes and licenses		**P 10,720,113**	P 9,337,528	P 9,835,266
Outside services		**8,027,405**	7,399,654	7,397,150
Repairs and maintenance		**7,993,310**	4,069,623	3,461,720
Rentals	27.2	**3,923,728**	7,353,293	8,043,416
Depreciation and amortization	11	**1,623,687**	2,199,631	3,428,898
Salaries and employee benefits	21.1	**1,039,865**	999,943	1,194,501
Others		**2,623,435**	3,611,989	2,021,990
	12, 18	**P 35,951,543**	P 34,971,661	P 35,382,941

Cost of rentals – others primarily consists of supplies and transportation and travel expenses.

18. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2014	2013	2012
Net purchases of merchandise inventories	17.1, 25.2 25.6	**P 3,626,037,578**	P 3,400,761,914	P 2,925,915,239
Salaries and employee benefits	21.1	**223,808,616**	219,517,826	266,115,015
Subcontracting services		**207,353,663**	126,467,788	110,298,465
Changes in merchandise, finished goods and work-in-process inventories		**190,138,718**	(439,718,709)	214,797,888
Outside services		**175,321,773**	132,939,229	194,934,604
Advertising and promotions		**140,419,774**	167,120,420	130,977,514
Materials, supplies and other consumables	25.2	**89,083,322**	76,982,915	78,028,164
Taxes and licenses		**81,226,435**	42,803,859	52,113,634
Rentals	27.2	**60,981,507**	43,028,069	60,820,460
Service fees	26.3(a)	**54,224,793**	53,624,045	59,347,325
Depreciation and amortization	11	**47,575,708**	32,328,211	46,467,220
Utilities and communication		**41,254,412**	35,505,747	54,590,325
Provision for warranty	15	**40,456,455**	34,108,528	41,465,997
Net provision (reversal of allowance) for inventory obsolescence	17.1	**38,785,934**	22,732,244	(48,583,419)
Transportation and travel		**35,983,040**	33,565,112	44,072,915
Repairs and maintenance		**23,362,447**	22,051,837	31,640,652
Cost of real estate sales		**22,179,971**	70,127,647	45,917,227
Transponder rental and leased line		**-**	-	7,070,544
Miscellaneous		**121,279,661**	87,171,647	59,052,375
		P 5,219,473,807	P 4,161,118,329	P 4,375,042,144

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

	Notes	2014	2013	2012
Cost of sales	17.1	**P 3,854,962,630**	P 2,983,775,449	P 3,092,129,708
Cost of services	17.2	**374,197,647**	332,503,851	488,402,762
Cost of rentals	17.3	**35,951,543**	34,971,661	35,382,941
Cost of real estate sales		**22,179,971**	70,127,647	45,917,227
Selling and distribution costs		**552,366,111**	451,129,327	361,066,027
General and administrative expenses		**379,815,905**	288,610,394	352,143,479
		P 5,219,473,807	P 4,161,118,329	P 4,375,042,144

19. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	2014	2013	2012
Fair value gains on investment property	12	**P 52,676,235**	P 23,784,336	P 149,569,182
Increase in cash surrender value of investment in life insurance	7	**20,796,230**	19,231,829	18,365,563
Reversal of warranty provision	15	**3,154,402**	938,314	9,156,132
Gain on insurance settlement		**-**	1,546,124	353,338
Reversal of impairment losses on property and equipment	11	**-**	-	350,000,000
Miscellaneous		**9,414,016**	7,835,782	26,481,792
		P 86,040,883	P 53,336,385	P 553,926,007

20. OTHER INCOME (CHARGES)

20.1 Finance Costs

This account consists of the following:

	Notes	2014	2013	2012
Interest expense on interest–bearing loans	14	**P 58,225,272**	P 2,610,444	P 6,227,444
Impairment losses on trade and other receivables	7	**39,421,272**	13,599,854	12,767,663
Foreign currency losses		**7,934,423**	2,771,014	22,738,154
Interest amortization on refundable deposits	16	**150,003**	388,412	1,930,812
Loss on write-off of trade receivables		**294,090**	326,860	-
Impairment losses on AFS financial assets	8	**-**	800,000	-
Others		**5,986,941**	101,870	5,424,022
		P 112,012,001	P 20,598,454	P 49,088,095

20.2 Finance Income

This account consists of the following:

	Notes	2014	2013	2012
Gain on redemption of financial assets at FVTPL	6	P **13,689,363**	P 1,006,736	P -
Interest income from cash and cash equivalents and restricted cash	5, 13	**7,287,196**	33,327,776	56,862,020
Fair value gains on financial assets at FVTPL	6	**5,750,303**	144,292	-
Foreign currency gains		**3,272,353**	12,633,424	827,155
Net interest income from retirement benefit asset		**1,976,786**	-	-
Reversal of impairment losses on trade and other receivables	7	**965,468**	6,336,140	75,708,696
Reversal of previously written-off trade and other receivable	7	**253,277**	-	-
Interest income from financing	7	**-**	9,301,544	26,458,136
Gain on sale of financial assets – net	6	**-**	-	2,095,315
Reversal of impairment losses on AFS financial assets		**-**	-	990,643
Others		**-**	-	760,514
		P 33,194,746	P 62,749,912	P 163,702,479

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P9.1 million in 2014, P23.6 million in 2013 and P46.6 million in 2012 are presented as part of Interest under the Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

20.3 Other Gains – Net

The breakdown of this account is as follows:

	Notes	2014	2013	2012
Gain on derecognition of liabilities	15	P **2,108,461**	P 15,825,655	P 25,117,698
Net interest income on retirement benefit asset	21.2	**1,846,008**	1,641,760	3,251,093
Loss on sale of investment property		**(1,766,286)**	-	-
Foreign currency gains		**-**	3,159,239	7,767,563
Reversal of allowance for inventory obsolescence		**-**	-	13,334,706
Gain on disposal of property, and equipment		**-**	-	1,071,310
Others		**994,160**	2,057,041	10,360,600
		P 3,182,343	P 22,683,695	P 60,902,970

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 25.9 and 25.10).

