

# COVER SHEET

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S.E.C. Registration Number

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( Company's Full Name)

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(Business Address: No. of Street City/ Town/ Province)

MELLINA T. CORPUZ
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Contact person

843-1511
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Company Telephone Number

1	2	3	1
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Month

Day

Fiscal Year

SEC FORM 17-A
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FORM TYPE

0	6	2	5
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Month

Day

Annual Meeting

Not Applicable
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Secondary License Type, if applicable

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Dept. requiring this Doc.

Articles I, II, VI & VII
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Amended Articles Number/Section

3,524
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Total No. of Stockholders

Total Amount of Borrowings

0
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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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Cashier

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**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, 2014
2. SEC Identification Number: 845
3. BIR Tax Identification No.: 000-508-536-000
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  
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 [ ☒ ] 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:

P475,158,845

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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. In 2012, SBC sold its broadband cable infrastructure and broadband internet subscriber base to Skycable Corporation.

The Company has thirteen (13) wholly-owned subsidiaries as of December 31, 2014, as follows:

My Solid Technologies & Devices Corporation (MySolid) was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. MySolid merged with MyTel Mobility Solutions Inc. (MyTel), another wholly subsidiary of the Company with similar business, with MySolid as the surviving company effective June 1, 2012.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. On February 22, 2011, the Board of Directors and stockholders approved the amendment of the SGTC's articles of incorporation to change its primary purpose. This was approved by the Securities and Exchange Commission on March 22, 2011 and starting that date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units. 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.

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. Effective January 1, 2012, SMC merged with Solid Corporation, also another wholly owned subsidiary of the Company engaged in the same business of leasing real estate properties, with the SMC as the surviving company.

Zen Towers Corporation (Zen) was incorporated on July 6, 2005. Zen is engaged in the development and sale of real estate properties. Its developed 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.

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 manufacturing operations effective April 15, 2001 after its agreement with Aiwa expired in April 1, 2000 and was no longer renewed. 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. In December 2010, Kita ceased the operations of its injected plastics manufacturing business. Henceforth, Kita's revenues principally come from the lease of its properties.

Omni Solid Services Inc. (OSSI) (formerly 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. Subsequently, SLC's business is injected plastics manufacturing which was the business of SCICC prior to their merger. SLC ceased the operations of the plastic injection manufacturing business at the end of 2009 and operated as lessor of real estate. SLC merged with Omni Logistics Corporation (OLC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SLC as the surviving company. After the merger, SLC resumed the business of OLC of providing warehousing and logistics services to third parties. On March 19, 2012, SLC changed its corporate name to Omni Solid Services, Inc.

Solid Electronics Corporation (SEC) was incorporated on August 9, 1982. SEC operates the repair and service centers for SONY brands of audio and video consumer electronics equipment and MyPhone digital devices. 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.

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.

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.

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. In 2010, My Solid Technologies & Devices Corporation assumed the importation of the mobile phones from SBC while MyTel Mobility Solutions Inc. took over the distribution of mobile phones from SBC. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

MyApp Corporation (MC) was incorporated on October 23, 2014 as a holding company. MC is holds 50% ownership of Creative Hothouse Manila, Inc. which is engaged to design and develop mobile applications.

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

## 2. Business of Issuer

### Principal Products and Services

The consumer electronics business of the Company as of December 31, 2014 are:

(1) sale of mobile phones which generated sales of 4,071 million (for 2,973,765 units) in 2014 or 94% of sales in 2014, P3,398 million (for 2,454,531 units) or 97% of sales in 2013 and P3,836 million (for 2,985,764 units) or 97% of sales in 2012; and (2) after-sales service for principally SONY brands of consumer electronic products and My|Phone with its 38 company-owned service centers throughout the Philippines as of end of 2014 which generated service income of P182 million or 40% of service revenues in 2014, P164 million or 40% of service revenues in 2013 and P203 million or 32% of service revenues in 2012; and (3) warehousing, distribution and product testing of consumer electronic products with service revenue of P112 million or 25% of service revenues in 2014, P116 million or 28% of service revenues in 2013 and P116 million or 18% of service revenue in 2012 and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of P23 million in 2014 (for 141,642 units) or 5% of service revenues in 2014, P9 million in 2013 (for 58,000 units) or 2% of service revenues and nil in 2012.

As mentioned above, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base on May 11, 2012. After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable Corporation until the SBC's clients are transferred to the latter. Sky Cable Corporation also assumed to pay all cost and expenses in connection with use and operation of the assets. Revenues arising from this activity amounted to P54 million in 2014 or 12% of service revenues in 2014, P53 million in 2013 or 13% of service revenues, P91 million in 2012 or 14% of service revenues. Prior to the sale, the broadband multimedia business reported revenues of P156 million in 2012 or 25% of service income.

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 and hotel operations, sale of prefabricated modular houses, 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: broadcast/professional equipment and accessories of P174 million or 4% of sales in 2014, P81 million or 2% of sales in 2013 and P82 million or 2% of sales in 2012; prefabricated modular houses of P68 million or 2% of sales for 2014, P34 million or 1% of sales in 2013 and P39 million or 1% of sales in 2012. Real estate sales amounted to P28 million or 0.5% of revenues in 2014, P114 million or 3% of revenues in 2013 and P99 million or 2% of revenues in 2012. Revenues from hotel operations amounted P59 million in 2014 or 13% of service revenues in 2014, P39 million in 2013 or 9% of service revenues in 2013 and P36 million in 2012 or 6% of service revenues in 2012.

### Distribution

The broadcast/professional equipment and accessories is also sold directly to its corporate clients such as broadcast stations.



The Company distributes through its subsidiaries consumer electronic products and devices in the Philippines. The MyPhone brand is distributed by MySolid Technologies and Devices Corporation. As of December 31, 2014, MySolid supplied approximately 250 dealer accounts.

Status of any-publicly announced new product or service

None.

Competition

The MyPhone brand celphones distributed by MySolid Technologies and Devices Corporation competed with other brands in the Philippine market mainly Samsung, Sony Ericsson, Cherry Mobile, Torque, Star Mobile, O+ and other grey market phones.

The broadcast/professional equipment and accessories that the Company sells competes with other brands like Panasonic and Sharp.

The prefabricated modular houses that the Company markets are standardized in design, modular assembled, easy to assemble and disassemble and relocate and can also be stored easily. Its main products are designed and manufactured using light steel frames and sandwich wall panels that covers a wide range of applications such as temporary offices, dormitories for construction sites, municipal offices, residential settlements, school classrooms shops, temporary housing for disaster relief and military camps, temporary buildings for exhibitions. It competes with Indigo and Smarthouse.

The Company provides warehousing, and logistics services mostly to electronics companies. It competes with Fast Cargo, Yusen and Agility Logistics among others.

The Company operates a hotel through Casa Bocobo Hotel (CBH). CBH competes with other budget hotels within the Manila area.

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. It has an existing contract through its subsidiary SolidGroup Technologies Corporation, with a foreign supplier, for the supply of prefabricated modular houses (See Agreements).

Dependency of the business upon a single or few customers

The Company is not dependent on any single or few customers. 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, 2014, it has 40 service centers throughout the Philippines.

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements. Subsidiaries of the Company generally depend on one another for supply of services and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

Principal Terms and Expiration Dates of all Licenses and Agreements

- Memorandum of Understanding with Sony Philippines, Inc. (Sony)

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony 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. In the first quarter of 2009, SEC and Sony agreed to lower the network support fees to be 0.45%. Effective April 2009, SEC and Sony agreed that the network support fees shall be at a fixed rate of P1.25 million per month. The Agreement is effective unless revoked by any of the parties.

- Distributoship Agreement with Sony Corporation

Solid Video Corporation has a non-exclusive Distributor Agreement with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under 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.

- Exclusive Distribution Agreement with Yahgee Modular House Co., Ltd.

SolidGroup Technologies Corporation (SGTC) has an exclusive Distribution Agreement with Yahgee Modular House Co., Ltd., a corporation organized and existing under the laws of the People's Republic of China on June 10, 2011. Under the agreement, SGTC is designated as the exclusive distributor of its products under the MyHouse brand in the Philippines. The agreement is valid for three years. The agreement was renewed on June 10, 2014 for a period of another three years.

- Agreement with Sky Cable Corporation

On May 11, 2012, the Solid Broadband Corporation (SBC) entered into an agreement with Sky Cable Corporation covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base of SBC used in the operation of its broadband business. SBC received the amount of P1 billion as consideration for this transaction.

In addition, Sky Cable Corporation assumes to pay SBC all cost and expenses in connection with use and operation of the assets, until the Company's operation is transferred to Sky Cable Corporation.

- Option Agreement

On May 11, 2012, the Company entered into an Option Agreement with Sky Cable Corporation to purchase its shares of stocks in SBC which option must be exercised not later than December 31, 2013. Sky Cable Corporation did not exercise the option.

- 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 14, 2001. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

#### Need for any government approval

Zen Tower Corporation is awaiting the approval of the Housing and Land Use Regulatory Board (HLURB) its license to sell for the Tower 2. Also, FilDragon is waiting of the release of property titles from the local government of Nanning, China.

#### Effect of existing and probable governmental regulations on the business

None.

#### 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 395 regular employees as at December 31, 2014 as shown in the table below. It estimates to have 450 employees by the end of December 31, 2015. There is no existing union as of December 31, 2014. 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.

	<u>Number of employees</u>
Management	17
Sales and Distribution	54
Operation	84
Service	106
Administration	87
Finance	<u>47</u>
Total	<u>395</u>

### 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's business is continuously subject to rapid technology changes which may cause inventory obsolescence. 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	Building for lease
La Huerta, Bicutan, Paranaque	18,490	Office building & warehouses for lease
San Dionisio, Paranaque	6,690	Warehouses for lease
San Antonio, Paranaque	4,056	Land (site of future dormitory)
Valenzuela, Marulas, Bulacan	10,493	Factory and warehouses; Building for lease
Laguna International Industrial Park, Binan, Laguna	5,141	Building for lease
Pasong Tamo, Makati City	5,000	Hotel and office building
Natividad St., Ermita, Manila	4,506	Condominium tower (for sale)
Osmena Blvd., Cebu City	3,859	Service center & office building for lease
Outlook Drive, Baguio City	3,846	Land (Intended for sale or lease)
Brgy. Tabuco, Naga City	3,059	Land (Intended for sale)
Tandang Sora, Quezon City	2,511	Land (Future site of the pilot project for modular residential

		housing units)
Barrio Pantal, Dagupan City	1,918	Land (Intended for lease)
Barrio San Rafael, Iloilo City	1,750	Service Center and Office building for lease
J. Bocobo St., Ermita, Manila	1,724	Office building and Hotel
Brgy. San Roque, San Pablo City	1,714	Service center and office building for lease
Oliveros, Balintawak, Quezon City	1,400	Land (Intended for sale)
Bacoor, Cavite	1,334	Office building for lease
Cabanatuan City, Nueva Ecija	1,212	Service center and building for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Building (Intended for lease)
Calamba Premiere Industrial Park to update remaining invty	9,852	Industrial/ Commercial lots for sale
Araneta, Quezon City	1,000	Land (Intended 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 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. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City on November 18, 2007. The Department of Agrarian Reform granted Solid Corporation's petition and ordered Land Bank to re-evaluate the land valuation based only on Republic Act No. 6657 (The Comprehensive Agrarian Reform Program) on September 28, 2012. Land Bank amended the valuation and tendered an Amended Offer of P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation has applied for an amended valuation for Php 16.4 Million Pesos. Solid Manila Corporation is complying the documentation requirements as of April 2015.

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, according to company's legal counsel, 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 was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267, 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264 which is pending resolution as of April 2013. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

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 annulling seven titles of Solid Manila Corporation to wit-- TCT Nos. 12729 up to 12736. 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. The Court of Appeals had received the memoranda of the respective parties of Lilia Sevilla, the Government and Solid Manila Corp. and had raffled the case to another division for the promulgation of the decision. On May 5, 2014, a Decision was rendered by the Court of Appeals in Lilia Sevilla vs, Solid Manila Corp. in CA-GR No. 77750 granting Solid Manila Corp.'s appeal, nullifying TCT No. 30374 registered in the name of Lilia Sevilla and validating Solid Manila Corp. titles

specifically TCT Nos. 172729, 12730, 12731, 12731, 12733, 12734, 12735 and 12736. The Decision of the Court of Appeals had become final and executory on October 9, 2014 pursuant to an Entry of Judgment issued by the Court of Appeals.

#### 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. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

#### 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

Kita Corporation, a wholly-owned subsidiary of the Company, has entered into lease contracts with Clark Development Corporation

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	7,353*	March, April and August 2019

\* 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.

The lease contract 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
Bacoar, Cavite	4,096	July 31, 2019
Balintawak, Quezon City	30,478	Various up to September, 2015
Cagayan de Oro	1,855	Various up to October 15, 2016
Chino Roces Ave, Makati City	2,033	Various up to July 6, 2019

Clark, Pampanga	30,913	Various up to December 15, 2016
Iloilo	2,281	Various up to March 31, 2016
Laguna International Industrial Park, Binan, Laguna	28,641	Various up to March 31, 2016
Laguna International Industrial Park, Binan, Laguna	1,546	May 31, 2014
La Huerta, Bicutan, Paranaque	6,499	Various up to October 31, 2017
Ermita, Manila	16,263	Various up to December 31, 2018
Ermita, Manila	3,964	Various up to December 14, 2017
San Dionisio, Paranaque City	10,450	May 31, 2015
Valenzuela, Bulacan	3,333	Various up to December 31, 2014

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2015 to amount to P100 million for various real estate development. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

**Item 3. Legal Proceedings**

**C. Legal Proceedings**

Solid Manila Corporation owns a parcel of land with improvements consisting of warehouses, canteen and parking/ open area located at Laguna International Industrial Park, Mamlasan, Binan, Laguna. Solid Manila Corporation entered into a contract of lease with Carina Apparel, Inc. on June 2, 2010 whereby Solid Manila Corporation leased to Carina Apparel, Inc. the said property. On February 20, 2014, Carina Apparel Inc. failed to pay the monthly rentals for the period April 2013, October 2013 to December 2013, January 2014 to February 2014 for a total amount of P10.43 million. Solid Manila Corporation filed a special civil action for ejectment against Carina Apparel, Inc. under Civil Case No. 110157 with the Metropolitan Trial Court, Makati City, Branch 62. The Court rendered judgment in favor of Solid Manila Corporation on September 26, 2014 and ordered Carinal Apparel, Inc. to vacate the property and peacefully surrender possession to Solid Manila Corporation, pay Solid Manila Corporation the amount of P12.51 million representing rentals in arrears as of March 10, 2014 and P2.07 million as monthly rental starting April 2014 and every month thereafter as reasonable rent or compensation for continued use and occupancy of property until the property is completely restituted to Solid Manila Corporation. With the foregoing Decision becoming final and executory on December 19, 2014, the Metropolitan Trial Court, Makati City Branch 62 issued a notice of levy and sale on all of the personal and office properties of Carinal Apparel, Inc. in the premises of the Laguna property. On January 26, 2015, after a sale by public auction was concluded by the Sheriff, a Certificate of Sale was issued by the Branch Sheriff of the Metropolitan Trial Court, Makati City Branch 62 in favour of Solid Manila Corporation as the highest bidder.



As discussed in 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 (₱)
2014		
First quarter	1.28	1.16
Second quarter	2.20	1.20
Third quarter	1.66	1.31
Fourth quarter	1.44	1.13
2013		
First quarter	2.54	1.90
Second quarter	2.24	1.50
Third quarter	1.82	1.51
Fourth quarter	1.70	1.04

###### **(ii)**

Not applicable. The principal market is the Philippine Stock Exchange.

(b) The Company share was trading at P1.20 as of April 13, 2015 (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 December 31, 2014 was 4,366. Common shares outstanding as of December 31, 2013 were 1,821,542,000 shares. Total issued shares as of December 31, 2014 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of December 31, 2014:

	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)	363,541,626	19.96
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.	Chua, Willington Chua &/or Constantino	11,610,000	0.64
8.	PCD Nominee Corporation (NF)	10,750,633	0.59
9.	Chua, Constantino &/or Willington &/or George	1,750,000	0.10
10.	Hottick Development Corporation	1,408,000	0.08
11.	Chua, Willington	1,110,000	0.06
12.	Paz, Venson	1,065,000	0.06
13.	Lucio W. Yan &/or Clara Yan	1,000,000	0.05
	Columbian Motors Corporation	1,000,000	0.05
14.	Juan Go Yu &/or Grace Chu Yu	940,000	0.05
15.	Ong, Victoria	632,000	0.03
16.	Union Properties, Inc.	625,000	0.03
17.	Esperanza I. Lim	600,000	0.03
18.	Lim, Julia	590,000	0.03
19.	Castillo Laman Tan Pantaleon & San Jose Law Offices	536,000	0.03
20.	Jacinto, Ray Sy	500,000	0.03
	GMA Farms Inc.	500,000	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. In 2014, cash dividend amounted to P0.06 per share out of the unrestricted retained earnings as of December 31, 2013 in favor of stockholders of record on August 29, 2014 and payable on September 24, 2014. In 2013, cash dividend amounted to P0.06 per share in favor of stockholders of record as of August 30, 2013 and payable on or before September 24, 2013.

b. The Company's retained earnings as of December 31, 2014 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, 2014.

(4) Recent Sales of Unregistered or Exempt Securities

There was no sale of unregistered or exempt securities in 2012 to 2014.

a. Securities Sold.

No securities were sold by the Company from 2012 to 2014.

b. Underwriters and Other Purchases

Not applicable. There were no securities were sold by the Company from 2012 to 2014.

c. Consideration

Not applicable. There were no securities were sold by the Company from 2012 to 2014.

d. Exemption from Registration Claimed

Not applicable. There were no securities were sold by the Company from 2012 to 2014.

## 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: revenue growth, asset turnover, 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 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 2014, 2013 and 2012 are as follows:***

	<u>December 31, 2014</u>	<u>Dec. 31, 2013</u>	<u>Dec. 31, 2012</u>
Revenue growth	18%	(13%)	18%
Asset turnover	37%	32%	40%
Operating expense ratio	19%	17%	15%
EBITDA	(P105.61 million)	P225 million	P1,565 million
Earnings(loss) / share	(P0.07)	P0.09	P0.68
Current ratio	2.31:1	2.60:1	3.14:1
Debt to equity ratio	0.44:1	0.39:1	0.33 : 1

## **2014**

Revenue increased by 18% in 2014 vs. 13% decrease in 2013 principally due to higher revenues of the distribution segment on digital product sales.

Asset turnover stood higher at 37% in 2014 from 32% in 2013 mainly as a result of higher revenues of the distribution segment on the digital product sales.

Operating expense ratio was 19% and 17% for 2014 and 2013, respectively due to higher operating expenses of the distribution and real estate segments.

EBITDA amounted to a negative P105.61 million in 2014 against P225 million in 2013. The decrease was mainly due to losses of the distribution and real estate segments.

Loss per share amounted to P0.07 in 2014 versus P0.09 in 2013 mainly due to net loss for the period. The distribution segment suffered loss in 2014 principally from lower gross margin due to stiff market competition and higher expenses for the period. On the other hand, the real estate segment also incurred losses due to interest and other costs of the Golden Hill project.

Current ratio stood lower at 2.31:1 as of December 31, 2014 and 2.60:1 as of December 31, 2013 mainly due to lower current assets.

Debt to equity ratio stood at 0.44:1 as of December 31, 2014 from 0.39: 1 as of December 31, 2013 primarily due to higher liabilities and lower equity.

## **2013**

Revenue declined by 13% in 2013 vs. 18% increase in 2012 principally due to lower revenues of the distribution segment on digital product sales and lower broadband revenues due to sale of its assets in May 2012.

Asset turnover stood lower at 32% in 2013 from 40% in 2012 mainly as a result of lower revenues of the distribution segment on the digital product sales.

Operating expense ratio was 17% and 15% for 2013 and 2012, respectively due to higher selling and distribution expenses of the distribution segment and lower revenues for the period.

EBITDA amounted to P225 million in 2013 against P1,565 million in 2012. The decrease was mainly due to low operating profit for the period.

Earnings per share amounted to P0.09 in 2013 versus P0.68 in 2012 (P0.32 excluding the one-time gain from broadband asset sale in 2012) mainly from lower net income. The distribution segment suffered a loss in 2013 principally from lower revenues and margins due to stiff market competition.

Current ratio stood lower at 2.60:1 as of December 31, 2013 and 3.14 : 1 as of December 31, 2012 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.39: 1 as of December 31, 2013 from 0.33: 1 as of December 31, 2012 primarily due to higher liabilities.

## 2012

The Company recorded revenue growth of 18% in 2012 against 53% in 2011. The improvement in revenues was principally driven by the distribution business segment as the my|phone business increased its sales with the introduction of new model lineup; and, the other related service business segment's higher revenues from additional fund placements.

Asset turnover stood at 40% in 2012 from 37% in 2011 principally from higher revenues of the distribution segment.

Operating expense ratio was lower at 14% in 2012 from 16% in 2011. The improvement was mainly due to higher revenues reported for the year.

EBITDA reached P1,574 million in 2012 as compared with P660 million in 2011. The Company reported one-time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million from the sale of assets of Solid Broadband Corporation. Moreover, profits on the my|phone business improved as it increased sales and managed its inventory levels and earnings of the other related services business segment from additional fund placements.

Earnings per share amounted to P0.68 in 2012 from P0.24 in 2011 primarily from higher reported profits in 2012.

Current ratio stood at 3:14:1 as of December 31, 2012 from 2.47 :1 as of December 31, 2011 as the Company's liquidity position improved from the proceeds of the sale of the broadband assets.

Debt to equity ratio stood at 0.33 : 1 as of December 31, 2012 from 0.36 : 1 as of December 31, 2011 primarily due to improved equity position this year.

### **Results of Operations 2014**

The Company reported higher revenues by 18% in 2014 reaching P4,997 million from P4,233 million in 2013 principally from improved revenues of the distribution segment from sale of digital products.

Sale of goods amounted to P4,337 million in 2014, higher by 23% from P3,513 million for the same period in 2013 mainly due higher volume of sales of the digital products.

Service revenue went up to P453 million in 2014, higher by 9% from P414 million in 2013 mainly due to higher warranty income and tolling fees of the support services and other business segment.

Rental income amounted to P150 million in 2014 compared to P151 million in 2013. There was no material change for this account.

Sale of real estate amounted to P28 million in 2014, down by 75% from P113 million in 2013. This was principally due to lower condominium sales.

Interest income amounted to P27 million in 2014, lower by 31% from P39 million in 2013 mainly from lower yield on placements as compared with previous year and lower principal amount

since the Company transferred certain placements under Unit Investments in Trust Funds classified under Financial Assets at Fair Value Through Profit or Loss (FAFVTPL).

