SOLID GROUP INC.

April 30, 2009

PHILIPPINE STOCK EXCHANGE INC.`
Disclosure Department
4th Floor, Philippine Stock Exchange Centre,
Exchange Road, Ortigas Center
Pasig City

Attention: **ATTY. PETE MALABANAN**
Head – Disclosure Department

Gentlemen:

We are submitting herewith the SEC Form 17-A Annual Report.

We trust that you will find everything in order.

Very truly yours,

MELLINA T. CORPUZ
Corporate Information Officer

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A, AS AMENDED

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

1. For the fiscal year ended December 31, 2008

2. SEC Identification Number: 845

3. BIR Tax Identification No.: 321-000-508-536

4. Exact name of issuer as specified in its charter **SOLID GROUP INC.**

5. Province, Country or other jurisdiction of incorporation or organization: Philippines

6. __________ (SEC Use Only)
   Industry Classification Code

7. Address of principal office: Solid House, Postal Code: 1231
   2285 Don Chino Roces Avenue (formerly Pasong Tamo Ext.)
   Makati City, Philippines

8. Telephone No: (632) 843-15-11

9. Former name, former address, and former fiscal year, if changed since last report: Not Applicable

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common Stock, P1 par value	1,821,542,000 shares

11. Are any or all of these securities listed on the Philippine Stock Exchange

    Yes [x] No [ ]

    If yes, state the name of such stock exchange and classes of securities listed therein:

    Philippine Stock Exchange Common

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports):

Yes [x] No [ ]

(b) has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant:

P133,686,306

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PART I. BUSINESS AND GENERAL INFORMATION

Item 1. Business

(A) Description of Business

1. Business Development

The Company, formerly United Paracale Mining Company, was incorporated on October 9, 1933 as a mining company.

On May 31, 1996, the Company's new set of stockholders executed deeds of assignment transferring to the Company their investments in shares of stock of certain companies as full payment for their subscriptions to 1.5 billion shares of the Company's capital stock. On June 18, 1996, the Securities and Exchange Commission approved the assignment of shares and the following amendments to the Company's Articles of Incorporation: (a) change in the Company's corporate name to Solid Group Inc.; (b) change in its primary purpose to that of a holding company; (c) change of the par value of its shares from P.01 to P1.00; (d) the declassification of its class A and class B capital stock; and (e) the increase in its authorized capital stock from P20 million (divided into P1.2 billion Class A shares and 0.8 billion Class B shares at P0.01 par value) to P5 billion divided into 5 billion shares at P1.00 par value, all of one class.

On September 4, 1996, an additional 524,475,000 of Company's shares of stock were offered to the public and listed in the Philippine Stock Exchange.

On the November 21, 2002 special stockholders' meeting, the stockholders approved the acquisition of the shares and/or economic interests in the Destiny Group (consisting of Destiny, Inc. and subsidiaries (DI) and Destiny Cable, Inc. and subsidiaries) from the Elena Lim family in exchange for 1.026 billion shares of the Company with par value of P1.00 per share.

In May 2003, the Company completed the acquisition of the entire issued and outstanding shares of DI, which is in the business of broadband multimedia services. The acquisition was approved by the Bureau of Internal Revenue (BIR) on May 15, 2003. A notice of exemption for the issuance of shares under the Revised Securities Act was filed with the Securities and Exchange Commission on November 6, 2003. Company shares totaling 224,461,752 was proposed to be issued in payment for the DI acquisition upon approval of the listing of these shares with the Philippine Stock Exchange. However, in 2004, upon further review of the assets and liabilities of DI, certain receivables from and payables to related parties were removed from the valuation of DI's net assets. The re-valuation resulted in a change in its financial position from a net asset to a net liability of P23,201,010. The Company and DCI agreed that the Company would no longer issue shares of stock to DCI as payment for its acquisition of DI, but instead assume the DI's net liability which represents fair value of the ongoing business of DI including its existing cable internet subscriber base which, in accordance with the pooling of interest accounting applied to this transaction, was charged to additional paid-in capital.

The Company has thirteen (13) wholly-owned subsidiaries as of December 31, 2007, as follows:

Solid Broadband Corporation (SBC) was incorporated on September 22, 2000 to offer broadband services. SBC obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. It has been granted provisional authority to use its franchise by the National Telecommunications Commission on April 15, 2002. SBC was merged with Destiny Inc. (DI) as approved by the Securities and Exchange Commission on August 26, 2005, with SBC as the surviving entity. Henceforth, SBC assumed the operations of DI of broadband cable infrastructure and provides transport services to an affiliate engaged in cable television operations. It also provides integrated multimedia services, among which are, VSAT, broadcast uplink and leased line services. In 2007, SBC started the marketing and distribution of mobile phones.

Solid Electronics Corporation (SEC), which was incorporated on August 9, 1982. SEC operates the repair and service centers for SONY and AIWA brands of audio and video consumer electronics equipment. SEC merged with AA Electronics Corporation (AAEC), another wholly-owned subsidiary of the Company and Solid Electronics Services Inc. (SESI), a wholly owned subsidiary of SC on April 12, 2004 with SEC as the surviving company.

Solid Video Corporation (SVC) was incorporated on October 12, 1984. SVC distributes professional video equipment, accessories and supplies to broadcast networks and other companies.

Solid Manila Corporation (SMC) was incorporated on June 13, 1983. SMC is engaged in the lease and development of the Company's real estate properties. SMC merged with Solid Distributors, Inc. (SDI), another wholly-owned subsidiary of the Company, on December 23, 2003, with SMC as the surviving company.

Solid Manila Finance Inc. (SMFI) was incorporated on September 9, 1999. SMFI is engaged in the financing and extension of business, appliance and other loans.

Omni Logistics Corporation (OLC) was incorporated on May 22, 1998. OLC provides warehousing and logistics services to third parties principally the handling and delivery of consumer electronic products. In February 2003, OLC took over from an affiliate, Solid Laguna Corporation, the color TV assembly operations for certain brand owners under toll manufacturing arrangement.

Solid Corporation (SC) was incorporated on May 3, 1965. SC was the exclusive manufacturing licensee and the distributor of SONY products in the Philippines until October 1, 1997 when the marketing and distribution of SONY products were taken over by Sony Philippines, Inc. (SPH), a 33%-owned associated company which was organized jointly with Sony Corporation. On May 3, 1997, SC permanently closed its manufacturing facility located in Valenzuela, Metro Manila and transferred all manufacturing business to an affiliate, Solid Laguna Corporation. Thereafter, Solid Corporation's revenues principally come from the lease of its properties.

Kita Corporation (Kita) was incorporated on October 1, 1994. Kita produced color TV sets under the AIWA brand at its factory located inside the Clark Special Economic Zone. Kita ceased its operations effective April 15, 2001 after its agreement with Aiwa expired in April 1, 2000 and was no longer renewed. Kita has been disposing of its assets to settle liabilities. Kita merged with Clark Plastics Manufacturing Corporation (CPMC), a wholly owned subsidiary of SC, on April 2004, with Kita as the surviving company. After its merger with CPMC, Kita resumed operations to continue the business of CPMC, which is injected plastics manufacturing as well as the lease of its property.

Solid Laguna Corporation (SLC) was incorporated on May 15, 1995. SLC merged with Solid City Industrial and Commercial Corporation (SCICC), a wholly-owned subsidiary of Solid Corporation, on December 28, 2001 with SLC as the surviving company. SLC ceased its consumer electronics manufacturing operations in December 2002 after its manufacturing agreement with SPH expired in September 2002 and was not renewed. SLC's current business is injected plastics manufacturing which was the business of SCICC prior to their merger.

Brilliant Reach Limited (BRL) was incorporated on March 12, 2003 in the British Virgin Islands and acquired by the Company on July 31, 2003. BRL handles and manages the placement of the Company's investible funds in foreign currency fixed income financial assets and other investments.

Zen Towers Corporation (Zen) was incorporated on July 6, 2005. Zen is engaged in the development and sale of real estate properties. Its initial project is the Zen Tri-Tower condominium located in Ermita, Manila.

Precos Corporation (Precos) was incorporated on October 31, 1989 to engage in real estate and related businesses. Prior to 2004, Precos was 60% owned by SC and 40% owned by Sony International (Singapore) Ltd. (SONIS). In 2004, Precos reacquired as treasury stock the shares held by SONIS, thereby making the Company a wholly owned subsidiary of SC. In 2007, Precos became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in Precos.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. SGTC was formerly a wholly-owned subsidiary of SC. In 2007, SGTC became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in SGTC.

Henceforth, the term "Company" would mean the Parent Company and/or any of its subsidiaries.

2. Business of Issuer

Principal Products and Services

Solid Broadband Corp. owns and operates a broadband cable infrastructure, which provides broadband multimedia services such as data transport services, high-speed cable internet access, VSAT, broadcast uplink, leased line services and other multimedia services. The broadband multimedia business reported revenues of P282 million or 47% of service income in 2008, P287 million or 44% of service income in 2007 and P199 or 40% of service revenue in 2006.

Market estimates of regular Internet users in the Philippines have surpassed the 1,000,000 mark and continue to rise steadily. Concentrated in the Metro Manila area, the heavy or high end users comprise at least 25% of this total and provide a largely underserved premium market that is willing to pay for unlimited access to broadband level services. Tiered services that provide lower cost monthly service fees for limited hours access will further extend broadband service market reach to budget users who still wish to upgrade. Another growing market is the medium sized business and institutional requirements not only for Internet access but also for private data networks and other business services.

The Company's consumer electronic products manufacturing and distribution business was formerly anchored on 2 leading foreign brands, SONY and AIWA. However, shifts in global business practices of brand owners resulted to the drastic reduction and/or cessation of significant portions of this business activity such that: (a) on May 9, 1997, the Company entered into a joint venture agreement with Sony Corporation for the formation of Sony Philippines, Inc. (SPH) to take over the local marketing and distribution of SONY consumer electronic products in the Philippines, with the Company owning 33% of SPH; accordingly, the Company ceased all selling activities of SONY products on October 1, 1997 and transferred this activity to SPH; (b) the Company closed its consumer electronics manufacturing operations located in Laguna International Industrial Park in December 2002 after its manufacturing agreement with SPH expired and was no longer renewed; (c) the Company shut down its color TV manufacturing operations located in the Clark Special Economic Zone in April 2001 when Aiwa Co. Ltd., its principal export customer, stopped its orders after the purchase agreement with the Company expired in April 2000 and was no longer renewed; and (d) the Company stopped the marketing and distribution of AIWA brand effective July 1, 2003 as these activities were taken over by SPH as part of a worldwide business realignment brought on by Sony's takeover and integration of Aiwa as a second brand. In August 2007, Solid Broadband Corporation Mobile Division introduced mobile phones in the Philippine market under the MyPhone brand.

The other consumer electronics business of the Company as of December 31, 2007 are:
(1) sale of mobile phones and LCD televisions which generated sales of P514 million in 2008 (for 173,061 units) and P96 million in 2007 (for 13,643 units) or 56 %of sales in 2007, none in 2006; (2) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of P17 million in 2008 (for 102,604 units produced) or 3% of service revenues, P19 million in 2007 (for 125,239 units produced) or 3% of service revenues and P18 in 2006 (for 120,812 units produced) or 8% of service revenue in 2006; and (3) after-sales service for principally SONY and AIWA brands of consumer electronic products with its 31 company-owned service centers throughout the Philippines and 80 independent authorized service centers as of end of 2008 which generated service income of P203 million or 33% of service revenues in 2008, P207 million or 32% of service revenues in 2007 and P196 million or 40% of service revenue in 2006; and (4) warehousing and distribution of consumer electronic products with service revenue of P65 million or 11% of service revenues in 2008, P68 million or 11% of service revenues in 2007 and P58 million or 12% of service revenue in 2006 and (5) other service income of P38 million or 6% of service revenues in 2008, P71 million or 11% in 2007 and P22 million or 4% of service revenue in 2006.

The Company's other business activities are: the development and sale of industrial estates in joint venture with Samsung Corporation of Korea, the development of residential condominium for sale and the development and lease of other real estate properties, injected plastics parts manufacturing, and sale of broadcast/professional equipment and accessories.

The Company's products are sold in the Philippines. Revenues for the last 3 years, are as follows: injected plastic parts of P127 million or 14% of sales in 2008, P158 million or 33% of sales in 2007and P125 million or 28% of sales in 2006; broadcast/professional equipment and accessories of P87 million or 10% of sales in 2008, P59 million or 13% of sales in 2007 and P148 million or 33% of sales in 2006 ; plastic resins of P136 million or 15% of sales in 2008, P137 million or 29% of sales in 2007 and P147 million or 32% of sales in 2006 and other products of P47 million or 5% of sales in 2008, P24 million or 6% of sales in 2007 and P19 million or 4 % of sales in 2006. Real estate sales amounted to P31 million or 2% of revenues in 2008, P102 or 7% of revenues in 2007 and P12 million or 1 % of sales in 2006.

Distribution

The plastic parts manufactured by the Company are sold directly to its customers while the broadcast/professional equipment and accessories is also sold directly to its corporate clients such as broadcast stations.

The mobile phones are sold by the Company through the Mobile Division of its subsidiary, Solid Broadband Corporation (SBC). All domestic sales are made by SBC to 3 independent distributors as at December 31, 2008. The distributors supply an independent dealer network.

Status of any-publicly announced new product or service

None.

Competition

The broadband cable services that the Company offers through the Destiny hybrid fiber coaxial cable infrastructure competes with cable companies, Sky Cable and Home Cable in Metro Manila, and to some extent with other market players in the telecommunication industry such as PLDT, Bayantel, Globe and Eastern.

The cable television service of Global Destiny Inc. operates throughout Metro Manila via the Company's broadband cable network infrastructure. It provides value programming for various markets at competitive monthly service fee rates versus major competitors Sky Cable and Home Cable. Smaller cable companies also compete in smaller or limited franchise areas.

The MyDestiny Internet service is providing Internet users a higher service level through its broadband technology versus the prevailing dial-up system of the majority of ISP's operating in Metro Manila. It will be offering tiered service levels to enable more customers to experience broadband service at a lower monthly cost. Unlike most ISP's, which need to use a third party telephone network, MyDestiny uses its own broadband infrastructure and can offer the market an integrated service delivery system.

The plastic parts that the Company sells competes with other plastic manufacturers in the injected plastics industry while the broadcast/professional equipment and accessories that the Company sells competes with other brands like Panasonic, JVC and Sharp.

The Company has modern production facilities for injected plastics and state of the art hybrid fiber coaxial cable network capable of two-way transmission and strong after-sales service network and that would enable it to effectively compete with other market players.

The broadband cable network is a complex data capable infrastructure using HFC (hybrid fiber and co-axial cables) that covers most of Metro Manila. Planned and built as one integrated and contiguous system, the network's fiber backbone inter-connects 21 hubs in key locations. The various video and data services riding on this network are delivered to customers in the 21 cities and municipalities that compose Metro Manila over its 2,400 strand miles of cable. The network is capable of delivering these services to 500,000 homes and other destinations. The services include cable television, Internet access and email services, virtual private networks; file transfers and downloads, video and audio streaming and Voice over Internet Protocol (VOIP).

The MyPhone brand celphones distributed by SBC competed with other brands in the Philippine market mainly Nokia, Samsung, Sony Ericsson, Motorola and other grey market phones.

Raw Materials, Parts and Components

The Company through its subsidiaries procures raw materials for manufacture of its products and finished products from a number of sources in the Philippines and foreign suppliers. The Company is not dependent on a single or limited number of suppliers. There is no major existing supply contracts.

Broadband and Production Facilities

The Company operates broadband cable infrastructure assets in Metro Manila from its headend located in Makati City, providing data transport and multimedia services. The broadband cable network is a complex data capable infrastructure using HFC (hybrid fiber and co-axial cables) that covers most of Metro Manila. Planned and built as one integrated and contiguous system, the network's fiber backbone inter-connects 21 hubs in key locations. The various video and data services riding on this network are delivered to customers in the 21 cities and municipalities that compose Metro Manila over its 2,400 strand miles of cable. The network is capable of delivering these services to 500,000 homes and other destinations. The services include cable television, Internet access and email services, virtual private networks; file transfers and downloads, video and audio streaming and Voice over Internet Protocol (VOIP).

The Company has two plastic injection factories, which are located in Bicutan, Paranaque and Clark Special Economic Zone (CSEZ), Pampanga, which independently manufacture other plastic products for sale to third parties. These factories used to principally supply the requirements of the consumer electronics production facilities of the Company.

Except for the CSEZ land, which is leased, the properties where the factories are located are owned by the Company. (See Properties)

Dependency of the business upon a single or few customers

Kita Corporation, a wholly-owned subsidiary of the Company, is dependent on one major customer for its sale of injected plastic parts, which account for about 3% of annual consolidated revenues. There are no major existing sales contracts.

Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2008, it has 31 service centers throughout the Philippines and 80 independent authorized service centers.

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements except for a loan granted to Solid Manila Finance Inc. Subsidiaries of the Company generally depend on one another for supply of certain parts and components and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

The Company provides broadband transport services to a cable television client, which is 49% owned by the ultimate majority stockholder of the Company.

Principal Terms and Expiration Dates of all Licenses and Agreements

- Franchise

Solid Broadband Corporation (SBC) obtained a congressional franchise for 25 years to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. SBC has been granted provisional authority to use its franchise by the National Telecommunications Commission.

- Joint Venture Agreement

The Company has a Joint Venture Agreement (JVA) with Sony Corporation until May 8, 2005 as a result of which Sony Philippines, Inc. (SPH) was organized. The Company invested an equivalent share of 33% ownership in SPH which started commercial operations on October 1, 1997 at which date the Company and Solid Corporation (SC) ceased all selling activities direct to dealers and transferred this activity to SPH in accordance with the JVA. Upon expiration of the term or termination of the JVA, Sony Corporation may, at its option, purchase the Company's shares in SPH at its book value or the Company may require Sony to purchase its shares in SPH also at its book value.

The Company received a formal notice that the JVA will expire on May 8, 2005. The Company and Sony Corporation have agreed to pursue negotiation toward an equitable settlement of all matters relating to the JVA and its expiration and in order to ensure continuity and harmony of the good relationship.

- After-Sales Service and Network Support Agreements

Under these Agreements, Solid Electronics Corporation (SEC) shall provide in-warranty and out-of-warranty services for Sony products sold in the Philippines. SPH will pay SEC a percentage of sales as commission. The After-Sales Agreement is effective until September 30, 2004 while the Network Support Agreement is effective until September 30, 2004. In May 2005, the Company entered into an informal agreement with Sony wherein the agreement was renewed annually.

Need for any government approval

Solid Manila Corporation, a subsidiary of the Company, declared its investments in stocks from its subsidiaries as property dividends. This is still pending approval of the Securities and Exchange Commission.

Zen Tower Corporation is awaiting the approval of the Local Government of Manila for the permanent occupancy permit.

Effect of existing and probable governmental regulations on the business

There are proposed legislations currently pending for congressional action that will reclassify cable infrastructure companies as non-mass media. As such, they will also be removed from the strict foreign investment prohibition that governs Filipino mass media companies. Cable companies with more advanced infrastructure or wider coverage areas are expected to attract more foreign investments to further capitalize the rollout of services to the Filipino market.

Research and development activities

The Company has not spent any significant amount for research and development activities in the last three years.

Costs and effects of compliance with environmental laws

The Company has complied with environmental laws at minimal costs.

Employees

The Company and its subsidiaries have 681 regular employees as at December 31, 2008 as shown in the table below. It estimates to have 750 employees by the end of December 31, 2009. There is no existing union as of December 31, 2008. There are no employees who would be on strike nor have been on strike in the past three (3) years, nor are threatening to strike. The Company has no supplemental benefits and incentive arrangements with its employees other than the regular Christmas bonus, thirteenth month pay, performance incentives and leave conversions.

	Number of employees
Management	13
Sales and Distribution	87
Production	70
Operation	55
Broadband	148
Service	168
Administration	89
Finance	51
Total	681

Major Risks involved in the Businesses of the Company

The Company and its subsidiaries identify the major risks of the businesses by assessing the business environment in which they operate. Major risks and threats are addressed through the corporate planning process, which defines appropriate strategic directions and actions to be taken. These directions and actions are managed by regular audit and management review of the operations and financial results of the Company and its subsidiaries. Significant issues, which may arise as a result of the management review, are then presented to the Executive Committee and the Board of Directors for resolution.

The Company has certain risks in its businesses such as financial risk associated with certain long-term financial investments, specifically bonds. The Company relies on the advice and research of major leading international financial consultants on the handling of these financial investments.

Certain infrastructure assets, particularly in the broadband business, are subject to technological advances which could affect their economic life and the cost of providing the service/ product to clients /customers. The Company monitors developments in technology advances that could affect its business.

Item 2. Properties

B. Description of Property

Certain properties owned by the Company through its subsidiaries are as follows:

Location	Land Area (in sq. m.)	Current and Intended Use
Laguna International Industrial Park, Binan, Laguna	73,532	Factory & warehouses
Marilao, Bulacan	30,029	Raw land (Intended for sale)
La Huerta, Bicutan, Paranaque	18,490	Factory & warehouses and office building
San Dionisio, Paranaque	6,690	Warehouses for lease
San Antonio, Paranaque	4,056	Warehouses for lease
Valenzuela	10,493	Warehouses
Laguna International Industrial Park, Binan, Laguna	5,141	Warehouse
Pasong Tamo, Makati City	5,000	Office building
Concepcion St., Ermita, Manila	4,506	Condominium tower under construction (for sale)
Osmena Blvd., Cebu City	3,859	Service center & office building
Outlook Drive, Baguio City	3,846	Raw land (Intended for lease)
Brgy. Tabuco, Naga City	3,059	Raw land (Intended for sale)
Tandang Sora, Quezon City	2,511	Office building
Barrio Pantal, Dagupan City	1,918	Raw land (Intended for sale)
Barrio San Rafael, Iloilo City	1,750	Service Center and Office building
J. Bocobo St., Ermita, Manila	1,724	Office building

Brgy. San Roque, San Pablo City	1,714	Service center and office building
Oliveros, Balintawak, Quezon City	1,400	Raw land (Intended for lease)
Bacoor, Cavite	1,334	Office building
Cabanatuan City, Nueva Ecija	1,212	Service center and office building
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	174,452	Industrial/ Commercial lots for development (for sale)
Araneta, Quezon City	1,000	Land for lease
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

Solid Corporation also owns a parcel of land in Bgys. Talipapa and Pamaldan, Cabanatuan City, Nueva Ecija with an area of 1,914,180 square meters. This property is the subject of a case filed by the Solid Corporation on October 17, 1995 with the Department of Agrarian Reform Regional Adjudication Board (RARAB) to declare the emancipation patents issued to several tenant farmers of the said property and any patents that may subsequently be issued covering the same, null and void on the ground that the requirements of Presidential Decree No. 27 have not been complied with. The portion of the property that may be subject to litigation consists of 47,211 square meters. On February 6, 1997, the case was submitted for resolution. On June 26, 1997, the RARAB ordered the processing of the Certificate of Land Transfer for issuance to the tenants. On July 31, 1997, Solid Corporation appealed the RARAB decision to the DAR's Central Adjudication Board (DARAB). The appeal was resolved adverse to Solid Corporation on January 31, 2002. Solid Corporation appealed the DARAB decision to the Court of Appeals on February 11, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank. SC filed for a petition for valuation of land with RARAB on November 18, 2007. The case is ongoing as of April 2009. SC also filed for a petition for retention of land with Office of the Regional Director of DAR on July 19, 2007. The petition of SC was granted. DAR ruled that SC is entitled to 5 hectares retention. This is pending the approval of the Regional Director as of April 2009.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption is being reviewed by the Claims Division of the Bureau of Agrarian Legal Assistance, DAR Central Office. Since the DAR revised its procedures, Solid Manila

Corporation amended its application as of March 2004. In the meantime, all farmer-beneficiaries concerned have showed lack of interest in pursuing their claim over the property.

Starworld Corporation, a 50%-owned subsidiary of Solid Manila Corporation, entered into an amended contract dated February 19, 1997 to acquire 79.7 hectares property in Calamba, Laguna for P518.2 million with several mortgages annotated on the titles. On May 4, 2000, Starworld Corporation reduced the area it purchased to 62 hectares. All mortgages and liens on these 62 hectares were released at the expense of the vendors.