	Notes	2014	2013	2012
Short-term benefits		**P 210,617,881**	P 205,531,568	P 247,679,694
Post-employment benefit	21.2	**13,190,735**	13,986,258	16,967,011
Termination benefits		**-**	-	1,468,310
	18	**P 223,808,616**	P 219,517,826	P 266,115,015

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

	Notes	2014	2013	2012
Cost of services	17.2	**P 53,323,404**	P 52,970,338	P 80,725,659
Cost of rentals	17.3	**1,039,865**	999,943	1,194,501
General and administrative expenses		**140,737,415**	139,718,889	157,659,205
Selling and distribution costs		**28,707,932**	25,828,656	26,535,650
	18	**P 223,808,616**	P 219,517,826	P 266,115,015

21.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Group maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Company's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2014 and 2013.

The components of the retirement benefit asset of SGI and certain subsidiaries at the end of the reporting periods are shown below.

	2014	2013
Fair value of plan assets	**P 186,230,815**	P 181,854,959
Present value of obligation	**(63,164,721)**	(67,512,401)
	123,066,094	114,342,558
Effect of asset ceiling	**-**	(32,118,784)
	P 123,066,094	P 82,223,774

The amounts of the retirement benefit obligation recognized by certain subsidiaries at the end of the reporting periods amounted to P20.7 million and P26.5 million as of December 31, 2014 and 2013, respectively.

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

	2014	2013
Balance at beginning of year	P 94,033,079	P 126,587,814
Current service costs	13,190,735	13,986,258
Interest costs	4,846,353	6,600,575
Benefits paid	(1,592,787)	(42,764,356)
Remeasurements – actuarial losses (gains) arising from:		
Changes in financial assumptions	(26,606,955)	3,374,665
Experience adjustments	-	(13,751,877)
Balance at end of year	P 83,870,425	P 94,033,079

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

	2014	2013
Balance at beginning of year	P 181,854,959	P 209,414,356
Interest income	9,366,444	10,227,100
Return on plan assets (excluding amounts included in net interest)	(6,019,977)	1,787,287
Contributions paid into the plan	2,622,176	3,190,572
Benefits paid by the plan	(1,592,787)	(42,764,356)
Balance at end of year	P 186,230,815	P 181,854,959

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

	2014	2013
Debt securities:		
Philippines government bonds	P 155,215,174	P 151,568,091
Corporate bonds	16,155,433	15,775,830
UITF	10,076,227	9,839,466
Mutual funds	4,783,981	4,671,572
	P 186,230,815	P 181,854,959

UITF and mutual funds are composed of short-term and money-market funds denominated in Philippine peso.

The fair values of the above debt securities and investments are determined based on quoted market prices in active markets.

The plan assets earned a net return of P3.3 million, P12.0 million and P10.5 million in 2014, 2013 and 2012, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes	2014	2013	2012
Reported in consolidated statements of income:				
Current service cost	21.1	**P 13,190,735**	P 13,986,258	P 16,967,011
Net interest income	20.3	**(1,846,008)**	(1,641,760)	(3,251,093)
Effect of asset ceiling		**-**	-	(662,217)
		P 11,344,727	P 12,344,498	P 13,053,701
Reported in consolidated statements of comprehensive income:				
Actuarial gains (losses) from:				
- Financial assumptions		**P 26,606,955**	(P 3,374,665)	P -
- Changes in experience adjustments		**-**	13,751,877	6,105,750
Return on plan assets (excluding amounts included in net interest)		**(6,019,977)**	1,787,287	(1,509,299)
Effect of asset ceiling		**33,935,160**	(4,807,592)	(1,509,842)
		P 54,522,138	P 7,356,907	(P 3,086,609)

Current service cost is presented under the General and Administrative Expenses account in the consolidated statements of income (see Note 18).

The net interest income is included in Other Gains - net account in the consolidated statements of income (see Note 20.3). Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the consolidated statements of comprehensive income.

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

	2014	2013	2012
Discount rates	**3.5% - 5.5%**	4.0% - 5.0%	4.0% - 6.0%
Expected rate of salary increases	**7.0%**	9.0%	9.0%

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 20 years for males and 21 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has generally concentrated on investment in debt securities.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) Inflation Risk

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2014 and 2013:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2014			
Discount rate	**+/- 1.0%**	**(12,535,944)**	**14,114,556**
Salary increase rate	**+/- 1.0%**	**14,301,179**	**(11,413,997)**
2013			
Discount rate	+/- 1.0%	(2,807,111)	6,929,061
Salary increase rate	+/- 1.0%	4,042,157	(532,170)

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of the plan assets as of December 31, 2014 and 2013 consists of debt securities, although the Group also invests in UITF and mutual funds.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P102.4 million based on the latest actuarial valuations.

The Group expects to make contribution of P7.7 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2014	2013
Within one year	**P 603,683**	P 200,288
More than one year to five years	**6,217,666**	3,677,711
More than five years to ten years	**44,111,082**	29,445,696
More than ten years to 15 years	**96,871,267**	141,233,917
More than 15 years to 20 years	**147,445,343**	164,831,255
More than 20 years	**1,431,810,776**	2,199,952,487
	P1,727,059,817	P2,539,341,354

22. TAXES

22.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation

(a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 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, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% regular corporate income tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

(b) Registration with 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.

(c) *Fil-Dragon Taxation*

Pursuant to the relevant laws and regulations in the PRC, Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as Fil-Dragon did not generate any assessable profits in 2014, 2013 and 2012.

22.2 Current and Deferred Taxes

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

	2014	2013	2012
Reported in consolidated statements of income:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 23,255,725**	P 23,536,894	P 190,483,882
Preferential tax at 5%	**2,317,513**	1,921,077	2,035,898
Final taxes at 20% and 7.5%	**2,118,018**	8,592,626	17,657,651
Minimum corporate income tax (MCIT) at 2%	**10,464,465**	11,063,933	222,424
	38,155,721	45,114,530	210,399,855
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(60,834,614)**	(211,422)	64,268,972
	(P 22,678,893)	P 44,903,108	P 274,668,827
Reported in consolidated statements of comprehensive income:			
Deferred tax expense on remeasurements of defined benefit post-employment obligation	**P 15,481,707**	P 2,207,070	P 925,983
Deferred tax income on changes in fair value of AFS financial assets	**(66,000)**	(1,156,237)	(300,000)
	P 15,415,707	P 1,050,833	(P 625,983)

A reconciliation of tax on pretax profit (loss) computed at the applicable statutory rate to tax expense reported in the consolidated statements of income is shown below.