Cost of sales, services and rentals amounted to P4,287 million in 2014, or an increase of 25% from P3,421 million in 2013 as discussed below.

Cost of sales amounted to P3,854 million in 2014, higher by 29%, from P2,983 million last year principally in relation to the increase in sales.

Cost of services amounted to P374 million in 2014 from P332 million in 2013, up by 12% mainly in relation to higher service revenue for the period.

Cost of rentals amounted to P35 million in 2014 and P34 million 2013. There was no material change for this account.

Cost of real estate sold amounted to P22 million in 2014, down by 68% from P70 million for the same period of 2013. The decrease was mainly in relation to lower sale of real estate.

Gross profit amounted to P710 million in 2014 from P811 million in 2013. The 12% decrease was principally due to lower margins of the distribution segments driven by stiff market competition.

Other operating expenses (income) amounted to P846 million in 2014 against P686 million in 2013 as explained below.

Selling and distribution costs amounted to P552 million in 2014, up by 22% from P451 million in 2013 mainly from higher commission and incentives of the distribution segment.

General and administrative expenses amounted to P379 million in 2014 from P288 million in 2013. The increase of 31% was mainly due to higher taxes and licenses, personnel costs, property certificate charges and donation expenses to Typhoon Yolanda hit areas.

Other operating income amounted to P86 million in 2014 from P53 million in 2013, up by 61% mainly from higher fair value gains on investment property and reversal of warranty provision.

Other operating profit (loss) amounted to P135 million loss in 2014, down by 208% from P 125 million gain in 2013 principally due to higher operating expenses for the period.

Operating loss for 2014 amounted to P135 million from P125 million operating profit in 2013. The decline was attributable to the losses of the distribution and real estate segments.

Other income (charges) amounted to P75 million loss in 2014 against P64 million gain in 2013 mainly from the following:

Finance income was lower at P33 million in 2014 against P62 million for the same period of last year principally due to lower interest income from bank placements as a result of lower interest rates and lower foreign currency gains.

Finance costs increased to P112 million in 2014 compared with P20 million in 2013 primarily due to higher interest expense from interest-bearing loans (in 2013, interest cost for the Golden

Hill project was capitalized as part of property development cost) and higher impairment losses on trade and other receivables.

Other gains was P3 million in 2014 versus P22 million in 2013 primarily due to lower gain on derecognition of liabilities.

Loss before tax dropped to P211 million in 2014, decreasing by 211% from P190 million income for the same period in 2013 mainly due to operating loss as explained above.

Tax expense (income) amounted to P22 million income in 2014 from P44 million expense in 2013 due to deferred tax income from net operating loss carryover and impairment losses of the distribution segment.

Net loss amounted to P188 million in 2014 against P145 million income in 2013 due to the reported losses of the distribution and real estate segments and lower operating results of support and services and others segment.

Net loss attributable to equity holders of the parent amounted to P121 million in 2014 against P157 million net income in 2013 as discussed above.

Net loss attributable to minority interest amounted to P67 million in 2014 compared with P12 million loss in 2013 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

#### **Financial Position 2014**

Cash and cash equivalents amounted to P 1,623 million as of December 31, 2014 down by 30% from P2,327 million as of December 31, 2013. Cash was mostly used for investing activities mainly for increase of FAFVTPL and additions to property and equipment, for operating activities mainly for increase in trade and other receivables.

Financial assets at fair value through profit or loss amounted to P746 million in 2014 and P 294 million in 2013, or an increase of 153% from acquisition of unit investments in trust funds.

Trade and other receivables reached P1,438 million as of December 31, 2014 against P1,132 million as of December 31, 2013, or an increase of 26% mainly due higher trade receivables of the the distribution segment. 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 P28 million as of December 31, 2014 and P24 million as of December 31, 2013, an increase of 17% due to additional advances.

Merchandise inventories and supplies - net amounted to P594 million as of December 31, 2014, compared with P844 million as of December 31, 2013, a decrease of 29% mainly from lower merchandise and finished goods for digital products of the distribution segment.

Real estate inventories amounted to P2,371 million as of December 31, 2014 from P2,423 million as of December 31, 2013. There was no material change for this account.



Other current assets amounted to P 574 million as of December 31, 2014 compared with P425 million as of December 31, 2013, an increase of 34 % due to higher prepayments and creditable withholding taxes.

Total current assets reached P 7,377 million as of December 31, 2014 from P7,472 million as of December 31, 2013 mainly from higher FAFVTPL and trade and other receivables as discussed above.

Non-current trade and other receivables amounted to P582 million as of December 31, 2014 from P722 million as of December 31, 2013, lower by 19% due to the reclassification of currently maturing receivables to current assets.

Non-current available-for-sale financial assets stood at P9 million as of December 31, 2013 against P7 million as of December 31, 2013. The increase was due to higher club shares.

Property, plant and equipment amounted to P1,739 million as of December 31, 2014 from P1,560 million as of December 31, 2013, an increase of 11% mainly due to transfer from investment property and additions for the Green Sun.

Investment property was higher at P3,653 million as of December 31, 2014 from P3,648 as of December 31, 2013 principally due fair value gains on investment property.

Retirement benefit assets amounted to P123 million as of December 31, 2014, an increase of 49% from P82 million December 31, 2013 due to higher fair value of plan assets sans the effect of asset ceiling in 2013, nil in 2014.

Deferred tax assets - net amounted to P127 million as of December 31, 2014 and P77 million as of December 31, 2013. There was a 63% increase principally due to future tax benefits on net operating loss carryover, allowance for impairment losses and MCIT of the distribution segment.

Other non-current assets amounted to P44 million as of December 31, 2014 or an increase of 34% from P32 million as of December 31, 2013 primarily due to higher deferred input VAT.

Total non-current assets amounted to P6,279 million as of December 31, 2013 from P6,131 million as of December 31, 2013 as discussed above.

**Total assets reached P13,657 million as of December 31, 2014 from P13,604 million as of December 31, 2013 as discussed above.**

Interest-bearing loans amounted to P844 million as of December 31, 2014 from P684 million as of December 31, 2013, up by 23% due to additional loans for the Golden Hill project.

Trade and other payables amounted to P732 million as of December 31, 2014 against P731 million as of December 31, 2013. There was no material change for this account.

Customers' deposits amounted to P1,502 million as of December 31, 2014 versus P1,306 million as of December 31, 2013. The increase of 15% was mainly due to additional deposits received from the Golden Hill project.

Advances from related parties amounted to P36 million as of December 31, 2014, a decrease of 54% from P81 million as of December 31, 2013 due to repayment of advances made for the year.

Estimated liability for land and land development costs amounted to P 68 million as of December 31, 2014 and December 31, 2013.

Income tax payable amounted to P9 million as of December 31, 2014 from P4 million as of December 31, 2013 mainly due to provision for income tax for certain subsidiaries.

Total current liabilities stood at P3,193 million as of December 31, 2014, higher by 11% from P2,875 million as of December 31, 2013 as explained above mainly due to higher interest-bearing loans, customers' deposits and income tax payable.

Non-current refundable deposits amounted to P13 million as of December 31, 2014 from P15 million as of December 31, 2013 due to the reclassification of certain deposits to current liabilities.

Retirement benefit obligation amounted to P20 million as of December 31, 2014 and P26 million as of December 31, 2013 principally due to remeasurements made during the year.

Deferred tax liabilities -net amounted to P938 as of December 31, 2014 and P935 million in December 31, 2013. There was no material variance for this account.

Total non-current liabilities amounted to P972 million as of December 31, 2014 from P976 million as of December 31, 2013.

Total liabilities amounted to P4,166 million as of December 31, 2014 from P3,852 million as of December 31, 2013.

Capital stock stood at P2,030 million as of December 31, 2014 and December 31, 2013.

Additional paid-in capital amounted to P4,641 million as of December 31, 2014 and December 31, 2013.

Treasury shares amounted to P115 million as of December 31, 2014 and December 31, 2013.

Revaluation reserves amounted to P21 million income as of December 31, 2014 from P16 million loss as of December 31, 2013 due to other comprehensive income for the period consisting of actuarial gains offset by currency differences on translating financial statements of foreign operations

Retained earnings amounted to P2,590 million as of December 31, 2014 from P2,820 million as of December 31, 2013 as a result of net loss during the period.

Total equity attributable to Equity holders of Parent amounted to P9,168 million as of December 31, 2014 from P9,368 million as of December 31, 2013 due to lower retained earnings.

Minority interest amounted to P322 million as of December 31, 2014 and P390 million as of December 31, 2013 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Total equity amounted to P9,491 million as of December 31, 2014 from P9,751 million as of December 31, 2013.

### **Results of Operations 2013**

Revenues declined by 13% in 2013 reaching P4,233 million from P4,890 million in 2012 principally from lower revenues of the distribution segment from digital product sales and broadband lower revenue due to sale of its assets in May 2012.

Sale of goods amounted to P3,513 million in 2013, lower by 11% from P3,959 million for the same period in 2012 mainly due lower volume of sales of the digital products.

Service revenue went down to P414 million in 2013, decreasing by 34% from P630 million in 2012 mainly due to sale of assets of Solid Broadband Corp. in May 2012 and its eventual termination of operations. Moreover, in-warranty and out-of-warranty service revenues also suffered a decline.

Rental income amounted to P151 million in 2013, up by 11% from P136 million in 2012 mainly due to higher occupancy in 2013.

Sale of real estate amounted to P113 million in 2013, up by 15% from P98 million in 2012. This was principally due to higher condominium sales.

Interest income amounted to P39 million in 2013, lower by 39% from P64 million in 2012 mainly from lower yield on placements as compared with previous year.

Cost of sales, services and rentals amounted to P3,421 million in 2013, or a decrease of 7% from P3,661 million in 2012 as discussed below.

Cost of sales amounted to P2,983 million in 2013, lower by 4%, from P3,092 million last year principally in relation to the decrease in sales.

Cost of services amounted to P332 million in 2013 from P488 million in 2012, down by 32% mainly in relation to lower service revenue for the period.

Cost of rentals amounted to P34 million in 2013 and P35 million 2012. There was no material change for this account.

Cost of real estate sold amounted to P70 million in 2013, up by 53% from P45 million for the same period of 2012. The increase was mainly in relation to higher sale of real estate.

Gross profit amounted to P811 million in 2013 from P1,228 million in 2012. The 34% decrease was principally due to lower revenues and margins of the distribution segments driven by stiff market competition.

Other operating expenses (income) amounted to P686 million in 2013 against P107 million in 2012 as explained below.

General and administrative expenses amounted to P288 million in 2013 from P352 million in 2012. Expenses went down after the broadband assets were sold in May 2012.

Selling and distribution costs amounted to P451 million in 2013, up by 25% from P361 million in 2012 mainly from higher advertising costs for the distribution segment.

Gain on sale of assets amounted to P267 million in 2012 vs. none in 2013. This represented the one-time gains from the disposal of the broadband assets in 2012.

Other operating income amounted to P53 million in 2013, down by 90% from P 553 million in 2012 principally due lower fair value gains (P23 million in 2013 vs P149 million in 2012). In addition, the company reported a reversal in impairment losses on the broadband asset of P350 million in 2012 (none in 2013).

Operating profit amounted to P125 million in 2013 from P1,336 million in 2012, declining by 91% from lower gross profit and other operating income as discussed above.

Other income (charges) amounted to P64 million in 2013 against P175 million gain in 2012 mainly from the following:

Finance income was lower at P62 million in 2013 compared with P163 million for the same period of last year principally due to lower interest income from bank placements as a result of lower interest rates. Moreover, reversal of impairment in trade receivables was higher in 2012 due to the sale of the broadband assets in 2012.

Finance costs decreased to P20 million in 2013 compared with P49 million in 2012 primarily due to lower foreign currency losses and lower interest expense from interest-bearing loans.

Other gains was P22 million in 2013 versus P60 million in 2012 primarily because there were reversal of allowance for inventory obsolescence in 2012 (none in 2013) and lower gain on derecognition of liabilities.

Income before tax reached P190 million in 2013, decreasing by 87% from P1,511 million for the same period in 2012 mainly due to lower operating profit as explained above.

Tax expense amounted to P44 million in 2013 from P274 million in 2012 due to lower pre-tax income.

Net income amounted to P145 million in 2013 against P1,237 million (P581 million excluding one-time gain from broadband asset sale in 2012) in 2012 due to the reported losses of the distribution segment and lower operating results of the real estate and other segments.

Net income attributable to equity holders of the parent amounted to P157 million in 2013 against P1,239 million in 2012 as discussed above.

Net income attributable to minority interest amounted to P12 million loss in 2013 compared with P2 million loss in 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

### **Financial Position 2013**

Cash and cash equivalents amounted to P 2,327 million as of December 31, 2013 down by 23% from P3,019 million as of December 31, 2012. Cash was mostly used for investing activities mainly for acquisition of FAFVTPL and additions to property and equipment and for operating activities mainly for increase in inventories.

Financial assets at fair value through profit or loss amounted to P294 million in 2013, none in 2012, from acquisition of unit investments in trust funds.

Trade and other receivables reached P1,132 million as of December 31, 2013 against P1,220 million as of December 31, 2012, or a decrease of 7% principally due to lower receivable of the distribution segment. 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 P24 million as of December 31, 2013 and P21 million as of December 31, 2012, an increase of 14% due to additional advances.

Merchandise inventories and supplies - net amounted to P844 million as of December 31, 2013, compared with P391 million as of December 31, 2012, an increase of 115% due to buildup of inventories of the mylphone business.

Real estate inventories amounted to P2,423 million as of December 31, 2013 from P2,011 million as of December 31, 2012, an increase of 20% due to additions to the Golden Hill project.

Other current assets amounted to P 425 million as of December 31, 2013 compared with P319 million as of December 31, 2012, an increase of 33 % due to higher creditable withholding taxes and input VAT.

Total current assets reached P 7,472 million as of December 31, 2013 from P6,984 million as of December 31, 2012 mainly from higher merchandise inventories and real estate inventories as discussed above.

Non-current trade and other receivables amounted to P722 million as of December 31, 2013 from P630 million as of December 31, 2012, higher by 15% due to increase in financing receivables and cash surrender value of life insurance.

Non-current available-for-sale financial assets stood at P7 million as of December 31, 2013 against P9 million as of December 31, 2012. The decrease was due to lower club shares.

Property, plant and equipment amounted to P1,560 million as of December 31, 2013 from P1,048 million as of December 31, 2012, an increase of 49% due to the transfer of Solid House property from investment property to this account since the company will use this property for the future Green Sun Hotel operation.

Investment property amounted to P3,648 million as of December 31, 2013 from P4,017 as of December 31, 2012, a decrease of 9% mainly due to the transfer of Solid House to property and equipment.

Retirement benefit assets amounted to P82 million as of December 31, 2013, an increase of 15% from P71 million December 31, 2012 due to lower present value of obligation.

Deferred tax assets - net amounted to P77 million as of December 31, 2013 and P64 million December 31, 2012 respectively. There was a 20% increase principally due to MCIT of MySolid.

Other non-current assets amounted to P32 million as of December 31, 2013 or an increase of 48% from P22 million as of December 31, 2012 primarily due to higher deferred input VAT.

Total non-current assets amounted to P6,131 million as of December 31, 2013 from P5,863 million as of December 31, 2012 as discussed above.

Total assets reached P13,604 million as of December 31, 2013 from P12,848 million as of December 31, 2012 as discussed above.

Interest-bearing loans amounted to P684 million as of December 31, 2013 from P571 million as of December 31, 2012, up by 20% due to additional loans for the Golden Hill project.

Trade and other payables amounted to P731 million as of December 31, 2013 against P628 million as of December 31, 2012, higher by 16% primarily due to higher trade and other payables of Golden Hill Project and myphone business.

Customers' deposits amounted to P1,306 million as of December 31, 2013 versus P881 million as of December 31, 2012. The increase of 48% was mainly due to additional deposits received from the Golden Hill project.

Advances from related parties amounted to P81 million as of December 31, 2013, an increase of 599% from P11 million as of December 31, 2012 due to additional advances.

Estimated liability for land and land development costs amounted to P 68 million as of December 31, 2013 and December 31, 2012.

Income tax payable amounted to P4 million as of December 31, 2013 from P65 million as of December 31, 2012 mainly due to lower income tax expense.

Total current liabilities stood at P2,875 million as of December 31, 2013, higher by 29% from P2,227 million as of December 31, 2012 as explained above mainly due to higher interest-bearing loans, trade and other payables and customers' deposits.

Non-current refundable deposits amounted to P15 million as of December 31, 2013 from P16 million as of December 31, 2012 from transfer of non-current deposits to current liabilities.

Retirement benefit obligation amounted to P26 million as of December 31, 2013 and P16 million as of December 31, 2012. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P935 as of December 31, 2013 and P919 million in December 31, 2012. There was no material variance for this account.

Total non-current liabilities amounted to P976 million as of December 31, 2013 from P951 million as of December 31, 2012.

Total liabilities amounted to P3,852 million as of December 31, 2013 from P3,179 million as of December 31, 2012.

Capital stock stood at P2,030 million as of December 31, 2013 and December 31, 2012.

Additional paid-in capital amounted to P4,641 million as of December 31, 2013 and December 31, 2012.

Treasury shares amounted to P115 million as of December 31, 2013 and December 31, 2012.

Revaluation reserves amounted to P16 million loss as of December 31, 2013 from P63 million loss as of December 31, 2012 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations.

Retained earnings amounted to P2,820 million as of December 31, 2013 from P2,772 million as of December 31, 2012 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P9,361 million as of December 31, 2013 from P9,265 million as of December 31, 2012 due to higher retained earnings.

Minority interest amounted to P390 million as of December 31, 2013 and P402 million as of December 31, 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Total equity amounted to P9,751 million as of December 31, 2013 from P9,668 million as of December 31, 2012.

### **Results of Operations 2012**

Revenues amounted to P4,890 million in 2012, improving by 18% from P4,149 million in 2011 as discussed below.

Sale of goods amounted to P3,959 million in 2012, up by 26% from P3,135 million in 2011 mainly as sales of digital products improved with the introduction of new model lineup and also from higher sales of prefabricated modular houses.

Service revenue amounted to P630 million in 2012 from P682 million in 2011 as its revenue declined due to broadband's sale of assets and subscribers base in May 2012.

Rental income amounted to P 136 million in 2012 from P157 million in 2011, lower by 13% principally due to decrease in occupied spaces as the Company terminated certain lease contracts since the Solid House Building was renovated.

Sale of real estate amounted to P 98 million in 2012, lower by 22% from P126 million in 2011 since there was no sale of industrial lot for 2012.

Interest income amounted to P 64 million in 2012, or higher by 35% from P47 million in 2011 mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets.

Cost of sales, services and rentals amounted to P3,661 million in 2012, or an increase of 16% from P3,159 million in 2011 as discussed below.

Cost of sales amounted to P 3,092 million in 2012, higher by 22%, from P2,524 million in 2011 in relation to the increase in sales.

Cost of services amounted to P 488 million in 2012 from P499 million in 2011 in relation to service revenue.

Cost of rentals amounted to P35 million in 2012 or a decrease of 11% from P39 million in 2011 principally due to lower rental and other overhead.

Cost of real estate sold amounted to P 45 million in 2012, lower by 52% from P95 million in 2011. The decline was mainly in relation to lower sale of real estate.

Gross profit amounted to P1,228 million in 2012 from P989 million in 2011. The increase was principally due to higher revenues.

Other operating expenses (income) amounted to P107 million other operating income in 2012 against P411 million other operating expenses in 2011 as explained below.

General and administrative expenses amounted to P 352 million in 2012 from P366 million in 2011. The decline was principally due to lower operating expenses of the broadband operations after it disposed of its assets.

Selling and distribution costs amounted to P 361 million in 2012, higher by 30% from P278 million in 2011 mainly from higher commissions.

Gain on sale of assets of 267 million in 2012 represents the one-time gain from the sale of broadband assets (none in 2011).

Other operating income- net amounted to P553 million in 2012 from P232 million in 2011 principally due to one-time gains on reversal of asset impairment of P437 million from the sale of the broadband assets.

Operating profit amounted to P 1,336 million in 2012 from P577 million in 2011, improving by 132% from higher gross profit and other operating income and gain of sale of asset as discussed above.

Other income (charges) amounted to P 175 million gain in 2012 against P5.6 million loss in 2011 mainly from the following:

Finance income amounted to P163 million in 2012 compared with P64 million in 2011. The increase was principally contributed by reversals of impairment loss on trade and other receivables of the Solid Broadband Corporation.

Finance costs amounted to P49 million in 2012 compared with P89 million in 2011 primarily due to lower impairment losses on trade and other receivables and foreign currency losses.

Other gains amounted to P60 million in 2012 versus P19 million in 2011 primarily due to gain on derecognition of liabilities.

Income before tax reached P1,511 million in 2012, or higher by 164% from P572 million in 2011 mainly due to higher operating profit as explained above. The sale of broadband assets



contributed P267 million one time-gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense amounted to P274 million in 2012 from P139 million in 2011 due to higher pre-tax income.

Profit from continuing operations amounted to P1,237 million in 2012 against P433 million in 2011 due to the factors discussed above.

Loss from discontinued operations in 2011 represents losses on the remaining plastic injection operations as it disposed its remaining stocks (none in 2012).

Net profit for the year reached P1,237 million in 2012 against P429 million in 2011.

Net income attributable to equity holders of the parent amounted to P1,239 million in 2012 against P438 million in 2011 as discussed above.

Net loss attributable to minority interest amounted to P2 million loss in 2012 compared with P9 million loss in 2011. The share in losses for the Golden Hill project in Nanning, China was offset by interest income on placements of the real estate segment.

### **Financial Position 2012**

Cash and cash equivalents amounted to P3,019 million as of December 31, 2012, up by 76% from P1,720 million as of December 31, 2011. Cash was mainly provided from investing activities mainly from the proceeds on the sale of broadband assets and from operating activities principally from decrease in inventories, collection of customers' deposits and advances and it was used for financing activities primarily for payment of interest bearing loans and dividends.

Trade and other receivables reached P1,220 million as of December 31, 2012 against P1,137 million as of December 31, 2011. The increase was principally due to higher receivable position of the distribution segment.

Advances to related parties was P21 million as of December 31, 2012 compared to P128 million as of December 31, 2011 principally from collections of advances during the year.

Financial assets at fair value through profit or loss was nil as of December 31, 2012 versus P70 million in 2011 due to disposal of these investments.

Available-for-sale financial assets was nil as of December 31, 2012 from P51 million as of December 31, 2011 mainly due to disposals made during the period.

Merchandise inventories and supplies - net amounted to P391 million as of December 31, 2012, compared with P564 million as of December 31, 2011 as the Company improved its inventory position in the distribution segment.