There are two other cases involving certain properties of Solid Manila Corporation. Its titles to the Balintawak, Quezon City property with land area of 31,423 square meters, currently used as a service center and office building, are sought to be annulled in a civil action filed on 25th September, 1990, with the Regional Trial Court Branch 120 on the ground that another title covers the same area claimed by Lilia Sevilla et.al. On July 14, 1995, the in-house counsel assumed the case. On January 20, 2003, the RTC Branch 120 rendered a decision in favor of Lilia Sevilla. SMC filed an appeal with the Court of Appeals. The Company's legal counsel believes that the titles of Solid Manila Corporation will prevail over those of the claimants on the grounds that the titles of the claimants are being sought to be nullified and voided by the government itself. The government's case filed by the Land Registration Authority (which is represented by the Office of the Solicitor General) before the Regional Trial Court (RTC) Branch 122 was for the annulment of claimant's title. Solid Manila Corporation filed an intervention in the government's case despite opposition by Lilia Sevilla et.al. The Court allowed Solid Manila Corporation to intervene in the government's case. Pending the incident of other third party intervenors, the Department of Justice recommended the dismissal of the Register of Deeds (ROD) and Deputy ROD of Caloocan based on inquiry of the antecedent facts of the case. In November 2000, the RTC Branch 122 rendered a decision in favor of the government, thus nullifying the land titles of Lilia Sevilla et. al., who subsequently appealed the decision of RTC Branch 122 to the Court of Appeals. SMC consolidated these cases as of February 2004. Lilia Sevilla et. al. filed a motion for reconsideration to the Court of Appeals' order consolidating these cases.

Plant and equipment

The Company through its subsidiaries owns plant and equipment for its manufacturing operations and broadband operations (See Production and Broadband Facilities). The plant and equipment for manufacturing operations are mostly located in Laguna International Industrial Park (LIIP), Binan, Laguna, Bicutan, Paranaque and Clark Special Economic Zone (CSEZ), Pampanga. The plant and equipment in Pampanga and Laguna have been written down to its estimated net realizable value after recognizing value impairment. The plant and equipment for broadband operations are located in Makati City and in the various hub sites in Metro Manila and have likewise been written down after recognizing value impairment.

Franchise

A Company's subsidiary, Solid Broadband Corporation (SBC), obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. SBC's applications for provisional authority to use its franchise was approved by the National Telecommunications Commission on April 15, 2002. The Company uses the Destiny broadband infrastructure in operating the franchise

Mortgage, lien or encumbrance and limitation on ownership or usage on the properties

Except for the above third party claims filed against the Company's subsidiaries as disclosed above, there are no other mortgage, lien or encumbrance and limitation on the ownership or usage on the properties.

Lease agreements

The Company through its subsidiaries has entered into certain lease contracts with several lessors for the following properties:

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	6,910*	March and August 2019
Dr. A. Santos Ave., Paranaque	2,962	October 31, 2008
Metro Manila	24,729**	March 14, 2009
Metro Manila	20,221***	January 7, 2006
Orbital space	13,316****	December 31, 2008

* With increase after every five years on the lease of land and 10% annual increase on lease of the improvements after the first five years.

** Represents lease of poles for the operation of cable television in Metro Manila.

*** Represents lease of internet connection.

**** Represents lease of transponder for telecommunication and satellite uplink services

The above lease contracts are renewable upon mutual agreement of the parties.

Also, the Company through its subsidiaries, primarily Solid Manila Corporation and Kita Corporation, leases out to tenants certain real estate properties as summarized below. These leases are renewable on terms mutually acceptable to the parties.

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Bacoor, Cavite	3,938	July 31, 2009 and October 31, 2009
Balintawak, Quezon City	12,667	Various up to September 30, 2012
Cagayan de Oro	1,384	Various up to August 1, 2011
Chino Roces Ave, Makati City	18,955	Various up to November 24, 2016

Clark, Pampanga	17,230	Various up to September 30, 2011
Iloilo	1,351	Various up to April 30, 2010
Laguna International Industrial Park, Binan, Laguna	41,184	Various up to December 31, 2012
Laguna International Industrial Park, Binan, Laguna	3,379	April 30, 2009
Ermita, Manila	7,649	Various up to February 14, 2012
San Antonio, Paranaque City	4,232	October 31, 2009

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2009 to amount P400 million for real estate development and upgrade of the broadband infrastructure. The construction and/ or purchase of these capital expenditures will be financed through the funds of the Company.

Item 3. Legal Proceedings

C. Legal Proceedings

A civil case was filed by Metropolitan Bank and Trust Co. (MBTC) vs. Solid Corporation et. al., a subsidiary of the Company, before the Regional Trial Court of Makati City, Branch 134 for claims of P154.5 million from letters of credit obtained by Solid Corporation from MBTC in connection with shipments of electronic parts. Solid Corporation asserts that payments should not have been made to the shipper because of defective documentation and fraudulent shipments. Solid Corporation and the Company are of the opinion that since the letters of credit and shipments have been irregularly negotiated, Solid Corporation has valid defenses and strong legal grounds to contest the said case. Trial has ensued. MBTC completed the presentation of its four witnesses. MBTC filed a motion for substitution of Party-Defendant dated March 24, 2006 that it be substituted by Cameron Granville Asset Management Inc. (CGAM) to which company was allegedly transferred, all of MBTC's rights, title and interest to the letter of credit transaction subject of the case. On January 8, 2007, the Company and CGAM executed a Settlement Agreement with conformity of MBTC to pay P50 million in full settlement of all claims of MBTC in the above case as assigned to CGAM.

Sony Music International, the National Bureau of Investigation and the Videogram Regulatory Board applied for the issuance of the search warrants against certain directors and officers of Solid Laguna Corporation (SLC), a subsidiary of the Company, for alleged violation of Republic Act (RA) No. 8293 or the Intellectual Property Code of the Philippines. The Regional Trial Court (RTC) of Dasmarinas Cavite, Branch 90 issued search warrants on September 18, 2000, that was executed by the PNP-CIDG. As a consequence, the VRB filed complaints against officers of SLC with the Department of Justice (DOJ). SLC et. al. filed a motion to quash these warrants. After deliberation, the RTC quashed the warrants. Complainants filed for a motion for reconsideration on June 25, 2002 that was denied by the RTC on January 6, 2003. Thus complainants filed a petition for certiorari before the Supreme Court with prayer for preliminary injunction. The Supreme Court issued a temporary restraining order ordering the RTC to cease and desist from releasing the items seized on February 19, 2003 and required SLC to file comment to the petition. SLC filed its comment on April 14, 2003 questioning the validity of the RTC order since there was no probable cause for the issuance of the warrant. The Supreme Court issued a resolution noting the reply of complainants and directed them to submit the correct address of a certain officer whom the complainants asked the Supreme Court to drop the certain officer from the petition for certiorari after efforts to determine his correct and present address proved futile. On March 14, 2005, the Supreme Court ruled that the issuance of warrants did not meet the requirements of probable cause and dismissed the petition. The complainants sought the reconsideration of the Supreme Court decision but was denied on June 27, 2005.

Also, as discussed Item 2 (See Properties), certain subsidiaries of the Company are involved in litigation or other proceedings affecting their respective titles to real estate property and certain other litigation in relation to property, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company. The Company does not believe any such litigation will have a significant impact on the financial results, operations or prospects of the Company.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

A. Market Price of and Dividends on Registrant’s Common Equity and Related Stockholders Matters

(1) Market Information

(a) Principal Market

The principal market for the registrant’s common equity is the Philippine Stock Exchange

(i) The registrant’s common equity is listed and traded only at the Philippine Stock Exchange. The high and low sales prices for each quarter within the last two years are as follows:
Stock Prices

	High (₱)	Low (₱)
2008		
First quarter	0.70	0.57
Second quarter	0.60	0.41
Third quarter	0.59	0.42
Fourth quarter	0.50	0.30
2007		
First quarter	0.84	0.65
Second quarter	1.06	0.64
Third quarter	0.93	0.61
Fourth quarter	0.82	0.61

(ii)
Not applicable. The principal market is the Philippine Stock Exchange.

(b) The Company share was trading at P0.32 as of April 13, 2009 (the latest practicable trading date).

(c) Not applicable. This report is not filed in relation to registration of securities.

(2) Holders

The number of shareholders of record as of March 31, 2009 was 4,774. Common shares outstanding as of December 31, 2008 were 1,821,542,000 shares. Total issued shares as of December 31, 2008 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of December 31, 2008:

	Name of Stockholder	No. of Shares Held	% to Total Outstanding
1.	AA Commercial, Inc.	583,377,817	32.03
2.	AV Value Holdings Corporation	499,999,999	27.45
3.	PCD Nominee Corporation (F)	321,953,327	17.67
4.	Lim, David S.	179,488,591	9.85
5.	Lim, Vincent S.	71,887,187	3.95
6.	Lim, Jason S.	65,176,160	3.58
7.	PCD Nominee Corporation (NF)	37,334,200	2.75
8.	Chua, Willington Chua &/or Constantino	11,610,000	0.64
9.	Que, Manuel O.	7,950,000	0.44
10	Chua, Constantino &/or Willington &/or George	1,750,000	0.10
11.	Tan, Luciano H.	1,510,000	0.08
12.	Hottick Development Corporation	1,408,000	0.08
13.	Chua, Elizabeth	1,140,000	0.06
14.	Chua, Willington	1,110,000	0.06
15.	Paz, Venson	1,065,000	0.06
16.	Columbian Motors Corporation	1,000,000	0.05
17.	Uy Chun Bing	800,000	0.04
18.	Ong, Victoria	632,000	0.03
19.	Union Properties, Inc.	625,000	0.03
20.	Lim Florencio I.	600,000	0.03

b. Not applicable. This report is not filed in relation to registration of securities or any acquisition, business combination or other reorganization.

c. Not applicable. This report is not filed in relation to any acquisition, business combination or other reorganization.

d. Not applicable. This report is not filed in relation to registration of securities.

(3) Dividends

a. No cash dividends were declared in 2008 and 2007.

b. The Company's retained earnings as of December 31, 2008 included undistributed earnings of subsidiaries and unconsolidated investees, which are not currently available for dividend declaration until such time that the subsidiaries have distributed them. The Company's retained earnings is also restricted for the cost of 209,433,000 treasury shares amounting to P115.6 million as of December 31, 2008.

(4) Recent Sales of Unregistered or Exempt Securities

There was no sale of unregistered or exempt securities in 2006 to 2008.

a. Securities Sold.

No securities were sold by the Company from 2006 to 2008.

b. Underwriters and Other Purchases

Not applicable. There were no securities were sold by the Company from 2006 to 2008.

c. Consideration

Not applicable. There were no securities were sold by the Company from 2006 to 2008.

d. Exemption from Registration Claimed

Not applicable. There were no securities were sold by the Company from 2006 to 2008.

Item 6. Management's Discussion and Analysis or Plan of Operation

A. Management's Discussion and Analysis or Plan of Operation

(1) Plan of Operation

Not applicable. The Company have revenues from operations in each of the last two fiscal years.

(2) Management's Discussion and Analysis

Full Fiscal Years

Key Performance Indicators

The following key performance indicators were identified by the Company: asset turnover, revenue growth, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, current ratio and debt to equity ratio.

Revenue growth was determined as follows: revenues for the current year less revenues for last year or change in revenues divided by the revenues of the previous year.

Asset turnover was computed based on the revenues earned during the year divided by the average total assets.

Operating expense ratio was calculated as follows: operating expenses for the period divided by revenues for period.

EBITDA was determined by adding back interest expense, depreciation and amortization charges, and impairment losses to income before tax on continuing operations for the year.

Earnings per share was computed based on the net income or loss for the period divided by the weighted average shares outstanding during the year.

Current ratio was computed as follows: total current assets as of end of the year divided by total current liabilities as of end of the year.

Debt to equity ratio was computed by dividing the total liabilities (excluding amounts due to related parties) as of end of the year by the total equity as of end of the year.

Key performance indicators for 2008, 2007 and 2006 are as follows:

	December 31, 2008	Dec. 31, 2007	Dec. 31, 2006
Revenue growth	24%	23%	(5)%
Asset turnover	19%	17%	15%
Operating expense ratio	19%	21%	20%
EBITDA	P469 million	P155 million	P121 million
Earnings (loss) per share	P0.19	(0.01)	(0.05)
Current ratio	3.34 : 1	3.47 : 1	3.68 : 1
Debt to equity ratio	0.23: 1	0.24: 1	0.13 : 1

The Company posted revenue growth of 24% in 2008 vs. 23% growth in the previous year principally driven by improved revenues from broadband services and sale of mobile phones.

Asset turnover grew to 19% in 2008 from 17% in 2006 mainly from higher revenues.

Operating expense ratio went down to 19% in 2008 from 21% in 2007 due to improved revenues.

EBITDA reached P469 million in 2008 from P155 million in 2007. The increase was mainly attributed to higher operating profit.

Earnings per share reached P0.19 in 2008 compared with loss per share of P0.01 in 2007 mainly due to improved net income in 2008.

Current ratio declined to 3.34 : 1 as of December 31, 2008 vs. 3.47 as of December 31, 2007 primarily from lower current assets.

Debt to equity ratio was slightly lower at 0.23 : 1 as of December 31, 2008 from 0.13 : 1 as of December 31, 2007.

Results of Operations

2008

Results of Operations

The Company posted revenues of P1,765 million in 2008, achieving growth of 24% from P1,425 million in 2007 as discussed below.

Service revenue amounted to P605 million in 2008, or lower by 6% against P641 million for the in 2007, mainly due to revenue earned for services rendered for the ASEAN Summit in 2007, partly offset by higher broadband revenues for the current period.

Sale of goods reached P911 million in 2008, posting growth of 92% from P474 million in 2007 mainly due to mobile phone sales.

Rental income amounted to P136 million for the first nine months of 2008, higher by 15% from P117 million for the same period in 2007 primarily from higher occupancy.

Sale of land amounted to P30 million in 2008, down by 70% from P102 million in 2007. The decline was principally because of zero sales of industrial lots for the period.

Interest income amounted to P81 million in 2008, or a decline of 9% from P89 million in 2007 mainly from lower investible funds and lower average dollar conversion rate for the year.

Cost of sales, services and rentals amounted to P1,279 million in 2008, or higher by 30% from P987 million in 2007 as discussed below.

Cost of services reached P435 million in 2008, or a decrease of 10% from P482 million in 2007, principally in relation to the decline in service revenues.

Cost of sales amounted to P782 million in 2008, or higher by 93% from P405 million in 2007 mainly in relation to higher sales for the period.

Cost of rentals amounted to P39 million in 2008, or up by 6% from P37 million in 2007 primarily in relation of higher rental income.

Cost of land amounted to P22 million in 2008, or a down by 64% from P61 million in 2007. The decrease was mainly in relation to the decline in sale of land.

Gross profit improved by 11% to P486 million in 2008 compared with P438 million in 2007 due to higher volume from mobile phone sales.

Other operating expenses (income) amounted to P148 million in 2008 against P275 million in 2007 as explained below.

General and administrative expenses amounted to P267 million in 2008, down by 1% from P270 million in 2007. There was material change for this account.

Selling and distribution costs amounted to P74 million in 2008, up by 142% from P30 million in 2007 mainly from higher advertising charges for the mobile phone and digital devices businesses.

Other operating income amounted to P192 million in 2008 compared with P25 million in 2007, or an increase of 654% principally due to fair value gains on investment property.

Operating profit amounted to P337 million in 2008 compared with P162 million in 2007 mainly from higher gross profit and other operating income as explained above.

Other income (charges) amounted to P31 million in 2008 against P127 million loss in 2007 mainly from the following:

Finance income amounted to P77 million in 2008, up by 133% compared with P33 million for the same period of last year primarily due to higher foreign currency gains.

Finance costs went down to P50 million in 2008, down by 70% against P165 million in 2007 mainly from lower interest rates in 2008 and also due foreign currency losses incurred last year.

Income before tax reached P369 million in 2008, improving from P35 million in 2007 mainly due to higher operating profit and other income as explained above.

Tax expense amounted to P18 million in 2008 from P61 million in 2007 or lower by 70% due to lower deferred tax expense resulting from decrease in regular income tax rate to 30%.

Net income amounted to P350 million in 2008 against P25 million loss in 2007 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P350 million in 2008 against P26 million loss in 2007 as discussed above.

Net income attributable to minority interest amounted to P406 thousand in 2008 compared with P750 thousand in 2007 due to share in net losses incurred by the China real estate project of the Company.

Earnings per share amounted to P0.19 in 2008 versus P0.01 loss in 2007 mainly from higher income for the period.

Financial Position

The Company reported cash and cash equivalents of P 1,118 million as of December 31, 2008, down by 7% from P1,206 million as of December 31, 2007. Cash was mainly used for operating activities primarily for increase in real estate inventories.

Held-to-maturity investments amounted to none as of December 31, 2008 against P53 million as of end of last year mainly due to maturity of these investments.

Trade and other receivables reached P503 million as of December 31, 2008 against P450 million as of December 31, 2007, increasing by 12% mainly from advances to suppliers for the purchase of inventories increase in trade and other receivables. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P192 million as of December 31, 2008 from P130 million as of December 31, 2007 mainly from additional advances.

Available-for-sale financial assets amounted to P63 million as of December 31, 2008, down by 84% from P388 million as of December 31, 2007 mainly due to reclassification of certain bonds to held to maturity investments.

Merchandise inventories and supplies - net amounted to P208 million was higher by 19% as of December 31, 2008 compared with P175 million as of December 31, 2007 principally due to higher merchandise and finished goods.

Real estate inventories amounted to P1,036 million as of December 31, 2008, up by 12% from P925 million as of December 31, 2007, primarily from additional cost on property development.

Other current assets amounted to P196 million as of December 31, 2008, increasing by 27% compared with P154 million as of December 31, 2007 principally from creditable withholding taxes.

Total current assets amounted to P3,319million as of December 31, 2008 from P3,484 million as of December 31, 2007 as discussed above.

Non-current trade and other receivable amounted to P546 million as of December 31, 2008, up by 13% from P482 million as of December 31, 2007 mainly from higher cash surrender value of life insurance policy.

Non-current available-for-sale financial assets stood at P7 million as of December 31, 2008 and December 31, 2007. There was no material change for this account.

Non-current held-to-maturity investments amounted to P161 million as of December 31, 2008 versus none as of end of last year. The account represented investments in foreign currency denominated bonds which was reclassified as held to maturity in 2008.

Property, plant and equipment amounted to P1,438 million as of December 31, 2008 or lower by 1% from P1,455 million as of December 31, 2007. There was no material variance for this account.

Investment property amounted to P3,789 million as of December 31, 2008 against P3,489 million as of December 31, 2007 or higher by 9% principally due to fair value gains from appraisal of investment property.

Retirement benefit assets amounted to P44 million as of December 31, 2008 and P42 million as of December 31, 2007 or an increase of 6% from additional contribution in 2008.

Deferred tax assets - net amounted to P4 million as of December 31, 2008 from P13 million as of December 31, 2007. The decrease was mainly due to reversal of certain allowance for impairment.

Other non-current assets amounted to P148 million as of December 31, 2008, or higher by 386% from P30.6 million as of December 31, 2007 primarily from investments made in relation to the acquisition of the China property project.

Total non-current assets amounted to P6,140 million as of December 31, 2008 from P5,520 million as of December 31, 2007 as discussed above.

Total assets reached P9,460 million as of December 31, 2008 from P9,005 million as of the December 31, 2007 as discussed above.

Interest-bearing loans amounted to P458 million as of December 31, 2008, higher by 12% from P409 million as of December 31, 2007 mainly from higher US dollar conversion rate as of end of the period.

Trade and other payables amounted to P347 million as of December 31, 2008 against P368 million as of December 31, 2007, down by 6% primarily due to lower trade payables and accrued expenses offset by higher refundable deposits.

Advances from related parties amounted to P111 million as of December 31, 2008 from P179 million as of December 31, 2007 mainly from payments of advances.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2008 compared with P36 million as of December 31, 2007, or higher by 85% primarily due to recognition of additional project development costs.

Income tax payable amounted to P6 million as of December 31, 2008 from P7 million as of December 31, 2007 mainly from lower tax expense.

Total current liabilities stood at P993 million as of December 31, 2008 from P1,003 million as of December 31, 2007 as explained above.

Non-current refundable deposits amounted to P9 million as of December 31, 2008 from P8 million as of December 31, 2007, up by 15% from additional deposits received.

Retirement benefit obligation amounted to P7 million as of December 31, 2008 from P3 million as of December 31, 2007 from higher present value of plan obligation.

Deferred tax liabilities -net amounted to P838 million as of December 31, 2008 from P866 million as of December 31, 2007 or lower by 3%. There was no material variance for this account.

Total non-current liabilities amounted to P855 million as of December 31, 2008 from P878 million as of December 31, 2007.

Capital stock stood at P2,030 million as of December 31, 2008 and December 31, 2007.

Additional paid-in capital amounted to P4,641 million as of December 31, 2008 and December 31, 2007.

Treasury shares amounted to P115 million as of December 31, 2008 and December 31, 2007.

Revaluation reserves amounted to P213 million loss as of December 31, 2008 from P210 million loss as of December 31, 2007. There was no material variance for this account.

Retained earnings amounted to P873 million as of December 31, 2008 from P523 million as of December 31, 2007 as a result of net income for the year.

Total equity attributable to Equity holders of Parent amounted to P7,217 million as of December 31, 2008 from P6,869 million as of December 31, 2007 due to higher retained earnings.

Minority interest amounted to P394 million as of December 31, 2008 from P254 million as of December 31, 2007, or an increase of 55% principally from additional issuance of shares of a subsidiary.

Total equity amounted to P7,611 million as of December 31, 2008 from P7,124 million as of December 31, 2007.

2007

The Company reported revenues of P1,425 million in 2007, improving by 23% from P1,157 million for the same period in 2006 as discussed below.

Service revenue reached P641 million in 2007, up by 30% from P493 million in 2006, primarily from increase in broadband revenues and revenue earned for services rendered for the ASEAN Summit and Ministerial Summit.

Sale of goods amounted to P474 million in 2007 improving by 8% from P439 million in 2006 mainly due to mobile phone sales during the second half of the year offset by lower volume of sales of injected plastic and professional equipment and tapes during the year.

Rental income amounted to P117 million in 2007, or higher by 10% from P107 million in 2006 principally from increase in total area rented out.

Sale of land amounted to P102 million in 2007, up by 757% versus P11 million for the same period in 2006 as a result of increase in industrial lots sold and sale of condominium units for the year.

Interest income amounted to P89 million in 2007 or lower by 15% from P105 million in 2006 principally from lower investible funds.

Cost of sales, services and rentals amounted to P 987 million in 2007, or an increase of 5% from P940 million in 2006 as discussed below.

Cost of services reached P482 million in 2007, increasing by 5% from P460 million in 2006 mainly in relation to increase in service revenues.

Cost of sales amounted to P405 million in 2007 compared with P409 million in 2006, lower by 1% principally due to improvement of gross profit from mobile products sold during the second half of the year.

Cost of rentals amounted to P37 million in 2007, or lower by 41% from P62 million in 2006 mainly from lower depreciation and amortization offset by higher rental cost.

Cost of land amounted to P61 million in 2007 from P8 million for the same period in 2006 in relation to increase in sale of land during the period.

Gross profit improved by 103% to P438 million in 2007 compared with P216 million in 2006 principally due to increase in revenues as mentioned above.

Other operating expenses (income) amounted to P275 million in 2007 compared with P206 million in 2006 as explained below.

General and administrative expenses amounted to P270 million in 2007, higher by 26% from P213 million in 2006 due to higher personnel costs and utilities.

Selling and distribution costs amounted to P30 million in 2007 from P22 million during the same period in 2006, or higher by 39% mainly from increase in advertising cost relative to the launching of mobile phone business.

Other operating income amounted to P25 million in 2007, or lower by 14% from P29 million during the same period in 2006 primarily due to lower income from cash surrender value of investment in life insurance and other income.

Operating profit amounted to P162 million in 2007 from P10 million in 2006 principally from increase in gross profit as explained above.

Finance income amount to P33 income in 2007, or lower by 37% against P52 million in 2006 mainly because no fair value gains on financial assets were realized in 2007.

Finance costs amounted to P165 million in 2007, up by 32% against P124 million in 2006 principally due to higher foreign currency losses during the year.

Other gains amounted to P4 million in 2007 from P20 million loss in 2006 from increase in gain on sale of property and equipment.

Income before tax amounted to P35 million in 2007 compared with P82 million loss in 2006 mainly from higher operating profit as discussed above.

Tax expense amounted to P61 million in 2007 from P5 million in 2006 due to higher pre-tax income of certain subsidiaries.

Net loss amounted to P25 million in 2007 against P88 million in 2006 due mainly to foreign currency losses when the Company converted majority of its foreign currency short term placements to peso to lessen its foreign currency fluctuation exposure and minimize future foreign currency losses.

Net loss attributable to equity holders of the parent amounted to P26 million in 2007 compared with P84 million for the same period in 2006 as discussed above.

Net income attributable to minority interest amounted to P750 thousand in 2007 compared to P3.7 million loss in 2006.

Loss per share amounted to P0.01 in 2007 against P0.05 in 2006 mainly due to lower net loss for the year.

2006

Revenues of the Company amounted to P1,157 million for the year 2006 or 5% lower than P1,216 million for the year 2005 as discussed below.

Asset turnover was slightly lower at 15% in 2006 compared to 16% in 2005 mainly from lower revenues generated during the year as explained above.