	2014	2013	2012
Tax on pretax profit (loss) at 30%	**(P 63,423,096)**	P 57,126,765	P 453,575,261
Adjustment for income subjected to lower tax rates	**(6,141,378)**	(10,493,932)	(13,388,166)
Tax effects of:			
Nondeductible expenses and losses	**32,196,473**	3,869,521	2,513,046
Unrecognized deferred taxes from net operating loss carry-over (NOLCO) and MCIT	**27,007,912**	8,933,328	567,373
Income of foreign subsidiary not subject to taxes	**(6,934,118)**	(6,218,370)	(547,491)
Nontaxable income	**(4,761,937)**	(2,601,399)	(2,640,899)
differences	**(1,283,511)**	(5,512,277)	3,504,041
Benefit from previously unrecognized NOLCO, MCIT and other temporary differences	**-**	(295,738)	(142,098,292)
Unrecognized deductible temporary			
Excess of optional standard deduction over itemized deductions	**-**	-	(27,893,962)
Others	**660,762**	95,210	1,077,916
	(P 22,678,893)	P 44,903,108	P 274,668,827

The net deferred tax assets of SGI and certain subsidiaries having a net deferred tax asset position as of December 31 relate to the following:

	2014	2013
Deferred tax assets:		
Accrued expenses	**P 32,392,525**	P 14,604,251
Allowance for inventory obsolescence	**30,213,350**	17,814,389
NOLCO	**22,499,960**	-
MCIT	**20,338,677**	10,810,770
Allowance for impairment on trade and other receivables	**19,013,913**	7,881,003
Retirement benefit obligation	**2,827,969**	6,074,118
Unrealized foreign currency gain	**(1,218,530)**	(3,960,690)
Provision for warranty claims	**1,057,870**	524,608
Fair value losses on investment property	**-**	23,831,400
Deferred tax assets – net	**P 127,125,734**	P 77,579,849

The net deferred tax liabilities of the other subsidiaries which have a net deferred tax liability position as of December 31 relate to the following:

	2014	2013
Deferred tax assets:		
NOLCO	**P 7,017,490**	P -
Allowance for impairment on trade and other receivables	**1,761,507**	1,372,343
Deferred rent expense – PAS 17	**1,362,172**	-
Unamortized past service costs	**1,104,176**	1,336,337
Loss on investment in subsidiaries	**838,709**	838,709
MCIT	**821,226**	-
Changes in fair value of AFS financial asset	**174,000**	-
Allowance for inventory obsolescence	**108,857**	627,149
Unearned rent income	**47,083**	47,083
Fair value loss on investment property	**-**	44,826,279
Provision for warranty claims	**-**	2,262,388
Accrued expenses	**-**	413,699
Refundable deposits	**-**	22,192
Deferred tax liabilities:		
Fair value gains on investment property	**(756,438,495)**	(820,983,996)
Accumulated depreciation on investment property	**(159,517,857)**	(132,910,575)
Retirement benefit asset	**(33,876,845)**	(31,129,133)
Changes in fair value of financial assets at FVTPL	**(1,584,259)**	-
Deferred rent income – PAS 17	**(213,036)**	(1,988,775)
Unrealized foreign currency gains	**(9,313)**	(42,937)
Deferred tax liabilities – net	**(P 938,404,585)**	(P 935,309,237)

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

	2014	2013	2012
NOLCO	(P 29,517,450)	(P 432,914)	P -
Accrued expenses	(17,788,274)	116,834	(5,694,710)
Fair value gains on investment property	15,802,871	3,409,799	49,991,128
Allowance for inventory obsolescence	(11,880,671)	(6,654,252)	14,668,089
Allowance for impairment on trade and other receivables	(10,723,596)	(2,081,353)	3,395,556
Benefits from previously unrecognized MCIT	(10,063,378)	(10,810,770)	(1,812,952)
Accumulated depreciation on investment property	5,652,610	(253,842)	6,337,868
Unrealized foreign currency gains - net	(2,775,783)	6,966,359	(2,749,471)
Provision for warranty claims	1,729,126	1,407,090	3,169,076
Changes in fair value of financial assets at FVTPL	1,584,260	-	-
Deferred rent expense – PAS 17	(1,414,138)	1,896,896	(2,627,509)
Retirement benefit obligation (asset)	(1,042,378)	4,945,352	81,094
Deferred rent income – PAS 17	(652,166)	1,717,719	(556,364)
Unamortized past service costs	232,161	321,314	173,828
Refundable deposits	22,192	-	-
Change in fair value of AFS	-	(1,024,237)	-
Unearned rent income	-	210,312	(165,041)
Unamortized pre-operating expenses	-	54,271	58,380
	(P 60,834,614)	(P 211,422)	P 64,268,972

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS financial assets and remeasurements of post-employment defined benefit plan (see Note 23.3).

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2014	P 157,221,922	P -	P -	P -	P 157,221,922	2017
2013	36,638,281	-	-	-	36,638,281	2016
2012	15,862,462	-	-	-	15,862,462	2015
2011	31,305,517	5,501,441	3,400,261	22,403,815	-	2014
	P 241,028,182	P 5,501,441	P 3,400,261	P 22,403,815	P 209,722,665	
MCIT						
2014	P 10,352,997	P -	P -	P -	P 10,352,997	2017
2013	11,066,107	-	-	-	11,066,107	2016
2012	222,424	-	-	-	222,424	2015
2011	832,637	-	611,343	221,294	-	2014
	P 22,474,165	P -	P 611,343	P 221,294	P 21,641,528	

Fil-Dragon has incurred tax losses amounting to P138.5 million (¥19.1 million), P30.0 million (¥4.3 million) and P22.8 million (¥3.5 million) in 2014, 2013, and 2012 respectively. Similar to NOLCO, these tax losses can be applied as deductions from future taxable income of Fil-Dragon. However, the benefits from the tax losses expire within five years from the year such tax losses are incurred.