Real estate inventories amounted to P2,011 million as of December 31, 2012 from P1,675 million as of December 31, 2011. The increase was primarily due to continuous construction of Golden Hill Project.

Other current assets amounted to P319 million as of December 31, 2012 compared with P315 million as of December 31, 2011. There is no material variance for this account.

Total current assets reached P6,984 million as of December 31, 2012 from P5,616 million as of December 31, 2011 as discussed above.

Non-current trade and other receivable amounted to P630 million as of December 31, 2012 from P669 million as of December 31, 2011. The decrease was principally due to lower translated value of the foreign-currency receivables arising from the appreciation of the Philippine peso against the US dollar.

Non-current available-for-sale financial assets stood at P9 million as of December 31, 2012 against P 7.8 million as of December 31, 2011, an increase of 15% principally from fair value gains of club shares.

Property, plant and equipment amounted to P1,048 million as of December 31, 2012 from P1,386 million as of December 31, 2011, a decrease of 24% mainly due to sale of broadband assets.

Investment property amounted to P4,017 million as of December 31, 2012 and P3,864 million as of December 31, 2011. The increase was due to fair value gains recognized this year.

Retirement benefit assets amounted to P71 million as of December 31, 2012 and P84 million as of December 31, 2011. The decrease was principally due to claims and refund of retirement of Solid Broadband Corporation.

Deferred tax assets - net amounted to P64 million as of December 31, 2012 and P71 million as of December 31, 2011, a decrease of 10% principally due to lower allowances for inventory obsolescence and provision for warranty.

Other non-current assets amounted to P22 million as of December 31, 2012 and 2011. There was no material variance for this account.

Total non-current assets amounted to P 5,863 million as of December 31, 2012 from P6,100 million as of December 31, 2011 as discussed above.

Total assets reached P12,847 million as of December 31, 2012 from P11,723 million as of December 31, 2011 as discussed above.

Interest-bearing loans amounted to P571 million as of December 31, 2012 from P779 million as of December 31, 2011, a decrease of 27% principally due to payment of loans during the year.

Trade and other payables amounted to P628 million as of December 31, 2012 against P592 million as of December 31, 2011, higher by 6% primarily due to higher trade payables incurred for the Golden Hill Project.

Customers' deposits amounted to P881 million as of December 31, 2012 versus P686 million as of December 31, 2011, an increase of 28% due to additional collection of deposits from real estate and prefabricated modular houses buyers.

Advances from related parties amounted to P11 million as of December 31, 2012 from P107 million as of December 31, 2011, lower by 89% due to payments made during the year.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2012 and December 31, 2011. There was no movement for this account.

Income tax payable amounted to P65 million as of December 31, 2012 from P43 million as of December 31, 2011 mainly due to higher tax expenses.

Total current liabilities stood at P2,227 million as of December 31, 2012 from P2,277 million as of December 31, 2011 as explained above.

Non-current refundable deposits amounted to P16 million as of December 31, 2012 from P15 million as of December 31, 2011 from additional deposits.

Retirement benefit obligation amounted to P 16 million as of December 31, 2012 and P13 million December 31, 2011. The increase was due to unfunded retirement benefit obligation of the distribution segment.

Deferred tax liabilities-net amounted to P 919 million as of December 31, 2012 and P862 million as of December 31, 2011. The increase was primarily from provision for fair value gains on investment property.

Total non-current liabilities amounted to P951 million as of December 31, 2012 from P891 million as of December 31, 2012 and December 31, 2011.

Total liabilities amounted to P3,179 million as of December 31, 2012 from P3,168 million as of December 31, 2011.

Capital stock stood at P2,030 million as of December 31, 2012 and December 31, 2011.

Additional paid-in capital amounted to P4,641 million as of December 31, 2012 and December 31, 2011.

Treasury shares amounted to P115 million as of December 31, 2012 and December 31, 2011.

Revaluation reserves amounted to P63 million loss as of December 31, 2012 from P48 million loss as of December 31, 2011 due to other comprehensive income for the period mainly from currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P2,772 million as of December 31, 2012 from P1,641 million as of December 31, 2011 as a result of net income and dividend declaration during the period.

Total equity attributable to Equity holders of Parent amounted to P9,265 million as of December 31, 2012 from P8,150 million as of December 31, 2011 due to higher retained earnings.

Minority interest amounted to P402 million as of December 31, 2012 and P405 million as of December 31, 2011. There was no material variance for this account.

Total equity amounted to P9,668 million as of December 31, 2012 from P8,555 million as of December 31, 2011.

**Past and future financial condition and results of operations, with particular emphasis on the prospects for the future.**

The Philippine economy has been performing well. GDP grew at an average of 5.9% over the last three years amid a lingering global economic slowdown and natural disasters. The Company has consistently managed to maintain a strong financial condition as shown in its balance sheets for those periods so that it is always poised to take advantage of investment opportunities that would contribute to its overall business strategy.

Since technology only confers a limited amount of competitive advantage for a period of time, the Company has been very aggressive in continuously launching smartphones with upgraded specifications that are popular among the low and middle income segments in the country. After reporting volume decline in 2013, the market for mobile phones rose to 21% in 2014. As a result, the myphone business under the distribution segment reported sales growth of 19% with gross revenue of P4 billion in 2014 (from P3.4 billion revenue in 2013). Despite this, however, the Company still suffered a net loss of P160 million (from P8.8 million loss in 2013) due to lower gross margin of 10% in 2014 (15% in 2013) and higher operating expenses. The Company reported a consolidated net loss of P188 million in 2014 from the reported net income of P145 million in 2013 and P1,237 million in 2012 (or P581 million excluding the one-time gains from the sale of broadband assets in 2012), translating to loss per share of 0.07 in 2014 from earnings per share of 0.09 and 0.68 for 2013 and 2012, respectively.

The Company maintained its liquidity with its total assets of P13.6 billion in 2014 and 2013, with a significant increase from P12.8 billion in 2012. It has maintained a low debt to equity ratio of 0.44:1 in 2014, 0.39:1 in 2013 and 0.33:1 in 2012 and even a lower gearing percentage (computed as financial debt divided by total equity) of 9% in 2014, 7% in 2013 and 6% in 2012 resulting from low financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. Moreover, the Company kept significant amounts of cash and cash equivalents and financial assets at fair value through profit or loss as part of its current assets to maintain its liquidity such that its current ratio had always exceeded the conservative rule of thumb of 2 : 1 by achieving a current ratio of 2.31:1 in 2014, 2.60:1 in 2013 and 3.14:1 in 2012.

The Company will maintain its strong financial condition in the future. Although its low debt load provides the company with substantial debt capacity to borrow funds to finance future projects/investments, management has set a limit on financial borrowings to a maximum gearing of 50% of equity.

The Company expects a turnaround in 2015 as it capitalizes on the growing demand of mobile phone. The Company will continue to launch and market mobile phones of high quality and competitive prices at the same time streamlining and controlling its costs and expenses. Moreover, its real estate business segment will continue to be a significant value driver in the future and, with constant revenue streams, provide a significant hedge against possible downturns in the other business segments. The Company also plans the sale of certain properties when market opportunity arises. The Company remains optimistic that the MyHouse business will surpass its 2014 revenue with the number of projects already lined-up. It will embark also on a new technology through partnership with a foreign company producing light prefabricated

materials. In 2014, MyHouse generated P66 million in revenues, a 93% increase from its 2013 revenue of P32 Million. It will continue to push its success stories in classrooms and dorms and housing construction to achieve its goal of P100 million revenues annually.

The Company completed the renovation of Solid House Building in 2014 with total capital expenditures of P305 million. It started the operation of a Business Hotel and Event Center consisting of 144 rooms named Green Sun and generated P12 million revenues in 2014. This is the second hotel being operated by the Group. The hotel is expected to generate annual revenues of P120 million.

The logistics business under the Support Services and Other business segment will continue to embark on its delivery vehicles refueling program. In 2015, it will purchase 13 new delivery vehicles in the amount of P25 million to replace its aging fleet (in compliance with LTOs directive to phase out 15 year-old vehicles to curb pollution and pave way for their modernization program ). This will minimize repairs and maintenance expenses as well as improve the Company's delivery efficiency and reliability. It is expected to generate annual revenue of P150 million.

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 2015 to amount to P100 million for various real estate development. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

On May 11, 2012, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base. After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter. SBC broadband business is expected to decrease about 10% of revenues and income.

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

In 2012, Solid Broadband Corporation (SBC) sold its assets. The disposal of the assets of SBC contributed to a one time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million in 2012 (P656 million after tax).

vii. Causes for any Material Changes from Period to Period

On May 11, 2012, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base. The disposal of the assets of SBC contributed to a one time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million, none for 2013 and 2014.

***Balance Sheet Items (2014 vs 2013)***

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

*Cash and cash equivalents – 30% decrease to P1,623 million from P2,327 million*

Mostly used for investing activities mainly for increase of FAFVTPL and additions to property and equipment; for operating activities mainly for increase in trade and other receivables. This account stood at 11% and 17% as a percentage of total assets for 2014 and 2013.

*Financial assets at fair value through profit or loss – P746 million as of December 31, 2014 and amounted to P294 million as of December 31, 2013.*

Mainly from acquisition of unit investment in trust funds. This account stood at 5% and 2% as a percentage of total assets for years 2014 and 2013.

*Trade and other receivables – 26 % decrease to P1,438 million from P1,132 million*

Mainly due to higher trade receivables of the distribution segment. This account stood at 10% and 8% as a percentage of total assets in 2014 and 2013, respectively.

*Advances to related parties – 29% increase to P28 million from P24 million*

Principally from additional advances. This account stood at 0.21% and 0.18% as a percentage of total assets in 2014 and 2013, respectively.

*Merchandise inventories and supplies – 29 % decrease to P594 million from P844 million*

Mainly from lower merchandise and finished goods for digital products of the distribution segment. This account represented 4% and 6% as a percentage of total assets in 2014 and 2013, respectively.

*Real estate inventories – 2% decrease to P2,371 million from P2,423 million*

There was no material change for this account. This account stood at 17% as a percentage of total assets in both years.

*Other current assets – 34% increase to P574 million from P425 million*

Mainly due to higher prepayments and creditable withholding taxes. This account stood at 4% and 3% as a percentage of total assets for years 2014 and 2013.

*Non-current trade and other receivables – amounted to P582 million as of December 31, 2014, decreased by 19% from P722 million as of December 31, 2013.*

Mainly due to the reclassification of currently maturing receivables to current assets. This account stood at 4% and 5% of total assets for 2014 and 2013, respectively.

*Non-current available-for-sale financial assets – 30% increase in 2014 to P9 million from P7 million in 2013*

The decrease was due to higher club shares. This account stood at 0.07% and 0.05% as a percentage of total assets for 2014 and 2013.

*Property, plant and equipment – 11% increase to P1,739 million from P1,560 million*

Primarily due to transfer from investment property and additions for the Green Sun. This represented 12 % and 11% as a percentage of total assets in 2014 and 2013.

*Investment property – P3,653 million from P3,648 million*

Mainly due to fair value gains on investment property. This account stood at 26% as a percentage of total assets in in both years.

*Retirement benefit assets - 49% increase to P123 million from P82 million*

Increase was mainly due to higher fair value of plan assets sans the effect of asset ceiling in 2013, nil in 2014.. This represented 0.90% and 0.60% of total assets in 2014 and 2013, respectively.

*Deferred tax assets –net - 63% increase to P127 million from P77 million*

Principally due to future tax benefits on net operating loss carryover, allowance for impairment losses and MCIT of the distribution segment. This account stood at 0.93% and 0.57% of total assets in 2014 and 2013 respectively.

*Other non-current assets – 34% increase in 2014 to P44 million from P32 million*

Mainly due to higher deferred input VAT. This represented 0.31% and 0.24% as percentage to total assets in 2014 and 2013 respectively.

*Interest-bearing loans – 23% increase in 2014 to P844 million from P684 million*

Mainly due to additional loans for the Golden Hill project. This account stood at 6% and 5% as a percentage of total liabilities and equity in 2014 and 2013.

*Trade and other payable – amounted to 732 million from P731 million*

No material change for this account. This account stood at 5% as a percentage of total liabilities and equity in 2014 and 2013.

*Customers' Deposit – 15% increase to P1,502 million from P1,306 million*

Principally due to additional deposits received from the Golden Hill Project. This account represented 11% in 2014 and 9% in 2013 as a percentage of total liabilities and equity in 2014 and 2013.

*Advances from related parties – 54 % decrease to P81 million from P36 million*

The decrease was due to repayment of advances made for the year. This account stood at 0.27% in 2014 and 0.60% in 2013 as a percentage of total liabilities and equity.

*Estimated liability for land and land development costs – no change*

There was no movement during the period. This account represented 0.50% as a percentage of total liabilities and equity in both years.

*Income tax payable –100% increase to P9 million as of December 31, 2014 from P4 million as of December 31, 2013.*

Mainly due to provision for income tax for certain subsidiaries. This account was pegged at 0.07% and 0.03% of the total liabilities and equity in 2014 and 2013, respectively.

*Non-current refundable deposits – amounted to P13 million from P15 million*

Principally due to the reclassification of certain deposits to current liabilities. This represented 0.10% and 0.11% of the total liabilities and equity in 2014 and 2013, respectively.

*Retirement benefit obligation – 21% decrease to P20 million from P26 million*

Principally due to remeasurements made during the year. This account stood at 0.15% and 0.19% of the total liabilities and equity in 2014 and 2013, respectively.

*Deferred tax liabilities –Increase to P938 million from P935 million*

No material change. This account stood at 6 % as a percentage of total liabilities and equity for 2014 and 2013.

*Capital stock – no change*

This account stood at 14% of total liabilities and equity for 2014 and 2013.

*Additional Paid-In-Capital – no change*

This account represented 33 % and 34% of total liabilities and equity for 2014 and 2013, respectively.



*Treasury Shares – no change*

This account represented 0.85% of total liabilities and equity for 2014 and 2013.

*Revaluation reserves –amounted to P21 million from (P16 million)*

Principally due to other comprehensive income for the period consisting of actuarial gains offset by currency differences on translating financial statements of foreign operations. It stood at .015%% and 0.12% total liabilities and equity in 2014 and 2013, respectively.

*Retained earnings – 8% decrease to P2,590 million from P2,820 million*

Decrease was a result of net loss during the period. This account stood at 18% and 20% of total liabilities and equity in 2014 and 2013, respectively.

***Income Statement Items (2014 vs. 2013)***

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

*Sale of goods – 23% increase to P4,337 million from P3,513 million*

Principally from higher volume of sales of the digital product. As a percentage of total revenues, this account represents 87% and 83% in 2014 and 2013, respectively.

*Service revenue –9% increase to P453 million from P414 million*

Mainly due to higher warranty income and tolling fees of the support services and others segment. As a percentage of total revenues, this account represents 9% for both years, 2014 and 2013.

*Rental income – P150 million from P151 million*

No material change. As a percentage of total revenues, this account represents 3% for years 2014 and 2013.

*Sale of real estate – 75% decrease to P28 million from P113 million*

Principally due to lower condominium sales. As a percentage of total revenues, this account stood at 0.57% in 2014 and 2% in 2013.

*Interest income – 31% decrease to P27 million from P39 million*

Mainly from lower yield on placements as compared with previous year and lower principal amount since the Company transferred certain placements under Unit Investments in Trust Funds classified under Financial Assets at Fair Value Through Profit or Loss (FAFVTPL). As a percentage of total revenues, this account represents 0.54% in 2014 and 0.93% in 2013.

*Cost of sales - 29% increase in P3,854 million from P2,983 million*

Mainly in relation to increase in sales. As a percentage of total sales, this account represented 77% and 70% in 2014 and 2013 respectively.

*Cost of services - 12% increase to P374 million from P332 million*

Principally in relation to higher service revenue. This account stood at 7% in 2014 and 2013 as a percentage of total revenues.

*Cost of rentals – P35 million from P34 million*

No material change for this account. This account represents 1% as a percentage of total revenues for both years.

*Cost of real estate sold – 68% decrease to P22 million from P70 million*

The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account represents 0.44% in 2014 and 1% in 2013.

*Gross profit – 12% decrease to P710 million from P811 million*

The decrease was principally due to lower margins of the distribution segments driven by stiff market competition. As a percentage of total revenues, this account stood at 14% in 2014 and 19% in 2013.

*General and administrative expenses – 31% increase to P379 million from P288 million*

Mainly due to higher taxes and licenses, personnel costs, property certificate charges and donation expenses to Typhoon Yolanda hit areas. As a percentage of total revenues, this account stood at 7% in 2014 and 6% in 2013.

*Selling and distribution costs – 22% increase to P552 million from P451 million*

Mainly from higher commission and incentives of the distribution segment. This account represents 11% of total revenues for 2014 and 10% in 2013.

*Other operating income –net -61% increase to P86 million from P53 million*

Principally from higher fair value gains on investment property and reversal of warranty provision. As a percentage to total revenues, this account represents 1% in 2014 and 2013.

*Other operating profit (loss) – 208% decrease to P135 million loss from P125 million gain*

Principally due to higher operating expenses for the period. As a percentage of total revenues, this account stood at 3% in 2014 and 2013.

*Finance income – 47% decrease to P33 million from P62 million*

It went down due to lower interest income from bank placements as a result of lower interest rates and lower foreign currency gains. This account represents 1% of total revenues for 2014 and 2013.

*Finance costs – P112 million from P20 million*

Primarily due to higher interest expense from interest-bearing loans (in 2013, interest cost for the Golden Hill project was capitalized as part of property development cost) and higher impairment losses on trade and other receivables. This account represents 2% of total revenues in 2014 from 0.49% in 2013.

*Other gains - net –85% decrease to P3 million to P22 million*

Primarily due to lower gain on derecognition of liabilities. This account stood at 0.06% in 2014 from 0.54% in 2013 as a percentage of total revenues.

### **Balance Sheet Items (2013 vs. 2012)**

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

*Cash and cash equivalents – 23% decrease to P2,327 million from P3,019 million*

Mostly used for investing activities mainly for acquisitions of FAFVTPL and additions to property and equipment and for operating activities mainly for increase in inventories. This account stood at 17% and 24% as a percentage of total assets for years 2013 and 2012.

*Financial assets at fair value through profit or loss –P294 million as of December 31, 2013 and amounted to nil as of December 31, 2012.*

Financial assets at fair value through profit or loss amounted P294 million as of December 31, 2013 versus nil as of December 31, 2012 mainly due to availment of UITF

*Trade and other receivables – 7 % decrease to P1,132 million from P1,220 million*

Mainly due to collection of receivables of the distribution segment. This account stood at 8% and 10% as a percentage of total assets in 2013 and 2012, respectively.

*Advances to related parties – 14% increase to P24 million from P21 million*

Principally from additional advances. This account stood at 0.18% and 0.17% as a percentage of total assets in 2013 and 2012, respectively.

*Merchandise inventories and supplies – 115 % increase to P844 million from P391million*

Mainly due to buildup of inventories of the myphone business. This account represented 6% and 3% as a percentage of total assets in 2013 and 2012, respectively.

*Real estate inventories – 20% increase to P2,423 million from P2,011 million*

The increase was mainly due to the ongoing Fil-Dragon's project in Nanning, China. This account stood at 17% and 15% as a percentage of total assets in 2013 and 2012, respectively.

*Other current assets – 33% increase to P425 million from P319 million*

Mainly due to higher creditable withholding taxes and input VAT . This account stood at 3% and 2% as a percentage of total assets for years 2013 and 2012.

*Non-current trade and other receivables – amounted to P722 million as of December 31, 2013, increased by 14% from P630 million as of December 31, 2012..*

Mainly due to increase in cash surrender value of life insurance and finance receivables. This account stood at 5% of total assets for both years.

*Non-current available-for-sale financial assets – 20% decrease in 2013 to P7 million from P9 million in 2012*

The decrease was due to lower club shares. This account stood at 0.05% and 0.07% as a percentage of total assets for 2013 and 2012.

*Property, plant and equipment – 49% increase to P1,560 million from P1,048 million*

Mainly due to the transfer of Solid House property from investment property to this account. This represented 11 % and 8% as a percentage of total assets in 2013 and 2012.

*Investment property – P3,648 million from P4,017 million*

Mainly from transfer of Solid House property to property and equipment. This account stood at 27% and 31% as a percentage of total assets in 2013 and 2012, respectively.

*Retirement benefit assets - 115% increase to P82 million from P71 million*

Increase was mainly due to lower present value to obligation. This represented 0.60% and 0.56% of total assets in 2013 and 2012, respectively.

*Deferred tax assets –net - 20% increase to P77 million from P64 million*

Mainly due to MCIT of MySolid. This account stood at 0.57% and 0.50% of total assets in 2013 and 2012 respectively.

*Other non-current assets – 48% increase in 2013 to P32 million from P22 million*

Mainly due to higher deferred input VAT. This represented 0.24% and 0.17% as percentage to total assets in 2013 and 2012 respectively.

*Interest-bearing loans – 20% increase in 2013 to P684 million from P571 million*

Mainly due to additional loans for the Golden Hill project. This account stood at 5% and 4% as a percentage of total liabilities and equity in 2013 and 2012, respectively.

*Trade and other payable – 16% increase to P731 million from P 628 million*

Increase was primarily due to higher trade payables and other payables of the Golden Hill project and myphone business. This account stood at 5% and 4% in 2013 and 2012 respectively as a percentage of total liabilities and equity in 2013 and 2012.

*Customers' Deposit – increase to P1,306 million from P881 million*

Principally due to additional collection of deposits for real estate sales.

*Advances from related parties – 599 % increase to P81 million from P11 million*

The increase was due to advances made during the period. This account stood at 0.60% in 2013 and 0.09% in 2012 as a percentage of total liabilities and equity.

*Estimated liability for land and land development costs – no change*

There was no movement during the period. This account represented 0.50% and 0.53% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

*Income tax payable –92% decrease to P4 million as of December 31, 2013 from P65 million as of December 31, 2012.*

Mainly due to lower tax expenses. This account was pegged at 0.03% and 0.51% of the total liabilities and equity in 2013 and 2012, respectively.

*Non-current refundable deposits – amounted to P15 million from P1.6 million*

Mainly from additional deposits. This represented 0.11% and 0.12% of the total liabilities and equity in 2013 and 2012, respectively.

*Retirement benefit obligation – 64% increase to P26 million from P16 million*

Mainly from unfunded retirement obligation. This account stood at 0.19% and 0.13% of the total liabilities and equity in 2013 and 2012, respectively.

*Deferred tax liabilities –Increase to P935 million from P919 million*

No material change. This account stood at 6 and 7%% as a percentage of total liabilities and equity for 2013 and 2012.

*Capital stock – no change*

This account stood at 14% and 15% of total liabilities and equity for 2013 and 2012, respectively.

*Additional Paid-In-Capital – no change*

This account represented 34 % and 36% of total liabilities and equity for 2013 and 2012, respectively.