Service revenue amounted to P493 million in 2006, down by 2% from P506 million in 2005 principally due lower service income from service repair of consumer electronics and decline in broadband revenues as a result of the reduction in internet subscription prices and decrease in VSAT clients.

Sale of goods reached P439 million in 2006, lower by 10% from P489 million in 2005 mainly due to lower volume of sales of injected plastic offset by increase in broadcast/ professional equipment and plastic resin materials sold during the year.

Rental income amounted to P107 million in 2006, or a decrease of 9% from P117 million in 2005. The decrease was mainly from lower occupancy during the year.

Sale of land amounted to P11 million in 2006 against P6 million in 2005 or an increase of 85% principally due to bigger land area sold.

Interest income amounted to P105 million in 2006 or an increase of 8% from P97 million in 2005 mainly due to the transfer to placements to foreign denominated fixed income bonds which had higher yield.

Cost of sales, services and rentals amounted to P940 million in 2006 or lower by 5% from P987 million in 2005 as discussed below.

Cost of services amounted to P460 million in 2006, lower by 5% from P482 million in 2005 mainly in relation to decline in service revenues.

Cost of sales went down to P409 million in 2006 compared with P433 million in 2005, down by 6% principally in relation of lower sale of goods. .

Cost of rentals amounted to P62 million in 2006, or decrease of 4% from P65 million in 2005 mainly from lower depreciation expenses.

Cost of land amounted to P8 million in 2006, up by 43% from P5.9 million in 2005 also in relation to bigger area sold this year.

Gross profit amounted to P216 million in 2006 compared with P229 million in 2005 due to lower revenues during the year.

General and administrative expenses amounted to P213 million in 2006, down by 4% from P223 million in 2005 mainly due to lower manpower and other outside services.

Selling and distribution costs amounted to P22 million in 2006 or lower by 18% from 27 million 2005 primarily from lower advertising costs and delivery expenses.

Other operating income amounted to P29 million in of 2006, up by 12% from P26 million in 2005 principally due to increase in cash surrender value of investment in life insurance.

Operating expense ratio was slightly lower at 20% in 2006 compared with 21% in 2005.

Operating profit amounted to P10 million in 2006 against P5 million in 2005 mainly from lower revenues and gross profit as explained above.

Finance income amounted to P52 million in 2006 or lower by 48% from P101 million in 2005 mainly from lower fair value gains and gain on sale of financial assets. Also, in 2005, the Company reported a reversal of impairment on receivables.

Finance costs amounted to P124 million in 2006, or higher by 38% from P90 million in 2005 mainly from higher foreign currency losses during the year due to the appreciation of the Philippine peso, additional interest charges from increase in interest rates and increase in impairment losses on receivables and inventories.

Other gains (losses) amounted to P20 million loss in 2007 compared with P37 million gain in 2006 mainly due to impairment loss from land during the year. Also in 2005, the Company reported gain from insurance proceeds of P45 million.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to P121 million in 2006 against P217 million in 2005. The decrease was mainly due to higher finance costs and other losses during the year as explained above.

Loss before tax amounted to P82 million in 2006 versus P54 million income in 2006 as discussed above.

Tax expense amounted to P5 million in 2006, or 46% lower from P9 million in 2005 due to lower pre-tax income for the year.

Net loss amounted to P88 million in 2006 compared with P44 million income in 2005 due to the factors discussed above.

Net loss attributable to equity holders of the parent amounted to P84 million in 2006 compared with P49 million income in 2005 as discussed above.

Net loss attributable to minority interest amounted to P3.7 million in 2006 compared to P5.7 million loss in 2005 due to lower net loss of industrial lot business of the Company.

Loss per share amounted to P0.05 in 2006 against P0.03 earnings per share in 2005.

Financial Position

2007

Financial Position

2007

The Company reported cash and cash equivalents of P1,206 million as of December 31, 2007, lower by 12% from P1,373 million as of December 31, 2006. Cash was mainly used for investing activities mainly for acquisitions of property, plant and equipment and investment property and for financing activities mainly for payment of interest.

There are no reported financial assets at fair value through profit or loss as of December 31, 2007 compared with P147 million as of December 31, 2006 due to disposal of mutual funds.

Held to maturity investments amounted to P53 million as of December 31, 2007 vs. none in 2006 due to transfer of placements.

Trade and other receivables amounted to P450 million as of December 31, 2007 against P384 million as of December 31, 2006, increase of 17% mainly from receivables from new consumer electronics business. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P130 million as of December 31, 2007 vs. P46 million as and December 31, 2006 mainly due to additional advances.

Available-for-sale financial assets amounted to P388 million as of December 31, 2007, or a decrease of 25% from P514 million as of December 31, 2006 primarily due to disposal of available-for-sale financial assets and lower translation rate of the foreign currency denominated financial assets due to the appreciation of the Philippine Peso.

Inventories reached P175 million, up by 140% as of December 31, 2007 compared with P73 million as of December 31, 2006 due to the stock up of mobile phone inventories.

Real estate inventories went up by 13% to P925 million as of December 31, 2007 from P815 million as of December 31, 2006, principally from additional costs for the construction and development of the condominium project of the Company less cost of real estate sold.

Other current assets amounted to P154 million as of December 31, 2007, or an increase of 2% compared with P151 million as of December 31, 2006. There was no material variance for this account.

Total current assets amounted to P3,484 million as of December 31, 2007 from P3,507 million as of December 31, 2006 as discussed above.

Non-current trade and other receivable amounted to P482 million as of December 31, 2007, or a decrease by 12% from P547 million as of December 31, 2006 principally from lower translation rate of foreign currency denominated financial assets.

Non-current available-for-sale financial assets stood at P 7 million as of December 31, 2007 from P14 million as of December 31, 2006 primarily from disposal of club shares.

Property, plant and equipment amounted to P1,455 million as of December 31, 2007 from P1,506 million as of December 31, 2006. There was no material variance for this account.

Investment property amounted to P3,489 million as of December 31, 2007 against P1,741 million as of December 31, 2006. The increase was mainly due to change of valuation to fair value model from the cost model.

Retirement benefit assets amounted to P42 million as of December 31, 2007 from P45 million as of 2006 due to higher present value of obligation of the subsidiaries.

Deferred tax assets - net amounted to P13 million as of December 31, 2007, decreasing by 63% from P36 million as of December 31, 2006 mainly from derecognition of deferred tax assets.

Other non-current assets amounted to P30 million as of December 31, 2007, or lower by 31% compared with P44 million as of December 31, 2006 primarily due to decrease in prepaid insurance and other assets.

Total non-current assets amounted to P5,520 million as of December 31, 2007 from P3,936 million as of December 31, 2006 as discussed above.

Total assets reached P9,005 million as of December 31, 2007 from P7,444 million as of the December 31, 2006 as discussed above.

Interest-bearing loans amounted to P409 million as of December 31, 2007 from P446 million as of December 31, 2006 mainly due lower translation rate of foreign currency denominated loans despite additional loan availments.

Trade and other payables amounted to P368 million as of December 31, 2007 against P385 million as of December 31, 2006, or decrease of 4%. There is no material variance for this account.

Advances from related parties amounted to P179 million as of December 31, 2007, or higher by 83% from P98 milion as of December 31, 2006 primarily due to additional advances.

Estimated liability for land and land development costs stood at P36 million as of December 31, 2007, up by 41% against P17 million as of December 31, 2006, primarily due to progress development of the real estate project.

Income tax payable amounted to P7 million as of December 31, 2007 from P5 million as of December 31, 2006 mainly from higher pre-tax income.

Total current liabilities stood at P1,003 million as of December 31, 2007, higher by 5% from P953 million as of December 31, 2006 as discussed above.

Non-current refundable deposits amounted to P8 million as of December 31, 2007, up by 15% from P7 million as of December 31, 2006 due to additional deposits received.

Retirement benefit obligation amounted to P3.2 million as of December 31, 2007, or a decrease of 7% from P3.5 million as of December 31, 2006 mainly from decrease in the present value of obligation of the parent company.

Deferred tax liabilities -net amounted to P866 million as of December 31, 2007 against P35 thousand as of December 31, 2006 mainly from recognition of deferred tax liabilities on the change in valuation of investment property and deferred rent income from PAS 17 .

Total non-current liabilities amounted to P878 million as of December 31, 2007 against P10 million as of December 31, 2006 mainly from increase in deferred tax liabilities.

Capital stock stood at P2,030 million as of December 31, 2007 and December 31, 2006.

Additional paid-in capital amounted to P4,641 million as of December 31, 2007 and December 31, 2006.

Treasury shares amounted to P115 million as of December 31, 2007 and December 31, 2006.

Revaluation reserves amounted to P210 million loss as of December 31, 2007 from P36 million loss as of December 31, 2006 mainly from the higher revaluation difference due to translation of the foreign subsidiary balances and transactions.

Retained earnings amounted to P523 million as of December 31, 2007 from deficit of P294 million as of December 31, 2006 mainly from prior period adjustment for the change in valuation of investment property to fair value model offset by net loss during the period.

Total equity attributable to Equity holders of Parent amounted to P6,869 as of December 31, 2007 from P6,225 million as of December 31, 2006 due to higher retained earnings offset by lower revaluation reserves.

Minority interest amounted to P254 million as of December 31, 2007 from P254 million as of December 31, 2006, or an increase of 0.3%. There was no material variance for this account.

Total stockholders' equity amounted to P6,251 million as of December 31, 2007 from P6,479 million as of December 31, 2006.

2006

Cash and cash equivalents reached to P1,373 million as of December 31, 2006, or almost the same level as last year's balance of P1,382 million. Cash was mainly used for financing activities mainly for the payment of interest bearing loans and for investing activities mainly for acquisition of property plant and equipment and investment property and provided by operations mainly from disposal of financial assets at fair value through profit or loss and decrease in trade and other receivables.

Financial assets at fair value through profit or loss amounted to P147 million as of December 31, 2006, 70% down from P488 million as of December 31, 2006 principally from disposal of investments in mutual funds which were transferred to time deposits

Trade and other receivables stood at P384 million as of December 31, 2006 from P489 million as of December 31, 2005 or lower by 21% mainly from collection of trade receivables and additional impairment loss on receivables made during the year. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts, which are considered doubtful of collection.

Advances to related parties amounted to P46 million as of December 31, 2006 from P52 million as of December 31, 2005. The decrease is primarily due to collection of advances.

Available-for-sale financial assets reached P514 million as of December 31, 2006, up by 3% from P499 million as of December 31, 2005 mainly from additional investments.

Inventories went down to P73 million or 23% as of December 31, 2006 compared with P95 million as of December 31, 2005 as the Company generally reduced the level of inventory mainly due to lower sales volume of the injected plastics business.

Real estate inventories reached P815 million as of December 31, 2006, increasing by 55% from P525 million as of December 31, 2005 from additional costs for the construction and development of the condominium project of the Company.

Other current assets amounted to P151 million as of end of December 2006 from P99 million as of December 31, 2005, increasing by 52% primarily from increase in prepaid expenses and input value-added taxes.

Total current assets amounted to P3,507 million as of December 31, 2006 from P3,632 million as of December 31, 2005 as discussed above. Current ratio stood higher at 3.68 : 1 as of December 31, 2006 versus 3.46 : 1 as of December 31, 2005 principally due lower current liabilities.

Non-current trade and other receivable amounted to P547 million as of December 31, 2006, declining by 7% from P587 million as of December 31, 2005 primarily from decrease in investment in cash surrender value of life insurance due to the peso appreciation against the US dollar and collection of finance receivables.

Non-current available-for-sale financial assets stood at P14 million as of December 31, 2006, down by 35% from P22 million as of December 31, 2005. The decrease was mainly due to lower investment in equity securities due to the peso appreciation versus the US dollar and impairment loss on club shares.

Property, plant and equipment reached P1,506 million as of December 31, 2006 from P743 million as of December 31, 2005. The increase was mainly due to the transfer from investment property since these properties were substantially used by the Company rather than held for rentals to third parties or held for capital appreciation and additions made during the year offset by depreciation charges.

Investment property amounted to P1,741 million as of December 31, 2006 against P2,576 million as of December 31, 2005 mainly due to the reclassification to property, plant and equipment as discussed above and depreciation charges.

Retirement benefit assets amounted to P45 as of December 31, 2006 from P43 million as of December 31, 2005 primarily from contributions made.

Deferred tax assets - net went up to P36 million or 149% as of December 31, 2006 against P14 million as of December 31, 2005 mainly due to unrealized foreign currency loss.

Other non-current assets amounted to P44 million as of December 31, 2006 compared with P41 million as of end December 2005. The increase was mainly due to increase in other assets offset by decrease in prepaid insurance.

Total non-current assets amounted to P3,936 million as of December 31, 2006 from P4,029 million as of December 31, 2005 as discussed above.

Total assets reached P7,444 million as of December 31, 2006 from P7,661 million as of the December 31, 2005 as discussed above.

Interest-bearing loans stood at P446 million as of December 31, 2006, or decrease of 25% from P596 million as of December 31, 2005 mainly due to payment of loans.

Trade and other payables amounted to P385 million as of December 31, 2006 against P333 million as of December 31, 2005, or an increase of 16% principally due to increase in accrued expenses and retention and other payables in relation with the construction of condominium project of the Company.

Estimated liability for land and land development costs amounted to P17 million as of December 31, 2006 against P19.9 million as of December 31, 2005, or lower by 13% mainly due to payment of development cost.

Advances from related parties amounted to P98 million as of December 31, 2006 and December 31, 2005. There was no material movement for this account.

Income tax payable reached P5 million as of December 31, 2006 or higher by 67% from P3 million as of December 31, 2005 mainly from tax expense of certain subsidiaries.

Total current liabilities stood at P953 million as of December 31, 2006, lower by 8% from P1,051 million as of December 31, 2005 principally from lower interest bearing loans offset by higher trade and other payables.

Refundable deposits increased by 34% to P7 million as of December 31, 2006 against P5 million as of December 31, 2005 mainly from additional deposits made.

Retirement benefit obligation amounted to P3.5 million as of December 31, 2006 from P3.3 million as of December 31, 2005 mainly from retirement expense incurred.

Deferred tax liabilities -net amounted to P35 thousand as of December 31, 2006 against P1.4 million as of December 31, 2005 or a decrease of 98% mainly due to the foreign currency losses during the year.

Total non-current liabilities amounted to P10.8 million as of December 31, 2006, up by 6% from P10.2 million as of December 31, 2005 mainly from increase in refundable deposits offset by decrease in deferred tax liabilities as discussed above.

Capital stock stood at P2,030 million as of December 31, 2006 and 2005.

Additional paid-in capital amounted to P4,641 million as of December 31, 2006 and 2005.

Treasury shares amounted to P115 million as of December 31, 2006 and 2005.

Revaluation reserves amounted to P36 million loss as of December 31, 2006 from P4 million loss as of December 31, 2005 mainly from the higher revaluation difference due to translation of the foreign subsidiary balances and transactions.

Deficit amounted to P294 million as of December 31, 2006 from P210 million as of December 31, 2005 as a result of net loss during the year.

Total equity attributable to Equity holders of Parent amounted to P6,225 as of December 30, 2006 from P6,342 million as of December 31, 2005 mainly from lower revaluation reserves and net loss during the year.

Minority interest amounted to P254 million as of December 31, 2006 from P257 million as of December 31, 2005, or a decrease of 1%. There is no material variance for this account.

Total stockholders' equity reached P6,479 million as of December 31, 2006 from P6,600 million as of December 31, 2005, or lower by 2%.

Debt to equity ratio stood at 0.13 as of December 31, 2006 and at 0.15: 1 as of December 31, 2005.

i.
Known Trends or Demands, Commitments, Events or Uncertainties that will impact Liquidity.

The Company is not aware of any known trends, demands, commitments, events or uncertainties that will materially impact on its liquidity.

ii. Events that will trigger Direct or Contingent Financial Obligation that is material to the Company, including any default or acceleration of an obligation.

As discussed in Notes of the financial statements under Contingencies, certain subsidiaries of the Company are involved in litigation or proceedings, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company. Except of these contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

iii. Material Off-Balance Sheet Transactions, Arrangements, Obligations (including contingent obligations), and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company has no material off-balance sheet transactions, arrangements, obligations and other relationships with unconsolidated entities or other persons created during the period that is not included in the financial statements.

iii. Material Commitments for Capital Expenditures, the general purpose of the Commitment and Expected Sources of Funds

The Company estimates capital expenditures for the year 2009 to amount P400 million for real estate development and upgrade of the broadband infrastructure. The construction and/ or purchase of these capital expenditures will be financed through the funds of the Company.

v. Known Trends, Events or Uncertainties that will impact Sales/Revenues/Income from Continuing Operations

The Company received a formal notice of the expiration of the Joint Venture Agreement on May 8, 2005. The Company and Sony Corporation have agreed to pursue negotiation toward an equitable settlement of all matters relating to the JVA and its expiration.

Solid Electronics Corporation, a wholly-owned subsidiary of the Company, provides in-warranty and out-of-warranty services for Sony products sold in the Philippines under the After-Sales Service and Network Support Agreements, which was effective until September 30, 2004. In May 2005, the Company entered into an informal agreement with Sony wherein these agreements was renewed annually until revoked. This contributed 3% of total revenues in 2008.

Solid Broadband Corporation, a wholly-owned subsidiary of the Company entered into an agreement with Hongkong and Shanghai Banking Corporation (HSBC) to supply the LCD television under HSBC's Dream LCD TV promotion. The Company expects this agreement to generate about 5% of revenues in 2009.

vi. Significant elements of Income or Loss that did not arise from Continuing Operations

There was no significant income or loss that did not arise from continuing operations.

vii. Causes for any Material Changes from Period to Period

In 2008, the Company's board of directors approved the change in accounting policy for investment property from the cost model to the fair value model in order to present reliable and more relevant information on the carrying amounts of investment property. As a result, the carrying values of investment property increased by P1.8 billion and P1.7 billion as of January 1, 2008 and 2007, respectively. The retained earnings balance as of January 1, 2008 and 2007 also increased by P886 million and P860 million, respectively. The Company also reported fair value gains on investment property of 163 million in 2008.

Balance Sheet Items (2008 vs. 2007)

(Increase or decrease of 5% or more in the financial statements)

The discussion of material changes of the balance sheet accounts was included in the management discussion and analysis.

Balance Sheet Items (2007 vs. 2006)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 12% decrease to P1,206 million from P1,373 million

Primary used for investing activities mainly for acquisitions of property, plant and equipment and investment property and for financing activities mainly for payment of interest. This account stood at 17% and 18% as a percentage of total assets in 2007 and 2006, respectively.

Financial assets at fair value through profit or loss – 100% decrease to none from P147 million

Mainly due to disposal of mutual funds. Financial assets at fair value through profit or loss stood at 0% and 2% as a percentage of total assets in 2006, respectively.

Held to maturity investments – 100% increase to P53 million from none

Primarily due to transfer of placements. This account stood at 1% and 5% as a percentage of total assets in 2007 and 2006, respectively.

Trade and other receivables – 17% increase to P450 million from P384 million

Mainly from receivables from new consumer electronics business. This account stood at 6% and 5% as a percentage of total assets in 2007 and 2006, respectively.

Advances to related parties – 178% increase to P130 million from P46 million

Mainly due to additional advances. This account stood at 2% and 1% as a percentage of total assets in 2007 and 2006, respectively.

Available-for-sale financial assets – 25% decrease to P388 million from P514 million

Primarily due to disposal of available-for-sale financial assets and lower translation rate of the foreign currency denominated financial assets due to the appreciation of the Philippine Peso. This account stood at 5% and 7% as a percentage of total assets in 2007 and 2006, respectively.

Inventories – 140% increase to P175 million from P73 million

Due to the stock up of mobile phone inventories. This account stood at 3% and 1% as a percentage of total assets in 2007 and 2006, respectively.

Real estate inventories – 13% increase to P925 million from P815 million

Principally from additional costs for the construction and development of the condominium project of the Company less cost of real estate sold. This account stood at 13% and 11% as a percentage of total assets in 2007 and 2006, respectively.

Other current assets – 2% increase to P154 million from P151 million.

No material variance for this account. This account stood at 2% as a percentage of total assets in 2007 and 2006.

Non-current trade and other receivable – 12% decrease to P482 million from P547 million

Principally from lower translation rate of foreign currency denominated financial assets. This account stood at 7% as a percentage of total assets in 2007 and 2006.

Non-current available-for-sale financial assets – 48% decrease to P7 million from P14 million

Primarily from disposal of club shares.

Property, plant and equipment – 3% decrease to P1,455 million from P1,506 million

There was no material variance for this account. This account stood at 20% as a percentage of total assets in 2007 and 2006.

Investment property – 100% decrease to P3,489 million from 1,741million

The increase was mainly due to change of valuation to fair value model from the cost model.

Retirement benefit assets – 8% decrease to P42 million from P45 million.

Due to higher present value of obligation of the subsidiaries. This account stood at 1% as a percentage of total assets in 2007 and 2006.

Deferred tax assets – 63% decrease to P13 million from P36 million

Mainly from derecognition of deferred tax assets. This account stood at 0.2% and 0.5% as a percentage of total assets in 2007 and 2006, respectively.

<u>Other non-current assets – 31% decrease to P30 million from P44 million</u>

Primarily due to decrease in prepaid insurance and other assets. This account stood at 0.4% and 0.6% as a percentage of total assets in 2007 and 2006, respectively.

<u>Interest-bearing loans – 8% decrease to P409 million from P446 million</u>

Mainly due lower translation rate of foreign currency denominated loans despite additional loan availments. Interest-bearing loans stood at 6% as a percentage of total liabilities and equity in 2007 and 2006.

<u>Trade and other payables – 4% decrease to P368 million from P385 million</u>

There is no material variance for this account. This account stood at 5% as a percentage of total liabilities and equity in 2007 and 2006.

<u>Advances from related parties – 83% increase to P179 million from P98 million</u>

Primarily due to additional advances. This account stood at 3% and 13% as a percentage of total liabilities and equity in 2007 and 2006, respectively.

<u>Estimated liability for land and land development costs – 41% increase to P36 million from P17 million</u>

Principally due to progress development of the real estate project.

<u>Income tax payable – 41% increase to P7 million from P5 million</u>

Mainly from higher pre-tax income.

<u>Refundable deposits – 15% increase to P8 million from P7 million</u>

Due to additional deposits received.

<u>Retirement benefit obligation – 7% decrease to P3.2 million from P3.5 million</u>

Mainly from decrease in the present value of obligation of the parent company.

<u>Deferred tax liabilities – increase to P866 million from P35 thousand</u>
Mainly from recognition of deferred tax liabilities on the change in valuation of investment property and deferred rent income from PAS 17 .

<u>Capital stock – no change</u>

Capital stock remained at 28% and 27% as a percentage of total liabilities and equity in 2007 and 2006, respectively.

Additional paid-in capital – no change

Additional paid-in capital stood at 64% and 62% as a percentage of total liabilities and equity in December 31, 2007 and 2006, respectively.

Treasury shares – no change

Treasury shares remained at 2% of total liabilities and equity in 2007 and 2006.

Revaluation reserves – 473% decrease to (P210) million from (P36) million

Mainly from the higher revaluation difference due to translation of the foreign subsidiary balances and transactions. This account stood at 3% and 0.5% as a percentage of total liabilities and equity in 2007 and 2006, respectively.

Retained earning– increase to P523 million from P294 million deficit
Mainly from prior period adjustment for the change in valuation of investment property to fair value model offset by net loss during the period.

Minority interest – no material variance

Minority interest remained at 3.5% and 3.4% as a percentage of total liabilities and equity in 2007 and 2006.

Balance Sheet Items (2006 vs. 2005)
(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 1% decrease to P1,373 million from P1,382 million

Mainly used for financing activities mainly for the payment of interest bearing loans and for investing activities mainly for acquisition of property plant and equipment and investment property and provided by operations mainly from disposal of financial assets at fair value through profit or loss and decrease in trade and other receivables. Cash and cash equivalents remained at 18% as a percentage of total assets in 2006 and 2005.

Financial assets at fair value through profit or loss – 70% decrease to P147 million from P488 million

Principally from disposal of investments in mutual funds which were transferred to time deposits. Financial assets at fair value through profit or loss stood at 2% and 6% as a percentage of total assets in 2006 and 2005, respectively.

Trade and other receivables – 21% decrease to P384 million from P489 million

Mainly from collection of trade receivables and additional impairment loss on receivables made during the year. Trade and other receivables stood at 5% in 2006 and 6% in 2005 as a percentage of total assets.

Advances to related parties – 11% decrease to P46 million from P52 million

The decrease is primarily due to collection of advances. Advances to related parties stood at 1% as a percentage of total assets both in 2006 and 2005.

Available-for-sale financial assets – 3% increase to P514 million from P499 million

Mainly from additional investments. Available-for-sale financial assets stood at 7% in 2006 and 2005 as a percentage of total assets.

Inventories – 23% decrease to P73 million from P95 million

The Company generally reduced the level of inventory mainly due to lower sales volume of the injected plastics business. As a percentage of total assets, inventories stood at 1% in 2006 and 2005.