The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

	2014		2013		2012	
	Amount	Tax Effect	Amount	Tax Effect	Amount	Tax Effect
NOLCO	P 92,004,878	P 27,601,463	P 70,997,903	P 21,299,371	P 41,220,143	P 12,366,043
Unrealized foreign currency gain	(5,031,816)	(1,509,545)	(13,745,572)	(4,123,672)	12,211,081	3,663,324
Retirement benefit obligation	2,316,827	695,048	4,686,238	1,405,871	1,001,270	300,381
MCIT	909,797	272,939	640,139	640,139	3,679,121	3,679,121
Allowance for impairment of trade receivables	844,748	253,424	-	-	-	-
Allowance for inventory obsolescence	165,422	49,627	914,262	274,279	362,856	108,857
Unearned income	-	-	1,170,000	351,000	1,170,000	351,000
Allowance for impairment of financial assets classified as loans and receivables	-	-	-	-	22,555,186	6,766,555
Allowance for impairment loss on AFS financial assets	-	-	-	-	5,060,000	1,518,000
	P 91,209,856	P 27,362,956	P 64,662,970	P 19,846,988	P 87,259,657	P 28,753,281

Except for SBC, the Group opted to claim itemized deductions in computing for its income tax due in 2014, 2013, and 2012. SBC used itemized deductions in 2013 while it opted to claim the optional standard deduction in 2012.

23. EQUITY

23.1 Capital Stock

The Parent Company has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consisted of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2014 and 2013, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 395,965,704 and 394,465,704 shares are held by the public, respectively. There are 4,366 and 4,415 holders of the listed shares which closed at P1.24 and P1.18 per share on December 31, 2014 and 2013, respectively.

23.2 Retained Earnings

In 2014 and 2013, the BOD of the Parent Company approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million in each year, payable to stockholders of record as of August 29, 2014 and August 30, 2013, respectively. The cash dividends were paid in the same year of declaration.

Retained earnings is restricted in the amount of P115.6 million as of December 31, 2014 and 2013, equivalent to the cost of 209,433,000 shares held in treasury.

23.3 Revaluation Reserves

The components of this account and its movements are as follows:

	Notes	2014	2013	2012
Remeasurement of post-employment:				
Balance at beginning of year		**(P 12,085,205)**	(P 17,235,042)	(P 19,395,668)
Actuarial gains during the year		**54,522,138**	7,356,907	3,086,609
Tax expense	22.2	**(15,481,707)**	(2,207,070)	(925,983)
Balance at the end of the year		**26,955,226**	(12,085,205)	(17,235,042)
Cumulative translation adjustments:				
Balance at beginning of year		**90,686,928**	49,374,055	77,477,390
Currency exchange differences on translating financial statements of foreign operations	2	**(1,325,922)**	41,312,873	(28,103,335)
Balance at end of year		**89,361,006**	90,686,928	49,374,055
Fair value losses on AFS financial assets:				
Balance at beginning of year		**(95,422,932)**	(95,728,537)	(106,719,760)
Fair value gains (losses)	8	**220,000**	1,461,842	(853,830)
Deferred tax income on changes in fair value of AFS financial assets	22.2	**(66,000)**	(1,156,237)	(300,000)
Reclassification adjustments for losses recognized in profit or loss	8	**-**	-	12,145,053
Balance at end of year		**(95,268,932)**	(95,422,932)	(95,728,537)
Other comprehensive income attributable to non-controlling interest		**35,000**	35,000	35,000
		P 21,082,300	(P 16,786,209)	(P 63,554,524)

24. EARNINGS (LOSS) PER SHARE

Basic and diluted EPS for profit (loss) attributable to the Parent Company's stockholders are computed as follows:

	2014	2013	2012
Net profit (loss) for the year attributable to the Parent Company's stockholders	**(P 121,266,766)**	P 157,821,890	P 1,239,948,309
Divided by weighted average shares outstanding:			
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 – basic and diluted	**(P 0.07)**	P 0.09	P 0.68

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2014, 2013 and 2012; hence, diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

25. RELATED PARTY TRANSACTIONS

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

A summary of the Group's related party transactions as of December 31, 2014 and 2013 and for each of the three years in the period ended is summarized below and in the succeeding pages.

		Amounts of Transaction			Outstanding Balances	
Related Party Category	Notes	**2014**	2013	2012	**2014**	2013
Related Parties Under Common Ownership:						
Purchase of mobile phones	25.6	**3,383,722,069**	3,165,472,663	2,816,688,776	**(231,208,127)**	(177,548,009)
Advances to suppliers	25.6	**8,629,196**	7,264,159	8,668,237	**226,647,707**	218,018,511
Availment of loans	25.8	**156,946,396**	(92,841,796)	44,740,216	**609,101,168**	452,154,772
Interest expense	25.8	**54,957,751**	46,917,606	32,874,588	**8,901,893**	3,725,553
Cash advances obtained	25.5	**(44,450,070)**	69,759,951	(95,931,619)	**(36,873,493)**	(81,323,563)
Interest income	25.4, 25.7	**10,659,395**	10,270,326	12,045,070	**21,664,409**	15,939,918
Lease of real property	25.3	**4,941,813**	15,375,161	1,905,820	**619,066**	355,800
Cash advances granted (collected)	25.5	**4,245,206**	3,102,051	(106,324,516)	**28,980,645**	24,735,439
Commissions	25.6	**1,800,000**	4,366,100	1,730,242	**1,800,000**	4,366,100
Advances for equipment	25.6	**741,153**	2,839,816	20,063	**(992,122)**	(250,969)
Collection of receivables	25.6	**277,483**	1,634,470	19,627,454	**(17,168,822)**	(17,121,707)
Purchase of parts	25.2	**4,653,561**	31,349,823	87,557,687	**(10,425,847)**	(6,694,454)
Granting of business loans	25.4	**-**	-	-	**63,657,213**	67,560,199
Granting of loans	25.7	**-**	-	-	**113,031,548**	112,517,273
Use of cable infrastructure	25.1	**-**	-	81,656,142	-	-
Management services	25.1	**-**	-	1,500,000	-	-

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

None of the Group's outstanding receivables from related parties are impaired.