*Treasury Shares – no change*

This account represented 0.85% and 0.90% of total liabilities and equity for 2013 and 2012, respectively.

*Revaluation reserves –amounted to (P16 million) from (P63 million)*

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations. This account stood at .012%% and 0.49% total liabilities and equity in 2013 and 2012, respectively.

*Retained earnings – 1.75% increase to P2,820 million from P2.772 million*

Increase was a result of net income during the period. This account stood at 20% and 21% of total liabilities and equity in 2013 and 2012, respectively.

### **Income Statement Items (2013 vs. 2012)**

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

*Sale of goods – 11% decrease to P3,513 million from P3,959 million*

Principally from lower volume of digital product sales. As a percentage of total revenues, this account represents 83% and 81% in 2013 and 2012, respectively.

*Service revenue –34% decrease to P414 million from P630 million*

Principally due to termination of operations of SBC after its asset sale in 2012. As a percentage of total revenues, this account represents 10% and 13% for years 2013 and 2012.

*Rental income – 11% increase to P151 million from P136 million*

Principally due to higher occupancy in 2013. As a percentage of total revenues, this account represents 4% and 3% for years 2013 and 2012.

*Sale of real estate – 15% increase to P113 million from P98 million*

Principally due to higher condominium sales. As a percentage of total revenues, this account stood at 3% in 2013 and 2% in 2012.

*Interest income – 39% decrease to P39 million from P64 million*

Mainly from lower yield on placements as compared with previous year. As a percentage of total revenues, this account represents 0.93% in 2013 and 1% in 2012.

*Cost of sales - P2,983 million from P3,092 million*

No material change for this account. As a percentage of total sales, this account represented 70% and 63% in 2013 and 2012 respectively.

*Cost of services - 32% decrease to P332 million from P488 million*

Principally in relation to lower service revenue. This account decreased to 8% in 2013 and 10% in 2012 as a percentage of total revenues.

*Cost of rentals – P34 million from P35 million*

No material change for this account. This account represents 1% as a percentage of total revenues for both years.

*Cost of real estate sold – 53% increase to P70 million from P45 million*

The increase was mainly in relation to higher sale of real estate. As a percentage of total revenues, this account represents 2% in 2013 and 1% in 2012.

*General and administrative expenses – 18% decrease to P288 million from P352 million*

Expenses went down after the broadband assets were sold in May 2012. As a percentage of total revenues, this account stood at 7% for both years.

*Selling and distribution costs – 25% increase to P451 million from P361 million*

Mainly from higher advertising costs. This account represents 11% of total revenues for 2012 and 7% in 2013.

*Gain on sale of assets – nil in 2013 and 267 million in 2012*

None in 2013, one-time gain from the sale of broadband assets in 2012.

*Other operating income – net -90% decrease to P53 million from P553 million*

Primarily due to gain on sale of broadband assets (none in 2013). This account decreased to 1% in 2013 from 11% in 2012 as a percentage of total revenues.

Finance income – 62% decrease to P62 million from P163 million

It went down because in 2012 there were reversals of impairment on PPE and trade receivables due to sale of broadband assets in 2012. This account decreased at 1% of total revenues for 2013 from 3% in 2012.

*Finance costs – P20 million from P49 million*

Primarily due to lower foreign currency losses and lower interest expense. This account decreased at 0.49% of total revenues in 2013 from 1% in 2012.

*Other gains - net –P22 million to P60 million*

Primarily due to lower gain on derecognition of liabilities in 2013. Also in 2012, there were reversal of allowance on inventory obsolescence (none in 2013). This account stood at 0.54% in 2013 from 1% in 2012 as a percentage of total revenues.

### **Balance Sheet Items (2012 vs. 2011)**

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

*Cash and cash equivalents – 76% increase to P3,019 million from P1,720 million*

Mainly provided by investing activities mainly from proceeds on the sale of broadband assets and from operating activities principally from decrease in inventories, collection of customers' deposits and advances and it was used for financing activities primarily for payment of interest bearing loans and dividends. This account stood at 24% and 15% as a percentage of total assets for years 2012 and 2011, respectively.

*Financial Assets at fair value through fair value and loss – 100% decrease from P70 million*

Financial assets at fair value through profit or loss amounted to nil as of December 31, 2012 versus P70 million in 2011 mainly due to disposals made during the period

*Trade and other receivables – 12 % increase to P1,220 million from P1,089 million*

Mainly from increase in trade receivables on digital products. This account stood at 10% and 9% as a percentage of total assets in 2012 and 2011, respectively.

*Advances to related parties – 83% decrease to P21 million from P128 million*

Principally from collections of advances made. This account stood at 0.17% and 1% as a percentage of total assets in 2012 and 2011, respectively.

*Available-for-sale financial assets – 100% decrease from P51 million*

The decrease was principally due to disposal of financial assets. This account stood at nil and 0.4% as a percentage of total assets in 2012 and 2011, respectively.

*Merchandise inventories and supplies – 31 % decrease to P391 million from P564 million*

Mainly due improved inventory position in the distribution segment. This account represented 3% and 5% as a percentage of total assets in 2012 and 2011, respectively.

*Real estate inventories – 20% increase to P2,011 million from P1,675 million*

The increase was mainly due to construction of Golden Hill Project. This account stood at 15% and 14% as a percentage of total assets in 2012 and 2011, respectively.

*Other current assets – 1% increase to P319 million from P315 million*

Mainly due to higher prepayments. This account stood at 2% as a percentage of total assets for years 2012 and 2011.

*Non-current trade and other receivables – amounted to P630 million as of December 31, 2012, decreased by 6% from P670 million as of December 31, 2011.*

Mainly due to lower translated value of the foreign-currency receivables. This account stood at 5% and 6% as a percentage of total assets for years 2012 and 2011 respectively.

*Non-current available-for-sale financial assets – 15% increase in 2012 to P9 million from P7.8 million*

Mainly from fair value gains of club shares. This account stood at nil and 0.07% as a percentage of total assets for 2012 and 2011, respectively.

*Property, plant and equipment – 24% decrease to P1,048 million from P1,386 million*



Mainly due to sale of broadband assets. This represented 8 % and 12% as a percentage of total assets in 2012 and 2011, respectively.

*Investment property – P4,017 million from P3,864 million*

Mainly from fair value gains for the year. This account stood at 31% and 33% as a percentage of total assets in 2012 and 2011, respectively.

*Retirement benefit assets - 15% decrease to P71 million from P84 million*

Decrease was mainly due to claims and refund by SBC. This represented 0.56% and 0.72% of total assets in 2012 and 2011, respectively.

*Deferred tax assets –net - 10% decrease to P64 million from P71 million*

Mainly due to lower allowances for inventory obsolescence and provision for warranty. This account stood at 0.50% and 0.61% of total assets in 2012 and 2011, respectively.

*Other non-current assets – no change*

This represented 0.17% and 0.19% as percentage to total assets in 2012 and 2011, respectively.

*Interest-bearing loans – 27% decrease in 2012 to P571 million from P779 million*

Mainly due to payments of loan during the year. This account stood at 4% and 7% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

*Trade and other payable –6% increase to P628 million from P592 million*

Increase was due to higher trade payables incurred for the Golden Hill Project. This account stood at 5% as a percentage of total liabilities and equity in 2012 and 2011.

*Customers' Deposit –29% increase to P881 million from P686 million*

Principally due to additional collection of deposits from real estate and prefabricated modular houses buyers. This account stood at 7% in 2012 and 6% in 2011 as a percentage of total liabilities and equity.

*Advances from related parties – 89% decrease to P11 million from P107 million*

The decrease was due to payments made during the period. This account stood at 0.09% in 2012 and 0.92% in 2011 as a percentage of total liabilities and equity.

*Estimated liability for land and land development costs – no change*

There was no movement during the period. This account represented 0.53% and 0.58% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

*Income tax payable –50% increase to P65 million as of December 31, 2012 from P43 million as of December 31, 2011.*

Mainly due to higher tax expenses. This account was pegged at 0.51% and 0.37% of the total liabilities and equity in 2012 and 2011, respectively.

*Non-current refundable deposits – amounted to P16 million from P15.6 million*

No material change. This represented 0.12% and 0.13% of the total liabilities and equity in 2012 and 2011, respectively.

*Retirement benefit obligation – 21% increase to P16 million from P13 million*

Mainly from unfunded retirement obligation of the distribution segment. This account stood at 0.13% and 0.11% of the total liabilities and equity in 2012 and 2011, respectively.

*Deferred tax liabilities – 7 % increase to P920 million from P862 million*

The increase was principally from provision for fair value gains on investment property. This account stood at 7% as a percentage of total liabilities and equity for 2012 and 2011.

*Capital stock – no change*

This account stood at 16% and 17% of total liabilities and equity for 2012 and 2011, respectively.

*Additional Paid-In-Capital – no change*

This account represented 36 % and 40% of total liabilities and equity for 2012 and 2011, respectively.

*Treasury Shares – no change*

This account represented 0.90% and 0.99% of total liabilities and equity for 2012 and 2011, respectively.

*Revaluation reserves –amounted to (P63 million) from (P48 million)*

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss. This account stood at 0.49%% and 0.41% total liabilities and equity in 2012 and 2011, respectively.

*Retained earnings – 69% increase to P2,772 million from P1.641 million*

As a result of net income and dividend declaration during the period. This account stood at 22% and 14% of total liabilities and equity in 2012 and 2011, respectively.

#### **Income Statement Items (2012 vs. 2011)**

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

*Sale of goods – 26% increase to P3,959 million from P3,135 million*

Primarily because sales of digital products improved with the introduction of new model lineup and also from higher sales of prefabricated modular house in 2012. As a percentage of total revenues, this account represents 81% and 76% in 2012 and 2011, respectively.

*Rendering of services –8% decrease to P630 million from P682 million*

Principally due to broadband's sale of assets and subscriber base in May 2012. As a percentage of total revenues, this account represents 13% and 16% in 2012 and 2011, respectively.

*Sale of real estate – 22% decrease to P98 million from P126 million*

Principally since there was no sale of industrial lots for 2012. As a percentage of total revenues, this account represents 2% in 2012 and 3% in 2011.

*Rentals – 13% decrease to P136 million from P157 million*

Principally due to decrease in occupied spaces as the Company Terminated certain lease contracts since the Solid House Building was renovated. As a percentage of total revenues, this account represents 3% and 4% for years 2012 and 2011.

*Interest income – 35% increase to P64 million from P47 million*

Mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets. As a percentage of total revenues, this account represents 1% in 2012 and 2011.

*Cost of sales - 22% increase to P3,092 million from P2,524 million*

Mainly in relation to higher sales. As a percentage of total revenues, this account represents 63% in 2012 and 61% in 2011.

*Cost of services - 2% decrease to P488 million from P499 million*

Principally in relation to service revenue. This account decreased to 10% in 2012 and 12% in 2011 as a percentage of total revenues.

*Cost of real estate sales – 52% decrease to P45 million from P95 million*

The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account represents 1% in 2012 and 2% in 2011.

*Cost of rentals – 11% decrease to P35 million from P39 million*

Primarily from lower rental and other overhead. This account represents 1% as a percentage of total revenues for years 2012 and 2011.

*Gross profit – 24% increase to P1,228 million from P989 million*

Primarily due to higher revenues. This account represents 25% in 2012 and 24% in 2011 as a percentage of total revenues

*General and administrative expenses – 4% decrease to P352 million from P366 million*

Principally due to lower operating expenses of the broadband operations after it disposed of its assets. As a percentage of total revenues, this account decreased to 7% in 2012 from 9% in 2011.

*Selling and distribution costs – 30% increase to P361 million from P278 million*

Mainly from higher commissions. This account remained at 7% of total revenues for 2012 and 2011, respectively.

*Gain on sale of assets – 267 million*

One-time gain from the sale of broadband assets, none in 2011.

*Other operating income –net - 138% increase to P553 million from P232 million*

Primarily due to one-time gains on reversal of asset impairment of P437 million from the sale of broadband assets. This account increased to 11% in 2012 from 6% in 2011 as a percentage of total revenues.

*Operating profit –132% increase to P1,336 million in 2012 from P577 million*

Primarily from higher gross profit and other operating income and gain of sale of asset

*Finance income – 154% increase to P163 million from P64 million*

Principally contributed by reversals of impairment loss on trade and other receivables of SBC. This account increased at 3.35% of total revenues for 2012 from 1.55% in 2011.

*Finance costs – P49 million from P89 million*

Primarily due to lower impairment losses on trade and other receivables and foreign currency losses.

*Other gains - net –P60 million to P19 million*

Primarily due to gain on derecognition of liabilities. This account increased to 1.25% in 2012 from 0.47% in 2011 as a percentage of total revenues.

*Income before tax – P1,511 million in 2012 from P572 million in 2011*

Mainly due to higher operating profit. The sale of broadband assets contributed P267 million one-time gain on sale of assets and P437 million reversal of impairment allowances.

*Tax expense – P274 million from P139 million*

Mainly due to higher pre-tax income.

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, 2014 and 2013 amounted to P5.382 million and P5.2 million, respectively. Also, audit fees for the amendment of the plan of merger between Solid Manila Corporation and Solid Corporation amounted to P171.7 thousand in 2014 (none in 2013). The audit fee of Grant Thornton for the examination of Fil-Dragon for the years ended December 31, 2014 and 2013 amounted to HK\$274,000 for both years.

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 2014 and 2013.

(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, 2014 and 2013 amounted to P240 thousand and P204 thousand, respectively.

(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 2014 and 2013.

(d) The audit committee's approval policies and procedures for the above services. The overall scope of the audit was reviewed and approved by the Audit Committee. The terms of engagement of the audit were also reviewed and approved by the Audit Committee.

The scope and terms of engagement of the tax consultation and advisory services were also reviewed and approved by the Audit Committee.

Upon the favorable endorsement by the Audit Committee, the proposed terms of engagement of services are submitted for approval to the Board of Directors. 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 June 26, 2014, the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2014.

There was no change in our existing accountant for the years 2014 and 2013.

### **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 nine (9) 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	85	Filipino
Chairman of the Board	Susan L. Tan	61	Filipino
Director and President and Chief Executive Officer	David S. Lim	59	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	58	Filipino
Director and Sr. VP and Chief Financial Officer	Vincent S. Lim	56	Filipino
Director	Quintin Chua	55	Australian
Director	Luis-Maria Zabaljauregui *	67	Filipino
Director	Joseph Lim	88	Filipino
Director and VP for Business Development	Beda T. Manalac	54	Filipino

VP and Treasurer	Lita Joaquin	54	Filipino
Corporate Secretary	Roberto V. San Jose	72	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	46	Filipino
VP and Chief Accounting Officer	Mellina T. Corpuz	48	Filipino
Chief Information Officer	Josephine T. Santiago	47	Filipino

Note \*: Mr Luis Maria L. Zabaljauregui has passed away last February 2015.

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. since 1995 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 and Chief Financial Officer in September 2010 and was Sr. Vice President for Finance and Investments since June 2006 up to September 2010. He 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 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. He is also an Independent Director of Security Land Corporation effective June 2013. Mr. Lim is the son of Joseph and Elena 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 until February 2015. 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 was Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008 up to June 2011. He has business experience for more than five (5) years. Mr. Zabaljauregui passed away on February 2015.

Mr. Joseph Lim is the Founding Chairman of Solid Group of Companies and served as Chairman of the Board of the Company from 1996 until 2006. He is presently the Chairman of Phil-Nanning Consortium, Inc. (Phil-Nanning), a wholly owned subsidiary of the Company; and Chairman of Guangxi Fil-Dragon Real Estate Development Ltd., a company in Nanning, China, where Phil-Nanning has a 51% ownership. In the past five years to present, he has been Chairman of various manufacturing and trading companies in Hongkong and China among which are Solid Co. Ltd., Solid Trading Ltd. and Solid Industrial (Shenzhen) Co. Ltd. Mr. Lim is the incumbent Chairman of the China-Philippines Chamber of Commerce. Mr. Lim is married to the Company's Chairman Emeritus, Ms. Elena S. Lim, and is the father of Chairman Ms. Susan L. Tan and Directors Mr. David S. Lim, Mr. Jason S. Lim and Mr. Vincent S. Lim. Mr. Lim assumed position as Director in June 2010.

Mr. Beda T. Mañalac is Director and Vice President for Business Development since September 30, 2010. He is President of Solid Manila Corporation effective January 2012. He was Vice President for Business Development of MyPhone mobile phones under MySolid Technologies and Devices Corporation and Solid Broadband Corporation since 2007 to May 31, 2010. Prior to that, he was Vice President for Sales and Marketing of Destiny Cable Inc and Vice President for Broadband Services of Solid Broadband Corporation.

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 Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Ms. Joaquin is the niece of Mr. Joseph Lim.

Roberto V. San Jose is the Corporate Secretary of the Company and has held the office since 1996. He is Chairman of Mabuhay Holdings Corporation; a director of Interport Resources Corporation and Anglo-Philippine Holdings Corporation; and Corporate Secretary of Alsons Consolidated Resources Inc., Anglo-Philippine Holdings Corporation, Beneficial Life Insurance Corporation, Inc., FMF Development Corporation, Premiere Horizon Alliance Corporation, The Metropolitan Club, Inc., Marcventures Holdings, Inc, United Paragon Mining Corporation and Vulcan Industrial and Mining Corp. He is also either a director, corporate secretary, or an officer of various companies which are clients of the law firm of Castillo Laman Tan Pantaleon & San Jose, of which he is presently a Senior Consultant. He is a member of the Integrated Bar of the Philippines.

Ana Maria A. Katigbak is the Assistant Corporate Secretary of the Company and has held the office since 1997. She is a partner in Castillo, Laman, Tan, Pantaleon & San Jose Law Offices and also acts as Corporate Secretary of Minerales Industrias Corporation, and Assistant Corporate Secretary of Energy Development Corporation, Mabuhay Holdings, Inc., Marcventures Holdings, Inc., Paxys Inc., Premiere Horizon Alliance Corporation and Vulcan Industrial and Mining Corp. She is a member of the Integrated Bar of the Philippines.



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.

Josephine Santiago is the Chief Information Officer in October 2012. She is also the Corporate Secretary of subsidiaries and affiliates of Solid Group Inc. for the last 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, Mr. Joseph Lim, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason Lim and Mr. Vincent S. Lim are impleaded as co-defendants. The second case was dismissed by the court on February 24, 2014. Except by above, none of the directors and officers was involved in the past five years up to April 2015 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 who are not executive officers 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

(a)	(b)	Annual Compensation		
		(c)	(d)	(e)
				Other Annual Compensation
<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary (₱)</u>	<u>Bonus (₱)</u>	<u>Income (₱)</u>
Chairman and four most highly compensated executive officers				
Susan L. Tan	Chairman of the Board			
David S. Lim	Director, President and Chief Executive Officer			
Jason S. Lim	Director, Senior VP and Chief Operations Officer			
Vincent S. Lim	Director, Senior VP and Chief Financial Officer			
Lita Joaquin	VP and Treasurer			
	2015 (Est.)	20,000,000	3,500,000	1,500,000
	2014	16,730,000	2,993,093	1,296,046
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			
Beda T. Manalac	Director, VP for Business Development			
	2013	16,543,113	2,954,729	1,174,113
All officers and directors as a group unnamed	2015 (Est.)	6,000,000	1,200,000	1,000,000
	2014	5,141,000	988,616	846,235
	2013	4,795,000	848,203	1,184,456

### (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, 2014 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. <sup>1</sup> 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r) <sup>1</sup>	32.03
Common	AV Value Holdings Corporation 1000 J. Bocobo St., Ermita, Manila Affiliate	David S. Lim President of AV Value Holding Corp.	Filipino	499,999,999 (r) <sup>2</sup>	27.45
Common	PCD Nominee Corporation (F) <sup>2</sup> G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	363,541,626 (r) <sup>3</sup>	19.96
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, 2014.

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Ownership	(4) Citizenship	(5) % to Total Outstanding
--------------------	------------------------------	------------------------------------	-----------------	----------------------------

Common	Lim, Elena S.	1,894 (direct)	Filipino	-
Common	Tan, Susan L.	78,645 (direct)	Filipino	-
		7,300,000 (indirect) <sup>3</sup>		0.40
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		5,000,000 (indirect) <sup>3</sup>		0.27
		499,999,999 (indirect) <sup>2</sup>		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect) <sup>1</sup>		32.03
		5,996,000 (indirect) <sup>3</sup>		0.33
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	5,000 (direct)	Australian	-
Common	Zabaljauregui, Luis-Maria	5,000 (direct)	Filipino	-
Common	Lim, Joseph	2 (direct)	Filipino	-
Common	Beda T. Manalac	1,001 (direct)	Filipino	-
Common	San Jose, Roberto V.	242,000 (direct)	Filipino	0.01
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	7,010,000 (direct)	Filipino	0.38
Common	Corpuz, Mellina T.	-	Filipino	-
Common	Santiago, Josephine T.	7,000 (direct)	Filipino	-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,425,576,296 shares or 78.26% 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. These shares were registered in the name of a member of the immediate family sharing the same household.

### (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 (SVC) earns commission from sales of Solid Trading Limited (STL), a company owned by SGI's majority stockholders, to customers in the Philippines. SVC also advances funds to STL to pay foreign suppliers.

My Solid purchases mobile phones from STL. My Solid also made advance payments to STL for its future purchase of mobile phones.

Solid Manila Finance Inc. grants interest-bearing business and other loans to its related parties.

Solid Manila Corporation leases out certain land and buildings to Avid Sales Corporation.

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, a company also owned by the Company's ultimate majority stockholders.

#### Advances to and from Related Parties

Certain subsidiaries of the Company grants to and obtains unsecured, non-interest bearing cash advances to and from related parties companies owned by Group's ultimate majority stockholders for working capital requirements and other purposes.

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. In 2011, the parties agreed to increase the annual rate to 5% and extend the maturity date for another date. In 2014, the parties agreed to further extend the term of the loan to March 31, 2015. Interest rate was maintained at 5%.

In 2011, Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon) obtained loans from companies that are owned by Solid Company Limited (Hongkong). The liability is unsecured and payable on demand.

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 adopted a Manual on Corporate Governance to institutionalize the rules and principles of good corporate governance in accordance with the Code of Corporate Governance promulgated by Securities and Exchange Commission (SEC). Its Manual on Corporate Governance was submitted to the SEC on September 2, 2002 in accordance with SEC Memorandum Circular No. 2 Series of 2002.

Pursuant to the Manual, three Board Committees – Audit, Nomination and Compensation and Remuneration Committees were created in 2003 to aid in complying with principles of good corporate governance. In 2003, the Company increased the number of independent directors from one (1) to two (2). In 2004, in compliance with SEC Memorandum Circular No. 6, the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee. The company has reelected Mr. Quintin Chua and Mr. Luis Maria L. Zabaljauregui as Independent Directors during the Annual Stockholders' meeting on June 27, 2013. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. In 2012, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2011 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier.