Real estate inventories – 55% increase to P815 million from P525 million

Mainly from additional costs for the construction and development of the condominium project of the Company. Real estate inventories stood at 11% and 7% as a percentage of total assets in 2006 and 2005, respectively.

Other current assets – 53% increase to P151 million from P99 million

Primarily from increase in prepaid expenses and input value-added taxes. Other current assets stood at 2% and 1% of the total assets in 2006 and 2005.

Non-current trade and other receivable – 7% decrease to P547 million from P587 million

Primarily from decrease in investment in cash surrender value of life insurance due to the peso appreciation against the US dollar and collection of finance receivables. Non-current trade and other receivable stood at 7% and 8% of the total assets in 2006 and 2005, respectively.

Non-current available-for-sale financial assets – 35% decrease to P14 million from P22 million

The decrease was mainly due to lower investment in equity securities due to the peso appreciation versus the US dollar and impairment loss on club shares.

Property, plant and equipment – 102% increase to P1,506 million from P743 million

The increase was mainly due to the transfer from investment property since these properties were substantially used by the Company rather than held for rentals to third parties or held for capital appreciation and additions made during the year offset by depreciation charges. As a percentage of total assets, property, plant and equipment stood at 20% and 10% in 2006 and 2005, respectively.

Investment property – 32% decrease to P1,741 million from P2,576 million

Mainly due to the reclassification to property, plant and equipment as discussed above and depreciation charges. Investment property stood at 23% in 2006 and 34% in 2005 as a percentage of total assets.

Retirement benefit assets – 5% increase to P45 million from P43 million

Primarily from contributions made. Retirement benefits assets remained at 1% as a percentage of total assets in 2006 and 2005.

Deferred tax assets – 149% increase to P36 million from P14 million

Mainly due to unrealized foreign currency loss.

Other non-current assets – 8% increase to P44 million from P41 million

The increase was mainly due to increase in other assets offset by decrease in prepaid insurance. Other non-current assets remained at 1% as a percentage of total assets in 2006 and 2005.

Interest-bearing loans – 25% decrease to P446 million from P596 million

Mainly due to payment of loans. Interest-bearing loans stood at 6% and 8% as a percentage of total liabilities and equity in 2006 and 2005, respectively.

Trade and other payables – 16% increase to P385 million from P333 million

Principally due to increase in accrued expenses and retention and other payables in relation with the construction of condominium project of the Company. As a percentage of total liabilities and equity, trade and other payables represented 5% and 4% in 2006 and 2005, respectively.

Advances from related parties – no significant change

This account remained at 1% of the total liabilities and equity as of 2006 and 2005.

Estimated liability for land and land development costs – 13% decrease to P17 million from P19.9 million

Mainly due to payment of development cost.

Income tax payable – 67% increase to P5 million from P3 million

Mainly from tax expense of certain subsidiaries.

Refundable deposits – 34% increase to P7 million from P5 million

Mainly from additional deposits made.

Retirement benefit obligation – 5% increase to P3.5 million from P3.3 million

Principally due to retirement expense incurred for the year.

Deferred tax liabilities – 98% decrease to P35 thousand from P1.4 million

Mainly due to the foreign currency losses during the year.

Capital stock – no change

Capital stock remained at 27% as a percentage of total liabilities and equity in 2006 and 2005.

Additional paid-in capital – no change

Additional paid-in capital stood at 62% and 61% as a percentage of total liabilities and equity in December 31, 2006 and 2005, respectively.

Treasury shares – no change

Treasury shares remained at 2% of total liabilities and equity in 2006 and 2005.

Revaluation reserves – 798% decrease to (P36) million from (P4) million

Mainly from the higher revaluation difference due to translation of the foreign subsidiary balances and transactions.

Deficit – 40% increase to P294 million from P210 million

Principally due to net loss during the year. Deficit stood at 4% and 3% as a percentage of total liabilities and equity in 2006 and 2005, respectively.

Minority interest – No material change

Minority interest remained at 3% as a percentage of total liabilities and equity in 2006 and 2005.

Income Statement Items (2008 vs. 2007)

(Increase or decrease of 5% or more in the financial statements)

The discussion of material changes of the income statement accounts was included in the management discussion and analysis.

Income Statement Items (2007 vs. 2006)

(Increase or decrease of 5% or more in the financial statements)

Service revenue – 30% increase to P641 million from P493 million

Primarily from increase in broadband revenues and revenue earned for services rendered for the ASEAN Summit and Ministerial Summit. As a percentage of total revenues, service revenues increased to 45% in 2007 from 43% in 2006.

Sale of goods – 8% increase to P474 million from P439 million

Mainly due to mobile phone sales during the second half of the year offset by lower volume of sales of injected plastic and professional equipment and tapes during the year. As a percentage of total revenues, sale of goods dropped to 33% in 2007 from 38% in 2006.

Rental income – 10% increase to P117 million from P107 million

Principally from increase in total area rented out. As a percentage of total revenues, rental income stood at 8% and 9% in 2007 and 2006, respectively.

Sale of land – 757% increase to 102 million from P11 million

Due to increase in industrial lots sold and sale of condominium units for the year. As a percentage of total revenues, this account stood at 7% and 1% in 2007 and 2006, respectively.

Interest income – 15% decrease to P89 million from P105 million

Mainly due to lower investible funds. As a percentage of total revenues, this account stood at 6% and 9% in 2007 and 2006, respectively.

Cost of services –5% increase to P482 million from P460 million

Mainly in relation to increase in service revenues. As a percentage of total revenues, this account stood at 34% and 40% in 2007 and 2006, respectively.

Cost of sales - 1% decrease to P405 million from P409 million

Principally due to improvement of gross profit from mobile products sold during the second half of the year. As a percentage of total revenues, this account dropped to 28% from 35% in 2007 and 2006, respectively.

Cost of rentals – 41% decrease to P37 million from P62 million
Mainly from lower depreciation expenses.

Cost of land sold – 631% increase to P61 million from P8 million

Increase was in relation to increase in sale of land during the period. As a percentage of total revenues, this account stood at 4% and 1% in 2007 and 2006, respectively.

General and administrative expenses – 26% increase to P270 million from P213 million

Mainly due to higher personnel costs and utilities. This account was slightly higher at 19% in 2007 from 18% in 2006 as a percentage of total revenues.

Selling and distribution costs – 39% increase to P30 million from P22 million

Principally due to increase in advertising cost relative to the launching of mobile phone business. This account remained at 2% in both years as a percentage of total revenues.

Other operating income – 14% decrease to P25 million from P29 million

Primarily due to lower income from cash surrender value of investment in life insurance and other income. This account was slightly lower at 2% in 2007 from 3% in 2006 as a percentage of total revenues.

Finance income – 37% decrease to P33 million from P52 million

Mainly because no fair value gains on financial assets were realized during the year. As a percentage of total revenues, this account stood at 2% and 5% in 2007 and 2006, respectively.

Finance costs – 32% increase to P165 million from P124 million

Principally due to higher foreign currency losses during the year. This account was slightly higher at 12% in 2007 from 11% in 2006 as a percentage of total revenues.

Other gains (losses) – net – 23% increase to P4 million gain from P20 million loss

Due to gain on sale of investments.

Tax expense – increase to P61 million to P5 million

Due to higher pre-tax income of certain subsidiaries.

Income Statement Items (2006 vs. 2005)
(Increase or decrease of 5% or more in the financial statements)

Service revenue – 2% decrease to P493 million from P506 million

Principally due lower service income from service repair of consumer electronics and decline in broadband revenues as a result of the reduction in internet subscription prices and decrease in VSAT clients. As a percentage of total revenues, service revenues slightly increased to 43% in 2006 from 42% in 2005.

Sale of goods – 10% decrease to 439 million from P489 million

Mainly due to lower volume of sales of injected plastic offset by increase in broadcast/ professional equipment and plastic resin materials sold during the year. As a percentage of total revenues, sale of goods dropped to 38% in 2006 from 40% in 2005.

Rental income – 9% decrease to P107 million from P117 million

Mainly from lower occupancy during the year. As a percentage of total revenues, rental income stood at 9% and 10% in 2006 and 2005, respectively.

Revenue from sale of land – 85% increase to 11 million from P6 million

Principally due to bigger land area sold. As a percentage of total revenues, revenue from sale of land remained at 1% in both years.

Interest income – 8% increase to P105 million from P97 million

Mainly due to the transfer to placements to foreign denominated fixed income bonds which had higher yield. As a percentage of total revenues, this account slightly increased to 9% in 2006 from 8% in 2005.

Cost of services –5% decrease to P460 million from P482 million

Decrease was mainly in relation to decline in service revenues. This accounted for 40% in both years as a percentage of total revenues.

Cost of sales - 6% decrease to P409 million from P433 million

Principally in relation of lower sale of goods. This represented 35% and 36% of total revenues in 2006 and 2005, respectively.

Cost of rentals – 4% decrease to P62 million from P65 million

Mainly from lower depreciation expenses. This accounted 5% in both years as a percentage of total revenues.

Cost of land sold – 43% increase to P8 million from P5.9

Increase is in relation to bigger area sold this year.

General and administrative expenses – 4% decrease to P213 million from P223 million

Mainly due to lower manpower and other outside services. This account remained at 18% as a percentage of total revenues in both years.

Selling and distribution costs – 18% decrease to P22 million from P27 million

Primarily from lower advertising costs and delivery expenses. This remained at 2% of total revenues for both years.

Other operating income – 12% increase to P29 million from P26 million

Principally due to increase in cash surrender value of investment in life insurance. This account represented 3% and 2% as a percentage of revenues in 2006 and 2005, respectively.

Finance income – 48% decrease to P52 million from P101 million

Mainly from lower fair value gains and gain on sale of financial assets. Also, in 2005, the Company reported a reversal of impairment on receivables. This account declined to 5% in 2006 from 8% in 2005 as a percentage of total revenues.

Finance costs – 38% increase to P124 million from P90 million

Mainly from higher foreign currency losses during the year due to the appreciation of the Philippine peso, additional interest charges from increase in interest rates and increase in impairment losses on receivables and inventories. This account went up to 11% in 2006 from 7% in 2005 based on total revenues.

Other gains (losses) – net – 55% decrease to P20 million loss from P37 million gain

Mainly due to impairment loss from land during the year. Also in 2005, the Company reported gain from insurance proceeds of P45 million. This account represented 2% and 3% based on total revenues in 2006 and 2005, respectively.

<u>Tax expense – 46% decrease to P5 million to P9 million</u>

Due to lower pre-tax income for the year.

viii. Seasonal Aspects that had Material Effect on the Financial Condition or Results of Operations

There are no significant seasonality in the Company's business that materially affects financial condition or results of operations.

Item 7. FINANCIAL STATEMENTS

The consolidated financial statements and schedules to Financial Statements and Supplementary Schedules are filed as part of this Form 17 - A.

(B) Information On Independent Accountant And Other Related Matters

(1) External Audit Fees And Services

(a) Under the caption Audit and Audit-Related Fees, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor for :

1. The audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for those fiscal years:

The audit fees of our present external auditor, Punongbayan and Araullo for the examination of our annual audited financial statements, including those of our subsidiaries for the years ended December 31, 2008 and 2007 amounted to about P2.80 million and P2.33 million, respectively.

2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.

None for 2008 and 2007.

(b) Under the caption "Tax Fees", the aggregate fees billed in each of the last two (2) fiscal years for professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services. Registrant shall describe the nature of the services comprising the fees disclosed under this category.

The tax fees paid to the Tax Division of Punongbayan and Araullo for tax consultation and advisory services of our Company and those of our subsidiaries for the year ended December 31, 2008 and 2007 amounted to P212 thousand and P180 thousand, respectively. Also, tax fees were paid to the Tax Division of Punongbayan and Araullo in 2007 for services rendered relative to the Company's planned restructuring amounting to P80 thousand.

(c) Under the caption "All Other Fees", the aggregate fees billed in each of the last two (2) fiscal years for products and services provided by the external auditor, other than the services reported under items (a) & (b) above. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

There were no other fees paid for the years 2007 and 2006.

(d) The audit committee’s approval policies and procedures for the above services.

All of the above services were approved by the Board of Directors.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has no disagreements with the current accountant on accounting and financial disclosure.

On September 23, 2008, the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2008.

There was no change in our existing accountant for the years 2008 and 2007. However, in compliance with the Code of Corporate Governance, pursuant to SEC Memorandum Circular No. 2, series of 2002, on the rotation of external auditors, a new Partner-In-Charge, Ms. Dalisay B. Duque was assigned by P&A for the independent audit of our Company financial statements for 2008 to replace the previous Partner-In-Charge, Ms. Mailene Sigue-Bisnar who handled the audit of 2007 financial statements.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

A. Directors, Executive Officers, Promoters and Control Persons

(1) Directors, including Independent Directors and Executive Officers

There are seven (7) seats in the Board. The term of office of each member is one (1) year. The names, ages and citizenship of current directors and executive officers are as follows:

Position	Name	Age	Citizenship
Chairman Emeritus	Elena S. Lim	79	Filipino
Chairman of the Board	Susan L. Tan	55	Filipino
Director and President and Chief Executive Officer	David S. Lim	53	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	52	Filipino
Director and Sr. VP for Finance and Investments	Vincent S. Lim	50	Filipino
Director	Quintin Chua	49	Australian
Director	Luis-Maria Zabaljauregui	63	Filipino
Sr. VP and Chief Financial Officer	Ireneo D. Tubio	57	Filipino
Treasurer	Lita Joaquin	48	Filipino
Corporate Secretary	Roberto V. San Jose	66	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	40	Filipino
Chief Accounting Officer	Mellina T. Corpuz	42	Filipino
Chief, Internal Audit	Danilo M. Reig	48	Filipino

Ms. Elena S. Lim is Chairman Emeritus since May 2001. Prior to that, she was President/ Chief Executive Officer from 1996 to May 2001 and is a Director since 1996. She is also Chairman of the Board of Laguna International Industrial Park, Inc. and Starworld Corporation. She was formerly the President of Solid Corporation, Solid Distributors, Inc., AA Export and Import Corporation, AA Marine Development Corporation, Columbian Autocars Corporation, Solid Electronics Corporation, Solid Video Corporation, AA Electronics Corporation, Solid Manila Corporation and Kita Corporation. Ms. Lim is married to Joseph Lim.

Ms. Susan L. Tan is Chairman of the Board since May 2001. She was Vice President of the Company from April 1999 to April 2001 and is a Director since 1996. She was Chief Operating Officer of the Company since 1996 up to March 1999. She is currently President of Solid Laguna Corporation and Solid Corporation and is also Managing Director of Solid Electronics Corporation and Solid Video Corporation. Ms. Tan is the daughter of Joseph and Elena Lim.

Mr. David S. Lim is President and Chief Executive Officer since May 2001. He is also Director since 1996. He was Vice-President since 1996 up to April 2001. He is also President and Chief Executive Officer of Solid Broadband Inc. since1995 and presently Chairman of Destiny Cable Inc. and also Vice-President of Solid Corporation for more than five years and was formerly

VP/Managing Director of Solid Video Corporation for more than five years. He is also presently Chairman of Zen Towers Corporation. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Jason S. Lim is Sr. Vice President and Chief Operating Officer since May 2002. He is a Director since May 1998. He was also EVP and Chief Operating Officer of Destiny Cable Inc. up to September 2000. He is also currently President of Kita Corporation and Solid Manila Finance Inc. He was formerly VP/ Managing Director of Clark Plastics Manufacturing Corporation and Solid City Industrial and Commercial Corporation for more than five years. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Vincent S. Lim is Sr. Vice President for Finance and Investments since June 2006 and was Sr. VP and Chief Financial Officer from May 2002 up to June 2006. He is a director since 1996 and was VP/ Chief Financial Officer from 1996 up to May 2002. He is also presently President of Zen Towers Corporation. He has also been VP Finance, Treasurer and Corporate Secretary for Solid Corporation for more than five years and is also VP Finance and Treasurer for Solid Laguna Corporation and Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Mr. Lim is the son of Joseph and Elena Lim.

Ms. Lita Joaquin is the Treasurer since May 2002. She was also director from June 2006 up to August 2007. She was Comptroller in 1996 to April 2002 and Director in May 1997 where she held office up to May 1998. She also became General Manager of Solid Manila Finance Inc. in October 1999. She is also Assistant Treasurer of Solid Corporation for more than five years and holds the same position for Solid Distributors, Inc., Solid Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Ms. Joaquin is the niece of Mr. Joseph Lim.

Mr. Quintin Chua is the Independent Director since March 25, 2003. He is the Chairman and Managing Director of QC Investments Pty. Ltd, Chairman and President of Nature's Harvest Corp. and Director of Hexagon Financing Corp.

Mr. Luis-Maria L. Zabaljauregui is Independent Director effective September 23, 2008. He was Executive Vice President of Leyte Agri Corporation from 2001 up to 2003. He was vice President and Resident Manager of Central Azucarera de la Carlota, Inc. from January 2004 to June 2008. He is currently Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008. He has business experience for more than five (5) years.

Mr. Ireneo D. Tubio is the Sr. VP and Chief Financial Officer effective June 2006. He was formerly Chief Accounting Officer since 1996. Prior to that, he was also Director for Financial Management Group for more than five years of Solid Corporation, Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, ASCOP, Inc., Solid Video Corporation and Solid Manila Corporation.

Mr. Roberto V. San Jose is the Corporate Secretary since 1996. He is a member of the Philippine Bar and a Senior Partner of the Castillo Laman Tan Pantaleon and San Jose Law Offices. He is a Director of Mabuhay Holdings Corporation, ABC Development Corporation (Channel 5), Director/ Corporate Secretary of CP Group of Companies, CP Equities Corporation, Atlas Resources Management Group and MAA Consultants, Inc. He is also Corporate Secretary of Premiere Entertainment Productions, Inc., Alsons Consolidated Resources, Inc., United Paragon Mining Corporation, ISM Communications Corp., Anglo Philippine Holdings Corporation and

PhilWeb Corp. He is also a director, corporate secretary and/or officer of various client corporations of their law firm.

Atty. Ana Maria Katigbak-Lim is the Assistant Corporate Secretary. She is a member of the Integrated Bar of the Philippines and a graduate of Bachelor of Laws at the University of the Philippines. She is a Partner at the Castillo Laman Tan Pantaleon & San Jose Law Offices. She is also a director and assistant corporate secretary in ISM Communications Corporation and Mabuhay Holdings Corporation, both publicly-listed corporations. She also serves as assistant corporate secretary in other publicly-listed companies and registered membership clubs such as: AJO.net Holdings, Inc., Boulevard Holdings, Inc., Premiere Entertainment Productions, Inc., Solid Group, Inc., Paxys Inc., The Metropolitan Club, Inc. and PhilWeb Corporation.

Mellina T. Corpuz is the Chief Accounting Officer effective June 2006. Prior to that, she was the Senior Accounting Manager since 2002 and was the Accounting Manager since 1996.

Danilo M. Reig is the Chief, Internal Audit since June 2006. He formerly held the position of Senior Audit Manager for more than five years.

(2) Significant Employee

There is no significant employee that is not part of the Company directors and executive officers.

(3) Family Relationship

Ms. Elena S. Lim is married to Mr. Joseph Lim. Their children, namely, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason S. Lim and Vincent S. Lim are all directors and executive officers of the Company. Ms. Lita Joaquin, treasurer of the Company, is the niece of Mr. Joseph Lim.

(4) Involvement in Certain Legal Proceedings

Ms. Elena S. Lim is included as co-defendant in a case filed by a certain bank against AA Export and Import Corporation for the collection of unsecured business loans granted to that company. In another collection case filed by another bank against AA Export and Import Corporation, Ms. Elena S. Lim, Ms. Susan L. Tan, Mr. David S. Lim and Mr. Vincent S. Lim are impleaded as co-defendants. Except by above, none of the directors and officers was involved in the past five years up to April 29, 2009 in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

Item 10. Executive Compensation

B. Executive Compensation

Executive and Directors Compensation
(1) General

The Company's executive officers are regular employees of the Company and its subsidiaries and are similarly remunerated with a compensation package comprising of regular salary, bonuses, thirteenth month pay and leave conversions that the Company extends to its regular employees. Directors are paid specified amounts per meeting participation.

(2) Summary Compensation Table

The following table summarizes certain information regarding compensation paid or accrued during the last two fiscal years and paid in the ensuing fiscal year to the Company's Chairman and each of the Company's four most highly compensated executive officers.

SUMMARY COMPENSATION TABLE

		Annual Compensation		
(a)	(b)	(c)	(d)	(e)
Name and Principal Position	Year	Salary (₱)	Bonus (₱)	Other Annual Compensation Income (₱)
Chairman and four most highly compensated executive officers	2009 (Est.)	14,400,000	800,000	1,200,000
	2008	13,100,000	725,000	1,093,892
Susan L. Tan	Chairman of the Board			
David S. Lim	Director, President and Chief Executive Officer			
Jason S. Lim	Director, Senior VP and Chief Operating Officer			
Vincent S. Lim	Director, Senior VP for Finance and Investments			
Ireneo D. Tubio Jr.	Senior VP and Chief Financial Officer			
	2007	12,712,890	740,462	802,359
Susan L. Tan	Chairman of the Board			
David S. Lim	Director, President and Chief Executive Officer			
Jason S. Lim	Director, Senior VP and Chief Operating Officer			
Vincent S. Lim	Director, Senior VP and Chief Financial Officer			
James H. Uy	Senior VP for Broadband Division			
All officers and directors as a group unnamed	2008 (Est.)	3,200,000	300,000	2,100,000
	2008	2,886,000	240,500	1,842,213
	2007	4,290,894	348,000	1,959,238

(3) Compensation of Directors

Please see executive and directors' compensation.

(4) Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

Not applicable. There are no employment contracts between the registrant and executive officers/ directors nor any compensatory plan or arrangement, including payments to be received from the registrant, if such plan or arrangement results or will result from resignation, retirement or any other termination of such executive officer or director's employment with the registrant and its subsidiaries or from change-in-control of the registrant or a change in the executive officer or directors' responsibilities following a change-in-control.

(5) Warrants and Options Outstanding: Repricing

Not applicable. The Company has no outstanding warrants and options.

Item 11. Security Ownership of Certain Beneficial Owners and Management

C. Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's voting securities as of December 31, 2007 were as follows.

(1) Title of Class	(2) Name and address of record owner and relationship with issuer	(3)Name of Beneficial Owner and Relationship with Record Owner	(4)Citizenship	(5)No. of Shares Held record (r) or beneficial (b)	(6) % to Total Outstanding
Common	AA Commercial, Inc. [1] 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r) [1]	32.03
Common	AV Value Holdings Corporation 2285 Pasong Tamo Ext, Makati Affiliate	David S. Lim President of AV Value Holding Corp.	Filipino	499,999,999 (r) [2]	27.45
Common	PCD Nominee Corporation (F) [2] G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	316,481,327 (r) [3]	17.37
Common	Lim, David S c/o Solid House, 2285 Pasong Tamo Ext, Makati	Not applicable	Filipino	179,488,591 (r and b)	9.85

Note 1: AA Commercial Inc. is owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc.

2. AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is the President of AV Value Holdings Corporation.

3: There is no participant lodged under PCD Nominee Corporation that owns more than 5% of the voting securities of the Company.

(2) Security Ownership of Management

The following directors and officers own shares in the Company as of December 31, 2008.

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Citizenship	(5) % to Total Outstanding
Common	Lim, Elena S.	1,894 (direct)	Filipino	-
Common	Tan, Susan L.	78,645 (direct)	Filipino	-
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		499,999,999 (indirect) [2]		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect) [1]		32.03
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	5,000 (direct)	Australian	-
		3,500,000 (indirect)		0.19
Common	Zabaljauregui, Luis-Maria	5,000 (direct)	Filipino	
Common	San Jose, Roberto V.	242,000 (direct)	Filipino	0.01
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	10,000 (direct)	Filipino	-
Common	Tubio, Ireneo Jr.	-	Filipino	-
Common	Uy, James H.	-	Filipino	-
Common	Corpuz, Mellina T.	-	Filipino	-
Common	Reig, Danilo M.	-	Filipino	-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,403,772,293 or 77.07% of the total issued and outstanding shares.

Note 1: AA Commercial Inc. is owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc.

2. AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is the President of AV Value Holdings Corporation.

(3) Voting Trust Holders of 5% or More

The Company is not aware of any stock held under a voting trust agreement. However, AA Commercial Inc. and AV Value Holdings Corporation are companies owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is the President of AV Value Holdings Corporation.

(4) Changes in Control

There are no arrangements, which may result in changes in control of the registrant.

Item 12. Certain Relationships and Related Transactions

D. Certain Relationships and Related Transactions

1.
Solid Video Corporation sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by ultimate majority stockholders. SVC also earns commissions from the sales of a company owned by the ultimate majority stockholders, to customers in the Philippines.

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

Solid Group provides management services to CPD Access Corporation (CPD), a company owned by ultimate majority stockholders in accordance with a management contract.