25.1 Rendering of Services

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 100% owned by SGI's majority stockholders. SBC bills DCI based on a fixed fee per subscriber and based on the type of service rendered. On May 11, 2012, however, SBC has sold a significant portion of its assets used in its operations to a third party (see Note 26.3). Accordingly, there were no revenues recognized related to this transaction subsequent to such sale of assets.

In 2012, the Parent Company provided general management advisory services to CPD Access Corporation (CPD), a company owned by SGI's majority stockholders. In consideration for such services, the Parent Company received management fees on a monthly basis as determined based on a management contract mutually agreed upon by both parties. There were no similar transactions in 2014 and 2013.

Revenues arising from the above transactions are presented as part of Rendering of Services in the 2012 consolidated statement of income. There were no outstanding receivables related to these transactions as of December 31, 2014 and 2013.

25.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of parts and supplies amounting to P4.7 million in 2014, P31.3 million in 2013 and P87.6 million in 2012 are recorded as part of Materials, supplies and other consumables under Cost of Services in the consolidated statements of income (see Note 17.2) while unused parts and supplies are included as part of Service parts, supplies and others under the Merchandise Inventories and Supplies account in the consolidated statements of financial position (see Note 9). The outstanding liability arising from these are presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

25.3 Lease of Real Property

SMC leases out certain land and buildings to Avid Sales Corporation (Avid), a related party under common ownership. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income (see Note 12). Uncollected billings, on the other hand, form part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured and do not bear any interest. Based on management's assessment, all receivables from related parties are fully collectible; hence, no impairment loss was recognized in 2014, 2013 and 2012.

25.4 Granting of Loans

SMFI grants business loans and other loans to its related parties that bear interests ranging from 7.5% to 9.0% in 2014, 2013 and 2012. Total interest earned from these loans amounted to P5.0 million in 2014, P4.9 million in 2013 and P6.3 million in 2012 and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from business loans as of December 31, 2014 and 2013 are as follows:

		2014		2013
Avid	**P**	**25,000,000**	P	27,000,000
AA Export and Import Corp. (AA Export)		**8,332,060**		8,304,380
AA Marine Development Corp. (AA Marine)		**7,847,899**		8,329,955
Philippine Prawn, Inc. (PPI)		**7,492,418**		7,975,288
Baybayan Farm, Inc. (BFI)		**7,492,418**		7,975,288
Kawayan Farm, Inc. (KFI)		**7,492,418**		7,975,288
	P	**63,657,213**	P	67,560,199

In prior years, SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment related to this loan amounted of P2.0 million in 2014. There was no principal repayment in 2013 and 2012. This loan is payable on demand.

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans; hence, there were no principal repayments on these loans in 2013 and 2012. In 2014, principal repayment amounted to P2.0 million.

The business loan granted to AA Export is secured by its own shares of stock which are owned by a related party. All other business loans granted to related parties are unsecured.

There were no impairment losses recognized on the outstanding balances of business loans to granted to related parties in 2014, 2013 and 2012 based on management's assessment.

25.5 Advances to and from Related Parties

Certain subsidiaries of the Group grants to and obtains unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances of Advances to Related Parties amounted to P29.0 million and P24.7 million as of December 31, 2014 and 2013, respectively, while the outstanding balances of Advances from Related Parties amounted to P36.9 million and P81.3 million as of December 31, 2014 and 2013, respectively.

These advances have no definite repayment dates and are generally settled in cash depending on available resources of the parties involved. No impairment losses were recognized on the outstanding balances of Advances to Related Parties as management has assessed that such amounts are fully collectible.

25.6 Transactions with STL

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commissions earned are presented as part of Rendering of Services in the consolidated statements of income. The outstanding balance arising from these transactions as of December 31, 2014 and 2013 are shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections received in behalf of STL in 2014, 2013 and 2012 amounted to P0.3 million, P1.6 million and P19.6 million, respectively. Total obligations arising from this transaction as of December 31, 2014 and 2013 amounting to P17.2 million and P17.1 million, respectively, is presented as Due to a related party under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being paid in advanced by STL on behalf of SVC. Total payments advanced by STL on behalf of SVC related to this transaction amounted to P0.7 million in 2014, P2.8 million in 2013 and P0.02 million in 2012. The outstanding balances arising from this transaction amounted to P1.0 million and P0.3 million as of as of December 31, 2014 and 2013, respectively, and is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid purchases mobile phone inventories from STL. Total purchases amounted to P3.4 billion in 2014, P3.2 billion in 2013 and P2.8 billion in 2012 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 17.1). Outstanding liabilities relating to these transactions amounted to P231.2 million and P177.5 million as of December 31, 2014, and 2013, respectively, which are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid also made advance payments to STL for its future purchase of mobile phone inventories. The outstanding advances amount to P226.6 million and P218.0 million as of December 31, 2014 and 2013, respectively, and are presented as part of Advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

25.7 Transactions with SCL

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to P125.1 million (¥17.4 million) which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. In 2014, the parties agreed to further extend the term of the loan to March 31, 2015. Interest rate was maintained at 5%.

Interests earned from these loans amounted to P5.6 million in 2014, P5.4 million in 2013 and P5.8 million in 2012, and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding balance of the loan amounting to P113.0 million and P112.5 million as of December 31, 2014 and 2013, respectively, is presented as part of Loans receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7). No impairment loss was recognized on these loans in 2014, 2013 and 2012, based on management's assessment.

25.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted to ¥84.7 million (P609.1 million) and ¥61.8 million (P452.2 million) as of December 31, 2014 and 2013, respectively. These loans bear annual interest at prevailing market rates ranging from 6% to 15% in 2014, 2013 and 2012. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the consolidated statements of financial position. Borrowing costs incurred in 2013 and 2012 relating to these loans amounted to ¥6.8 million (P46.9 million) and ¥5.0 million (P32.9 million), respectively, and are capitalized as part of Real Estate Inventories in the consolidated statements of financial position (see Note 10). Borrowing cost incurred in 2014 amounting to ¥7.6 million (P55.0 million) is shown as part of Interest expense on interest-bearing loans under the Finance Costs account in the 2014 consolidated statement of income (see Notes 14 and 20.1).