On August 12, 2014, the Company's Board of Directors approved the following charters: Corporate Governance and Nominations Committee Charter, Compensation or Remuneration Committee Charter and Risk Management Committee Charter.

A Compliance Officer was appointed in 2002, directly reporting to the Chairman of the Board to monitor compliance with the provisions and requirements of the Manual. The Compliance Officer has established an evaluation system to measure or determine the level of compliance of the Company with its Manual.

The Board of Directors approved the Company's Revised Manual of Corporate Governance in compliance with SEC Memorandum Circular No. 6, Series of 2009 on September 30, 2010. The Company adopted the Revised Manual of Corporate Governance and submitted it to the SEC on September 30, 2010. Also, the Company adopted the Amended Manual on Corporate Governance which was submitted to the SEC on July 25, 2014.

On January 5, 2015, the Company submitted the attendance of the Board of Directors for 2014 in compliance with SEC Memorandum Circular No. 1, Series of 2014.

The Company reappointed Punongbayan and Araullo, CPA's as its independent accountant for the year 2014 during the Annual Stockholders' meeting on June 26, 2014.

On April 2, 2014, the Board of Directors approved the Revised Code of Business Conduct of the Company.

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. 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 and a 1-day SEC Revised Code of Corporate Governance conducted by Center for Global Best Practices. On December 3, 2014, the Company's Directors and Officers attended a 1-day special seminar with Risk Opportunities Assessment and Management (ROAM), Inc.

On June 28, 2013, the Company accomplished and submitted the Annual Corporate Governance Report (ACGR) for the year 2012 in compliance with SEC Memorandum Circular No. 5, Series of 2013. There are no major deviations from the adopted Revised Manual on Corporate Governance. The Company also accomplished the ACGR for the year 2014 which is attached as part of this annual report (See Exhibit 29).

## **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 August 12, 2014, the Company advised that the Board of Directors approved: 1. the declaration of a cash dividend of P0.06 per share out of the unrestricted retained earnings as of December 31, 2013, in favor of stockholders of record of the Company as of August 29, 2014 and payable on or before September 24, 2014; 2. the incorporation of a company, MyApp Corporation, a wholly-owned subsidiary of the Company for an authorized capital of up to P40 million with paid-up capital of P10 million to engage as a holding company.

On August 19, 2014, the Company advise that it has been assessed the amount of P3,391,884.70 in surcharge, interest and compromise penalty in relation to a deficiency assessment for expanded withholding tax of P96,325.01 and documentary stamp tax of P3,361,000 for taxable year ended December 31, 2010. The total amount that has been paid by the Company is P6,849,209.71 pursuant to a preliminary assessment notice issued by the Bureau of Internal Revenue.

On December 5, 2014, the Company submitted the certificates of attendance of the directors and officers of the Company in compliance with SEC Memorandum Circular No. 20 Series of 2013. Also, the Company disclosed the updates on Item 6.c of the Annual Corporate Governance Report (ACGR) on "Orientation and Education Program" in accordance with SEC Memorandum Circular No. 1, Series of 2014 or the Guidelines for Changes and Updates in the ACGR.


On February 18, 2015, the Company advised that it has been informed that Mr. Luis Maria L. Zabaljauregui, one of its Independent Directors, has passed away.


## 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 April 14, 2015.

By:

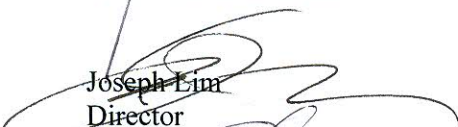
Board of Directors/ Executive Officers

  
Elena S. Lim  
Chairman Emeritus

  
Roberto V. San Jose  
Corporate Secretary

  
Susan L. Tan  
Chairman of the Board

  
Ana Maria A. Katigbak-Lim  
Assistant Corporate Secretary

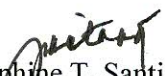
  
Joseph Lim  
Director

  
Lita D. Joaquin  
VP & Treasurer


  
David S. Lim  
Director, President & Chief Executive Officer


  
Mellina T. Corpuz  
VP & Chief Accounting Officer

  
Jason S. Lim  
Director, SVP & Chief Operating Officer

  
Josephine T. Santiago  
Chief Information Officer

  
Vincent S. Lim  
Director, SVP & Chief Financial Officer

  
Beda T. Manalac  
Director, VP for Business Development

  
Quintin Chua  
Independent Director

  
Luis Maria Zabaljauregui (Deceased)  
Independent Director



14 APR 2015

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_, affiants exhibiting to me their passport, as follows:

<u>Names</u>	<u>Passport No.</u>	<u>Date/Place Issued</u>
Joseph Lim	EB6119642	August 13, 2012, PCG Guangzhou, China
Elena S. Lim	EC0128638	January 27, 2014, Manila
Susan L. Tan	EC2411790	October 14, 2014, Manila
David S. Lim	EB4305124	December 20, 2011, Manila
Jason S. Lim	EC1478590	June 26, 2014, Manila
Vincent S. Lim	EB5665582	June 15, 2012, Manila
Quintin Chua	M8252881	March 8, 2008, Australia
Lita L. Joaquin	EC1721759	July 25, 2014, Manila
Roberto V. San Jose	EB6079962	August 3, 2012, Manila
Ana Maria Katigbak-Lim	EB6978724	December 20, 2012, Manila
Mellina T. Corpuz	EB0552738	July 10, 2010, Manila
Beda T. Manalac	EB4988026	March 24, 2012, Manila
Josephine T. Santiago	EB6447724	September 28, 2012, Manila

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 Page No. 72 ;  
 Book No. 247 ;  
 Series of 247 .

**RUBEN T.M. RAMIREZ**  
 NOTARY PUBLIC  
 UNTIL DEC 31, 2015  
 2734 M. AURORA ST., MAKATI CITY  
 APPT NO. M-17-2014-2015  
 IBP NO. 978750 / CY 2015  
 ROLL NO. 28947 MCLRA NO. 800524-B (2017)  
 PTR NO. MKT 4750751/1-5-15 MAKATI CITY

**SOLID GROUP, INC.**  
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**FORM 17-A, Item 7**

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## SOLID GROUP INC.

### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

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

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

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

  
**SUSAN L. TAN**

Chairman  
Passport No. EC2411790  
Date/Place Issued:  
October 14, 2014, Manila

  
**DAVID S. LIM**

President & Chief Executive Officer  
Passport No. EB4305124  
Date/Place Issued:  
December 20, 2011, Manila

  
**VINCENT S. LIM**

SVP & Chief Financial Officer  
Passport No. EB5665582  
Date/Place Issued:  
June 15, 2012, Manila

Signed this 14 APR 2015 day of \_\_\_\_\_, 2015.

SUBSCRIBED AND SWORN to before me this 14 APR 2015 day of \_\_\_\_\_, affiants exhibiting to me their passport with details shown above.

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Page No. 77  
Book No. 267  
Series of 2015

  
**RUBEN T.M. RAMIREZ**

NOTARY PUBLIC

UNTIL DEC. 31, 2015

2734 M. AURORA ST., MAKATI CITY

APPT NO. M-17 (2014-2015)

IBP NO. 978786 / CY 2014

ROLL NO. 28947/MCLE-4 NO. 001004-6-12

BU. MKT 4750751/1-5-15 MAKATI CITY



# Punongbayan & Araullo

An instinct for growth™

## Report of Independent Auditors

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The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

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F +63 2 886 5506  
[www.punongbayan-araullo.com](http://www.punongbayan-araullo.com)

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

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

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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





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

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

*Opinion*

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

**PUNONGBAYAN & ARAULLO**

**By: Mailene Sigue-Bisnar**  
Partner

CPA Reg. No. 0090230

TIN 120-319-128

PTR No. 4748310, January 5, 2015, Makati City

SEC Group A Accreditation

Partner - No. 0396-AR-2 (until Aug. 8, 2015)

Firm - No. 0002-FR-3 (until Apr. 30, 2015)

BIR AN 08-002511-20-2012 (until May 15, 2015)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 7, 2015

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

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

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

*See Notes to Consolidated Financial Statements.*

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

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

*See Notes to Consolidated Financial Statements.*



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

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

*See Notes to Consolidated Financial Statements.*

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

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

See Notes to Consolidated Financial Statements.

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

	Notes	2014	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit (loss) before tax		( P 211,410,320 )	P 190,422,550	P 1,511,917,537
Adjustments for:				
Interest expense	20	58,225,272	2,610,444	6,227,444
Fair value gains on investment property - net	12, 19	( 52,676,235 )	( 23,784,336 )	( 149,569,182 )
Depreciation and amortization	11	47,575,708	32,328,211	46,467,220
Interest income		( 34,372,990 )	( 62,453,275 )	( 147,707,834 )
Gain on redemption of financial assets at fair value through profit or loss	6, 20	( 13,689,363 )	( 1,006,736 )	-
Fair value gain on financial assets at fair value through profit or loss	6, 20	( 5,750,303 )	( 144,292 )	-
Unrealized foreign currency losses - net		4,662,070	3,239,177	14,111,262
Gain on derecognition of liabilities	20	( 2,108,461 )	( 15,825,655 )	( 25,117,698 )
Loss on sale of investment property	12, 20	1,766,286	-	-
Interest amortization on refundable deposits	16, 20	150,003	388,412	1,930,812
Impairment losses on available-for-sale financial assets	8	-	800,000	-
Reversal of impairment losses on property and equipment - net	19	-	-	( 350,000,000 )
Gain on sale of assets	26	-	-	( 267,133,735 )
Reversal of impairment losses on available-for-sale financial assets	20	-	-	( 990,643 )
Operating profit (loss) before working capital changes		( 207,628,333 )	126,574,500	640,135,183
Increase in trade and other receivables		( 165,891,134 )	( 3,817,099 )	( 128,025,521 )
Decrease (increase) in advances to related parties		( 4,245,206 )	( 3,102,051 )	106,910,011
Decrease (increase) in merchandise inventories and supplies		249,615,120	( 452,382,192 )	148,246,101
Decrease (increase) in real estate inventories		51,553,054	( 406,957,264 )	( 335,284,669 )
Increase in other current assets		( 135,368,972 )	( 167,417,555 )	( 147,125,720 )
Decrease (increase) in retirement benefit asset		( 1,801,889 )	( 5,512,330 )	18,320,016
Decrease (increase) in other non-current assets		( 11,422,535 )	( 10,616,455 )	1,534,754
Increase in trade and other payables		3,074,796	117,809,349	61,587,376
Increase in customers' deposits		196,169,183	424,136,901	195,586,019
Increase (decrease) in advances from related parties		( 44,450,070 )	69,693,744	( 95,865,412 )
Increase in refundable deposits		( 1,813,159 )	( 918,290 )	( 997,074 )
Increase (decrease) in retirement benefit obligation		( 5,814,974 )	10,384,223	( 4,394,864 )
Cash generated from (used in) operations		( 78,024,119 )	( 302,124,519 )	460,626,200
Interest received		27,085,794	29,125,499	90,845,815
Cash paid for income taxes		( 33,446,241 )	( 2,137,686 )	( 43,387,647 )
Net Cash From (Used in) Operating Activities		( 84,384,566 )	( 275,136,706 )	508,084,368
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of financial asset at fair value through profit or loss	6	( 2,224,255,643 )	( 868,225,031 )	-
Proceeds from redemption of financial assets at fair value through profit or loss	6	1,791,909,515	575,089,899	-
Acquisitions of property and equipment	11	( 179,721,034 )	( 157,777,542 )	( 143,682,133 )
Additions to investment property	12	( 8,597,740 )	( 2,083,670 )	( 5,153,524 )
Proceeds from disposal of investment property	12	8,035,714	2,461,000	-
Interest received	20	7,287,196	33,327,776	56,862,020
Acquisition of available-for-sale financial assets	8	( 2,000,000 )	-	-
Proceeds from disposal of available-for-sale financial asset	8	-	2,501,842	56,269,192
Proceeds from sale of assets	26	-	-	1,164,718,639
Net Cash From (Used in) Investing Activities		( 607,341,992 )	( 414,705,726 )	1,129,014,194
Balance forwarded		( P 691,726,558 )	( P 689,842,432 )	P 1,637,098,562

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

**Supplemental Information on Non-cash Investing Activities:**

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

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

*See Notes to Consolidated Financial Statements.*

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

**1. CORPORATE INFORMATION**

**1.1 Company Background**

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

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

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

Notes:

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

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

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

## **1.2 Status of Operations and Mergers**

### **(a) Sale of SBC's Assets**

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

### **(b) Mergers of Certain Subsidiaries**

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

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

### **1.3 Other Corporate Information**

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

BRL	-	2 <sup>nd</sup> Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	N7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Solid Street, LIIP, Mamplasan, Biñan, Laguna
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC
My Solid	-	2000 East Service Road Bicutan, Parañaque City

### **1.4 Approval for Issuance of Consolidated Financial Statements**

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **2.1 Basis of Preparation of Consolidated Financial Statements**

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

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

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

(b) *Presentation of Consolidated Financial Statements*

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

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

(c) *Functional and Presentation Currency*

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

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

## 2.2 *Adoption of Amended PFRS and Interpretation*

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

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

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



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

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that an entity must currently have a right of set-off that is not contingent on a future event, and must be legally enforceable in the normal course of business; in the event of default; and, in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies that gross settlement mechanisms (such as through a clearing house) with features that both eliminate credit and liquidity risks and process receivables and payables in a single settlement process, will satisfy the criterion for net settlement. The amendment has been applied retrospectively in accordance with its transitional provisions. As the Group does not currently present any of its financial assets and financial liabilities on a net basis in accordance with the provisions of PAS 32, the amendment had no material effect on the Group's consolidated financial statements for any period presented.
- (ii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that disclosure of information about the recoverable amount of individual asset (including goodwill) or a cash-generating unit is required only when an impairment loss has been recognized or reversed during the reporting period. If the recoverable amount is determined based on the asset's or cash-generating unit's fair value less cost of disposal, additional disclosures on fair value measurement required under PFRS 13, *Fair Value Measurement*, such as, but not limited to, the fair value hierarchy, valuation technique used and key assumptions applied should be provided in the consolidated financial statements. This amendment did not result in additional disclosures in the consolidated financial statements since the Group did not recognize impairment losses on any of its non-financial assets during the periods presented (see Notes 11 and 12).
- (iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor does it apply hedge accounting, the amendment did not have any impact on the Group's consolidated financial statements.

- (iv) PFRS 10 (Amendment), *Consolidated Financial Statements*, PFRS 12 (Amendment), *Disclosure of Interests in Other Entities* and PAS 27 (Amendment), *Separate Financial Statements – Exemption from Consolidation for Investment Entities*. The amendments define the term “investment entity” and provide to such an investment entity an exemption from consolidation of particular subsidiaries and instead require to measure investment in each eligible subsidiary at fair value through profit or loss in accordance with PAS 39 or PFRS 9, *Financial Instruments*, both in its consolidated financial statements or separate financial statements, as the case may be. The amendments also require additional disclosure about the details of the entity’s unconsolidated subsidiaries and the nature of its relationship and certain transactions with those subsidiaries. These amendments did not have a significant impact on the Group’s consolidated financial statements as there were no transactions entered by the Group involving an investment entity.
- (v) Philippine Interpretation IFRIC 21, *Levies*. This interpretation clarifies that the obligating event as one of the criteria under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, for the recognition of a liability for levy imposed by a government is the activity described in the relevant legislation that triggers the payment of the levy. Accordingly, the liability is recognized in the consolidated financial statements progressively if the obligating event occurs over a period of time and if an obligation is triggered on reaching a minimum threshold, the liability is recognized when that minimum threshold is reached. This amendment had no significant impact on the Group’s consolidated financial statements.

(b) *Effective Subsequent to 2014 but not Adopted Early*

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

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

- (ii) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the consolidated financial statements.
- (iii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.
- (iv) PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. This amendment permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by that investment entity associate or joint venture to its interests in subsidiaries.

- (v) PFRS 10 (Amendment), *Consolidated Financial Statements*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective from January 1, 2016). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3, *Business Combinations*, between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction.
- (vi) PFRS 10 (Amendment), *Consolidated Financial Statements* (effective from January 1, 2016). This amendment confirms that the exemption from preparing consolidated financial statements continues to be available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures its interest in all its subsidiaries at fair value in accordance with PFRS 10. The amendment further clarifies that if an investment entity has a subsidiary that is not itself an investment entity and whose main purpose and activities are to provide services that are related to the investment activities of the investment entity parent, the latter shall consolidate the subsidiary.
- (vii) PFRS 11 (Amendment), *Joint Arrangements* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business defined in PFRS 3 to apply all accounting principles and disclosure requirements on business combination under PFRS 3 and other PFRSs, except for those principles that conflict with the guidance in PFRS 11.
- (viii) PFRS 12 (Amendment), *Disclosures of Interests in Other Entities* (effective from January 1, 2016). The amendment clarifies that an investment entity that measures all its subsidiaries at fair value should provide the disclosures required by PFRS 12.

- (ix) IFRS 15, *Revenue from Contract with Customers* (effective from January 1, 2017). This standard will replace PAS 18, *Revenue*, and PAS 11, *Construction Contracts*, the related Interpretations on revenue recognition: IFRIC 13, *Customer Loyalty Programmes*, IFRIC 15, *Agreement for the Construction of Real Estate*, IFRIC 18, *Transfers of Assets from Customers*, and Standing Interpretations Committee 31, *Revenue – Barter Transactions Involving Advertising Services*. This new standard establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognize. The core principle in the said framework is for an entity to recognize revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This standard has not yet been adopted in the Philippines; however, management is currently assessing the impact of this standard on the Group's consolidated financial statements in preparation for the adoption of this standard in the Philippines.
- (x) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions). This standard contains, among others, the following:
- three principal classification categories for financial assets based on the business model on how an entity is managing its financial instruments;
  - an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset; and,
  - a new model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures.

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

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

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

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

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

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

*Annual Improvements to PFRS (2010-2012 Cycle)*

- (a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that an entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also clarifies that the information required to be disclosed in the consolidated financial statements are the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity and not the amounts of compensation paid or payable by the management entity to its employees or directors.
- (c) PFRS 3 (Amendment), *Business Combinations*. This amendment clarifies that an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity in accordance with PAS 32. It also clarifies that all non-equity contingent consideration should be measured at fair value at the end of each reporting period, with changes in fair value recognized in profit or loss.

- (d) PFRS 8 (Amendment), *Operating Segments*. The amendment requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments. This includes a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. It further classifies the requirement to disclose for the reconciliations of segment assets to the entity's assets if the amount is regularly provided to the chief operating decision maker.
- (e) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment in the basis of conclusion of PFRS 13 clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvements to PFRS (2011-2013 Cycle)*

- (a) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset in accordance with PAS 40, or a business combination in accordance with PFRS 3.
- (b) PFRS 3 (Amendment), *Business Combinations*. It clarifies that PFRS 3 does not apply to the accounting for the formation of any joint arrangement under PFRS 11 in the consolidated financial statements of the joint arrangement itself.
- (c) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of and accounted for in accordance with PAS 39 or PFRS 9, regardless of whether they meet the definition of financial assets or financial liabilities as defined in PAS 32.

*Annual Improvements to PFRS (2012-2014 Cycle)*

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

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

### **2.3 Basis of Consolidation**

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

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

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

#### **(a) Investments in Subsidiaries**

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

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

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

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



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

*(b) Transactions with NCI*

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

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

## **2.4 Segment Reporting**

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

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

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

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

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

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

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

## **2.5 Financial Assets**

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

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

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

### *(a) Financial Asset at FVTPL*

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

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

### *(b) Loans and Receivables*

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

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

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

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

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

(c) *AFS Financial Assets*

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

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

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

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

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

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

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

## ***2.6 Merchandise Inventories and Supplies***

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

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

## ***2.7 Real Estate Inventories***

Real estate inventories consist of the following:

### ***(a) Land and Land Development Costs***

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

(b) *Property Development Costs*

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

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

**2.8 Other Assets**

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

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

**2.9 Property and Equipment**

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

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

### ***2.10 Investment Property***

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

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

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

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

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

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

## ***2.11 Financial Liabilities***

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

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

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

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

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

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

## ***2.12 Offsetting Financial Instruments***

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

### ***2.13 Business Combinations***

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

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

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

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

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

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

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

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

### ***2.14 Provisions and Contingencies***

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



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

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

### ***2.15 Revenue and Expense Recognition***

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

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

- (a) *Rendering of services (other than commission income)* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.
- (b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer i.e., generally when the customer has acknowledged delivery of goods.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).
- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.

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

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

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

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

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

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

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

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

- (b) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.
- (i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.
- (j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon receipt of the goods or utilization of services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20).

## **2.16 Leases**

The Group accounts for its leases as follows:

### *(a) Group as Lessee*

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

### *(b) Group as Lessor*

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

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

## **2.17 Foreign Currency Transactions and Translation**

### *(a) Transactions and Balances*

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

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

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

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

- (i) Assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
- (ii) Income and expenses for each statement of income account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income under currency exchange differences on translating financial statements of foreign operations, which is included under items that will be reclassified subsequently to profit or loss.

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

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

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

***2.18 Impairment of Non-financial Assets***

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

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

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

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

### ***2.19 Employee Benefits***

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

#### ***(a) Post-employment Defined Benefit Plan***

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

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

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

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

(b) *Post-employment Defined Contribution Plans*

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

(c) *Termination Benefits*

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

(d) *Profit-sharing and Bonus Plans*

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

(e) *Compensated Absences*

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

## ***2.20 Borrowing Costs***

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

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

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

## ***2.21 Income Taxes***

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

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

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

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

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

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

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

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

## ***2.22 Related Party Transactions and Relationships***

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

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

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

## ***2.23 Equity***

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

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

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



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

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

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

#### ***2.24 Earnings Per Share***

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

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

#### ***2.25 Events After the End of the Reporting Period***

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

### **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

### ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

*(a) Revenue Recognition Criteria on Real Estate Sales*

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

*(b) Impairment of AFS Financial Assets*

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

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

*(c) Costing of Merchandise Inventories and Supplies*

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

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

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

(e) *Distinguishing Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Based on management's judgment, all of the Group's lease agreements were determined to be operating leases.

(f) *Recognition of Provisions and Contingencies*

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

**3.2 Key Sources of Estimation Uncertainty**

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

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

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

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

(b) *Fair Value Measurement of Financial Instruments*

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

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

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 9). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next reporting period.