Revenue from sale of goods and services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables

Solid Electronics Corp. purchases parts and supplies from CPD while Solid Manila Corporation avails of management services from AA Commercial, a company also owned by the Company's ultimate majority stockholders.

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

Solid Manila Corporation leases out certain land and buildings to Avid Sales Corporation. Income from these leases is shown as part of Rental in the consolidated statements of income. Uncollected billings, on the other hand, forms part of Trade and Other Receivables account in the balance sheets.

Solid Laguna Corporation rents portion of a building of a company owned by ultimate majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated statements of income. There are no outstanding liabilities related to this lease.

Solid Manila Finance Inc. grants interest-bearing business and other loans to companies owned by ultimate majority stockholders. Interest earned on these loans are presented as part of Interest Income under Other Operating Income in the consolidated statements of income while outstanding balance are shown as Finance Receivables in the consolidated balance sheets.

Advances to and from Related Parties

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

The Company earns commission from sales of STL, a company owned by the parent company's majority stockholders, to customers in the Philippines. Commission revenue are presented as part of Rendering of Services account in the income statements. The Company also advances funds to STL to pay foreign suppliers. The outstanding balance of these advances are included as part of Trade receivables under Trade and Other Receivables account in the balance sheets.

Other than the foregoing, there were no transactions during the past two fiscal years to which the Company was a party, in which a director, executive officer, nominee for director, stockholder owning more than 10% of the outstanding shares of the Company had a direct interest.

2. The Company has no transactions involving related parties where the service fees or rates are fixed by law or government authority, nor acts as bank depository of funds, transfer agent, registrar or trustee under a trust indenture nor has any other interest except for those arising from the ownership of securities of the registrant recorded as treasury shares nor received extra or special benefit that was not shared equally by all holders of the registrant.

3. The Company has no parent company holding or controlling more than 50% of its outstanding capital stock. However, AA Commercial Inc. and AV Value Holdings Corporation separately own and control 32.03% and 27.45%, respectively, of the Company's outstanding shares.

4. There are no transactions with promoters or assets acquired by the Company from any promoters.

PART IV CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Company submitted to the Securities and Exchange Commission (SEC) on September 2, 2002 its Manual of Corporate Governance in accordance with SEC Memorandum Circular No. 2 Series of 2002.

The Company reappointed Punongbayan and Araullo, CPA's as its independent accountant for the year 2008 during the Annual Stockholders' meeting on September 23, 2008.

The Company has reelected Mr. Quintin Chua as Independent Director during the Annual Stockholders meeting on September 23, 2008. The Company also elected Mr. Luis Maria L. Zabaljauregui as the new Independent Director during the Annual Stockholders' Meeting on September 23, 2008.

Compliance with SEC Memorandum Circular No. 2 dated April 5, 2002, as well as all relevant Circulars on Corporate Governance have been monitored.

The Company, its Directors, Officers and Employees complied with all the leading practices and principles on Good Governance as embodied in the Company's Manual.

The Company also complied with the appropriate performance self-rating assessment and performance evaluation system to determine and measure compliance with the Manual.

There are no major deviations from the adopted Manual of Corporate Governance.

All members of the Board of Directors as well as Senior Management officers completed and were duly certified to have attended a 2- day special seminar on Corporate Governance conducted by Institute of Corporate Directors.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits - See accompanying Index to Exhibit.

The following exhibit is filed as a separate section of this report:

(b) Reports on SEC Form 17-C

The following were reported under SEC Form 17-C during the last six-month period.

On September 23, 2008, the Company advised that during the annual meeting, the stockholders elected the following directors, Elena S. Lim, Susan L. Tan, David S. Lim, Jason S. Lim, Vincent S. Lim, Quintin Chua and Luis Maria L. Zabaljaurequi for the year 2008. The stockholders also approved an amendment of the Company's by-laws to change the date of the annual stockholders' meeting from any day in the month of May to the last Thursday of June of each year. The stockholders' reappointed Punongbayan & Araullo as external auditors for 2008. The Company also disclosed the election of officers of the Company and the appointment of the various committees.

On March 30, 2009, the Company advised that the Board approved the spin-off and transfer of the mobile phone, LCD television and digital devices businesses to a new wholly-owned subsidiary to be incorporated as “My Solid Technologies & Devices Corporation” (MySolid). MySolid shall also engage in the manufacture, sale and distribution, importation of various types of digital communication devices, information technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. The Board approved a capital of P100 million for this new corporation.

The annual meeting of stockholders was also set on June 25, 2009.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati, Metro Manila, Philippines on 30 APR 2009 2009.

By:

Board of Directors

Elena S. Lim
Chairman Emeritus

Susan L. Tan
Chairman of the Board

David S. Lim
Director

Jason S. Lim
Director

Vincent S. Lim
Director

Quintin Chua
Director

Luis-Maria Zabaljauregui
Director

Executive Officers

David S. Lim
President and Chief Executive Officer

Jason S. Lim
Sr. VP and Chief Operating Officer

Vincent S. Lim
Sr. VP for Finance and Investments

Ireneo D. Tubio Jr.
Sr. VP and Chief Financial Officer

Lita Joaquin
Treasurer

Roberto V. San Jose
Corporate Secretary

Ana Maria Katigbak-Lim
Assistant Corporate Secretary

Mellina T. Corpuz
Chief Accounting Officer

Danilo M. Reig
Chief, Internal Audit

30 APR 2009

SUBSCRIBED AND SWORN to before me this __________ day of ____________, affiants exhibiting to me their Community Tax Certificates, as follows:

Names	**CTC No.**	**Date Issued**	**Place of Issued**
Elena S. Lim	12351405	1-11-09	Makati
Susan L. Tan	12351407	1-11-09	Makati
David S. Lim	12351409	1-11-09	Makati
Jason S. Lim	12351411	1-11-09	Makati
Vincent S. Lim	12351413	1-11-09	Makati
Quintin Chua	19303681	2-08-08	Makati
Luis-Maria Zabaljauregui	20506336	2-27-09	Negros Occidental
Lita L. Joaquin	12348853	1-09-09	Makati
Ireneo D. Tubio Jr.	03248717	1-23-09	Manila
Roberto V. San Jose	27202607	1-29-09	Makati
Ana Maria Katigbak-Lim	27202626	1-29-09	Makati
Mellina T. Corpuz	27221993	2-11-09	Makati
Danilo M. Reig	07727437	1-15-07	Makati

Doc. No. 316;
Page No. 65;
Book No. 149;
Series of 2009;

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until Dec. 31, 2009
PTR O.R. No. 7208240 Mla. 01/05/09
IBP O.R. No. 740913 Mla. 12/24/08
TIN 212-965-989
Roll No. 28757

SOLID GROUP, INC.

INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES

FORM 17-A, Item 7

* These schedules, which are required by Part 7(e) of SRC Rule 68.1, have been omitted because they are either not required, not applicable or the information required to be presented is included in the Company's consolidated financial statements or the notes to consolidated financial statements.

** Omitted; advances or receivable in ordinary course of business.

SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Solid Group, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2008 and 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

SUSAN L. TAN
Chairman of the Board

DAVID S. LIM
President &
Chief Executive Officer

IRENEO D. TUBIO JR.
Senior Vice President &
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 30 APR 2009 day of ______________ affiants exhibiting to me their Community Tax Certificates as follows:

Name	CTC No.	Date Issued	Place Issued
Susan L. Tan	12351407	1-11-09	Makati
David S. Lim	12351411	1-11-09	Makati
Ireneo D. Tubio Jr.	03248717	1-23-09	Makati

Doc. No. 311 ;
Page No. 64 ;
Book No. 149 ;
Series of 2009.

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until Dec. 31, 2009
PTR O.R. No. 7233240 Mla. 01/05/09
IBP O.R. No. 740913 Mla. 12/24/08
TIN 212-965-889
Roll No. 28757

Solid House, 2285 Don Chino Roces Avenue Extension , 1231 Makati City, Metro Manila, PHILIPPINES
Tel. Nos.: 843-1511 to 18 Fax: (632) 812-8273

Punongbayan & Araullo

Report of Independent Auditors to Accompany SEC Schedules Filed Separately from the Basic Financial Statements

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

We have audited the consolidated financial statements of Solid Group Inc. and Subsidiaries and the separate financial statements of Solid Group Inc. for the year ended December 31, 2008 on which we have rendered our separate reports both dated March 30, 2009. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules (see table of contents) of the Company as at December 31, 2008 and for the year then ended, required by the Securities and Exchange Commission, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The information in such supplementary schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

Dalisay B. Duque

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 1566056, January 5, 2009, Makati City
SEC Accreditation No. 0012-AR-2
BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

March 30, 2009

Punongbayan & Araullo

Report of Independent Auditors

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

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2008 and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and subsidiaries as of December 31, 2008 and 2007, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 1566056, January 5, 2009, Makati City
SEC Accreditation No. 0012-AR-2
BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

March 30, 2009

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	**2008**	2007
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 1,118,462,976**	P 1,206,991,793
Held-to-maturity investments	6	**-**	53,000,000
Trade and other receivables - net	7	**503,084,944**	450,789,857
Advances to related parties	25	**192,327,778**	130,091,376
Available-for-sale financial assets	8	**63,519,015**	388,448,319
Merchandise inventories and supplies - net	9	**208,984,237**	175,519,259
Real estate inventories - net	10	**1,036,949,872**	925,679,328
Other current assets	13	**196,657,886**	154,270,525
Total Current Assets		**3,319,986,708**	3,484,790,457
NON-CURRENT ASSETS			
Trade and other receivables	7	**546,107,912**	482,201,959
Available-for-sale financial assets - net	8	**7,461,527**	7,611,527
Held-to-maturity investments	6	**161,289,378**	-
Property, plant and equipment - net	11	**1,438,147,224**	1,455,438,969
Investment property - net	12	**3,789,334,875**	3,489,493,944
Retirement benefit asset	21	**44,678,755**	42,211,671
Deferred tax assets - net	22	**4,309,204**	13,220,460
Other non-current assets	13	**148,931,209**	30,632,386
Total Non-current Assets		**6,140,260,084**	5,520,810,916
TOTAL ASSETS		**P 9,460,246,792**	P 9,005,601,373

Forward

	Notes	2008	2007
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 458,760,609**	P 409,435,521
Trade and other payables	15	**347,451,497**	368,992,429
Advances from related parties	25	**111,704,972**	179,997,931
Estimated liability for land and land development costs	2	**68,304,647**	36,886,345
Income tax payable		**6,782,075**	7,721,316
Total Current Liabilities		**993,003,800**	1,003,033,542
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**9,710,038**	8,445,041
Retirement benefit obligation	21	**7,362,600**	3,247,908
Deferred tax liabilities - net	22	**838,237,171**	866,677,474
Total Non-current Liabilities		**855,309,809**	878,370,423
		1,848,313,609	1,881,403,965
EQUITY			
Equity attributable to parent company			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital	23	**4,641,701,922**	4,641,701,922
Treasury shares - at cost		**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**(213,026,395)**	(210,977,374)
Retained earnings		**873,760,668**	523,319,765
Equity attributable to equity holders of the parent company		**7,217,796,815**	6,869,404,933
Minority interest		**394,136,368**	254,792,475
		7,611,933,183	7,124,197,408
TOTAL LIABILITIES AND EQUITY		**P 9,460,246,792**	P 9,005,601,373

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
REVENUES				
Rendering of services	25	**P 605,932,811**	P 641,626,011	P 493,657,814
Sale of goods	25	**911,965,255**	474,458,952	439,186,300
Rentals	25	**136,222,127**	117,992,418	107,189,748
Interest income	20	**81,213,713**	89,331,444	105,083,755
Sale of real estate		**30,625,359**	102,422,478	11,952,900
		1,765,959,265	1,425,831,303	1,157,070,517
COSTS OF SALES, SERVICES AND RENTALS				
Cost of services	17	**435,837,110**	482,833,414	460,167,153
Cost of sales	17	**782,109,746**	405,481,865	409,141,037
Cost of rentals	17	**39,533,580**	37,254,917	62,990,373
Cost of real estate sold	19	**22,470,496**	61,997,555	8,481,841
		1,279,950,932	987,567,751	940,780,404
GROSS PROFIT		**486,008,333**	438,263,552	216,290,113
OTHER OPERATING EXPENSES (INCOME)				
General and administrative expenses	19	**267,072,584**	270,070,987	213,572,741
Selling and distribution costs	19	**74,413,111**	30,747,984	22,180,132
Other operating income - net	18	**(192,406,669)**	(25,548,205)	(29,627,550)
		149,079,026	275,270,766	206,125,323
OPERATING PROFIT		**336,929,307**	162,992,786	10,164,790
OTHER INCOME (CHARGES)				
Finance income	20	**77,013,074**	33,051,608	52,542,582
Finance costs	20	**(50,359,180)**	(165,269,830)	(124,927,423)
Other gains (losses) - net	20	**5,503,312**	4,738,417	(20,647,820)
		32,157,206	(127,479,805)	(93,032,661)
INCOME (LOSS) BEFORE TAX		**369,086,513**	35,512,981	(82,867,871)
TAX EXPENSE	22	**18,238,717**	61,057,359	5,292,838
NET INCOME (LOSS)		**P 350,847,796**	(P 25,544,378)	(P 88,160,709)
Attributable to:				
Equity holders of the parent company		**P 350,440,903**	(P 26,295,296)	(P 84,435,882)
Minority interest		**406,893**	750,918	(3,724,827)
		P 350,847,796	(P 25,544,378)	(P 88,160,709)
Earnings (Loss) per share for net income (loss) attributable to equity holders of the parent company	24	**P 0.19**	(P 0.01)	(P 0.05)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
CAPITAL STOCK - P1 par value				
Authorized - 5,000,000,000 shares				
Subscribed, issued and outstanding - 2,030,975,000 shares		**P 2,030,975,000**	P 2,030,975,000	P 2,030,975,000
ADDITIONAL PAID - IN CAPITAL		**4,641,701,922**	4,641,701,922	4,641,701,922
TREASURY SHARES - At cost		**(115,614,380)**	(115,614,380)	(115,614,380)
REVALUATION RESERVES	23			
Balance at beginning of year		**(210,977,374)**	(36,819,816)	(4,099,860)
Currency differences on translating balances of foreign operations		**305,787,998**	(171,427,558)	(34,195,400)
Fair value gains (losses) on available-for-sale financial assets, net of taxes		**(307,837,019)**	(2,730,000)	1,475,444
Balance at end of year		**(213,026,395)**	(210,977,374)	(36,819,816)
RETAINED EARNINGS (DEFICIT)				
Balance at beginning of year				
As previously reported		**(349,027,740)**	(294,597,294)	(210,161,412)
Effect of change in accounting policy	12	**886,363,403**	860,541,871	-
Prior period adjustments	23	**(14,015,898)**	(16,329,516)	-
As restated		**523,319,765**	549,615,061	(210,161,412)
Net income (loss) attributable to equity holders of the parent company		**350,440,903**	(26,295,296)	(84,435,882)
Balance at end of year		**873,760,668**	523,319,765	(294,597,294)
Total Equity Attributable to Equity Holders of the Parent Company		**7,217,796,815**	6,869,404,933	6,225,645,432
MINORITY INTEREST				
Balance at beginning of year		**254,792,475**	254,041,557	257,766,384
Purchase by the Group of minority interest	1	**138,937,000**	-	-
Net income (loss) attributable to minority interest		**406,893**	750,918	(3,724,827)
Balance at end of year		**394,136,368**	254,792,475	254,041,557
TOTAL EQUITY		**P 7,611,933,183**	P 7,124,197,408	P 6,479,686,989
Net Losses Recognized Directly in Equity		**(P 2,049,021)**	(P 174,157,558)	(P 32,719,956)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before tax		P 369,086,513	P 35,512,981	(P 82,867,871)
Adjustments for:				
Fair value gains on investment properties		(163,144,009)	-	-
Depreciation and amortization	19	79,372,652	86,123,162	118,277,074
Finance costs	20	38,764,554	165,269,830	124,927,423
Unrealized foreign currency losses - net		32,484,953	119,446,635	39,805,739
Interest income	20	(112,404,575)	(108,804,388)	(118,875,323)
Gain on sale of property and equipment	20	(945,857)	(174,168)	(184,209)
Impairment loss on investment property	20	-	-	21,103,136
Fair value gains on financial assets at fair value through profit or loss	20	-	-	(29,821,299)
Gain on sale of financial assets	20	-	(2,595,101)	(7,508,465)
Operating income before working capital changes		243,214,231	294,778,951	64,856,205
Decrease (increase) in trade and other receivables		(133,304,327)	(3,056,437)	143,947,590
Decrease (increase) in inventories		(33,464,978)	(116,961,598)	22,352,195
Decrease in financial assets at fair value through profit or loss		-	149,754,385	378,462,063
Decrease (increase) in available-for-sale financial assets		161,740,905	(40,413,832)	(40,499,318)
Increase in real estate inventories		(140,652,893)	(109,819,137)	(265,101,612)
Decrease (increase) in held-to-maturity investment		53,000,000	(53,000,000)	-
Increase in other current assets		(55,100,004)	(23,760,730)	(52,154,247)
Decrease (increase) in retirement benefit asset		(2,467,084)	3,786,656	(2,232,250)
Decrease (increase) in other non-current assets		4,190,415	13,913,221	(3,358,960)
Increase (decrease) in trade and other payables		17,949,357	(12,386,163)	63,609,612
Increase (decrease) in estimated liability for land and land development costs		31,418,302	19,636,994	(2,684,947)
Increase in refundable deposits		1,264,997	1,095,246	1,854,279
Increase (decrease) in retirement benefit obligation		4,114,692	(256,087)	167,267
Cash generated from operations		151,903,613	123,311,469	309,217,877
Interest received		112,404,575	108,804,388	118,875,323
Cash paid for income taxes		(16,279,016)	(27,262,280)	(26,077,234)
Net Cash From Operating Activities		248,029,172	204,853,577	402,015,966
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted to a related party	25	(120,783,064)	-	-
Decrease in advances to related parties		(62,236,404)	(78,165,018)	5,903,282
Proceeds from sale of property, plant and equipment		1,269,817	864,864	2,175,568
Acquisitions of investment property	12	(19,789,527)	(12,902,483)	(19,959,231)
Acquisitions of property, plant and equipment	11	(62,404,867)	(37,135,506)	(81,661,308)
Net Cash Used in Investing Activities		(263,944,045)	(127,338,143)	(93,541,689)
		(15,914,873)	77,515,434	308,474,277

Forward

	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	**(21,161,120)**	(168,847,468)	(128,505,061)
Proceeds (payments) of interest-bearing loans - net	**49,325,088**	(37,449,990)	(149,698,103)
Increase (decrease) in advances from related parties	**(68,292,959)**	81,514,265	390,010
Net Cash Used in Financing Activities	**(40,128,991)**	(124,783,193)	(277,813,154)
Effect of Currency Rate Changes on Cash and Cash Equivalents	**(32,484,953)**	(119,446,635)	(39,805,739)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(88,528,817)**	(166,714,394)	(9,144,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,206,991,793**	1,373,706,187	1,382,850,803
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P 1,118,462,976**	P 1,206,991,793	P 1,373,706,187

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or the Company) and its subsidiaries (collectively referred to hereinafter as the Group), are incorporated in the Philippines, except for Brilliant Reach Limited which was incorporated in the British Virgin Islands (BVI) and Fil-Dragon Real Estate Development, Ltd. Which was incorporated in China.

The Company holds ownership interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership 2008	2007	2006	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100%**	100%	100%	a	Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	**100**	100	100	1.2	Broadband cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	1.2, c	Information and communications and technology systems
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 Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Zen by the Park, Inc. (ZPI)	**100**	100	-	e, g	Real estate
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	-	-	h	Real estate
Skyworld Corporation (Skyworld)	**75**	75	75	1.2, c, e	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	1.2, b, c	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	-	-	i, c	Real Estate
Starworld Corporation (Starworld)	**50**	50	50	e, f	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 SC
- c Pre-operating or non-operating
- d LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- e Indirectly owned through SMC
- f Starworld is 20% owned by SMC and 40% owned by Skyworld
- g Incorporated in 2007 and started commercial operations in August 2008

h Acquired in 2008; indirectly owned through Precos
i Acquired in 2008; indirectly owned through PNCI; constitutes an insignificant subsidiary as of December 31, 2008

SBC holds a provisional authority, granted by the National Telecommunications Commission, 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*.

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

1.2 Acquisition of PNCI

On February 15, 2008, Precos acquired 12,750 shares of stocks of PNCI at par value for a total acquisition price of P1.275 million. The Company became the parent company of PNCI after the acquisition. PNCI is registered with the SEC on December 31, 2005 and has not yet started commercial operations as of December 31, 2008. PNCI, in turn, has a subsidiary organized and operating in China as a real estate developer.

1.3 Status of Operations

Prior to revaluation of the Group's investment property, the Group incurred net losses in 2007, 2006 and prior years that resulted in significant deficits amounting to P349.0 million and P294.6 million as of December 31, 2007 and 2006, respectively. Such losses resulted mainly from the operations of SBC, Skyworld, LIIP, Interstar and SGTC. In 2008 the Group reported net income of P336.4 million, which together with the effects of the change in the remeasurement of investment property (see Note 12), reduced the balance of the Deficit account by a significant amount allowing the Group to present Retained Earnings as of December 31, 2008. Management strongly believes that the Group will continue to report positive results and better financial position in the future.

1.4 Other Corporate Information

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

BRL	- 2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	- 7175 Gil Puyat Ave. cor Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	- Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SC	- 17 A. Fernando St., Marulas, Valenzuela, Metro Manila
SMC and ZPI	- 1000 J. Bocobo St., Ermita, Manila (registered office and principal place of business)
SE Corp.	- 1172 E. delos Santos Avenue, Balintawak, Quezon City
SLC	- Solid St., LIIP, Mamplasan, Biñan, Laguna
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	- Room 1913B, Oriental Manhattan, Nanning City, Guanxi Province, China

1.5 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2008 (including comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by the Board of Directors (BOD) on March 30, 2009.

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. 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 the International Accounting Standards Board.

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

(b) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional currency (except for BRL whose functional currency is the U.S. Dollars and Fil-Dragon whose functional currency is the Chinese Yuan Renminbi), and all values represent absolute amounts except when otherwise indicated (see Note 2.15).

(c) Reclassification of Accounts

Certain accounts in the 2007 and 2006 consolidated financial statements were reclassified to conform to the 2008 consolidated financial statement presentation and classification.

2.2 Impact of New Amendments and Interpretations to Existing Standards

(a) Effective in 2008 that are relevant to the Group

In 2008, the Group adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
PAS 39 and PFRS 7 (Amendments)	:	PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial Instruments: Disclosures

Discussed below are the effects on the consolidated financial statements of these new interpretation and amended standards.

(i) Philippine Interpretation IFRIC 14, *PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. As any excess of the asset over the obligation is fully refundable to the Group based on the set-up of the pension trust fund, the Group determined that adoption of this Philippine Interpretation did not materially affect its consolidated financial statements.

(ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* and PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:

- Reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and,

- Transfer from the available-for-sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification is made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. On October 31, 2008, BRL exercised the option to reclassify its investments in bonds from the available-for-sale category to held-to-maturity investments but opted not to retrospectively restate its books as of July 1, 2008, hence, the Group determined that the adoption of these amendments has no material impact on the 2008 consolidated financial statements. The fair values of investments in bonds classified as held-to-maturity investments as of December 31, 2008 amounted to P59.5 million.

(b) Effective in 2008 but not relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Group's operations:

Philippine Interpretation IFRIC 11	:	PFRS 2 – Group and Treasury Share Transactions
Philippine Interpretation IFRIC 12	:	Service Concession Arrangements

(c) Effective subsequent to 2008

There are new and amended standards and Philippine Interpretations that are effective for periods subsequent to 2008. The following new amendments, effective for annual periods beginning on or after January 1, 2009, are relevant to the Group and which the Group will apply in accordance with their transitional provisions.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation and Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
Various Standards	:	2008 Annual Improvements to PFRS

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

(i) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate consolidated income statement and a consolidated statement of comprehensive income. The consolidated income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The consolidated statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the consolidated statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 2009 consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation* and PAS 1 (Amendment), *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective from January 1, 2009). The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions. The Group does not expect any impact on its consolidated financial statements when it applies the amendments in 2009.

(iii) 2008 Annual Improvements to PFRS. The FRSC has issued the *Improvements to Philippine Financial Reporting Standards 2008*. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Group expects the amendments to the following standards to be relevant to the Group's accounting policies:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Management does not expect any adjustment to the consolidated financial statements as a result of the adoption of this amendment since the Group has no financial instruments classified as held for trading.

- PAS 19 (Amendment), *Employee Benefits*. The amendment includes the following:

  - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.

  - Change in the definition of return on plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

  - Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

  - Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

  The Group's management assessed that this amendment to PAS 19 will have no impact on its 2009 consolidated financial statements.

- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Group's consolidated financial statements.

2.3 Basis of Consolidation

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

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

The Company accounts for its investments in subsidiaries and minority interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. The Company obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Company obtains control until such time that such control ceases.

Acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies.

Positive goodwill represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at the date of acquisition. Negative goodwill represents the excess of Company's share in the fair value of identifiable net assets of the subsidiary at date of acquisition over acquisition cost (see Note 2.11).

(b) Transactions with Minority Interests

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

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments. The Group's primary format for segment reporting is based on business segments. The business segments are determined based on the Group's management and internal reporting structure.

Inter-segment reporting is determined in an arm's length basis.

2.5 Financial Assets

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement.

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

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

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

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss 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 maturities greater than 12 months after the balance sheet date which are classified as non-current assets.

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

The Group's financial assets categorized as loans and receivables include cash and cash equivalents, trade and other receivables, advances to related parties and refundable deposits (presented as part of Other Current Assets accounts) in the consolidated balance sheet.

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

(c) Held-to-maturity Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are classified in non-current assets in the consolidated balance sheet, except those maturing within 12 months of the balance sheet date.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

(d) Available-for-sale 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 in the consolidated balance sheet unless management intends to dispose of the investment within 12 months from the balance sheet date.

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

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

Impairment losses recognized on financial assets are presented as part of Finance Costs in the consolidated income statement.

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

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured. All income and expense relating to financial assets recognized in profit or loss are presented in the consolidated income statement line item Finance Income and Finance Costs, respectively.

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

2.6 Merchandise Inventories, Services Parts, Supplies and Others

At the balance sheet date, inventories are valued at the lower of cost and net realizable value. Cost incurred in bringing each product to its present location and condition is determined as follows:

(a) *Raw materials, service parts, supplies and others* – purchase cost on a moving average method. The cost of raw materials, service parts, supplies and others include all costs directly attributable to the acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities; and,

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

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

2.7 Real Estate Inventories

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

(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 Property, Plant and Equipment

Property, plant and equipment, except land, are stated at cost less accumulated depreciation and amortization and any impairment in value. Land is valued at cost less accumulated impairment loss.

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

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

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

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

Leasehold improvements are amortized from 2 to15 years or over the term of the lease, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16).

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

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

2.9 Investment Property

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is measured initially at acquisition cost, including transaction costs. Starting 2008, investment property is stated at fair value as determined by independent appraisers (see Note 12). The carrying amounts recognized in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in the income statement as Fair Value Gains from Investment Property and Gain on Sale of Investment Property, respectively, under Other Operating Income account.

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

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

2.10 Financial Liabilities

Financial liabilities include interest-bearing loans, trade and other payables, advances from related parties and refundable deposits, which are measured at amortized cost using the effective interest rate method.

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

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 and advances from related parties are recognized initially at their fair values and subsequently measured at amortized cost less settlement payments.

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

2.11 Business Combination

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

Goodwill acquired in a business combination is initially measured at cost which is the excess of the cost a business combination over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.16).

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

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

2.12 Provisions

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

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

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

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

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

2.13 Revenue and Expense Recognition

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* – 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. This is generally when the customer has taken undisputed delivery of goods.

For LCD televisions, customers pay the bundle amount, which includes LCD, internet and/or cable subscriptions. Total selling price will be allocated among and/or between the items included in the bundle based on the relative fair values of these separately identifiable components.

The recognition criteria for each of these components are described as follows:

- *LCD televisions* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully as part of Sale of Goods in the consolidated income statement.

- *Internet subscription income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the balance sheet at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

- *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the balance sheet at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

(c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.14).

(d) *Warranty and network support fee (shown as part of rendering of services)* – Revenue from warranty is recognized within 30 days after the actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by a third party of its products (see Note 27).

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

(f) *Interest income on loans receivables* – Revenue is recognized when earned using effective interest method. In accordance with RA 8556, interest income is not recognized on loans receivable that remain outstanding beyond their maturity dates.

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) *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.

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

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding value-added tax (VAT) and trade discounts.

Cost and expenses are recognized in the consolidated income statement upon consumption of the goods and/or utilization of the service 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 on an accrual basis.

2.14 Leases

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

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

2.15 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

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

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

(c) Translation of Financial Statements of a Foreign Subsidiary

The operating results and financial position of BRL and Fil-Dragon, which are measured using the U.S. dollar and Chinese Yuan Renminbi, respectively, their respective functional currencies, are translated to Philippine Pesos, the Group's functional currency as follows:

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in BRL and Fil-Dragon is taken to equity under Revaluation Reserves.

When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the gain or loss on sale of the investment.

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

2.16 Impairment of Non-financial Assets

The Group's property, plant and equipment, investment property and other non-financial assets, except for goodwill (see Note 2.11), are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

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

2.17 Employee Benefits

(a) Retirement Benefit Asset and Obligation

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

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

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

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

(b) Termination Benefits

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

(c) Compensated Absences

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

2.18 Income Taxes

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

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

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

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

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

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

2.19 Equity

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

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

Treasury shares are stated at the cost of reacquiring such shares.

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

Retained earnings (deficit) includes all current and prior period results as reported in the consolidated income statement.

2.20 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) by the weighted average number issued and outstanding common shares during the year giving retroactive effect to stock dividends declared, stock split and reverse stock split during the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of December 31, 2008, 2007 and 2006, the Company does not have potential dilutive shares.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

(a) Held-to-maturity Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as held-to-maturity investments the Group evaluates its intention and ability to hold such investments up to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as available-for-sale financial assets. In such case, the investments would therefore be measured at fair value, not at amortized cost.

(b) Impairment of Available-for-sale 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.

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property 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 property but also to other assets used in the production or supply process.

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

(d) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or a 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. As of December 31, 2008 and 2007, management determined that all leases are operating leases.

(e) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Notes 2.12 and 29.

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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Determining Net Realizable Value of Merchandise Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories (P209.0 million and P175.5 million as of December 31, 2008 and 2007, respectively) is affected by price changes. Changes on these may cause significant adjustments to the Group's inventories within the next financial year.

(b) Costing of Inventories Other Than Real Estate Inventories

The Group's inventory costing policies and procedures were based on a careful evaluation of production operations. Review of the benchmarks set by management necessary for the determination of standard inventory costs and allocation of overhead is being done regularly. Actual data are being compared to the related benchmarks and critical judgment is exercised to assess reasonableness of the costing policies and procedures which are currently in place.

(c) Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of depreciable property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 11. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above. There is no change in estimated useful lives of property, plant and equipment during the year.

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

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

Impairment losses provided in 2008, 2007 and 2006 amounted to P17.6 million, P11.6 million, and P25.7 million, respectively. Allowance for impairment as of the end of 2008 and 2007 totaled P115.1 million and P120.5 million, respectively (see Note 7).

(e) *Valuation of Financial Assets Other than Trade and Other Receivables*

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

Fair value losses on available-for-sale financial assets amounted to P152.5 million in 2008 and P80,000 in 2007 and recognized in the equity section of the consolidated balance sheets (see Note 8).

(f) *Allocation of Income Among LCD Television, Internet Subscription and Other Income*

The Company allocates the income coming from its bundled sales, which compose of LCD television, internet and/or cable subscriptions based on the estimated selling price of each revenue component. Management believes that the estimated selling price represents the relative fair value of each component.

(g) *Warranty Costs*

The Company offers a one-year warranty for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales. Warranty costs also include the actual cost of materials used in repairing the electronic products.

(h) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets as of December 31, 2008 and 2007 is disclosed in Note 22.

(i) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-current assets in 2008, 2007 and 2006.

(j) Retirement and Other Benefits

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

The estimated present value of the retirement benefit obligation amounted to P74.6 million and P96.1 million as of December 31, 2008 and 2007, respectively, while the fair value of plan assets as of those dates amounted to P171.5 million and P152.5 million, respectively (see Note 21.2).

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure.

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for products of a third party (see Note 27.1).

(c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties.

(d) Trading segment is involved in the sale of plastic resins, professional audio and video equipment and peripherals, and mobile phones and LCD televisions.

(e) Investing, Financing and Others segment is presently engaged in the business of fund investments, automotive and consumer financing, and credit extension.

Segment accounting policies are the same as the policies described in Note 2.

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, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of December 31, 2008, 2007 and 2006 and the related revenue and profit information for the years then ended (in thousands).

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2008							
REVENUES							
Sales to external customers	P 281,534	P 480,402	P 146,298	P 759,326	P 98,399	P -	P 1,765,959
Intersegment sales	-	3,201	18,035	-	16,592	(37,828)	-
Total revenues	P 281,534	P 483,603	P 164,333	P 759,326	P 114,991	(P 37,828)	P 1,765,959
RESULTS							
Segment results	(P 9,814)	P 32,826	P 181,648	P 60,126	P 90,852	(P 18,533)	P 337,105
Finance income	1,901	7,675	33,022	2,149	32,226	-	77,013
Finance costs	(4,318)	(14,189)	(4,515)	(862)	(26,473)	-	(50,359)
Other gains (losses) – net	-	271	4,037	-	568	452	5,328
Income (loss) before tax	(12,231)	26,583	214,192	61,417	97,213	(18,081)	369,087
Tax expense	(3,408)	(17,138)	13,756	(6,626)	(8,699)	3,876	(18,239)
Net income (loss)	(P 15,639)	P 9,444	P 227,948	P 54,791	P 88,514	(P 14,205)	(P 350,848)

	Broadband Services Consolidated	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	
ASSETS AND LIABILITIES							
Segment assets	P 685,158	P 767,019	P 5,391,899	P 357,129	P 3,471,190	(P 1,404,475)	P 9,267,920
Investments in subsidiaries – at cost	-	-	87,931	-	3,190,971	(3,278,902)	-
Advances to related parties	171,447	37,158	452,888	7	854,603	(1,323,776)	192,327
Total assets	P 856,605	P 804,177	P 5,932,718	P 357,136	P 7,516,764	(P 6,007,153)	P 9,460,247
Segment liabilities	P 84,787	P 188,443	P 1,083,424	P 34,960	P 417,715	(P 72,720)	P 1,736,609
Advances from related parties	224,806	22,863	869,923	143,278	153,738	(1,302,903)	111,705
Total liabilities	P 309,593	P 211,306	P 1,953,347	P 178,238	P 571,453	(P 1,375,623)	P 1,848,314
OTHER SEGMENT INFORMATION							
Capital expenditures	P 309,593	P 11,024	P 18,196	P 1,834	P 40	P -	P 66,870
Depreciation and amortization	619,186	18,293	5,744	1,613	149	5,117	79,373
Impairment losses	928,779	14,052	-	14	-	-	14,066
Other non-cash expenses	1,857,558	319	-	1,729	-	-	2,048
2007							
REVENUES							
Sales to external customers	P 210,616	P 481,549	P 208,197	P 418,500	P 106,969	P -	P 1,425,831
Intersegment sales	17,000	10,591	14,619	-	10,194	(52,404)	-
Total revenues	P 227,616	P 492,140	P 222,816	P 418,500	P 117,163	(P 52,404)	P 1,425,831
RESULTS							
Segment results	(P 16,022)	P 15,515	P 72,225	P 88,971	P 216	P 2,088	P 162,993
Finance income	2,662	5,719	9,385	4,389	42,749	(31,852)	33,052
Finance costs	(13,128)	(7,239)	(1,447)	(182)	(155,389)	12,115	(165,270)
Other gains (losses) – net	-	(2,036)	(743)	(725)	22,275	(14,033)	4,738
Income (loss) before tax	(26,488)	11,959	79,420	92,453	(90,149)	(31,682)	35,513
Tax expense	1,597	(9,034)	(17,669)	(2,859)	(24,158)	(8,934)	(61,057)
Net income (loss)	(P 24,891)	P 2,925	P 61,751	P 89,594	(P 114,307)	(P 40,616)	(P 25,544)
ASSETS AND LIABILITIES							
Segment assets	P 718,506	P 534,999	P 2,210,066	P 308,004	P 1,768,559	P 1,436,075	P 6,976,209
Investments in subsidiaries – at cost	-	-	87,930	-	3,182336	(3,270,266)	-
Advances to related parties	171,454	37,158	452,888	-	854,603	(1,386,012)	130,091
Total assets	P 960,168	P 534,999	P 4,737,810	P 308,004	P 7,506,953	(P 5,042,333)	P 9,005,601
Segment liabilities	P 87,647	P 171,715	P 1,132,763	P 39,113	P 545,440	(P 193,758)	P 1,782,920
Advances from related parties	119,282	910	545,548	133,940	200,494	(901,690)	98,484
Total liabilities	P 206,929	P 172,625	P 1,678,311	P 173,054	P 745,934	(P 1,095,448)	P 1,881,404
OTHER SEGMENT INFORMATION							
Capital expenditures	P 22,107	P 8,797	P 27,237	P 1,683	P 311	P -	P 60,045
Depreciation and amortization	55,613	22,477	14,705	1,533	131	-	94,458
Impairment losses	-	2,209	1,400	-	1,430	-	5,039
Other non-cash expenses	-	-	-	4,457	(12,612)	-	(8,155)

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2006							
REVENUES							
Sales to external customers	P 198,187	P 427,988	P 104,398	P 302,071	P 19,343	P -	P 1,051,987
Intersegment sales	-	2,651	13,113	-	5,040	(20,804)	-
Total revenues	P 198,187	P 430,639	P 117,511	P 302,071	P 24,383	(P 20,804)	P 1,051,987
RESULTS							
Segment results	(P 101,359)	(P 16,305)	P 1,230	P 13,540	(P 72,308)	P 80,283	(P 94,919)
Finance costs	-	(85)	-	-	(29,491)	62,275	32,699
Other gains (losses) – net	-	695	(29,975)	32	-	8,600	(20,648)
Income (loss) before tax	(101,359)	(15,695)	(28,745)	13,572	(101,799)	151,157	(82,868)
Tax expense	45	9,584	6,178	3,560	(14,074)	-	5,293
Net income (loss)	(P 101,404)	(P 25,279)	(P 34,923)	P 10,012	(P 87,725)	P 149,800	(P 88,161)
ASSETS AND LIABILITIES							
Segment assets	P 798,806	P 536,742	P 3,992,000	P 126,981	P 2,232,447	(P 289,630)	P 7,397,346
Investments in subsidiaries – at cost	-	-	421,389	-	4,520,469	(4,941,858)	-
Advances to related parties	104,169	-	(7,175)	-	104,169	(154,342)	46,821
Total assets	P 902,975	P 536,742	P 4,406,214	P 126,981	P 6,857,085	(P 5,385,830)	P 7,444,167
Segment liabilities	P 104,083	P 116,355	P 187,459	P 22,684	P 467,942	(P 32,527)	P 865,996
Advances from related parties	100,472	263	99,958	236	1,951	(104,396)	98,484
Total liabilities	P 204,555	P 116,618	P 287,417	P 22,920	P 469,893	(P 129,220)	P 964,480
OTHER SEGMENT INFORMATION							
Capital expenditures	P 59,725	P 21,926	P 20,229	P 286	P 65	P -	P 102,231
Depreciation and amortization	56,833	28,034	32,571	2,021	176	-	119,635
Impairment losses	12,442	88	29,703	311	154,557	(140,295)	56,806
Other non-cash expenses	-	-	-	2,057	(13,111)	-	(11,054)

5. CASH AND CASH EQUIVALENTS

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

	2008	2007
Cash on hand and in banks	**P 259,919,934**	P 315,167,358
Short-term placements	**858,543,042**	891,824,435
	P1,118,462,976	P1,206,991,793

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 7 to 96 days and earn interest at the respective short-term placement rates ranging from 3% to 9% per annum in 2008 and 2007.

6. HELD-TO-MATURITY INVESTMENTS

In 2008, the Company reclassified its investments in foreign currency denominated bonds (previously classified as available-for-sale financial assets in the 2007 balance sheet) as held-to-maturity investments (see Note 8). These investments in bonds have fair values of P165,185,417 when the reclassification was made on October 31, 2008. The Company opted not to restate the financial statements in a partially retrospective manner as permitted by the amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Statement Disclosures*. As of December 31, 2008, these investments have carrying amounts of P161,289,378 and are presented under the non-current assets section of the 2008 balance sheet. As of December 31, 2008, the investment in bonds have maturities ranging from 6 to 493 months and bears nominal rates of ranging from 8.00% to 11.75%.

The amount of held-to-maturity investments amounting to P53,000,000, presented under the current asset section of the 2007 balance sheet pertained to various short-term money market placements which the Company intended to hold until maturity. As of December 31, 2007, these investments have maturity periods of 185 days and have interest rates at 8.00% per annum.

The Group's held-to-maturity investments as of December 31, 2008 are used as collateral as security for the payment of the Group's interest-bearing loans (see Note 14).

Management believes that the carrying amounts of held-to-maturity investments are a reasonable approximation of their fair values. As of December 31, 2008, the fair value of investment in bonds classified as held-to-maturity investments amounted to P59.5 million.

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2008	2007
Current:			
Trade receivables	25.2, 25.3	**P 282,072,386**	P 372,219,526
Advances to suppliers		**185,034,131**	-
Finance receivables	25.4	**67,509,623**	75,903,392
Advances to contractors	10	**4,845,709**	22,512,690
Others		**78,691,599**	100,686,819
		618,153,448	571,322,427
Allowance for impairment		**(115,068,504)**	(120,532,570)
		P 503,084,944	P 450,789,857
Non-current:			
Cash surrender value of life insurance		**P 452,684,719**	P 381,677,516
Finance receivables – net of current portion	25.4	**81,508,170**	100,524,443
Trade receivables		**11,915,023**	-
		P 546,107,912	P 482,201,959

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired and losses have been recognized accordingly.

A reconciliation of the allowance for impairment at beginning and end of 2008 and 2007 is shown below.

	Note	2008	2007
Balance at beginning of year		**P 120,532,570**	P 119,241,564
Impairment loss during the year	20.2	**17,603,434**	11,581,155
Write-off of receivables		**(15,188,268)**	-
Reversals of impairment losses	20.1	**(7,879,232)**	(10,290,149)
Balance at end of year		**P 115,068,504**	P 120,532,570

Trade and other receivables, except finance receivables, are usually collected within 30 to 90 days and are noninterest-bearing.

Advances to contractors pertain to downpayments made by ZTC in relation to the construction of the Tri-Towers condominium building, which is 99% completed as of December 31, 2008 and 2007 (see Note 10).

Interest rates on finance receivables range from 7.5% to 18% in 2008 and 9% to 18% both in 2007 and 2006. Certain business loans are secured by real properties and shares of stock of the borrowing companies which are owned by a related party (see Note 25.4).

Investment in cash surrender value of life insurance pertains to insurance policies purchased by BRL for its directors. The beneficiary of the insurance policies is SGI and the investment is accounted for under the Cash Surrender Value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately by BRL. The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid Insurance under Other Non-Current Assets and is amortized over 10 years (see Note 13). The investment in cash surrender value of life insurance is used as collateral for interest-bearing loans of BRL (see Note 14).

Other receivables include cash advances granted by Starworld in 2004 amounting to P30.5 million to a third party which is secured by the third party's stockholdings in a certain company to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). Due to certain delays in the arbitration proceedings with the Land Registration Auhtority (LRA), LARES still has not resumed the implementation of its land titling project with the government as of December 31, 2008. Management believes that the receivable is still recoverable as of December 31, 2008 and 2007.

The fair value of current trade and other receivables is not individually determined as the carrying amount is a reasonable approximation of fair value.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the consolidated balance sheets comprise the following available-for-sale financial assets:

	2008	2007
Current –		
Investments in foreign currency denominated bonds	**P 63,519,015**	P 388,448,319
Non-current:		
Club shares	**P 8,970,000**	P 8,950,000
Equity securities	**8,580,000**	8,580,000
Others	**1,216,518**	1,216,518
	18,766,518	18,746,518
Allowance for impairment	**(11,304,991)**	(11,134,991)
	P 7,461,527	P 7,611,527

The movements in the allowance for impairment as of December 31, 2008 and 2007 are as follows:

	Note	2008	2007
Balance at beginning of year		**P 11,134,991**	P 9,734,991
Impairment losses during the year	20.2	**170,000**	1,400,000
Balance at end of year		**P 11,304,991**	P 11,134,991

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

	Notes	2008	2007
Balance at beginning of year		**P 396,059,846**	P 529,414,765
Fair value loss – net		**(152,498,598)**	(80,000)
Disposals		**(7,225,289)**	(131,874,919)
Reclassification to held-to-maturity investments	6	**(165,185,417)**	-
Impairment losses	20.2	**(170,000)**	(1,400,000)
Balance at end of year		**P 70,980,542**	P 396,059,846

Investments in foreign currency denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 14).

Investment in equity securities include P8.6 million investment in shares of stock of Sony Philippines, Inc. (Sony), which was reclassified from the Investment in an Associate account in 2005 since management believes that the Company no longer has significant influence over the investee company. The investment in Sony is fully provided with allowance for impairment loss.

The fair values of other available-for-sale financial assets have been determined directly by reference to published prices in active market.

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 17.2).

	2008	2007
Merchandise and finished goods	**P 174,848,218**	P 134,863,612
Work-in process	**6,023,600**	3,168,275
Raw materials	**26,812,225**	16,327,723
Service parts, supplies and others	**49,504,835**	61,833,763
	257,188,878	216,193,373
Allowance for inventory obsolescence	**(48,204,641)**	(40,674,114)
	P 208,984,237	P 175,519,259

The movements in allowance for inventory obsolescence are as follows:

	Note	2008	2007
Balance at beginning of year		**P 40,674,114**	P 42,695,939
Reversals of inventory obsolescence		**(583,641)**	(1,396,008)
Recovery of allowance for inventory obsolescence		**-**	(868,383)
Loss on inventory obsolescence	17.2	**8,114,168**	242,566
Balance at end of year		**P 48,204,641**	P 40,674,114

10. REAL ESTATE INVENTORIES

This account is composed of:

	2008	2007
Land and land development costs:		
Land	**P 152,664,544**	P 152,664,544
Land development costs	**259,366,856**	222,041,937
	412,031,400	374,706,481
Allowance for impairment	**(2,022,800)**	(2,022,800)
	410,008,600	372,683,681
Property development costs:		
Construction in progress and development costs	**626,941,272**	552,995,647
	P1,036,949,872	P 925,679,328

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

Allowance for impairment loss pertains to the estimated cost of parcels of land and development costs which management believed may not be fully realized as a result of the Group's long-outstanding claims against the seller. No additional impairment losses were recognized in 2008, 2007 and 2006.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land. As of December 31, 2008 and 2007, lot areas totalling 83 hectares were acquired, 65 hectares of which were fully developed and 18 hectares are still under development.

The Group, through ZTC, has initiated the planning and construction of the "Tri-Towers" condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC (see Note 1.1). As of December 31, 2008, the construction of Tower 1 which started in 2007, is 99% complete.

In October 2007, ZTC obtained its permit to sell that would allow preselling of the condominium units, and has entered into several construction contracts with various contractors for the construction of the other towers. Advances made to contractors are shown as part of Trade and Other Receivables (see Note 7).