25.9 Key Management Personnel Compensation

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

	2014	2013	2012
Short-term benefits	**P 41,905,261**	P 42,900,808	P 26,641,647
Post-employment benefit	**3,468,820**	3,503,007	2,190,185
	P 45,374,081	P 46,403,815	P 28,831,832

These amounts are shown as part of Salaries and employee benefits account under General and Administrative Expenses in the consolidated statements of income (see Note 21).

25.10 Transactions with the Retirement Fund

The Group has established a formal multi-employer retirement plan which is administered by a trustee bank, except for CBHI, My Solid, SGTC and ZTC, whose retirement fund remained unfunded as of December 31, 2014.

The retirement fund consists of government securities, corporate bonds, UITF and mutual funds with fair values totaling P186.2 million and P181.9 million, as of December 31, 2014 and 2013, respectively (see Note 21.2). The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also has no investments in the Parent Company's shares of stock which are listed for trading at the PSE.

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 21.2.

26. SIGNIFICANT CONTRACTS AND AGREEMENTS

26.1 Memorandum of Understanding with SPI

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support for SPI. Under the MOU, SPI authorized SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of SPI'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 SPI. In the first quarter of 2009, SE Corp. and SPI agreed to lower the network support fees to 0.45% of SPI's net sales. Subsequently, SE Corp. and SPI agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

Network support fees and in-warranty service fees totaled to P98.0 million, P75.1 million and P77.7 million for the years ended December 31, 2014, 2013 and 2012, respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balances arising from these transactions amounted to P5.5 million and P3.3 million as of December 31, 2014 and 2013, respectively, and are included as part of Trade receivables under the Trade and Other Receivables in the consolidated statements of financial position (see Note 7).

26.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)

SVC has a non-exclusive Distributorship Agreement (the Agreement) with 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 covered under the 12 month-warranty period at its own costs and expenses. Management believes that the Agreement continues to be effective although no formal renewal has been made since 2007.

26.3 Sale of SBC's Assets

(a) Agreement on Sale of Assets

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 26.3(d)]. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers of SCC and, accordingly, remit to the latter all collections received. Service fees incurred related to this transaction amounted to P54.2 million in 2014, P53.6 million in 2013 and P59.3 million in 2012 and are presented as Service fees and included as part of Cost of Services in the consolidated statements of income (see Note 17.2).

In addition, SCC assumes to pay SBC all costs and expenses in connection with use and operation of the Assets, until the Company's operation is transferred to SCC.

(b) *Management Agreement*

For continuity of services to subscribers, SBC and SCC agreed that the management and administration of the Assets be entrusted to SCC pending the approval of the NTC of the sale transaction.

SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

The Management Agreement shall remain in effect until December 31, 2013. If the NTC's approval is not obtained by December 31, 2013, the terms of the Management Agreement shall be automatically renewed for two years from such date and thereafter automatically renewed for another two years from the end of term of its renewal, until the Management Agreement is terminated. As of December 31, 2014, the NTC has not approved the sale and, as such, the Management Agreement is automatically renewed until December 31, 2015.

(c) *Option Agreement*

On the same date as the agreement on sale of assets, SGI entered into an Option Agreement with SCC to purchase SGI's shares of stocks in SBC. The option must be exercised not later than December 31, 2013. SCC has not exercised the option in 2013 and accordingly, the option has expired (see Note 27.8).

(d) *Gain on Sale of Assets*

In 2012, SBC sold the Assets to SCC for a gross amount totaling P1.1 billion [see Note 26.3 (a)]. The book value of the assets sold amounted to P827.2 million resulting in the recognition of gain on sale of assets amounting to P267.1 million, which is presented as Gain on sale of assets under Other Operating Expenses (Income) account in the 2012 consolidated statement of income.

27. COMMITMENTS AND CONTINGENCIES

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

27.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease out real estate properties under various non-cancellable lease agreements with terms ranging from one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are as follows:

	2014	2013
Within one year	**P 82,297,563**	P 96,895,544
After one year but not more than five years	**60,208,163**	93,594,153
More than five years	**4,090,127**	2,605,134
	P 146,595,853	P 193,094,831

Rental income earned from these transactions amounted to P151.0 million, P152.0 million and P136.7 million in 2014, 2013 and 2012, respectively, and are presented as Rentals under Revenues in the consolidated statements of income.

27.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 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%.

	2014	2013
Within one year	**P 22,874,016**	P 10,227,331
After one year but not more than five years	**15,045,179**	46,536,524
	P 37,919,195	P 56,763,855

Rental expense charged to operations from these operating leases amounted to P7.4 million each in 2014, 2013 and 2012, and are shown as part of Rentals under Cost of Services and Cost of Rentals in the consolidated statements of income (see Notes 17.2 and 17.3).

Refundable deposits received in relation to these lease arrangements amounted to P11.4 million and P17.8 million in 2014 and 2013, respectively. These amounts are presented as part of Other Current Assets and Other Non-current Assets in the consolidated statements of financial position (see Note 13).

27.3 Legal Claims

SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:

(i) a portion of land in Pililla, Rizal, with a carrying value of P7.5 million is subject to expropriation coverage under the Agrarian Reform Act; and,

(ii) a piece of land, with a carrying value of P309.0 million is the subject of claims by third parties who filed court cases against SMC.

Management believes that the ultimate resolution of these cases will not materially affect the Group's consolidated financial statements.

27.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2014 and 2013 for the fulfillment of projects in the development and marketing of CPIP (see Note 10).

27.5 Purchase Commitments

In 2007, ZTC entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 10). The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2014.

27.6 Possible Impact of Government Project

In 2005, ZTC 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 (see Note 10) might be affected by the plans of the National Government of the Philippines 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 ZTC'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.