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

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

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

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

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

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

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

(f) *Fair Value Measurement of Investment Property*

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

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

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

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

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

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

(b) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

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

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

(j) *Estimating Reserve for Warranty Costs*

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

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

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

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

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

## 4. SEGMENT INFORMATION

### ***4.1 Business Segments***

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

- (a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones, and prefabricated modular houses;
- (b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties; and,
- (c) Other related services segment is presently engaged in the business of broadband services, after sales services, investing, financing and others.

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

### ***4.2 Segment Assets and Liabilities***

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

### ***4.3 Intersegment Transactions***

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

#### 4.4 Analysis of Segment Information

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

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



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

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

#### 4.5 Reconciliations

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

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

## 5. CASH AND CASH EQUIVALENTS

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

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

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

## 6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

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

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

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

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

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

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

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

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

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

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

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

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

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

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

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

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

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

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

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

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

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

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

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

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

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

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

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

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

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

## 9. MERCHANDISE INVENTORIES AND SUPPLIES

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

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



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

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

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

## 10. REAL ESTATE INVENTORIES

This account is composed of:

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

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

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

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

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

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

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

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

## 11. PROPERTY AND EQUIPMENT

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

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

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

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

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

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

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

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

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

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

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

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

## 12. INVESTMENT PROPERTY

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

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

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

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

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

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

### 13. OTHER ASSETS

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

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

Prepayments include prepaid insurance, rentals and other business taxes.

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

## 14. INTEREST-BEARING LOANS

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

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

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

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

### (a) Loans of BRL

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

### (b) Loans of Fil-Dragon

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

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



## 15. TRADE AND OTHER PAYABLES

This account consists of:

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

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

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

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

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

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

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

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

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

## 16. REFUNDABLE DEPOSITS

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

## 17. COST OF SALES, SERVICES AND RENTALS

### 17.1 Cost of Sales

The details of this account are shown below.

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

### 17.2 Cost of Services

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

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

### 17.3 Cost of Rentals

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

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

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

## 18. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

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

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

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

## 19. OTHER OPERATING INCOME

The breakdown of this account is as follows:

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

## 20. OTHER INCOME (CHARGES)

### 20.1 Finance Costs

This account consists of the following:

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

## 20.2 Finance Income

This account consists of the following:

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

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

## 20.3 Other Gains – Net

The breakdown of this account is as follows:

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

## 21. EMPLOYEE BENEFITS

### 21.1 Salaries and Employee Benefits Expense

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

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

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

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

### 21.2 Post-employment Benefit

#### (a) Characteristics of the Defined Benefit Plan

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

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

#### (b) Explanation of Amounts Presented in the Financial Statements

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

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

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

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Discount rates	<b>3.5% - 5.5%</b>	4.0% - 5.0%	4.0% - 6.0%
Expected rate of salary increases	<b>7.0%</b>	9.0%	9.0%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 20 years for males and 21 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Risks*

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

(ii) *Longevity and Salary Risks*

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

(iii) *Inflation Risk*

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

(d) *Other Information*

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

(i) *Sensitivity Analysis*

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

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

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

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

(ii) *Asset-liability Matching Strategies*

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

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

(iii) *Funding Arrangements and Expected Contributions*

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

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

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

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

## 22. TAXES

### 22.1 *Registration with Economic Zone Authorities and Fil-Dragon Taxation*

#### (a) *Registration with Clark Development Corporation (CDC)*

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes*. As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% regular corporate income tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

#### (b) *Registration with Philippine Economic Zone Authority (PEZA)*

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

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

(c) *Fil-Dragon Taxation*

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

**22.2 Current and Deferred Taxes**

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

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

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

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

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

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

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

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

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

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

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

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

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

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



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

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

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

## 23. EQUITY

### 23.1 Capital Stock

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

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

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

### 23.2 Retained Earnings

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

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

### 23.3 Revaluation Reserves

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

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

## 24. EARNINGS (LOSS) PER SHARE

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

	2014	2013	2012
Net profit (loss) for the year attributable to the Parent Company's stockholders	(P 121,266,766)	P 157,821,890	P 1,239,948,309
Divided by weighted average shares outstanding:			
Number of shares issued	2,030,975,000	2,030,975,000	2,030,975,000
Treasury shares	( 209,433,000)	( 209,433,000)	( 209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
Earnings (loss) per share – basic and diluted	(P 0.07)	P 0.09	P 0.68

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

## 25. RELATED PARTY TRANSACTIONS

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

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

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

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

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

### ***25.1 Rendering of Services***

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

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

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

### ***25.2 Purchase of Goods***

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

### ***25.3 Lease of Real Property***

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

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

### ***25.4 Granting of Loans***

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

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

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

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

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

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

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

### ***25.5 Advances to and from Related Parties***

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

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

### **25.6 Transactions with STL**

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

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

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

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

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

### **25.7 Transactions with SCL**

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

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

### ***25.8 Loan Availments***

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

### ***25.9 Key Management Personnel Compensation***

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

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

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

### ***25.10 Transactions with the Retirement Fund***

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

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

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

## 26. SIGNIFICANT CONTRACTS AND AGREEMENTS

### ***26.1 Memorandum of Understanding with SPI***

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support for SPI. Under the MOU, SPI authorized SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of SPI's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPI. In the first quarter of 2009, SE Corp. and SPI agreed to lower the network support fees to 0.45% of SPI's net sales. Subsequently, SE Corp. and SPI agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

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

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

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses. Management believes that the Agreement continues to be effective although no formal renewal has been made since 2007.

### ***26.3 Sale of SBC's Assets***

#### ***(a) Agreement on Sale of Assets***

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



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

*(b) Management Agreement*

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

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

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

*(c) Option Agreement*

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

*(d) Gain on Sale of Assets*

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

## 27. COMMITMENTS AND CONTINGENCIES

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

### 27.1 Operating Lease Commitments – Group as Lessor

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

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

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

### 27.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

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

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

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

### ***27.3 Legal Claims***

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

- (i) a portion of land in Pililla, Rizal, with a carrying value of P7.5 million is subject to expropriation coverage under the Agrarian Reform Act; and,
- (ii) a piece of land, with a carrying value of P309.0 million is the subject of claims by third parties who filed court cases against SMC.

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

### ***27.4 Estimated Liability for Land and Land Development Cost***

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

### ***27.5 Purchase Commitments***

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

### ***27.6 Possible Impact of Government Project***

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project (see Note 10) might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2<sup>nd</sup> Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

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

### ***27.7 Properties Under Development***

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

### ***27.8 Option Agreement***

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

### **27.9 Others**

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

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

## **28. RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

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

### **28.1 Market Risk**

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

#### **(a) Foreign Currency Risk**

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

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

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

	2014		2013	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	<b>P 134,695,957</b>	<b>P 249,674,557</b>	P 350,871,152	P 79,075,855
Financial liabilities	<b>( 380,841,477)</b>	<b>( 787,203,671)</b>	( 614,218,228)	( 768,165,522)
	<b>(P 246,145,520)</b>	<b>(P 537,529,114)</b>	<b>(P 263,347,076)</b>	<b>(P 689,089,667)</b>

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

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

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

*(b) Interest Rate Risk*

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

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

*(c) Other Price Risk*

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

## 28.2 Credit Risk

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

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

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

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

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

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

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

### (b) Trade and Other Receivables

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

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

(c) *Advances to Related Parties*

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

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

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

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

### 28.3 *Liquidity Risk*

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

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

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

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

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

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

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

## 29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

### 29.1 Carrying Amounts and Fair Values by Category

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

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

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



## ***29.2 Offsetting of Financial Instruments***

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

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

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

## **30. FAIR VALUE MEASUREMENTS AND DISCLOSURES**

### ***30.1 Fair Value Hierarchy***

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

The different levels have been defined as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- (c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

### ***30.2 Financial Instruments Measured at Fair Value***

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

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

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

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

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

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

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

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

		2014			
Notes		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	5	P 1,623,834,847	P -	P -	P 1,623,834,847
Trade and other receivables	7	-	-	1,779,955,204	1,779,955,204
Advances to related parties	25	-	-	28,980,645	28,980,645
Restricted cash and cash bond	13	-	-	16,885,451	16,885,451
Refundable deposits	13	-	-	13,249,349	13,249,349
		<b>P 1,623,834,847</b>	<b>P -</b>	<b>P 1,839,070,649</b>	<b>P 3,462,905,496</b>
<b>Financial Liabilities</b>					
<i>At amortized cost:</i>					
Interest-bearing loans – net	14	P -	P -	P 844,408,549	P 844,408,549
Trade and other payables	15	-	-	679,139,830	679,139,830
Advances from related parties	25	-	-	36,873,493	36,873,493
Refundable deposits - net	16	-	-	13,313,947	13,313,947
		<b>P -</b>	<b>P -</b>	<b>P 1,573,735,819</b>	<b>P 1,573,735,819</b>
		2013			
Notes		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash and cash equivalents	5	P 2,327,335,632	P -	P -	P 2,327,335,632
Trade and other receivables	7	-	-	1,612,527,947	1,612,527,947
Advances to related parties	25	-	-	24,735,439	24,735,439
Restricted cash and cash bond	13	-	-	6,741,571	6,741,571
Refundable deposits	13	-	-	21,045,466	21,045,466
		<b>P 2,327,335,632</b>	<b>P -</b>	<b>P 1,665,050,423</b>	<b>P 3,992,386,055</b>
<b>Financial Liabilities</b>					
<i>At amortized cost:</i>					
Interest-bearing loans – net	14	P -	P -	P 684,002,914	P 684,002,914
Trade and other payables	15	-	-	680,496,859	680,496,859
Advances from related parties	25	-	-	81,323,563	81,323,563
Refundable deposits - net	16	-	-	15,127,106	15,127,106
		<b>P -</b>	<b>P -</b>	<b>P 1,460,950,442</b>	<b>P 1,460,950,442</b>

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

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

### 30.4 Fair Value Measurements of Non-financial Assets

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

		2014			
		Level 1	Level 2	Level 3	Total
Land	P	-	P3,027,198,507	P -	P3,027,198,507
Building and building improvements	-	-	-	626,681,408	626,681,408
	<b>P</b>	<b>-</b>	<b>P3,027,198,507</b>	<b>P 626,681,408</b>	<b>P3,653,879,915</b>
		2013			
		Level 1	Level 2	Level 3	Total
Land	P	-	P2,982,289,350	P -	P2,982,289,350
Building and building improvements	-	-	-	666,521,666	666,521,666
	<b>P</b>	<b>-</b>	<b>P2,982,289,350</b>	<b>P 666,521,666</b>	<b>P3,648,811,016</b>

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

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

(a) *Fair Value Measurement for Land*

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

(b) *Fair Value Measurement for Building and Building Improvements*

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

### 31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	<u>2014</u>	<u>2013</u>
Total liabilities (excluding advances from related parties)	<b>P4,129,138,902</b>	P 3,771,271,051
Total equity	<b><u>9,491,279,309</u></b>	<u>9,751,434,747</u>
Debt-to-equity ratio	<b><u>0.44:1.00</u></b>	<u>0.39:1.00</u>

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

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

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



# Punongbayan & Araullo

An instinct for growth™

## Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

19th and 20th Floors, Tower 1  
The Enterprise Center  
6766 Ayala Avenue  
1200 Makati City  
Philippines

T +63 2 988 2288  
F +63 2 886 5506  
www.punongbayan-araullo.com

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Solid Group Inc. and subsidiaries for the year ended December 31, 2014, on which we have rendered our report dated April 7, 2015. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) are presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and are not a required part of the basic consolidated financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information are the responsibility of the Group's management. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

### PUNONGBAYAN & ARAULLO

By: **Mailene Sigue-Bisnar**  
Partner

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

April 7, 2015

**SOLID GROUP INC. AND SUBSIDIARIES**  
**LIST OF SUPPLEMENTARY INFORMATION**  
**DECEMBER 31, 2014**

**Supplementary Schedules**

**Independent Auditors' Report on the SEC Supplementary Schedules**  
**Filed Separately from the Basic Financial Statements**

**Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68**

	<u>Page No.</u>
A. Financial Assets	1
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	N/A
C. Amounts Receivable/Payable from/to Related Parties which were Eliminated During the Consolidation of Financial Statements	2
D. Intangible Assets - Other Assets	N/A
E. Long-term Debt	N/A
F. Indebtedness to Related Parties (Long-term Loans from Related Companies)	3
G. Guarantees of Securities of Other Issuers	N/A
H. Capital Stock	4
 <b>Other Required Information</b>	
I. Reconciliation of Parent Company Retained Earnings for Dividend Declaration	5
J. Financial Soundness Indicators	6
K. Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2014	7-10
L. Map Showing the Relationship Between and Among the Company and its Related Entities	11

Solid Group Inc. and Subsidiaries  
Schedule A - Financial Assets  
December 31, 2014

Name of Issuing entity and association of each issue	Number of shares of principal amount of bonds and notes	Amount shown in statement financial position	Value based on market quotation at end of reporting period	Income received and accrued
--	---	--	--	-----------------------------

**Financial Assets at Fair Value Through Profit or Loss**

MBTC/Security Bank Unit Investment Trust Fund (UITF)		P	<u>746,071,954</u>	P	<u>746,071,954</u>	P	<u>5,750,303</u>
--	--	---	--------------------	---	--------------------	---	------------------

**Available-for-Sale Financial Assets - Current**

P	<u>-</u>	P	<u>-</u>	P	<u>-</u>
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**Available-for-Sale Financial Assets - Non-Current**

The Tagaytay Country Club	3	P	5,100,000	P	5,100,000	-
Alabang Country Club	1		1,900,000		1,900,000	-
Tagaytay Midlands Golf Club	4		1,720,000		1,720,000	-
Philippine Long Distance Telephone Co.	36,440		364,400		364,400	-
Philam Properties Corporation	1		272,127		272,127	-
Subic Bay Yacht Club Inc.	1		<u>100,000</u>		<u>100,000</u>	<u>-</u>
		P	<u>9,456,527</u>	P	<u>9,456,527</u>	P <u>-</u>



Solid Group Inc. and Subsidiaries  
Schedule C - Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements  
December 31, 2014

			Deductions		Ending Balance		
Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
<b>Trade Receivables:</b>							
Kita Corporation	P 13,600,000	P -	P -	P -	P 13,600,000	p -	P 13,600,000
My Solid Devices & Technologies Corporation	4,491,137	261,578	-	-	4,752,715	-	4,752,715
Solid Electronics Corporation	1,973,880	729,000	-	-	2,702,880	-	2,702,880
SolidGroup Technologies Corporation	-	109,177	-	-	109,177	-	109,177
Omni Solid Services Inc.	5,365,571	1,535,947	-	-	6,901,518	-	6,901,518
Solid Video Corporation	-	2,734,906	-	-	2,734,906	-	2,734,906
Casa Bocobo Hotel, Inc.	-	4,213,914	-	-	4,213,914	-	4,213,914
Solid Manila Corporation	818,177	1,815,477	-	-	2,633,654	-	2,633,654
	<u>P 26,248,765</u>	<u>P 11,399,999</u>	<u>-</u>	<u>P -</u>	<u>P 37,648,764</u>	<u>p -</u>	<u>P 37,648,764</u>
Kita Corporation	P 496,759,173	-	P 31,500,000	-	P 465,259,173	-	P 465,259,173
Solid Broadband Corporation	-	-	-	-	-	-	-
Zen Towers Corporation	475,007,157	-	35,500,000	-	439,507,157	-	439,507,157
Solid Manila Corporation	290,043,188	127,000,000	-	-	417,043,188	-	417,043,188
Precos, Inc.	149,511,000	-	-	-	149,511,000	-	149,511,000
Solid Manila Finance Inc.	5,000,000	-	2,000,000	-	3,000,000	-	3,000,000
Casa Bocobo Hotel, Inc.	3,000,000	15,000,000	-	-	18,000,000	-	18,000,000
Brilliant Reach Limited	143,795,282	657,253	-	-	144,452,535	-	144,452,535
Mytel Mobility Solutions Inc.	684,000,000	-	684,000,000	-	-	-	-
My Solid Devices & Technologies Corporation	498,000,000	684,000,000	-	-	1,182,000,000	-	1,182,000,000
Skyworld	-	1,145,469	-	-	1,145,469	-	1,145,469
Laguna International Industrial Park	-	6,066,841	-	-	6,066,841	-	6,066,841
Interstar Holdings Corporatin, Inc.	-	598,204	-	-	598,204	-	598,204
Phil-Nanning Consortium, Inc.	-	146,650,000	-	-	146,650,000	-	146,650,000
MyApp Corporation	-	40,960	-	-	40,960	-	40,960
SolidGroup Technologies Corporation	26,000,000	22,000,000	-	-	48,000,000	-	48,000,000
	<u>P 2,771,115,800</u>	<u>P 1,003,158,727</u>	<u>P 753,000,000</u>	<u>p -</u>	<u>P 3,021,274,527</u>	<u>p -</u>	<u>P 3,021,274,527</u>
<b>Trade payables:</b>							
My Solid Devices & Technologies Corporation	P 4,411,863	P 2,799,229	-	-	P 7,211,092	-	P 7,211,092
Solid Electronics Corporation	126,222	-	50,824	-	75,398	-	75,398
Solid Manila Corporation	-	3,959,969	-	-	3,959,969	-	3,959,969
SolidGroup Technologies Corporation	-	18,000,000	-	-	18,000,000	-	18,000,000
Omni Solid Services Inc.	167,356	143,946	-	-	311,302	-	311,302
	<u>P 4,705,441</u>	<u>P 24,903,144</u>	<u>P 50,824</u>	<u>P -</u>	<u>P 29,557,761</u>	<u>P -</u>	<u>P 29,557,761</u>

Solid Group Inc. and Subsidiaries  
Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)  
December 31, 2014

<i>Title of issue and type of obligation</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term debt" in related statement of financial position</i>	<i>Amount shown under caption "Long-Term Debt" in related statement of financial position</i>
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**Loans:**

Short term loans

P	<u>609,101,168</u>	P	<u>-</u>
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Solid Group Inc. and Subsidiaries  
Schedule H - Capital Stock  
December 31, 2014

<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption (A)</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Number of shares held by</i>		
				<i>Related parties (B)</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value						
Authorized - P5,000,000,000 shares	5,000,000,000					
Issued		2,030,975,000				
Outstanding		1,821,542,000		1,083,377,816	342,198,480	395,965,704

A: Number of shares issued and outstanding = 2,030,975,000 issued shares less 209,433,000 treasury shares

B: This represents shares held by AA Commercial and AV Value Holdings Corp., related parties which are ultimately owned by the Lim Family.

**SOLID GROUP INC. AND SUBSIDIARIES**  
Schedule I

*Reconciliation of Retained Earnings Available for Dividend Declaration*  
For the Year Ended December 31, 2014

Unappropriated Retained Earnings at Beginning of Year	P		891,001,270
Prior Years' Outstanding Reconciling Items, net of tax	(	<u>490,542</u>	)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted			890,510,728
<b>Net Profit Realized during the Year</b>			
Net profit per audited financial statements	P	28,826,496	
<b>Non-actual / unrealized income, net of tax</b>			
Unrealized foreign exchnage gain	(	657,235	)
Deferred tax income	(	<u>114,725</u>	)
			28,054,536
<b>Other Transactions During the Year</b>			
Dividends declared	(	109,292,520	)
Retained Earnings Restricted for Treasury Shares	(	<u>115,614,380</u>	)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year	<b>P</b>		<b><u>693,658,364</u></b>

**SOLIDGROUP INC. AND SUBSIDIARIES**  
**Schedule J - Financial Soundness Indicators**

	FORMULA	DECEMBER 31, 2014	DECEMBER 31, 2013
<b>Liquidity Ratios</b>			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.31:1	2.60:1
Acid Test ratio	$\frac{\text{Cash + Marketable Securities + Accounts Receivable + Other Liquid Assets}}{\text{Current Liabilities}}$	1.19:1	1.31:1
<b>Solvency Ratios</b>			
Debt to Equity ratio	$\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$	0.44:1	0.39:1
Gearing Ratio	$\frac{\text{Financial Debt}}{\text{Total Equity}}$	0.09:1	0.07:1
Asset-to-Equity Ratios	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.44:1	1.40:1
Interest Rate Coverage Ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	-2.63:1	69.34:1
<b>Profitability Ratios</b>			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total Revenues}}$	-3%	3%
Net Profit Margin	$\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$	-4%	3%
Return on Total Assets	$\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$	-1%	1%
Return on Equity	$\frac{\text{Net Income after Tax}}{\text{Total Equity}}$	-2%	1%

**SOLID GROUP INC. AND SUBSIDIARIES**  
Schedule K

Schedule of Philippine Financial Reporting Standards and Interpretations  
Adopted by the Securities and Exchange Commission and the  
Financial Reporting Standards Council as of December 31, 2014

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
<i>Philippine Financial Reporting Standards (PFRS)</i>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendment to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations	✓		
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures – Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures (effective when PFRS 9 is first applied)			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments* (effective January 1, 2018)			✓
<b>PFRS 10</b>	Consolidated Financial Statements	✓		
	Amendment to PFRS 10: Transition Guidance	✓		
	Amendment to PFRS 10: Investment Entities	✓		
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception * (effective January 1, 2016)			✓
<b>PFRS 11</b>	Joint Arrangements	✓		
	Amendment to PFRS 11: Transition Guidance	✓		
<b>PFRS 12</b>	Disclosure of Interests in Other Entities	✓		
	Amendment to PFRS 12: Transition Guidance	✓		
	Amendment to PFRS 12: Investment Entities	✓		
	Amendment to PFRS 10: Investment Entities – Applying the Consolidation Exception * (effective January 1, 2016)			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>PFRS 14</b>	Regulatory Deferral Accounts * (effective January 1, 2018)			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Accounting Standards (PAS)</i>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation **	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Disclosure Initiative * ( <i>effective January 1, 2016</i> )			✓
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statement of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19 (Revised)</b>	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans – Employee Contributions * ( <i>effective July 1, 2014</i> )	✓		
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Revised)</b>	Separate Financial Statements	✓		
	Amendment to PAS 27: Investment Entities	✓		
<b>PAS 28 (Revised)</b>	Investments in Associates and Joint Ventures	✓		
	Amendment to PAS 28: Investment Entities – Applying the Consolidation Exception	✓		
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 32</b>	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendment to PAS 32: Classification of Rights Issues**	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions **	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives**	✓		
	Amendment to PAS 39: Eligible Hedged Items**	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting**	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
<b>Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)</b>				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC – 9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC – 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation	✓		
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies	✓		

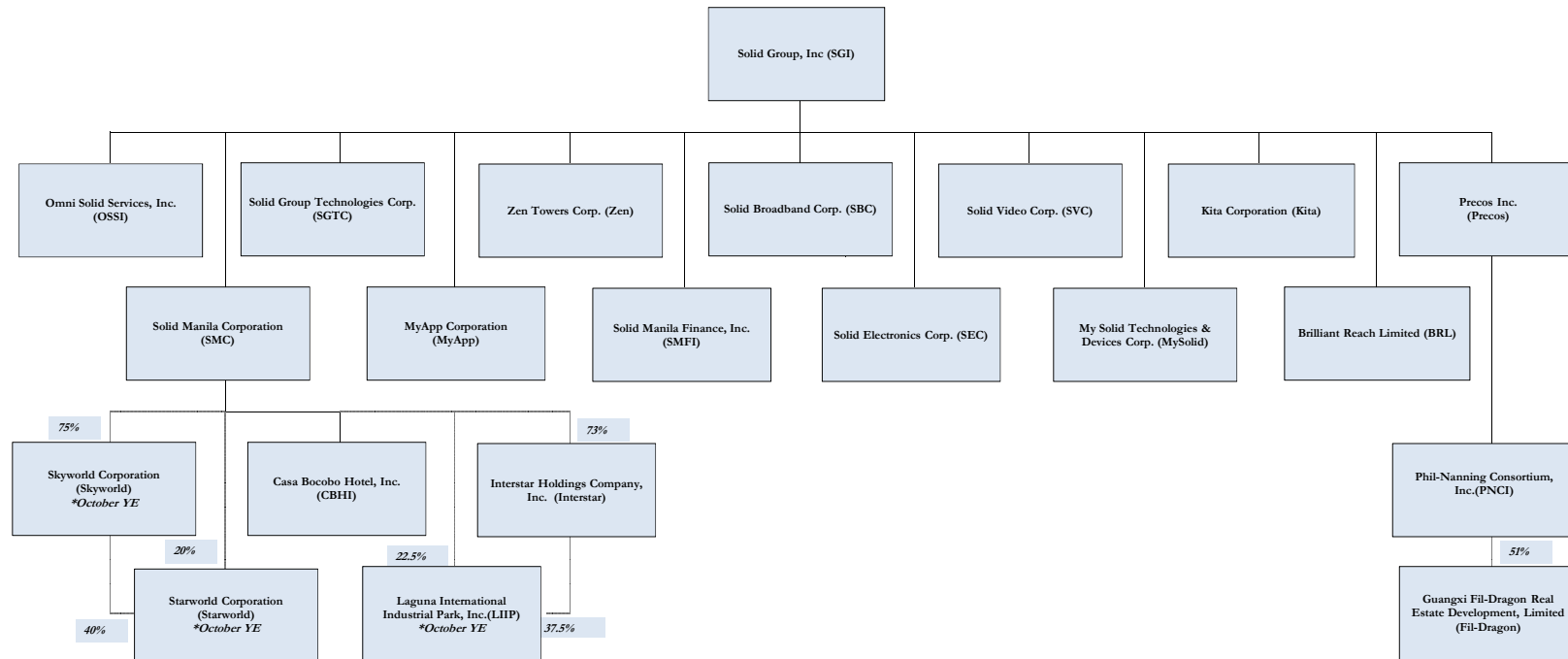


PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
<i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i>				
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance – No Specific Relation to Operating Activities			✓
<b>SIC-13</b>	Jointly Controlled Entities – Non-Monetary Contributions by Venturers			✓
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures			✓
<b>SIC-31</b>	Revenue – Barter Transactions Involving Advertising Services**	✓		
<b>SIC-32</b>	Intangible Assets – Web Site Costs**	✓		

\* These standards will be effective for periods subsequent to 2014 and are not early adopted by the Company.