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2008 and 2007 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2008												
Cost	P 897,854,682	P 241,233,694	P 143,244,219	P 121,627,714	P 76,863,644	P 1,220,733,104	P 113,525,125	P 63,735,966	P 39,841,558	P 15,945,039	P 2,627	P 2,934,607,372
Accumulated depreciation and amortization	-	(133,384,040)	(130,585,662)	(102,273,939)	(57,521,708)	(499,677,089)	(77,504,658)	(59,431,327)	(36,523,222)	(14,558,503)	-	(1,111,460,148)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 72,849,654**	**P 12,658,557**	**P 19,353,775**	**P 19,341,936**	**P 371,056,015**	**P 36,020,467**	**P 4,304,639**	**P 3,318,336**	**P 1,386,536**	**P 2,627**	**P 1,438,147,224**
December 31, 2007												
Cost	P 897,854,682	P 240,161,515	P 142,173,590	P 110,701,600	P 70,243,765	P 1,187,347,152	P 111,482,648	P 61,929,213	P 38,221,392	P 14,759,461	P 2,627	P 2,874,877,645
Accumulated depreciation and amortization	-	(120,631,439)	(128,831,970)	(95,666,773)	(53,349,960)	(458,643,067)	(72,319,021)	(56,730,284)	(34,648,817)	(13,617,345)	-	(1,034,438,676)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 84,530,076	P 13,341,620	P 15,034,827	P 16,893,805	P 378,704,085	P 39,163,627	P 5,198,929	P 3,572,575	P 1,142,116	P 2,627	P 1,455,438,969
December 31, 2006												
Cost	P 897,854,682	P 220,140,212	P 137,999,219	P 107,098,955	P 65,662,047	P 1,155,722,528	P 109,286,027	P 59,289,080	P 38,148,727	P 17,359,439	P 18,630,474	P 2,827,191,390
Accumulated depreciation and amortization	-	(108,908,439)	(122,948,561)	(89,575,041)	(49,105,061)	(397,272,864)	(67,009,709)	(54,123,749)	(32,685,205)	(15,614,150)	-	(936,326,163)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of property, plant and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2008, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 84,530,076	P 13,341,620	P 15,034,827	P 16,893,805	P 378,704,085	P 39,163,627	P 5,198,929	P 3,572,575	P 1,142,116	P 2,627	P 1,455,438,969
Balance at acquisition					2,082,624							2,082,624
Additions		1,072,179	1,070,629	10,926,114	7,212,395	33,385,952	2,042,477	1,806,753	1,620,166	1,185,578	-	60,322,243
Disposals	-	-	-		(323,960)	-	-	-	-	-	-	(323,960)
Depreciation and amortization charges for the year	-	(12,752,601)	(1,753,692)	(6,607,166)	(6,522,928)	(41,034,022)	(5,185,637)	(2,701,043)	(1,874,405)	(941,158)	-	(79,372,652)
Balance at December 31, 2008 net of accumulated depreciation, amortization and impairment losses	**P 897,854,682**	**P 72,849,654**	**P 12,658,557**	**P 19,353,775**	**P 19,341,936,**	**P 371,056,015**	**P 36,020,467**	**P 4,304,639**	**P 3,318,336**	**P 1,386,536**	**P 2,627**	**P 1,438,147,224**
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 76,231,773	P 15,050,658	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,745,289	P 18,630,474	P 1,504,948,611
Additions		1,390,829	820,007	3,665,961	8,616,226	16,976,051	2,196,621	2,640,133	72,665	754,386	2,627	37,135,506
Reclassification		18,630,474									(18,630,474)	-
Disposals	-	-	-	(31,668)	(659,028)	-	-	-	-	-	-	(690,696)
Depreciation and amortization charges for the year	-	(11,723,000)	(2,529,045)	(6,123,380)	(7,620,379)	(46,721,630)	(5,309,312)	(2,606,535)	(1,963,612)	(1,357,559)	-	(85,954,452)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment losses	**P 897,854,682**	**P 84,530,076**	**P 13,341,620**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,142,116**	**P 2,627**	**P 1,455,438,969**

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and building and improvements amounts to P1.0 billion and P153.7 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

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

	Notes	2008	2007
Cost of services	17.1	**P 52,499,225**	P 60,489,097
Cost of sales	17.2	**5,037,009**	2,390,987
General and administrative expenses		**18,394,317**	21,227,471
Selling and distribution costs		**3,442,101**	1,846,897
	19	**P 79,372,652**	P 85,954,452

12. INVESTMENT PROPERTY

The Group's investment property 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 income statements, and have direct costs such as real estate taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated income statements (see Note 17.3).

Prior to 2008, the Group measured its investment property at cost, less accumulated depreciation and amortization. In 2008, the Group's BOD approved the change in accounting policy for investment property from the cost model to the fair value model in order to present reliable and more relevant information on the carrying amounts of investment property. The change in accounting policy was applied retrospectively to January 1, 2007, which resulted in an increase in the carrying amounts of investment property as of January 1, 2008 and 2007 by P1.8 billion and P1.7 billion, respectively, and decreases the balances of Deficit as of January 1, 2008 and 2007 by P886.3 million and P860.5 million, respectively (see Note 23.3). The 2007 consolidated financial statements were accordingly restated as a result of the accounting change. The effects of the change in fair value of investment on years prior to 2007 are not practicable to determine, hence, the 2006 consolidated financial statements have not been restated.

The fair values of the Group's investment property as of January 1, 2007 were determined based on the appraisal report obtained by the Company dated February 21, 2007. There were no new appraisal reports obtained until December 31, 2008; management, however, believes that the fair values as of January 1, 2007 still approximate the fair values of these assets as of December 31, 2007. The fair values of the Company's investment property as of December 31, 2008 were determined based on appraisal report obtained by the Group in 2009.

Prior to 2008, ZTC's investment property were presented as part of Real Estate Inventories, thus, remeasured at net realizable value. In 2008, ZTC's BOD approved the reclassification of assets as investment property remeasured using the fair value model. The remeasurement of the assets at fair value resulted in a gain of P15.1 million shown as part of Fair Value Gains on Investment Property under Other Operating Income in the 2008 consolidated income statement (see Note 18). The fair values of the Company's investment property as of December 31, 2008 were determined based on appraisal report obtained by ZTC in April 2009.

The changes to the carrying amounts of investment property (after the retrospective application of the change in measurement to the fair value model) as presented in the consolidated balance sheets can be summarized as follows as of December 31:

	Land and Improvements	Buildings and Improvements	Total
2008:			
Balance at beginning of year	P 2,814,954,380	P 674,539,564	P 3,489,493,944
Additions	6,371,249	130,325,673	136,696,922
Unrealized gain on fair value adjustment of investment properties	17,825,022	145,318,987	163,144,009
Balance at end of year	P 2,839,150,651	P 950,184,224	P 3,789,334,875
2007:			
Balance at beginning of year	P 2,814,875,204	P 665,090,462	P 3,479,965,666
Additions	79,176	9,449,102	9,528,278
Balance at end of year	P 2,814,954,380	P 674,539,564	P 3,489,493,944

Management plans to obtain annual appraisal report on its investment property from independent appraisers.

Certain land properties owned by SMC and SC are the subject of litigations brought about by third parties against the Company (see Note 29.4).

13. OTHER ASSETS

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

	Notes	2008	2007
Current:			
Input VAT		**P 101,273,524**	P 93,679,325
Creditable withholding taxes		**76,631,574**	38,401,058
Refundable deposits		**3,368,991**	-
Prepaid expenses		**2,412,969**	19,024,776
Others		**12,970,828**	3,165,366
		P 196,657,886	P 154,270,525
Non-current:			
Investment in notes	25.7	**P 120,783,064**	P -
Prepaid insurance	7	**12,742,696**	13,580,149
Refundable deposits - net		**12,147,733**	12,602,393
Others		**3,257,716**	4,449,844
		P 148,931,209	P 30,632,386

14. INTEREST-BEARING LOANS

This account pertains to U.S. dollar denominated short-term loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of life insurance and all outstanding available-for-sale financial assets and held-to-maturity investments (see Notes 6, 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.90% to 6.56% in 2008 and 2007. Interest expense arising from these loans are presented as part of Finance Costs in the consolidated income statements (see Note 20.2).

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at balance sheet date.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2008	2007
Trade payables	25.2	**P 98,424,639**	P 130,982,514
Refundable deposits	16	**65,597,071**	7,804,080
Accrued expenses	29.4	**49,012,203**	87,981,559
Provision for warranty	27.2	**12,828,388**	9,367,443
Other payables		**121,589,196**	132,856,833
		P 347,451,497	P 368,992,429

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

The changes in provision for warranty, presented as part of Other Operating Expenses (see Note 19), are as follows:

	2008	2007
Balance at beginning of year	**P 9,367,443**	P 6,374,558
Estimated warranty claims during the year	**11,405,645**	6,733,724
Actual warranty claims during the year	**(3,744,676)**	(3,523,946)
Reversals during the year	**(4,200,024)**	(216,893)
Balance at end of year	**P 12,828,388**	P 9,367,443

Other payables primarily consist of output taxes payable and unearned revenues resulting from advances received from customers for various services provided by the Group. Other payables also include deposits received by Starworld amounting to P49.6 million from a buyer of parcels of land.

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

16. REFUNDABLE DEPOSITS

Refundable deposits represents long-term rental deposits returnable to various tenants totalling P12,990,096 with respect to lease agreements expiring or terminating by 2009 to 2011. The refundable deposits were remeasured at amortized cost using the effective interest rate of 15.24% to 15.77% for nine and ten years, respectively, at the inception of the lease terms in 1999 and 2000. Interest expense recognized in 2008, 2007 and is presented under the Finance Costs account in the consolidated income statements (see Note 20.2). There were no interest expense recognized on refundable deposits in 2006. The present value of these non-current refundable deposits as of December 31, 2008 and 2007 amounted to P9.7 million and P8.4 million, respectively.

The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 15).

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Services

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

	Notes	**2008**	2007	2006
Salaries and employee benefits		**P 92,915,737**	P 94,001,287	P 101,967,249
Materials and other consumables		**79,959,938**	87,631,420	75,758,604
Depreciation and amortization	11	**52,499,225**	60,489,097	57,102,390
Communication, light and water		**43,057,252**	43,447,018	41,819,591
Transponder rental and leased line		**36,221,655**	35,872,080	40,399,563
Outside services		**32,707,889**	62,269,844	31,484,728
Rentals	29.3	**31,401,566**	26,692,873	38,857,726
Transportation and travel		**18,912,913**	18,782,539	19,236,662
Repairs and maintenance		**16,898,043**	14,975,052	25,940,717
Cable services		**7,232,143**	7,500,000	5,075,250
Others		**24,030,749**	31,172,204	22,524,673
	19	**P 435,837,110**	P 482,833,414	P 460,167,153

Others primarily consist of subcontracting services, insurance and provision for warranty services recognized by OLC.

17.2 Cost of Sales

The details of this account are shown below.

	Notes	**2008**	2007	2006
Merchandise and finished goods at beginning of year	9	**P 134,863,612**	P 30,409,716	P 36,601,637
Net purchases of merchandise during the year	19, 25.2	**669,532,022**	355,957,936	272,764,218
Balance carried forward		**P 804,395,634**	386,367,652	309,365,855

	Notes	2008	2007	2006
Balance brought forward		**P 804,395,634**	P 386,367,652	P 309,365,855
Cost of goods manufactured:				
Raw materials at beginning of year		**16,327,723**	13,193,852	19,623,731
Work- in-process at beginning of year		**3,168,275**	2,459,891	6,645,348
Net purchases of raw materials during the year		**90,124,352**	101,264,530	56,818,184
Direct labor		**27,375,112**	18,890,315	22,741,002
Manufacturing overhead	11	**39,845,604**	37,422,669	40,010,376
Raw materials at end of year	9	**(26,812,225)**	(16,327,723)	(13,193,852)
Work-in-process at end of year	9	**(6,023,600)**	(3,168,275)	(2,459,891)
		144,005,241	153,735,259	130,184,898
Goods available for sale		**948,400,875**	540,102,911	439,550,753
Merchandise and finished goods at end of year	9	**(174,848,218)**	(134,863,612)	(30,409,716)
Loss on inventory obsolescence	9	**8,114,168**	242,566	-
Cost of disposed inventories		**442,921**	-	-
		8,557,089	242,566	-
	19	**P 782,109,746**	P 405,481,865	P 409,141,037

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2008	2007	2006
Rentals		**P 10,572,725**	P 9,230,693	P 2,285,640
Taxes and licenses		**10,134,002**	11,580,592	13,639,389
Light and water		**5,872,358**	6,664,736	7,201,448
Security and janitorial services		**4,641,417**	4,306,696	3,596,262
Depreciation and amortization	12	**3,398,863**	1,646,657	31,472,144
Repairs and maintenance		**2,683,965**	1,569,342	2,035,839
Salaries and employee benefits		**857,946**	717,497	849,946
Others		**1,372,304**	1,538,704	1,909,705
	19	**P 39,533,580**	P 37,254,917	P 62,990,373

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Note	2008	2007	2006
Fair value gains on investment property	12	**P 163,114,009**	P -	P -
Increase in cash surrender value of investment in life insurance		**13,558,294**	12,493,503	13,177,887
Others		**15,734,366**	13,054,702	16,449,663
		P 192,406,669	P 25,548,205	P 29,627,550

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature is shown below.

	Notes	2008	2007	2006
Net purchases of merchandise inventories	17.2	**P 669,532,022**	P 355,957,936	P 272,764,218
Salaries and employee benefits	21.1	**237,147,178**	215,531,162	218,783,088
Materials, supplies and other consumables		**175,357,667**	188,169,656	149,222,433
Depreciation and amortization	11	**79,372,652**	85,954,452	118,277,074
Communication, light and water		**76,133,320**	81,899,585	74,988,181
Manpower and other outside services		**69,697,342**	111,560,549	60,531,478
Cost of real estate		**22,470,496**	61,997,555	8,481,841
Rentals	25.3, 29.3	**46,995,595**	40,327,073	40,502,990
Transportation and travel		**38,813,898**	32,261,048	34,418,432
Repairs and maintenance		**37,446,499**	28,603,447	39,868,888
Transponder rental and leased line		**36,850,372**	35,872,080	39,186,031
Taxes and licenses		**26,742,657**	31,216,226	27,572,073
Loss on inventory obsolescence	9	**8,114,168**	242,566	1,417,413
Change in merchandise, finished goods and work-in-process inventories		**(46,145,858)**	(99,401,238)	10,377,378
Others	15	**142,908,619**	118,184,625	80,141,759
		P1,621,436,627	P1,288,386,722	P1,176,533,277

Others primarily consists of advertising and promotion expenses, subcontracting services, taxes and licenses, cable services and insurance expense incurred by the Group.

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

	Notes	2008	2007	2006
Cost of services	17.1	**P 435,837,110**	P 482,833,414	P 460,167,153
Cost of sales	17.2	**782,109,746**	405,481,865	409,141,037
Cost of rentals	17.3	**39,533,580**	37,254,917	62,990,373
Cost of real estate sold		**22,470,496**	61,997,555	8,481,841
General and administrative expenses		**267,072,584**	270,070,987	213,572,741
Selling and distribution costs		**74,413,111**	30,747,984	22,180,132
		P1,621,436,627	P1,288,386,722	P1,176,533,277

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2008	2007	2006
Interest income from banks	4	**P 31,190,862**	P 19,472,944	P 13,791,568
Fair value gains on financial assets at fair value through profit or loss – net		**-**	-	29,821,299
Foreign currency gains		**37,942,980**	-	-
Reversal of impairment loss on receivables	7	**7,879,232**	10,290,149	-
Gain on sale of financial assets		**-**	2,595,101	7,508,465
Others		**-**	693,414	1,421,250
		P 77,013,074	P 33,051,608	P 52,542,582

In 2007, the Company recognized a gain from the disposal of its financial assets designated as at fair value through profit or loss amounting to P2.6 million. The gain from disposal is presented as part of Finance Income account in the 2007 consolidated income statement.

Interest income from banks of SGI and BRL amounting to P81.2 million, P89.3 million and P105.1 million in 2008, 2007 and 2006, respectively, are presented as Interest Income under Revenues in the consolidated income statement.

20.2 Finance Costs

This account consists of the following:

	Notes	**2008**	2007	2006
Interest expense arising from loans	14	**P 21,161,120**	P 28,368,954	P 29,575,943
Impairment losses on trade and other receivables	7	**17,603,434**	11,581,155	25,685,517
Foreign currency losses		**4,568,448**	119,446,635	61,065,963
Impairment losses on available-for-sale financial assets	8	**170,000**	1,400,000	8,600,000
Others		**6,856,178**	4,473,086	-
		P 50,359,180	P 165,269,830	P 124,927,423

20.3 Other Gains (Losses)

This account consists of the following:

	Note	**2008**	2007	2006
Gain on sale of property and equipment	11	**P 945,857**	P 174,168	P 184,209
Gain (loss) on sale of investments		**(41,776)**	2,011,066	-
Impairment of land and leasehold rights held as investment property - net		**-**	-	(21,103,136)
Others – net		**4,599,231**	2,553,183	271,107
		P 5,503,312	P 4,738,417	(P 20,647,820)

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expense recognized for salaries and employee benefits is summarized below (see Notes 19 and 25.7).

	2008	2007	2006
Short-term benefits	**P 219,621,396**	P 206,010,002	P 213,245,448
Retirement benefits	**13,870,070**	9,447,660	5,059,243
Termination benefits	**3,655,712**	73,500	478,397

21.2 Employee Retirement Benefit Obligation

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

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

	2008	2007
Fair value of plan assets	**P 103,984,335**	P 115,047,327
Present value of the obligation	**36,020,848**	73,028,736
Excess of plan assets	**67,963,487**	42,018,591
Unrecognized actuarial losses (gains)	**(23,284,732)**	193,080
Retirement benefit asset	**P 44,678,755**	P 42,211,671

The amounts of retirement benefit obligation of SGI and SBC that is recognized in the consolidated balance sheets are determined as follows:

	2008	2007
Fair value of plan assets	**P 67,553,115**	P 37,420,112
Present value of the obligation	**38,583,434**	23,114,304
Excess of plan assets	**28,969,681**	14,305,808
Unrecognized actuarial gains	**(36,332,281)**	(17,553,716)
Retirement benefit obligation	**P 7,362,600**	P 3,247,908

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

	2008	2007	2006	2005	2004
Fair value of plan assets	P 171,537,450	P 152,467,439	P 151,042,443	P 113,584,009	P 95,138,340
Present value of the obligation	74,604,282	96,143,040	78,556,734	66,872,164	48,933,810
Excess in the plan	P 96,933,168	P 56,324,399	P 72,485,709	P 46,711,845	P 46,204,530

Experience adjustments arising from the plan assets amounted to P2.4 million in 2008, P2.5 million in 2007 and P23.4 million in 2006. Management has determined that experience adjustments on plan liabilities are not material for all years presented.

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

	2008	2007
Balance at beginning of year	**P 96,143,040**	P 78,556,734
Current service and interest cost	**21,574,350**	19,355,460
Benefits paid	**(409,282)**	(11,051,415)
Actuarial gains (losses)	**(42,703,826)**	9,282,261
Balance at end of year	**P 74,604,282**	P 96,143,040

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

	2008	2007
Balance at beginning of year	**P 152,467,439**	P 151,042,443
Contributions paid into the plan	**12,222,463**	5,917,091
Benefits paid by the plan	**(409,282)**	(11,051,415)
Expected return on plan assets	**9,148,046**	9,062,547
Actuarial losses	**(1,891,216)**	(2,503,227)
Balance at end of year	**P 171,537,450**	P 152,467,439

Actual returns on plan assets amounted to P8.8 million, P6.3 million and P32.8 million in 2008, 2007 and 2006, respectively. The Group expects to contribute P21.4 million in contributions to retirement benefit plans in 2009.

The plan assets consist of the following:

	2008	2007
Government securities	**P 155,637,823**	P 146,834,608
Mutual and trust funds	**15,899,627**	5,059,044
Others	**-**	573,787
	P 171,537,450	P 152,467,439

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

	2008	2007	2006
Current service costs	**P 13,787,182**	P 13,187,011	P 6,707,541
Interest costs	**7,787,168**	6,168,449	7,494,229
Expected return on plan assets	**(9,148,046)**	(9,062,547)	(9,115,264)
Net actuarial gains recognized during the year	**(606,878)**	(845,253)	(27,263)
Effect of asset limit	**2,050,644**	-	-
	P 13,870,070	P 9,447,660	P 5,059,243

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

	2008	2007	2006
Discount rates	**8% - 11%**	7% - 8%	10% - 12%
Expected rate of return on plan assets	**5%**	6%	8%
Expected rate of salary increases	**9%**	10%	10%

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 21 years for both males and females.

The overall expected long-term rate of return on assets is 6%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

22. TAXES

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

	2008	2007	2006
Consolidated income statements:			
Current tax expense:			
Regular corporate income tax (RCIT) at 35%	**P 23,103,812**	P 22,709,880	P 17,537,525
Final taxes at 20% and 7.5%	**8,557,701**	3,161,000	9,730,448
Minimum corporate income tax (MCIT) at 2%	**4,174,555**	1,579,012	10,909
Preferential taxes at 5%	**863,011**	2,305,208	1,009,589
	36,699,079	29,755,100	28,288,471
Deferred tax income:			
Derecognition of deferred tax asset	**-**	16,227,675	-
Origination and reversal of temporary differences	**67,825,472**	16,007,114	(22,822,739)
Deferred tax resulting from a decrease in RCIT rate in 2009	**(86,285,836)**	-	-
Benefit from previously Unrecognized MCIT and net operating loss carry over (NOLCO)	**-**	(258,513)	(172,894)
Increase in RCIT rate	**-**	(674,017)	-
	(18,460,363)	(31,302,259)	(22,995,633)
Tax expense reported in the consolidated income statements	**P 18,238,717**	P 61,057,359	P 5,292,838

	2008	2007	2006
Consolidated statements of changes in equity –			
Deferred tax on fair value gains of available-for-sale financial assets (see Note 23)	**(P 15,000)**	(P 7,000)	(P 14,000)

Kita is duly registered with Clark Development Corporation (CDC) while SMC and Starworld are registered with Philippine Economic Zone Authority (PEZA) which entitle them to tax and duty-free importation of goods and exemption from national and local taxes (see Note 26).

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

	2008	2007	2006
Tax on pretax income (loss) at 35%	**P 129,180,280**	P 12,429,543	(P 29,003,755)
Adjustment for income subject to lower tax rates	**(6,474,812)**	(24,265,101)	(21,889,935)
Tax effects of:			
Decrease in deferred tax assets due to decrease in applicable tax rates	**(87,082,931)**	630,758	-
Income of foreign subsidiary not subject to taxes	**(17,961,718)**	(10,607,463)	(12,851,202)
Benefit from previously unrecognized deferred tax assets	**(15,321,707)**	(3,493,915)	-
Derecognized and unrecognized deductible temporary differences	**(9,171,371)**	71,227,354	54,296,279
Nondeductible expenses	**7,154,820**	8,426,448	14,392,256
Amortization of goodwill attributable to property, plant and equipment	**7,105,351**	7,105,351	7,105,351
Unrecognized MCIT	**5,828,640**	1,884,180	-
Unrecognized benefit from write-off of receivables	**4,057,815**	-	-
Loss (income) on non-recoverable foreign exchange loss	**(2,880,107)**	4,687,071	-
Non-taxable income	**(344,662)**	(6,098,478)	(51,597)
Fair value gains of financial assets at fair value through profit or loss	**-**	(908,285)	(10,460,762)
Deferred tax assets recognized	**-**	156,073	-
Others	**4,149,118**	126,346	3,756,203
Tax expense	**P 18,238,717**	P 61,057,359	P 5,292,838

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

	Consolidated Balance Sheets		Consolidated Income Statements		
	2008	2007	**2008**	2007	2006
Deferred tax assets:					
Allowance for impairment of					
Unamortized past service costs	**P 1,307,643**	P 1,875,056	**P 567,413**	(P 861,774)	(P 1,473,486)
receivables	**1,200,000**	10,081,768	**8,881,768**	(10,717,437)	(4,746,649)
Accrued employee benefits	**787,225**	1,167,900	**380,675**	1,167,900	529,773
Provisions for warranty	**463,111**	-	**(463,111)**	(1,105,318)	(1,105,318)
NOLCO	**445,827**	12,170	**(433,657)**	12,170	-
Allowance for inventory obsolescence	**95,735**	36,033	**(59,702)**	(574,256)	(260,289)
Advance rental	**-**	184,198	**184,198**	(261,991)	1,656,341
Accrued rent	**-**	65,436	**65,436**	65,436	-
Unrealized foreign currency losses	**-**	-	**-**	(16,935,656)	(16,935,656)
Deferred rent expense – PAS 17	**-**	-	**-**	(755,335)	(755,335)
Deferred tax assets	**4,299,541**	13,422,561	**9,123,000**	(29,966,261)	(23,090,619)
Deferred tax liabilities:					
Retirement benefits	**9,663**	-	**(9,663)**	2,985,779	296,299
Deferred rent income – PAS 17	**-**	(202,101)	**(202,101)**	4,088,873	1,179,403
	9,663	(202,101)	**(211,764)**	7,074,652	(1,475,702)
Deferred tax income			**P 8,911,256**	(P 22,891,609)	(P 21,614,917)
Net deferred tax assets	**P 4,309,204**	P 13,220,460			

The net deferred tax liabilities of companies which have a net deferred tax liability position as of December 31 relates to the following:

	Consolidated Balance Sheets		Consolidated Income Statements and Statements of Changes in Equity		
	2008	2007	**2008**	2007	2006
Deferred tax assets:					
Allowance for impairment of receivables	**P 8,238,807**	P 6,898,681	**(P 1,340,126)**	P 6,898,681	(P 406,108
Unamortized past service costs	**752,982**	886,126	**133,141**	886,123	2,231,362
Provision for warranty	**518,648**	1,204,889	**686,241**	1,204,889	767,117
Accrued rent income	**508,115**	-	**(483,857)**	-	-
Allowance for inventory obsolescence	**162,199**	355,220	**193,021**	355,220	338,429
Deferred revenue	**-**	94,837	**94,837**	94,837	1,590,909
Accrued employee benefits	**41,101**	-	**(41,101)**	-	1,167,855
NOLCO	**385,711**	-	**(385,711)**	-	-
Allowance for impairment of prepayments	**-**	-	**-**	-	231,056
Balance brought forward	**P 10,607,563**	P 9,439,750	**(P 1,167,813)**	P 9,250,076	P 6,732,836

	Consolidated Balance Sheets		Consolidated Income Statements and Statements of Changes in Equity		
	2008	2007	**2008**	2007	2006
Balance carried forward	**P 10,607,563**	P 9,439,750	**(P 1,167,813)**	P 9,250,076	P 6,732,836
Deferred tax liabilities:					
Fair value gains on investment property	**(732,976,965)**	(758,946,718)	**(25,969,753)**	1,020,307	-
Accumulated depreciation	**(106,147,291)**	(106,970,616)	**(823,325)**	4,719,303	-
Accrued rent income	**(5,248,442)**	(54,927)	**5,193,515**	(54,927)	-
Retirement benefits	**(3,737,097)**	(4,214,392))	**(477,295)**	(4,214,392)	(1,400,875)
Unrealized foreign currency gains	**(612,920)**	(1,221,845)	**(608,925)**	(1,221,845)	(5,395,010)
Deferred rent income – PAS 17	**(182,019)**	(4,778,726)	**(4,596,707)**	(4,778,726)	-
Deferred costs	**-**	-		-	1,317,667
	(848,904,734)	(876,187,224)	**(27,282,490)**	(4,530,280)	(8,113,552)
Deferred tax income recognized in consolidated income statements			**(P 28,450,303)**	P 4,719,796	(P 1,380,716
Deferred tax liability on change in fair value of available-for-sale financial assets and tax expense recognized directly in equity (see Note 23.6)	**60,000**	(70,000)	**P 10,000**	(P 7,000)	P 14,000
	60,000	(70,000)			
Net deferred tax liabilities	**(P838,237,171)**	(P866,677,474)			

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2008	P 26,225,127	P -	P -	P -	P 26,225,127	2011
2007	176,415,547	-	-	-	176,415,547	2010
2006	137,051,766	926,599	-	-	136,125,167	2009
2005	120,750,609	98,833	43,776,307	76,875,469	-	
	P 460,443,049	P 1,025,432	P 43,776,307	P 76,875,469	P 338,765,841	
MCIT:						
2008	P 4,174,555	P	P	P	P 4,174,555	2011
2007	367,720	-	-	-	367,720	2010
2006	10,929	-	-	-	10,929	2009
2005	77,640	-	-	77,640	-	
	P 4,630,844	P -	P -	P 77,640	P 4,553,204	

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.