27.7 Properties Under Development

Fil-Dragon has a commitment for about P54.4 million (¥7.6 million) and P123.9 million (¥16.9 million) as of December 31, 2014 and 2013, respectively, for the construction of the Golden Hill Project (see Note 10).

27.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2013, SCC has not exercised this option [see Note 26.3(c)]; hence, the Parent Company still holds the ownership interests in SBC.

27.9 Others

As of December 31, 2014 and 2013, the Group has unused credit facilities amounting to P709.0 million and P712.1 million, respectively.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. As of December 31, 2014, management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 29.1. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated with its BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

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

28.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other recievables, interest-bearing loans and trade and other payables, which are primarily denominated in U.S. dollars and Chinese yuan RMB. The Group also holds U.S. dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

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

	2014		2013	
	U.S. Dollar	**Chinese Yuan Renminbi**	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	**P 134,695,957**	**P249,674,557**	P 350,871,152	P 79,075,855
Financial liabilities	**(380,841,477)**	**(787,203,671)**	(614,218,228)	(768,165,522)
	(P 246,145,520)	**(P 537,529,114)**	(P 263,347,076)	(P 689,089,667)

The following table illustrates the sensitivity of the Group's profit (loss) before tax with respect to changes in Philippine pesos against foreign currency exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2014		2013		2012	
	Reasonably Possible Change in Rate	**Effect in Loss Before Tax**	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	**27.61%**	**P 67,960,778**	23.40%	(P 61,623,216)	13.83%	(P 23,532,195)
Php – RMB	**43.06%**	**(231,460,036)**	23.67%	(163,107,524)	11.52%	(54,942,412)
		(P 162,499,258)		(P 224,730,740)		(P 78,474,607)

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

(b) Interest Rate Risk

At December 31, 2014 and 2013, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5).

The following illustrates the sensitivity of profit (loss) before tax for the year to a reasonably possible change in interest rates of +/-2.31% in 2014, +/-2.14% in 2013 and +/-1.54% in 2012. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 2.31%, 2.14% and 1.54%, loss before tax in 2014 would have decreased by P33.4 million and profit before tax in 2013 and 2012 would have increased by P49.8 million and P46.5 million, respectively. Conversely, if the interest rate decreased by the same percentages, loss before tax would have been higher and profit before tax in 2013 and 2012 would have been lower by the same amounts.

(c) Other Price Risk

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets classified as financial assets at FVTPL and AFS financial assets). The Group manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

28.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks and investing in UITF.

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

	Notes	**2014**	2013
Cash and cash equivalents	5	**P 1,623,834,847**	P 2,327,335,632
Financial assets at FVTPL	6	**746,071,954**	294,286,160
Trade and other receivables (excluding advances to suppliers) – net	7	**1,779,955,204**	1,612,527,947
Advances to related parties	25	**28,980,645**	24,735,439
Restricted cash and cash bond	13	**16,885,451**	6,741,571
Refundable deposits – net	13	**13,249,349**	21,045,466
		P 4,208,977,450	P 4,286,672,215

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

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(a) *Cash and Cash Equivalents and Financial Assets at FVTPL*

The credit risk for cash and cash equivalents and financial assets at FVTPL in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

(b) *Trade and Other Receivables*

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade and other receivables that are not past due or impaired to be good.

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or other credit enhancements. Trade receivables arising from real estate sales are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

(c) *Advances to Related Parties*

The Group is not exposed to any significant credit risk exposure in respect of advances to related parties. These advances are generally receivable in cash upon demand. These related parties are considered to be in good financial condition.

Some of the unimpaired trade receivables are past due at the end of the reporting period. Trade receivables and advances to related parties past due but not impaired can be shown as follows:

	2014	2013
Not more than 3 months	**P 46,188,160**	P 34,792,934
More than 3 months but not more than one year	**13,642,967**	16,753,599
More than one year	**7,497,623**	84,999,022
	P 67,328,750	P 136,545,555

There were no other financial assets that are past due as of December 31, 2014 and 2013.

28.3 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

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

As of December 31, 2014, the Group's financial liabilities have contractual maturities which are presented below.

	Current		**Non-current**
	Within 6 Months	**6 to 12 Months**	**1 to 5 Years**
Interest-bearing loans	P 873,532,553	P -	P -
Trade and other payables	679,139,830	-	-
Advances from related parties	-	36,873,493	-
Refundable deposits	-	-	13,704,646
	P 1,552,672,383	**P 36,873,493**	**P 13,704,646**

This compares to the maturity of the Group's financial liabilities as of December 31, 2013 as follows:

	Current		Non-current
	Within 6 Months	6 to 12 Months	1 to 5 Years
Interest-bearing loans	P 708,753,019	P -	P -
Trade and other payables	680,496,859	-	-
Advances from related parties	-	81,323,563	-
Refundable deposits	-	-	16,398,227
	P 1,389,249,878	P 81,323,563	P 16,398,227

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

29.1 Carrying Amounts and Fair Values by Category

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

	Notes	2014		2013	
		Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**P1,623,834,847**	**P 1,623,834,847**	P 2,327,335,632	P 2,327,335,632
Trade and other receivables – net	7	**1,779,955,204**	**1,779,955,204**	1,612,527,947	1,612,527,947
Advances to related parties	25	**28,980,645**	**28,980,645**	24,735,439	24,735,439
Restricted cash and cash bond	13	**16,885,451**	**16,885,451**	6,741,571	6,741,571
Refundable deposits	13	**13,249,349**	**13,249,349**	21,045,466	21,045,466
		3,462,905,496	**3,462,905,496**	3,992,386,055	3,992,386,055
Financial assets at FVTPL	6	**746,071,954**	**746,071,954**	294,286,160	294,286,160
AFS financial assets	8				
Golf club shares – net		**8,822,400**	**8,822,400**	6,602,400	6,602,400
Others		**634,127**	**634,127**	634,127	634,127
		9,456,527	**9,456,527**	7,236,527	7,236,527
		P 4,218,433,977	**P4, 218,433,977**	P 4,293,908,742	P 4,293,908,742
Financial liabilities					
At amortized cost:					
Interest-bearing loans – net	14	**P 844,408,549**	**P 844,408,549**	P 684,002,914	P 684,002,914
Trade and other payables	15	**679,139,830**	**679,139,830**	680,496,859	680,496,859
Advances from related parties	25	**36,873,493**	**36,873,493**	81,323,563	81,323,563
Refundable deposits – net	16	**13,313,947**	**13,313,947**	15,127,106	15,127,106
		P 1,573,735,819	**P 1,573,735,819**	P 1,460,950,442	P 1,460,950,442

See Notes 2.5 and 2.11 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

29.2 Offsetting of Financial Instruments

The Group has not set-off financial instruments in 2014 and 2013 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by the respective BODs and stockholders of both parties.