\*\* These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

Solid Group Inc. and Subsidiaries  
Map Showing the Relationships Between and Among the Company and its Related Parties



Legend:	
—	100% ownership
—	Less than 100% ownership

# INDEX TO EXHIBITS

## Form 17-A

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(5) Instruments Defining the Rights of Security Holders, including Indentures	*
(8) Voting Trust Agreement	*
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(10) Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders	*
(13) Letter re Change in Certifying Accountant	*
(16) Report Furnished to Security Holders	*
(18) Subsidiaries of the Registrant	66
(19) Published Report Regarding Matters Submitted to Vote of Security Holders	*
(20) Consent of Experts and Independent Counsel	*
(21) Power of Attorney	*
(29) Additional Exhibits Audited Financial Statements (AFS) of Guangxi Fil-Dragon Real Estate Development Limited for the period December 31, 2014  Annual Corporate Governance Report for 2014	67

\* 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.

**EXHIBIT 18 SUBSIDIARIES OF THE REGISTRANT**

Solid Group Inc. has thirteen consolidated subsidiaries, each of which is wholly owned, as follows:

Name	Jurisdiction
Solid Video Corporation	Makati City, Philippines
Kita Corporation	Clark, Pampanga, Philippines
Omni Solid Services Inc. (formerly Solid Laguna Corporation)	Binan, Laguna, Philippines
Solid Electronic Corporation	Balintawak, Quezon City, Philippines
Solid Manila Corporation	Manila, Philippines
Solid Manila Finance Inc.	Makati, Philippines
Solid Broadband Corporation	Makati, Philippines
Brilliant Reach Limited	British Virgin Islands
Zen Tower Corporation	Manila, Philippines
Precos, Inc.	Makati, Philippines
SolidGroup Technologies Corporation	Paranaque, Philippines
MySolid Technologies & Devices Corporation	Paranaque, Philippines
MyApp Corporation	Makati, Philippines

Report and Financial Statements

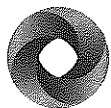
Guangxi Fil-Dragon Real Estate Development  
Limited

廣西菲龍房地產開發有限公司

For the year ended 31 December 2014

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 Expressed in Renminbi ("RMB")	



## Independent auditors' report

**To the members of Guangxi Fil-Dragon Real Estate Development Limited  
(established in the People's Republic of China with limited liability)**

We have audited the financial statements of Guangxi Fil-Dragon Real Estate Development Limited (the "Company") set out on pages 3 to 23, which comprise the statement of financial position as at 31 December 2014, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

**Directors' responsibility for the financial statements**

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.





**Auditors' responsibility (Continued)**

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 the directors, 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 financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2014 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Grant Thornton Hong Kong Limited**

Certified Public Accountants

Level 12

28 Hennessy Road

Wanchai

Hong Kong

1 April 2015

Lin Ching Yee Daniel

Practising Certificate No.: P02771

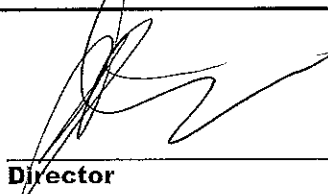
# Statement of profit or loss and other comprehensive income for the year ended 31 December 2014

	Notes	2014 RMB	2013 RMB
Revenue	5	-	-
Cost of sales		-	-
<b>Gross Profit</b>			
Other income	6	92,952	10,248
Selling and distribution expenses		(4,161,959)	(940,864)
Administrative and other operating expenses		(8,052,343)	(3,410,984)
Finance cost		(7,588,686)	-
<b>Loss before income tax</b>	8	(19,710,036)	(4,341,600)
Income tax expense	10	-	-
<b>Loss and total other comprehensive loss for the year</b>		(19,710,036)	(4,341,600)

The notes on pages 7 to 23 are an integral part of these financial statements.

## Statement of financial position as at 31 December 2014

	Notes	2014 RMB	2013 RMB
<b>ASSETS AND LIABILITIES</b>			
<b>Non-current assets</b>			
Property, plant and equipment	11	191,595	234,684
<b>Current assets</b>			
Stock of properties	12	263,404,202	263,420,599
Other receivables, deposits and prepayments	13	32,612,201	16,894,116
Income tax recoverable		22,224,286	17,134,588
Restricted cash	15	1,365,955	844,344
Cash and cash equivalents	16	761,242	4,845,090
		320,367,886	303,138,737
<b>Current liabilities</b>			
Trade and other payables	17	21,108,279	32,854,684
Receipt in advance from customers		199,882,375	168,032,996
Loan from related companies	18	84,749,556	61,842,434
Amounts due to directors	14	4,252,963	10,366,963
		309,993,173	273,097,077
<b>Net current assets</b>		10,374,713	30,041,660
<b>Net assets</b>		10,566,308	30,276,344
<b>EQUITY</b>			
Paid in capital	19	50,000,000	50,000,000
Accumulated losses		(39,433,692)	(19,723,656)
<b>Total equity</b>		10,566,308	30,276,344

  
Director

  
Director

The notes on pages 7 to 23 are an integral part of these financial statements.

## Statement of cash flows for the year ended 31 December 2014

	2014 RMB	2013 RMB
<b>Cash flows from operating activities</b>		
Loss before income tax	(19,710,036)	(4,341,600)
Adjustments for:		
Depreciation	71,087	109,279
Interest income	(35,543)	(10,248)
Interest expenses	7,588,686	-
Operating loss before working capital changes	(12,085,806)	(4,242,569)
Decrease/(Increase) in stock of properties	16,397	(33,940,186)
Increase in other receivables, deposits and prepayments	(15,718,085)	(2,515,817)
Increase in restricted cash as guarantee for construction of projects and other operating activities	(521,611)	(66,038)
(Decrease)/Increase in trade and other payables	(11,746,405)	8,133,297
Increase in receipt in advance from customers	31,849,379	40,845,796
Cash (used in)/generated from operations	(8,206,131)	8,214,483
PRC corporate income tax paid	(5,089,698)	(16,264,028)
Interest paid	(7,588,686)	-
<i>Net cash used in operating activities</i>	<i>(20,884,515)</i>	<i>(8,049,545)</i>
<b>Cash flows from investing activities</b>		
Purchase of property, plant and equipment	(27,998)	(43,649)
Interest received	35,543	10,248
Receipts from / (payment to) directors	(6,114,000)	9,866,963
<i>Net cash (used in)/generated from investing activities</i>	<i>(6,106,455)</i>	<i>9,833,562</i>
<b>Cash flows from financing activities</b>		
Proceeds from loan from related companies	72,854,000	10,000,000
Repayment of loan from related companies	(49,946,878)	(8,450,000)
<i>Net cash from financing activities</i>	<i>22,907,122</i>	<i>1,550,000</i>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(4,083,848)</b>	<b>3,334,017</b>
Cash and cash equivalents at 1 January	4,845,090	1,511,073
<b>Cash and cash equivalents at 31 December</b>	<b>761,242</b>	<b>4,845,090</b>

The notes on pages 7 to 23 are an integral part of these financial statements.

## Statement of changes in equity for the year ended 31 December 2014

	Paid in capital RMB	Accumulated losses RMB	Total equity RMB
Balance at 1 January 2013	50,000,000	(15,382,056)	34,617,944
Loss and total comprehensive loss for the year	-	(4,341,600)	(4,341,600)
Balance at 31 December 2013 and 1 January 2014	50,000,000	(19,723,656)	30,276,344
Loss and total comprehensive loss for the year	-	(19,710,036)	(19,710,036)
<b>Balance at 31 December 2014</b>	<b>50,000,000</b>	<b>(39,433,692)</b>	<b>10,566,308</b>

The notes on pages 7 to 23 are an integral part of these financial statements.

# Notes to the financial statements for the year ended 31 December 2014

## 1. GENERAL INFORMATION

Guangxi Fil-Dragon Real Estate Development Limited (the “Company”) is a limited liability company established and domiciled in the People’s Republic of China (“PRC”). The address of its registered office is 16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC.

The Company is controlled by Phil-Nanning Consortium, Inc., a company registered in the Philippines. The ultimate parent of the Company is Solid Group Inc., a company registered in the Philippines and its shares are listed on the Philippine Stock Exchange.

The Company is principally engaged in the property development in the PRC.

The financial statements for the year ended 31 December 2014 were approved for issue by the board of directors on 1 April 2015.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 2.1 Basis of preparation

The financial statements on pages 3 to 23 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”), and all applicable individual International Accounting Standards and Interpretations as originated by the Board of the International Accounting Standards Committee and adopted by the IASB. The Company also prepares a set of statutory financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises.

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

The financial statements have been prepared on the historical cost basis. The measurement basis is fully described in the accounting policies below.

The financial statements have been presented in Renminbi (“RMB”), which is also the functional currency of the Company.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.1 Basis of preparation (Continued)**

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 4.

### **2.2 Property, plant and equipment**

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives for the current and comparative periods are as follows:

Office equipment	3 to 5 years
Furniture and fixtures	3 to 5 years
Motor vehicles	5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

### **2.3 Financial assets**

Financial assets are classified as loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.3 Financial assets (Continued)**

All financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

#### Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Interest is recognised in profit or loss.

#### Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Company about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.



## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### 2.3 Financial assets (Continued)

#### Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

#### (i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets are written off against the corresponding assets directly. Subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

### 2.4 Stock of properties

Stock of properties are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and, in case of properties under development for sale, anticipated cost to completion.

Development cost of property under development for sale comprises construction costs, cost of land use rights, borrowing costs, and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Stock of properties are classified as current assets unless those will not be realised in one normal operating cycle.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.5 Cash and cash equivalents**

Cash and cash equivalents include cash at bank and in hand and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits which are restricted to use are included in “restricted cash”. Restricted cash are excluded from cash and cash equivalents in the statement of cash flows.

### **2.6 Financial liabilities**

The Company’s financial liabilities include trade and other payables, receipt in advance from customers, loan from related companies and amount due to a director. They are included on the face of the statement of financial position.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Company’s accounting policy for borrowing costs (see note 2.12).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables, receipt in advance from customers, loan from related companies and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

### **2.7 Revenue recognition**

Revenue comprises the fair value of the consideration received or receivable for sale of properties, net of discount. Provided it is probable that the economic benefits will flow to the Company and specific criteria have been met as described below, and the revenue and cost, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under current liabilities.

Interest income is recognised on a time-proportion basis using the effective interest method.

Administrative service income is recognized when service is rendered.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.8 Impairment of non-financial assets**

Property, plant and equipment are subject to impairment testing and are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs of disposal, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

Impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

### **2.9 Employee benefits**

#### Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees of the Company are required to participate in the central pension scheme operated by the relevant local municipal government in PRC. The Company is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Company's obligations under these plans are limited to the fixed percentage contributions payable.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.10 Borrowing costs**

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

### **2.11 Accounting for income taxes**

Income tax comprises current and deferred taxes.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. 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 recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged to other comprehensive income or credited directly in equity.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **2.11 Accounting for income taxes (continued)**

Current tax assets and current tax liabilities are presented net if, and only if,

- (a) the Company has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company presents deferred tax assets and deferred tax liabilities net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

### **2.12 Related parties**

- (a) A person, or a close member of that person's family, is related to the Company if that person:
  - (i) has control or joint control over the Company;
  - (ii) has significant influence over the Company; or
  - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
  - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).
  - (iii) Both entity are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

### 3. ADOPTION OF NEW OR AMENDED IFRSs

In the current year, the Company has applied for the first time, all new standards, amendments and interpretation issued by the International Accounting Standards Board (“IASB”), which are relevant to and effective for the Company’s financial statements for the annual period beginning on 1 January 2014. The adoption of these new standards had no material impact on how the results and financial position for the current and prior periods have been prepared and presented. Accordingly, no prior period adjustment is required.

At the date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Company.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Company’s accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the impact of these IFRSs but are not yet in the position to state whether they would have any material impact on the Company’s financial statements.

### 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

#### Net realisable value of stock of properties

Management’s assessment of net realisable value of stock of properties requires the estimates of future cash flows to be derived from these properties. These estimates requires judgement as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and, in case of properties under development for sale, the expected costs to completion of properties, the legal and regulatory framework and general market conditions. Details of stock of properties are set out in note 12.

### 5. REVENUE

The Company’s principal activity is disclosed in note 1 to these financial statements. The Company did not generate any revenue for the current and prior years.

### 6. OTHER INCOME

	2014 RMB	2013 RMB
Bank interest income	35,543	10,248
Administrative service income	57,409	-
	<b>92,952</b>	<b>10,248</b>

## 7. FINANCE COSTS

	2014 RMB	2013 RMB
Interest charges on:		
Loan from related companies	7,588,686	6,799,654
Total borrowing costs	7,588,686	6,799,654
Less: amounts capitalised in properties under development (note 12)	-	(6,799,654)
	7,588,686	-

The borrowing costs have been capitalised at a rate of 15% (2013: 15%) per annum.

## 8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging:

	2014 RMB	2013 RMB
Depreciation	71,087	109,279

## 9. EMPLOYEE BENEFITS EXPENSE

	2014 RMB	2013 RMB
Wages, salaries and other benefits	1,744,037	1,321,517
Pension costs – defined contribution plans	87,420	89,118
	1,831,457	1,410,635

## 10. INCOME TAX EXPENSE

Pursuant to the relevant law and regulations in the PRC, the Company is subject to PRC corporate income tax of 25% (2013: 25%) on the estimated assessable profit for the year. No provision has been provided in the financial statements as the Company did not generate any assessable profits during the year.

Reconciliation between tax expense and accounting loss at applicable tax rate:

	2014 RMB	2013 RMB
Loss before income tax	(19,710,036)	(4,341,600)
Tax at PRC corporate income tax rate of 25% (2013: 25%)	(4,927,509)	(1,085,400)
Tax effect of non-deductible expenses	2,038,395	405,269
Tax effect of unrecognised temporary differences	36,718	20,503
Others	2,852,396	659,628
Total income tax expense	-	-

# **11. PROPERTY, PLANT AND EQUIPMENT**

	Office equipment RMB	Furniture and fixtures RMB	Motor vehicles RMB	Total RMB
<b>At 1 January 2013</b>				
Cost	203,626	99,761	598,712	902,099
Accumulated depreciation	(132,155)	(80,619)	(389,011)	(601,785)
<b>Net book amount</b>	<b>71,471</b>	<b>19,142</b>	<b>209,701</b>	<b>300,314</b>
<b>Year ended 31 December 2013</b>				
Opening net book amount	71,471	19,142	209,701	300,314
Additions	43,649	-	-	43,649
Depreciation	(48,464)	(9,167)	(51,648)	(109,279)
<b>Closing net book amount</b>	<b>66,656</b>	<b>9,975</b>	<b>158,053</b>	<b>234,684</b>
<b>At 31 December 2013 and 1 January 2014</b>				
Cost	247,275	99,761	598,712	945,748
Accumulated depreciation	(180,619)	(89,786)	(440,659)	(711,064)
<b>Net book amount</b>	<b>66,656</b>	<b>9,975</b>	<b>158,053</b>	<b>234,684</b>
<b>Year ended 31 December 2014</b>				
Opening net book amount	66,656	9,975	158,053	234,684
Additions	27,998	-	-	27,998
Depreciation	(25,250)	-	(45,837)	(71,087)
<b>Closing net book amount</b>	<b>69,404</b>	<b>9,975</b>	<b>112,216</b>	<b>191,595</b>
<b>At 31 December 2014</b>				
Cost	275,273	99,761	598,712	973,746
Accumulated depreciation	(205,869)	(89,786)	(486,496)	(782,151)
<b>Net book amount</b>	<b>69,404</b>	<b>9,975</b>	<b>112,216</b>	<b>191,595</b>



## 12. STOCK OF PROPERTIES

	2014 RMB	2013 RMB
Completed properties held for sale	263,404,202	-
Properties under development for sale	-	263,420,599
Comprise of:		
Land use rights	15,318,050	15,145,025
Construction costs and capitalised expenditures	225,138,625	225,328,046
Interest capitalised		
Balance at 1 January	22,947,527	16,147,874
Interest capitalised for the year	-	6,799,654
Balance at 31 December	22,947,527	22,947,528

Stock of properties included leasehold interests in land located in the PRC with lease terms expiring in 2077.

## 13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2014 RMB	2013 RMB
Other receivables and deposits	3,984,952	4,881,885
Prepaid business taxes and other taxes	28,627,249	12,012,231
	32,612,201	16,894,116

The directors of the Company considered that the fair values of other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

At each reporting dates, the Company reviews receivables for evidence of impairment on both an individual and collective basis. No impairment has been recognised on other receivables for the years ended 31 December 2014 and 2013. No amounts in relation to other receivables were past due at the reporting date (2013: nil).

## 14. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair values.

## 15. RESTRICTED CASH

	Notes	2014 RMB	2013 RMB
Guarantee deposit for construction of projects	(a)	-	196,739
Deposit pledged against mortgage loans granted to the purchasers of properties	(b)	1,365,955	647,605
		<b>1,365,955</b>	<b>844,344</b>

- (a) In accordance with relevant documents issued by local government, the Company is required to place certain amount of cash at designated bank accounts as guarantee deposits for construction of properties. The deposits can only be used to pay for construction fees and purchase of construction materials of the relevant project when approvals are obtained from the local government. The deposit earns interest at floating rates based on daily bank deposit rates. The restriction is released as the construction is completed or issuance of the real estate ownership certificates, whichever is the earlier.
- (b) The bank deposits were pledged as security in favour of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties for the period from the date of draw-down of mortgage loans to the date when the certificates for housing ownership and certificates of others' interest for housing ownership (collectively known as "Certificates") are granted to the property purchasers. Such charges would be released when the Certificates are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates.

## 16. CASH AND CASH EQUIVALENTS

All bank balances denominated in Renminbi ("RMB") are placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

## 17. TRADE AND OTHER PAYABLES

	2014 RMB	2013 RMB
Trade payables – third parties	19,869,681	32,345,130
Other payables and accrued charges	1,238,598	509,554
	<b>21,108,279</b>	<b>32,854,684</b>

All amounts are short term and hence the carrying values of the Company's trade and other payables are considered to be a reasonable approximation of fair value.

## 18. LOAN FROM RELATED COMPANIES

The amounts due are unsecured, repayable on demand and interest-bearing at 15% (2013: 15%) per annum. The carrying amounts approximate their fair values. The related companies are controlled by a shareholder of the Company.

**19. PAID IN CAPITAL**

	2014 RMB	2013 RMB
Registered and paid in capital	50,000,000	50,000,000

**20. CAPITAL COMMITMENTS**

	2014 RMB	2013 RMB
Contracted but not provided for	7,576,000	16,948,000

**21. RELATED PARTY TRANSACTIONS**

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Company had the following material transactions with related parties:

21.1 Details of the transactions between the Company and its related parties are summarised below.

	2014 RMB	2013 RMB
Companies in which a shareholder of the Company have beneficial interests		
Interest expense	7,588,686	6,799,653

21.2 Key management personnel remuneration

Key management of the Company are members of the board of directors as well as certain senior management personnel. Included in staff costs are key management personnel remuneration which includes the following expenses:

	2014 RMB	2013 RMB
Short-term employee benefits		
Salaries, bonus and other benefits	605,958	578,794
Post-employment benefits	-	-

**22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS**

The Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include foreign currency risk, interest rate risk, credit risk and liquidity risk. In light of the simplicity of the operations, the risk management of the Company is carried out by the board of directors directly. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Board discusses principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk and liquidity risk.