	2008		2007	
	Amount	**Tax Effect**	Amount	Tax Effect
NOLCO	**P 324,462,550**	**P 97,338,765**	P 389,359,452	P 136,275,808
Unrealized foreign currency losses (gains)	**(6,427,631)**	**(1,928,289)**	59,619,781	20,866,923
Allowance for impairment of trade and other receivables	**95,334,593**	**28,600,378**	96,360,678	33,726,237
Allowance for impairment loss on available for-sale financial assets	**5,320,000**	**1,596,000**	5,220,000	1,827,000
Unrecognized retirement benefit expense	**4,738,517**	**1,421,555**	3,447,679	1,206,688
MCIT	**1,208,551**	**1,208,551**	1,656,652	1,656,652
Allowance for impairment of property, plant and equipment	**350,000,000**	**105,000,000**	385,000,000	134,750,000
Allowance for inventory obsolescence	**45,599,116**	**13,679,735**	37,804,064	13,231,422
Unamortized past service cost	**2,760,646**	**828,194**	3,443,603	1,205,261
	P 822,996,342	**P247,744,889**	P 981,911,909	P 344,745,991

23. EQUITY

23.1 Revaluation Reserves

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

	Notes	**2008**	2007	2006
Fair value gains on available-for-sale financial assets:				
Balance at beginning of year		**P 9,606,169**	P 12,336,169	P 10,860,725
Foreign currency losses		**(15,903,984)**	-	(821,675)
Fair value gains (losses) for the year – net of fair value gains recognized in consolidated income statements	8	**(99,074,418)**	(2,723,000)	2,311,119
Tax expense on fair value gains	22	**(15,000)**	(7,000)	(14,000)
Balance at end of year		**92,761,603**	9,606,169	12,336,169
Foreign currency differences:				
Balance at beginning of year		**(220,583,543)**	(49,155,985)	(4,960,585)
Currency differences on translating financial statements of foreign operations		**(73,042,124)**	(138,270,028)	(26,786,679)
Unrealized foreign currency loss on equity advances of SGI to BRL		**(12,162,331)**	(33,157,530)	(7,408,721)
Balance at end of year		**(305,787,998)**	(220,583,543)	(49,155,985)
		(P 213,026,395)	(P 210,977,374)	(P 36,819,816)

23.2 Prior Period Adjustments

(a) The balances of Kita's Deficit as of January 1, 2008 and 2007 were restated to reflect the effects of the prior period adjustments to correct certain misstatements in the financial statements as summarized below.

- Rental income in prior years was overstated by P3.4 million, P0.2 million, and P3.2 million in 2007, 2006, and 2005, respectively (see Note 19.4). This overstatement resulted from the changes in the terms of the lease agreements which were not considered in the application of PAS 17, *Leases*, and from improper accounting for rental deposits received.

- Depreciation expense and related accumulated depreciation for certain properties in prior years were understated by P6.6 million in 2007 and P1.5 million in 2006 and prior years.

(b) In 2006, as a result of SBC's change in policy in treating cable modems as part of Property, :Plant and Equipment, which were initially recorded as part of Inventories in the balance sheet, SBC recorded a prior period adjustment to the beginning balance of the Retained earnings account as of January 1, 2008 and 2007 to account for the unrecorded depreciation expense of the reclassified cable modems. The prior period adjustment resulted in a decrease in retained earnings and inventory accounts as of January 1, 2008 and 2007 by P14.6 million and an increase in property and equipment and accumulated depreciation on January 1, 2008 and 2007 by the same amount.

(c) In 2008, as a result of the Starworld's availment of the tax amnesty under R.A. 9480, the Tax Amnesty Law, which covers 2005 and prior taxable years, Starworld recorded a prior period adjustment to the balance of retained earnings as of January 1, 2008 and 2007 to reverse long-outstanding liabilities amounting to P9.0 million. The prior period adjustment resulted in an increase in Starworld's retained earnings as of December 31, 2008 and 2007 and a decrease in Estimated Liability for Land and Property Development by the said amount. Also, as a result of this adjustment, additional tax expense recorded as part of Taxes and Licenses presented in 2008 income statement, relating to the tax amnesty availment amounting to P500,000, was paid in March 5, 2008.

The restatement of the balance sheet items as of January 1, 2008 is summarized as follows:

	Notes	As Previously Reported	Prior Period Adjustment	As Restated
Changes in assets :				
Trade and other receivables	5	P 453,501,305	(P 2,711,448)	P 450,789,857
Merchandise inventories and supplies	9	190,167,830	(14,648,571)	175,519,259
Other current assets	13	160,009,964	(5,739,439)	154,270,525
Property, plant and equipment	11	1,456,897,277	(1,458,308)	1,455,438,969
		P 2,260,576,376	(P 24,557,766)	P 2,236,018,610

Forward

	Notes	As Previously Reported	Prior Period Adjustment	As Restated
Changes in assets –		P 2,260,576,376	(P 24,557,766)	P 2,236,018,610
Changes in liabilities –				
Trade and other payables	10	377,220,679	(8,228,250)	368,992,429
		P 1,883,355,697		P 1,867,026,181
Total adjustments to equity			(P 16,329,516)	

23.3 Retrospective Effect of a Change in Accounting Policy

The balances of unappropriated retained earnings (deficit) as of January 1, 2008 and 2007 were restated to reflect the effects of the change in accounting policy for investment property (see Note 12) as summarized below.

	January 1, 2008	January 1, 2007
Fair value gains	**P 1,281,949,921**	P 1,281,949,921
Deferred tax liabilities on fair value gains	**(758,946,718)**	(758,946,718)
Reversal of accumulated depreciation based on cost	**403,322,840**	369,448,081
Deferred tax effect on accumulated depreciation	**(109,284,234)**	(101,231,007)
Reversal of accumulated impairment losses	**69,321,594**	69,321,594
	P 886,363,403	P 860,541,871

The accounting change also resulted in an increase in the Investment Property account by P886.4 million and P860.5 million as of January 1, 2008 and 2007, respectively and a decrease in the previously reported net loss for 2007 by P28.1 million, net of tax, representing decrease in depreciation and amortization expense (see Note 9).

The change in accounting policy were not effected retrospectively from January 1, 2006 since there were no available information relative to the fair value measurements of the Group's Investment Property as of December 31, 2005.

24. EARNINGS (LOSS) PER SHARE

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

	2008	2007	2006
Net income (loss) attributable to equity holders of the parent company	**P 350,440,903**	(P 26,295,296)	(P 84,435,882)
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	**P 0.18**	(P 0.01)	(P 0.05)

There were no outstanding potentially dilutive instruments as of December 31, 2008, 2007 and 2006, hence, no information on diluted earnings (loss) per share is presented.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2008	2007	2006	**2008**	2007
Rendering of services:					
Use of cable infrastructure	**P 116,785,714**	P 85,392,857	P 65,096,591	**P 69,724,998**	P 59,967,007
Commissions	**1,455,268**	1,591,100	1,895,244	**39,057,253**	31,371,160
Management services	**1,200,000**	1,200,000	1,200,000	**-**	97,000
	P 119,440,982	P 88,183,957	P 68,191,835	**P 108,782,251**	P 91,435,167

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

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

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

Revenue from these transactions are recorded as part of Revenues from Rendering of Services and Sales of Goods in the consolidated income statements. The related outstanding receivables are recorded as part of Trade and Other Receivables in the consolidated balance sheets (see Note 7).

25.2 Purchase of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2008	2007	2006	**2008**	2007
Purchase of goods	**P 80,119,087**	P 79,097,937	P 72,099,355	**P 2,963,292**	P 15,738
Availment of management services	**-**	2,318,182	4,370,370	**-**	-
	P 80,119,087	P 81,416,119	P 76,469,725	**P 2,963,292**	P 15,738

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

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note17.1) and General and Administrative Expenses (see Note 19), respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions			Outstanding Balances	
	2008	2007	2006	**2008**	2007
Group as lessor	**P 545,296**	P 571,973	P 593,333	**P -**	P 53,384
Group as lessee	**P 190,269**	P 190,269	P 190,269	**P -**	P -

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rental in the consolidated income statements. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

SLC rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated income statements (see Note 19). There are no outstanding liabilities related to this lease in both 2008 and 2007.

25.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 8% in 2008 and 9% in 2007. Total interests earned from these loans amounted to P13.3 million in 2008 and P14.1 million in 2007, and is presented as part of Rendering of Services account in the consolidated income statements. The outstanding receivables from these business loans are shown as part of Loans and Other Receivables account in the consolidated balance sheets (see Note 5). The outstanding receivables as of December 31, 2008 and 2007 are as follows:

	2008	2007
Business loans:		
AA Export & Import Corporation	**P 90,191,405**	P 105,415,204
Avid Sales Corporation	**46,000,000**	46,000,000
	136,191,405	151,415,204
Car loans:		
TCL Sun, Inc.	**-**	168,902
	P 136,191,405	P 151,548,106

The business loan to AA Export & Import Corporation is originally repayable with a balloon payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, the 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. These business loans are secured by shares of stocks of the borrowing companies which are owned by a related party (see Note 4).

SMFI also granted unsecured business loan to Avid Sales Corporation amounting to P80.0 million. There were no principal repayments made in 2008 and 2007 related to the business loan.

Total principal repayments received on business loans granted to AA Export & Import Corporation amounted to P15,223,799 and P5,824,784 in 2008 and 2007, respectively, while all outstanding car loans as of December 31, 2007 have been fully collected as of December 31, 2008.

25.5 Advances to and from Related Parties

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

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P1.5 million and P1.6 million and P1.9 million in 2008, 2007 and 2006, respectively, and is presented as part of Rendering of Services account in the consolidated income statements. SVC also advances funds to STL to pay foreign suppliers. The outstanding balance of these advances amounted to P39.1 million and P31.3 million as of December 31, 2008 and 2007, respectively, and are included as part of Trade Receivables under Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

25.7 Transactions with Solid Company Limited

The Company purchases mobile phones from Solid Company Limited (Hongkong), a related party under common ownership. Total purchases amounted to P93.1 million and P169.7 million in 2008 and 2007, respectively, and are presented as part of Cost of Sales in the income statements (see Note 11). There are no outstanding liabilities relating to these purchases as of December 31, 2008 and 2007.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited, a company owned by SGI's majority stockholders, amounting to P120.8 million which will mature 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. The amount of loan is presented as Investments in Notes under the Other Non-Current Assets account in the 2008 consolidated balance sheet (see Note 13).

25.8 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2008, 2007 and 2006 are as follows (see Note 21.1):

	2008	2007	2006
Short-term benefits	**P 23,147,052**	P 25,890,580	P 24,577,115
Retirement benefits	**1,530,758**	1,613,830	1,243,537
	P 24,677,810	P 27,504,410	P 25,820,652

26. REGISTRATION WITH ECONOMIC ZONE AUTHORITIES

26.1 Registration with Clark Development Corporation (CDC)

Kita 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 (see Note 22). In lieu of said taxes, the Company is subject to a 5% preferential tax rate on its registered activities. However, the 35% RCIT rate is applied to income which comes from sources other than the Kita's registered activities.

26.2 Registration with the Philippine Economic Zone Authority (PEZA)

SMC is registered withPEZA 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 (see Note 22).

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.

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with Sony Philippines, Inc. (Sony)

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony and Aiwa products. Under the MOU, Sony authorized the Company to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee calculated as a percentage of Sony'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 Sony. Also, Sony agrees to pay the Company network support fee equal to 1% of net sales for SONY products and 1% or P50,000 per month whichever is higher for AIWA products. The MOU is effective unless revoked by any party.

The breakdown of network support fees is shown below.

	Amount of Transactions			Outstanding Balances	
	2008	2007	2006	**2008**	2007
SONY Products	**P 27,933,816**	P 32,030,215	P 29,903,703	**P 22,207,796**	P 13,409,249
AIWA Products	**600,000**	600,000	600,000	**280,000**	-
	P 28,533,816	P 32,630,215	P 30,503,703	**P 22,487,796**	P 13,409,249

Network support fees earned are presented as part of Rendering of Services in the consolidated income statements. Outstanding receivables arising from this transaction are included in the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

27.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 15). The Agreement is still in effect although no formal renewal was made in 2007.

27.3 Contract Agreement with RTVM

In October 2006, SVC entered into an agreement with RTVM. Under the agreement, SVC will provide integration services, equipments, labor and rental of materials and equipment for the full turn key implementation of the International Media Center to be used in the 12th ASEAN summit which originally was scheduled in December 2006. However, due to certain events beyond SVC's control, the summit was rescheduled to January 2007. The Company recognized revenue of P99.6 million relating to this transaction, of which P44 million was recognized as part of Sale of Goods account in 2006 while P55.5 million was recorded as part of Rendering of Services account in 2007.

28. EVENT AFTER BALANCE SHEET DATE

During the fiscal year 2008, Starworld and a certain buyer entered into a reservation agreement covering parcels of land owned by the Starworld. At the time of the agreement, the location of these lots was not yet included in the existing CPIP Special Economic Zone. Hence, the initial payment made by the buyer amounting to P49.6 million is initially recognized as part of Other payables under Trade and Other Payables in the 2008 consolidated balance sheet (see Note 11).

On February 4, 2009, the BOD of SBC approved the spin-off and transfer of the Company's mobile division and digital business to a new company to be incorporated as "My Solid Technologies & Devices Corporation".

In March 2009, the trading division of the SLC ceased operations. The net carrying amount of property and equipment in the SLC's tranding division amounted to P40,851 as of December 31, 2008.

29. COMMITMENTS AND CONTINGENCIES

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

29.1 Planned Acquisition of LARES

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

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P2.0 million in 2006 and P0.9 million in 2005. The amount is still unpaid as of December 31, 2007. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6.0 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

(a) P3.0 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(b) The balance of P3.0 million shall be used for working capital and operating expenses of LARES.

As of December 31, 2007, LARES has already obtained a portion of the loan amounting to P3.9 million.

In September 2007, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements.

29.2 Operating Lease Commitments – Group as Lessor

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

	2008	2007	2006
Within one year	**P 75,120,679**	P 12,041,244	P 71,857,133
After one year but not more than five years	**132,001,097**	9,556,733	156,753,601
More than five years	**5,467,962**	3,613,297	8,005,451
	P 212,589,738	P 25,211,274	P 236,616,185

29.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2008, these leases have a remaining term of 11 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%.

	2008	2007	2006
Within one year	**P 5,884,690**	P 5,196,035	P 4,747,016
After one year but not more than five years	**28,876,660**	27,054,655	24,157,140
More than five years	**55,692,029**	63,387,324	70,753,956
	P 90,423,379	P 95,638,014	P 99,658,112

Total rental expense from these operating leases amounted to P7,415,493 each in 2008, 2007 and 2006, and are shown as part of Rentals under Cost of Services in the consolidated income statements (see Note 17.1).

29.4 Legal Claims

Certain subsidiaries are involved in litigation, which arose in the normal course of business, described as follows (see Note 12):

(a) SMC is involved in a number of litigation and is subject to certain claims relating to among others:

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

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

(b) Certain parcels of land owned by SC amounting to P7.6 million are being subject to expropriation coverage under the Agrarian Reform Act and claims by third parties.

As of December 31, 2008, the outcome of these legal claims cannot be ascertained by the Group.

In previous years, SC was involved in a litigation with a local bank concerning letters of credit issued in connection with shipments of electronic parts to the SC. On January 8, 2007, the Company and the bank's assignor agreed to a full settlement of the case for P50 million (which was paid in full during 2007). No additional expense was recognized by the Company in 2007 as the Company had enough provision accrued in prior years (see Note 15).

As of December 31, 2007, there are claims for alleged infringement of copyrights and sound recording by a third party against SLC. Management believes that the outcome of such lawsuits will not materially affect the Group's consolidated financial statements.

29.5 Estimated Liability for Land and Property Development

As of December 31, 2008 and 2007, the Company has commitment of about P68.3 million and P27.9 million, respectively, for the fulfilment of projects in the development and marketing of CPIP (see Note 12).

29.6 Purchase Commitments

In December 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 9).

29.7 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 might be affected by the plans of the National Government for the construction of the proposed 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the 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.

29.8 Others

There are commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

30.1 Foreign Currency Sensitivity

The Group's net exposure to foreign currency risk as of December 31, 2008 and 2007 are as follows:

	2008		2007	
	U.S. Dollar	**Philippine Pesos**	U.S. Dollar	Philippine Pesos
Financial assets	**P 6,886,347**	**P 326,998,187**	P 4,201,828	P173,959,891
Financial liabilities	**117,360**	**5,572,827**	10,005,447	414.235,521
Total net exposure	**P 6,768,987**	**P 321,425,360**	P 5.803.619	P414.235.521

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

The following illustrates the sensitivity of income before tax for the year with respect to changes in Philippine peso against U.S. dollar of +/-26.18% in 2008 and +/-20.72% in 2007 with effect from the beginning of the year. These changes in rates have been determined based on the average market volatility in exchange 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 balance sheet date, with effect estimated from the beginning of the year.

All other variables held constant, if the Philippine peso had strengthened against the U.S. dollar, income before tax in 2008 and 2007 would have decreased by P84.2 million and P18.4 million, respectively. Conversely, if the Philippine peso weakened against the U.S. dollar by the same percentages, income before tax would have been higher by the same amounts.

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 currency risk.

30.2 Interest Rate Sensitivity

At December 31, 2008 and 2007, 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). All other financial assets and liabilities have fixed rates.

The following illustrates the sensitivity of income before tax for the year to a reasonably possible change in interest rates of +/-7.25% in 2008 and +/-4.46% in 2007 with effect from the beginning of the year. 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 Company's financial instruments held at each balance sheet date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 7.25% and 4.46%, income before tax in 2008 and 2007 would have increased by P66.8 million and P21.9 million, respectively. Conversely, if the interest rate decreased by the same percentages, income before tax would have been lower by the same amounts.

30.3 Credit Risk

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

	Notes	**2008**	2007
Cash and cash equivalents	5	**P1,118,462,976**	P1,206,991,793
Held-to-maturity investments	6	**161,289,378**	-
Trade and other receivables - net	7	**1,049,192,856**	932,991,816
Available-for-sale financial assets	8	**63,519,015**	388,448,319
Advances to related parties	25	**192,327,778**	130,091,376
		P2,584,792,005	P 2,270,074,985

Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

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. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due for each balance sheet dates are of good credit quality.

None of Group's the financial assets are secured by collateral or other credit enhancements.

Financial assets past due but not impaired can be shown as follows:

	2008	2007
Not more than 3 months	**P 89,878,519**	P 87,670,744
More than 3 months but not more than one year	**37,143,280**	17,321,570
More than one year	**33,917,007**	34,952,334
	P 160,938,806	P 139,944,648

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

30.4 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week 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 are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2008 and 2007, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans, trade and other payables which have contractual maturities of within six months and advances from related parties which have contractual maturities of 6 to 12 months. These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet dates.

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 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 balance sheet. 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:

	2008	2007
Total liabilities (excluding amounts due to related parties)	**P1,783,613,360**	P1,747,741,413
Total equity	**7,611,933,183**	7,124,197,408
Debt-to-equity ratio	**0.23 : 1**	0.24 : 1

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial 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.

SOLID GROUP INC. AND SUBSIDIARIES
Schedule A - Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)
December 31, 2008

Name of issuing entity and association of each issue	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet*	*Valued based on the market quotation at balance sheet*	*Income received and accrued*
Available-for-sale financial assets				
Investments in foreign currency denominated bonds		P 63,519,015		

SOLID GROUP INC. AND SUBSIDIARIES

Schedule C - Noncurrent Marketable Equity Securities - (Noncurrent Marketable Equity Securities, Other Long-Term Investments in Stock and Other Investments)

December 31, 2008

Name of issuing entity and association of each issue	*Number of shares or principal amount of bonds or notes*	*Amount shown on the balance sheet*	*Valued based on the market quotation at balance sheet*	*Income received and accrued*
Available-for-sale financial assets				
Club shares		P 8,970,000		
Equity securities		8,580,000		
Others		1,216,518		
Subtotal		18,766,518		
Impairment losses recognized		(11,304,991)		
Total		P 7,461,527		

SOLID GROUP INC. AND SUBSIDIARIES
Schedule D -Indebtedness of Unconsolidated Subsidiaries and Affiliates
December 31, 2008

Name and designation of debtor	***Balance at beginning of period***	***Balance at end of period***
Amounts Due from a Related Party:		
Ultimate majority stockholders		
Companies owned by the majority stockholders	P 130,091,376	P 192,327,780
Total	P 130,091,376	P 192,327,780

SOLID GROUP INC. AND SUBSIDIARIES
Schedule G. Indebtedness to Related Parties (Long-Term Loans from Related Companies)
December 31, 2008

Name of related party	*Balance at beginning of period*		*Balance at end of period*	
Amounts due to related parties				
Ultimate majority stockholders	P	82,715,519	P	82,715,519
Companies owned by the majority stockholders		97,282,412		28,989,453
	P	179,997,931	P	111,704,972

SOLID GROUP INC. AND SUBSIDIARIES
Schedule I - Capital Stock
December 31, 2008

Title of Issue	*Number of shares authorized*	*Number of shares issued and outstanding*	*Number of shares reserved for options, warrants, coversion and other rights*	*Number of shares held by*		
				Affiliates	*Directors, officers and employees*	*Others*
Common shares - P1 par value						
Authorized - P5,000,000,000 shares						
Issued and outstanding	5,000,000,000	2,030,975,000	-	1,083,377,816	320,394,477	627,202,707

Note 1: Number of shares issued and outstanding = 2,030,975,000 issued shares less 209,433,000 treasury shares
Note 2: This represents shares held by AA Commercial and AV Value Holdings Corp., affiliates which are ultimately owned by the Lim

INDEX TO EXHIBITS

Form 17-A

* These Exhibits are either not applicable to the Company or require no answer.

EXHIBIT 9 MATERIAL CONTRACTS

There are no material contracts that are not made in the ordinary course of business entered into by the Company and its subsidiaries during the year except for renewal of existing contracts.

EXHIBIT 18 SUBSIDIARIES OF THE REGISTRANT

Solid Group Inc. has thirteen consolidated subsidiaries, each of which is wholly owned, as follows:

Name	Jurisdiction
Solid Corporation	Valenzuela, Bulacan, Philippines
Solid Video Corporation	Makati City, Philippines
Kita Corporation	Clark, Pampanga, Philippines
Solid Laguna Corporation	Binan, Laguna, Philippines
Solid Electronic Corporation	Balintawak, Quezon City, Philippines
Solid Manila Corporation	Manila, Philippines
Solid Manila Finance Inc.	Makati, Philippines
Omni Logistics Corporation	Binan, Laguna, Philippines
Solid Broadband Corporation	Makati, Philippines
Brilliant Reach Limited	British Virgin Islands
Zen Tower Corporation	Manila, Philippines
Precos, Inc.	Makati, Philippines
SolidGroup Technologies Corporation	Makati, Philippines