The Group's outstanding cash advances obtained from other related parties amounting to P36.9 million and P81.3 million as of December 31, 2014 and 2013, respectively, and presented as Advances from Related Parties account in the consolidated statements of financial position, can be offset by the amount of outstanding cash advances granted to other related parties amounting to P29.0 million and P24.7 million as of December 31, 2014 and 2013, respectively.

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements above, certain agreements between the Group and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both parties elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party. As of December 31, 2014 and 2013, the Group's cash surrender value of investment in life insurance amounting to P538.3 million and P515.1 million, respectively, and presented as part of Trade and Other Receivables in the consolidated statements of financial position may be used to settle the outstanding loans of BRL amounting to P235.5 million and P231.8 million as of December 31, 2014 and 2013, respectively, and included as part of Interest-bearing Loans in the consolidated statements of financial position (see Notes 7 and 14).

30. FAIR VALUE MEASUREMENTS AND DISCLOSURES

30.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

30.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets measured at fair value in the consolidated statements of financial position on a recurring basis as of December 31, 2014 and 2013.

		2014			
	Notes	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets at FVTPL	6	P -	P 746,071,954	P -	P 746,071,954
AFS financial assets	8	-	8,822,400	-	8,822,400
		P -	**P 754,894,354**	**P -**	**P 754,894,354**
		2013			
		Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	6	P -	P 294,286,610	P -	P 294,286,610
AFS financial assets	8	-	6,602,400	-	6,602,400
		P -	P 300,889,010	P -	P 300,889,010

As of December 31, 2014 and 2013, the Group has certain unquoted AFS financial assets amounting to P634,127 that are measured at cost; hence, these assets are not included within the fair value hierarchy.

The Group has no financial liabilities measured at fair value as of December 31, 2014 and 2013.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

UITF classified as financial assets at FVTPL and club shares and equity securities classified as AFS financial assets are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of the reporting period.

30.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the consolidated statements of financial position but for which fair value is disclosed.

	Notes	2014 Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	P 1,623,834,847	P -	P -	P 1,623,834,847
Trade and other receivables	7	-	-	1,779,955,204	1,779,955,204
Advances to related parties	25	-	-	28,980,645	28,980,645
Restricted cash and cash bond	13	-	-	16,885,451	16,885,451
Refundable deposits	13	-	-	13,249,349	13,249,349
		P 1,623,834,847	**P -**	**P1,839,070,649**	**P 3,462,905,496**
Financial Liabilities					
At amortized cost:					
Interest-bearing loans – net	14	P -	P -	P 844,408,549	P 844,408,549
Trade and other payables	15	-	-	679,139,830	679,139,830
Advances from related parties	25	-	-	36,873,493	36,873,493
Refundable deposits - net	16	-	-	13,313,947	13,313,947
		P -	**P -**	**P 1,573,735,819**	**P 1,573,735,819**

	Notes	2013 Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	5	P 2,327,335,632	P -	P -	P 2,327,335,632
Trade and other receivables	7	-	-	1,612,527,947	1,612,527,947
Advances to related parties	25	-	-	24,735,439	24,735,439
Restricted cash and cash bond	13	-	-	6,741,571	6,741,571
Refundable deposits	13	-	-	21,045,466	21,045,466
		P 2,327,335,632	P -	P1,665,050,423	P 3,992,386,055
Financial Liabilities					
At amortized cost:					
Interest-bearing loans – net	14	P -	P -	P 684,002,914	P 684,002,914
Trade and other payables	15	-	-	680,496,859	680,496,859
Advances from related parties	25	-	-	81,323,563	81,323,563
Refundable deposits - net	16	-	-	15,127,106	15,127,106
		P -	P -	P 1,460,950,442	P 1,460,950,442

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments.

30.4 Fair Value Measurements of Non-financial Assets

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31.

	2014					
	Level 1		Level 2	Level 3		Total
Land	P	-	P3,027,198,507	P	-	P3,027,198,507
Building and building improvements		-	-		626,681,408	626,681408
	P	-	P3,027,198,507	P	626,681,408	P3,653,879,915

	2013					
	Level 1		Level 2	Level 3		Total
Land	P	-	P2,982,289,350	P	-	P2,982,289,350
Building and building improvements		-	-		666,521,666	666,521,666
	P	-	P2,982,289,350	P	666,521,666	P3,648,811,016

The fair value of the Group's land and building and building improvements classified under Investment Property (see Note 12) are determined on the basis of the appraisals performed by Cuervo Appraisers, Inc. in 2014 and Asian Appraisal, Inc. in 2013, both are independent appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

(b) Fair Value Measurement for Building and Building Improvements

The Level 3 fair value of the buildings and improvements under Investment Property account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The following is the computation of the Group's debt-to-equity ratio:

	2014	2013
Total liabilities (excluding advances from related parties)	**P4,129,138,902**	P3,771,271,051
Total equity	**9,491,279,309**	9,751,434,747
Debt-to-equity ratio	**0.44:1.00**	0.39:1.00

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

As of December 31, 2014 and 2013, the Group is not subject to any externally-imposed capital requirements, except for SMFI as indicated below.

Under Section 6 of RA No. 8556, SMFI is required to maintain a minimum paid-up capital of not less than P10.0 million. SMFI is in compliance with the minimum paid-up capital requirement as of December 31, 2014 and 2013.

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Attached CD contains the 2014 Annual report including Notes to Financials Statements

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