## 22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

### (Continued)

#### 22.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

	2014 RMB	2013 RMB
<b>Financial assets</b>		
Loans and receivables		
Other receivables and deposits	3,984,952	4,881,885
Restricted cash	1,365,955	844,344
Cash and cash equivalents	761,242	4,845,090
	<b>6,112,149</b>	<b>10,571,319</b>
<b>Financial liabilities</b>		
Financial liabilities measured at amortised cost		
Trade and other payables	21,108,279	32,854,684
Loan from related companies	84,749,556	61,842,434
Amounts due to directors	4,252,963	10,366,963
	<b>110,110,798</b>	<b>105,064,081</b>

#### 22.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The management considers that the Company is not exposed to foreign currency risk as all of the transactions, monetary assets and liabilities are denominated in the functional currency of the Company.

#### 22.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's interest rate risk arises primarily from bank balances and borrowings. Borrowings bears fixed rates and the exposure to interest rate risk is minimal. The exposure to interest rates for the Company's short term bank deposits is considered immaterial.

## **22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)**

### **22.4 Credit risk**

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Company. The Company's exposure to credit risk mainly arises from its investing activities.

The Company's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised in note 22.1 above.

In respect of credit risk associated with other receivables, management closely monitors all outstanding debts and reviews the collectability of other receivables periodically. The credit risk for liquid funds is considered negligible as the counterparties are reputable international banks with high quality external credit ratings.

### **22.5 Liquidity risk**

Liquidity risk relates to the risk that the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Company's policy is to regularly monitor current and expected liquidity requirements and ensure that the Company maintains sufficient reserves of cash and adequate committed lines of funding from related companies to meet its liquidity requirements in the short and longer term.

Analysed below is the Company's remaining contractual maturities for its financial liabilities as at the reporting date. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Company is required to pay. Where settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Company is committed to pay.

## 22. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

### 22.5 Liquidity risk (Continued)

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Within 1 year or on demand RMB	Total contractual undiscounted cash flow RMB	Carrying amount RMB
<b>2014</b>			
Trade and other payables	21,108,279	21,108,279	21,108,279
Loan from related companies	97,461,989	97,461,989	84,749,556
Amounts due to directors	4,252,963	4,252,963	4,252,963
	<b>122,823,231</b>	<b>122,823,231</b>	<b>110,110,798</b>
<b>2013</b>			
Trade and other payables	32,854,684	32,854,684	32,854,684
Loan from related companies	69,431,120	69,431,120	61,842,434
Amounts due to directors	10,366,963	10,366,963	10,366,963
	<b>112,652,767</b>	<b>112,652,767</b>	<b>105,064,081</b>

### 22.6 Fair values

The fair values of the Company's financial assets and financial liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

## 23. CAPITAL MANAGEMENT

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

The Company actively and regularly reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions.

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM – ACGR**

**ANNUAL CORPORATE GOVERNANCE REPORT**

1. Report is Filed for the Year: 2014
2. Exact Name of Registrant as Specified in its Charter: **SOLID GROUP INC.**
3. Address of Principal Office: Postal Code: 1231  
2285 Don Chino Roces Avenue, Makati City, Philippines
4. SEC Identification Number : 845
5. \_\_\_\_\_(SEC Use Only)  
Industry Classification Code
6. BIR Tax Identification Number: 000-508-536-000
7. Issuer's Telephone number, including area code: (632) 843-15-11
8. Former name or former address, if changed from the last report: Not Applicable

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## A. BOARD MATTERS

### 1) Board of Directors

Number of Directors per Articles of Incorporation	9
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Actual number of Directors for the year	9
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#### (a) Composition of the Board

Complete the table with information on the Board of Directors:

Director's Name	Type [Executive (ED), Non-Executive (NED) or Independent Director (ID)]	If nominee, identify the principal	Nominator in the last election (if ID, state the relationship with the nominator)	Date first elected	Date last elected (if ID, state the number of years served as ID) <sup>1</sup>	Elected when (Annual /Special Meeting)	No. of years served as director
Elena S. Lim	NED			1996	June 26, 2014	Annual	18
Susan L. Tan	ED			1996	June 26, 2014	Annual	18
David S. Lim	ED			1996	June 26, 2014	Annual	18
Jason S. Lim	ED			1996	June 26, 2014	Annual	18
Vincent S. Lim	ED			1996	June 26, 2014	Annual	18
Quintin Chua	ID			2003	June 26, 2014	Annual	11
Luis Maria Zabaljauregui	ID			2008	June 26, 2014	Annual	6
Joseph Lim	NED			1996	June 26, 2014	Annual	14
Beda Manalac	ED			2010	June 26, 2014	Annual	4

- (b) Provide a brief summary of the corporate governance policy that the board of directors has adopted. Please emphasize the policy/ies relative to the treatment of all shareholders, respect for the rights of minority shareholders and of other stakeholders, disclosure duties, and board responsibilities.

The Company adopted a Manual on Corporate Governance to institutionalize the rules and principles of good corporate governance in accordance with the Code of Corporate Governance promulgated by SEC. Its Manual on Corporate Governance was submitted to the SEC on September 2, 2002 in accordance with SEC Memorandum Circular No. 2 Series of 2002. The Board of Directors approved the Company's Revised Manual of Corporate Governance in compliance with SEC Memorandum Circular No. 6, Series of 2009 on September 30, 2010. The Company adopted the Revised Manual of Corporate Governance and submitted it to the SEC on September 30, 2010. The Company also adopted the Amended Manual of Corporate Governance and submitted it to the SEC on July 25, 2014. Pursuant to the Manual, three Board Committees – Audit, Nomination and Compensation and Remuneration Committees were created in 2003 to aid in complying with principles of good corporate governance. In 2003, the Company increased the number of independent directors from one (1) to two (2). In 2004, in compliance with SEC Memorandum Circular No. 6, the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee. The company has reelected Mr. Quintin Chua and Mr. Luis Maria L. Zabaljauregui as Independent Directors during the Annual Stockholders' meeting on June 26, 2014. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. In 2012, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2011 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the

<sup>1</sup> Reckoned from the election immediately following January 2, 2012.

handling partner changed every five (5) years or earlier. A Compliance Officer was appointed in 2002, directly reporting to the Chairman of the Board to monitor compliance with the provisions and requirements of the Manual. The Compliance Officer has established an evaluation system to measure or determine the level of compliance of the Company with its Manual.

In connection to Stockholder's Rights and Protection of Minority Stockholder's Interests, the Board shall respect the right of the stockholders as provided for in the Corporation's Articles of Incorporation, By-laws and Corporate Code. The Company promotes disclosure and transparency. Information such as earnings, acquisition, disposition of assets, related party transactions and other information are disclosed timely to the SEC and PSE. It is the Board's responsibility to foster the long-term success of the Company, and to sustain its competitiveness and profitability in a manner consistent with its corporate objectives and the best interests of its stockholders. It formulates the Company's vision, mission, strategic objectives, policies and procedures.

(c) How often does the Board review and approve the vision and mission?

The vision and mission statement of the Company is reviewed and approved every year by the Board.

(d) Directorship in Other Companies

(i) Directorship in the Company's Group<sup>2</sup>

Identify, as and if applicable, the members of the company's Board of Directors who hold the office of director in other companies within its Group:

Director's Name	Corporate Name of the Group Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Elena S. Lim	Interstar Holdings Co., Inc.	ED-Chairman
	Kita Corporation	NED
	Laguna International Industrial Park Inc.	ED-Chairman
	My Solid Technologies & Devices Corp.	NED
	Omni Solid Services Inc.	NED
	Phil-Nanning Consortium Inc.	NED
	Precos Inc.	NED
	Skyworld Corporation	ED-Chairman
	Solid Broadband Corporation	NED
	Solid Electronics Corporation	NED
	Solid Video Corp.	NED
	Starworld Corp.	ED-Chairman
	Zen Towers Corp.	NED
Susan L. Tan	Kita Corporation	ED-Chairman
	My Solid Technologies & Devices Corp.	NED
	MyApp Corporation	ED
	Omni Solid Services Inc.	ED-Chairman
	Phil-Nanning Consortium Inc.	ED
	Precos Inc.	ED-Chairman
	Solid Broadband Corp.	ED-Chairman
	Solid Electronics Corporation	ED-Chairman

<sup>2</sup> The Group is composed of the parent, subsidiaries, associates and joint ventures of the company.

	Solid Manila Corp.	NED
	Solid Manila Finance Inc.	ED-Chairman
	Solid Video Corp.	ED
	SolidGroup Technologies Corporation	NED
	Zen Towers Corp.	ED
	Brilliant Reach Limited	ED
David S. Lim	Casa Bocobo Hotel Inc.	ED-Chairman
	Interstar Holdings Co., Inc.	ED
	Kita Corporation	NED
	Laguna International Industrial Park Inc.	ED
	My Solid Technologies & Devices Corp.	ED-Chairman
	MyApp Corporation	ED
	Omni Solid Services Inc.	NED
	Phil-Nanning Consortium Inc.	ED
	Precos Inc.	ED
	Skyworld Corporation	ED
	Solid Broadband Corporation	ED
	Solid Electronics Corp.	ED
	Solid Manila Corp.	NED
	Solid Video Corp.	ED-Chairman
	SolidGroup Technologies Corporation	NED
	Starworld Corp.	ED
	Zen Towers Corp.	ED-Chairman
	Brilliant Reach Limited	ED
Jason S. Lim	Casa Bocobo Hotel Inc.	ED
	Interstar Holdings Co., Inc.	NED
	Kita Corporation	ED
	My Solid Technologies & Devices Corp.	NED
	MyApp Corporation	ED
	Omni Solid Services Inc.	ED
	Phil-Nanning Consortium Inc.	NED
	Skyworld Corp.	NED
	Solid Broadband Corp.	NED
	Solid Electronics Corp.	NED
	Solid Manila Corp.	ED-Chairman
	Solid Manila Finance Inc.	ED
	Solid Video Corp.	NED
	SolidGroup Technologies Corporation	ED-Chairman
	Zen Tower Corp.	NED
	Brilliant Reach Limited	ED
Vincent S. Lim	Casa Bocobo Hotel Inc.	ED
	Interstar Holdings Co., Inc.	ED
	Kita Corporation	ED
	Laguna International Industrial Park Inc.	ED
	My Solid Technologies & Devices Corp.	ED
	Omni Solid Services Inc.	ED
	MyApp Corporation	ED
	Phil-Nanning Consortium Inc.	ED
	Precos Inc.	ED
	Skyworld Corporation	ED
	Solid Broadband Corp.	ED

	Solid Electronics Corp.	ED
	Solid Manila Corp.	ED
	Solid Manila Finance Inc.	ED
	Solid Video Corp.	ED
	SolidGroup Technologies Corporation	ED
	Starworld Corp.	ED
	Zen Towers Corp.	ED
	Brilliant Reach Limited	ED
Joseph Lim	Phil-Nanning Consortium Inc.	ED-Chairman
	Precos Inc.	NED
	Solid Broadband Corporation	NED
	Guangxi Fil-Dragon Real Estate Development Ltd.	ED- Chairman
Beda Manalac	Solid Manila Corp.	ED
Quintin Chua	Solid Manila Finance Inc.	ID
Luis Maria Zalbaljauregui	Solid Manila Finance Inc.	ID

(ii) Directorship in Other Listed Companies

Identify, as and if applicable, the members of the company's Board of Directors who are also directors of publicly-listed companies outside of its Group:

Director's Name	Name of Listed Company	Type of Directorship (Executive, Non-Executive, Independent). Indicate if director is also the Chairman.
Not applicable; the Company's BOD are not directors of other listed companies.		

(iii) Relationship within the Company and its Group

Provide details, as and if applicable, of any relation among the members of the Board of Directors, which links them to significant shareholders in the company and/or in its group:

Director's Name	Name of the Significant Shareholder	Description of the relationship
Elena S. Lim	AA Commercial Inc.	Stockholder
Susan L. Tan	AA Commercial Inc.	ED
	AV Value Holdings Corp.	ED – Chairman
David S. Lim	AA Commercial Inc.	ED
	AV Value Holdings Corp.	ED
Jason S. Lim	AA Commercial Inc.	NED
	AV Value Holdings Corp.	NED
Vincent S. Lim	AA Commercial Inc.	ED
	AV Value Holdings Corp.	ED
Joseph Lim	AA Commercial Inc.	ED – Chairman

(iv) Has the company set a limit on the number of board seats in other companies (publicly listed, ordinary and companies with secondary license) that an individual director or CEO may hold simultaneously? In particular, is the limit of five board seats in other publicly listed companies imposed and observed? If yes, briefly describe other guidelines:

	Guidelines	Maximum Number of Directorships in other companies
<b>Executive Director</b>	None; the Company did not set a limit on the number of board seat in other companies but its BOD does not hold directorship position in other listed companies. However, the capacity of the directors to diligently and efficiently perform their duties and responsibilities to the boards they serve should not be compromised.	No limit set. But they may be covered by a lower indicative limit.
<b>Non-Executive Director</b>	Same as for Executive Director	No limit set.
<b>CEO</b>	Same as for Executive Director	No limit set.

(e) Shareholding in the Company

Complete the following table on the members of the company's Board of Directors who directly and indirectly own shares in the company:

Name of Director	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Elena S. Lim	1,894	-	-
Susan L. Tan	78,645	7,300,000/ (thru Christopher James Tan)	0.41
David S. Lim	179,488,591	499,999,999/ (thru AV Value Holding Corp.) 5,000,000/(thru Julia C.C. Lim)	37.58
Jason S. Lim	65,176,160	-	3.58
Vincent S. Lim	71,887,187	583,377,817 (thru AA Commercial Inc.) 5,996,000 (thru Michael Jordan T. Lim)	36.30
Joseph Lim	2	-	-
Quintin Chua	5,000	-	-
Luis Maria Zabaljauregui	5,000	-	-
Beda Manalac	1,001	-	-

2) Chairman and CEO

- (a) Do different persons assume the role of Chairman of the Board of Directors and CEO? If no, describe the checks and balances laid down to ensure that the Board gets the benefit of independent views.

Yes ☒

No ☐

Identify the Chair and CEO:

Chairman of the Board	Susan L. Tan
CEO/President	David S. Lim

(b) Roles, Accountabilities and Deliverables

Define and clarify the roles, accountabilities and deliverables of the Chairman and CEO.

	<b>Chairman</b>	<b>Chief Executive Officer</b>
Role	The Chairman shall exercise such other powers that are given to him in the Company By-laws and perform such other duties as the Board of Directors may from time to time fix or delegate.	The President shall be the Chief Executive Officer of the Company.  He shall do and perform such other duties as may from time to time be assigned to him by Board of Directors.
Accountabilities	He shall preside at all meetings of stockholders and of the Directors and in his absence or with his consent, the President shall preside at such meeting.	He may sign and execute all authorized bond contracts or obligations in the name of the corporation and with the Secretary may sign all certificates of shares in the capital stock of the Company.
Deliverables	He shall ensure that the meetings of the Board are held in accordance with the By-laws or as the Chair may deem necessary.  He shall supervise the preparation of the agenda of the meeting in coordination with the Corporate Secretary, taking into consideration the suggestions of the CEO, management and directors.  He maintain qualitative and timely lines of communication and information between the board and management.	He shall from time to time make reports of the affairs of the corporation as the Board of Directors may require and shall annually present a report of the preceding years' business to the Board of Directors at their meeting immediately preceding the annual meeting of the stockholders, which report may be read at the annual meeting of the stockholders.

- 3) Explain how the board of directors plan for the succession of the CEO/Managing Director/President and the top key management positions?

The Board adopted through the Nomination Committee an effective succession planning program by selecting or recruiting professional managers in the Group. Top key management positions are reviewed periodically to ensure that competent, professional, honest and highly motivated management officers are in place.

- 4) Other Executive, Non-Executive and Independent Directors

Does the company have a policy of ensuring diversity of experience and background of directors in the board? Please explain.

The Company has no written policy. However, the Company ensures that members have diversity of experience and background. The Company's Manual on Corporate Governance provides that the board shall implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.

Does it ensure that at least one non-executive director has an experience in the sector or industry the company belongs to? Please explain.

Yes. The Company has a non-executive director who has experience in the field and industry of the Company. Also,

the Company's Manual on Corporate Governance provides that the board shall implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies.

Define and clarify the roles, accountabilities and deliverables of the Executive, Non-Executive and Independent Directors:

	<b>Executive (CEO/President)</b>	<b>Non-Executive</b>	<b>Independent Director</b>
<b>Role</b>	<p>The President shall be the Chief Executive Officer of the Company.</p> <p>He shall do and perform such other duties as may from time to time be assigned to him by Board of Directors.</p>	<p>A director's office is one of trust and confidence.</p> <p>Directors should act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He should also exercise leadership, prudence and integrity in directing the Company toward sustained progress.</p>	
<b>Accountabilities</b>	<p>He may sign and execute all authorized bond contracts or obligations in the name of the corporation and with the Secretary may sign all certificates of shares in the capital stock of the Company.</p>	<p>It shall be the duty of the Directors:</p> <ul style="list-style-type: none"> <li>• To cause to be kept a complete record of all their minutes and acts and of the proceeding of stockholders' meeting a statement of the accounts showing in details the assets and liabilities of the corporation and generally the condition of the company's affairs. A similar statement shall be presented at any other meeting of the stockholders, when thereto required by the persons holding at least one-third of the capital stock of the corporation</li> <li>• To declare dividends out of the surplus profits when such profits shall in the opinion of the directors, warrant the same.</li> <li>• To supervise all officers, agents and employees and see that their duties are properly performed.</li> </ul>	
<b>Deliverables</b>	<p>He shall from time to time make reports of the affairs of the corporation as the Board of Directors may require and shall annually present a report of the preceding years' business to the Board of Directors at their meeting immediately preceding the annual meeting of the stockholders, which report may be read at the annual meeting of the stockholders.</p>	<p>The Directors shall have the power:</p> <ul style="list-style-type: none"> <li>• To call special meetings of the stockholders when they deem it necessary. And they shall call a meeting at any time upon the written request of the stockholders holding one-third of the subscribed and paid-in capital stock.</li> <li>• To appoint and remove at the pleasure all officers, agents and employees of the corporation, prescribe their duties, fix their compensation and required from them security for faithful service</li> <li>• To conduct, manage and control the affairs and business of the corporation and to make rules and regulations not inconsistent with the laws of the Philippine Islands or By-Laws of the corporation for the guidance and management of the corporation.</li> </ul>	



Provide the company's definition of "independence" and describe the company's compliance to the definition.

The Company uses the "independence" definition of Section 38 of Securities Regulation Code. Independent Director is a person who, apart from his fees and shareholdings, is independent of management and free from any business or other relationship which could, or could reasonably be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director in any corporation and includes, among others, any person who: (a) is not a director or officer of the corporation or of its related companies or any of its substantial shareholders; (b) is not a substantial shareholder of the corporation or of its related companies or any of its substantial shareholders; (c) is not a relative of any director, officer or substantial shareholder of the corporation, any of its substantial shareholders; (d) is not acting as a nominee or representative of any director or substantial shareholder of the corporation, any of its related companies or any of its substantial shareholders; (e) has not been employed in any executive capacity by that public company, any of its related companies or by any of its substantial shareholders within the last five (5) years; (f) is not retained as professional adviser by that public company, any of its related companies or any of its substantial shareholders within the last five (5) years (f) is not retained as professional adviser by that public company, any of its related companies or any of its substantial shareholders, either personally or through his firm (g) has not engaged and does not engage in any transaction with the corporation or with any of its related companies or with any of its substantial shareholders, whether by himself or with other persons or through a firm of which he is a partner or a company of which he is a director or substantial shareholder, other than transactions which are conducted at arms length and are immaterial.

Independent directors are nominated and elected in the annual stockholders' meeting and each independent director issues a certification confirming his independence.

Does the company have a term limit of five consecutive years for independent directors? If after two years, the company wishes to bring back an independent director who had served for five years, does it limit the term for no more than four additional years? Please explain.

The Company complies with the SEC requirements on term limits for independent directors of a maximum of 5 consecutive years, subject to a 2-year cooling-off period, after which, he may be re-elected for another 5 consecutive years.

5) Changes in the Board of Directors (Executive, Non-Executive and Independent Directors)

(a) Resignation/Death/Removal

Indicate any changes in the composition of the Board of Directors that happened during the period:

Name	Position	Date of Cessation	Reason
No changes as of December 31, 2014			

(b) Selection/Appointment, Re-election, Disqualification, Removal, Reinstatement and Suspension

Describe the procedures for the selection/appointment, re-election, disqualification, removal, reinstatement and suspension of the members of the Board of Directors. Provide details of the processes adopted (including the frequency of election) and the criteria employed in each procedure:

Procedure	Process Adopted	Criteria
a. Selection/Appointment		

(i) Executive Directors	The Board thru its Nomination Committee pre-screens the qualifications of all nominees to the Board of Directors. Afterward, the Committee prepare a final list of candidates.	Qualifications of Directors: In addition to the qualifications for membership in the Board provided for in the Corporation Code, Securities Regulation Code and other relevant laws, the Board may provide for additional qualifications which include, among others, the following: i. College education or equivalent academic degree; ii. Practical understanding of the business of the Corporation; iii. Membership in good standing in relevant industry, business or professional organizations; and iv. Previous business experience.  Additional qualifications for independent director:  A candidate for independent director must be independent of management and free from any business or other relationship which could, or could reasonable be perceived to, materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director.  He should satisfy the definition, possess the qualifications and none of the disqualifications as provided in Section 38 of the Securities Regulation Code.
(ii) Non-Executive Directors	The Directors shall be elected by ballot at the annual meeting of the stockholders. Each shareholder, either in person or by proxy, shall be entitled to as many votes as he owns shares of stock. Cumulative voting shall be allowed for the election of board of directors in accordance with Section 24 of the Corporation Code. Section 24 provides that a stockholder, may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as he number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholder should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected. The Company complies with the requirements of SRC Rule 38 on the nomination and election of directors.	
(iii) Independent Directors		
b. Re-appointment		
(i) Executive Directors	Same process as selection/ appointment	Same criteria as selection/ appointment
(ii) Non-Executive Directors		
(iii) Independent Directors		
c. Permanent Disqualification		
(i) Executive Directors	Nomination Committee shall review and evaluate the qualifications of all persons nominated to the Board of Directors. The Committee shall pre-screen all nominees, considering the rules and issuances by the SEC and in	The following shall be grounds for the permanent disqualification of a director:  a) Any person convicted by final judgment or order by a competent

(ii) Non-Executive Directors	conformity to the Company Manual on Corporate Governance.	judicial or administrative body of any crime that (a) involves the purchase or sale of securities, as defined in the Securities Regulation Code; (b) arises out of the person's conduct as an underwriter, broker, dealer, investment adviser, principal, distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; or (c) arises out of his fiduciary relationship with a bank, quasi-bank, trust company, investment house or as an affiliated person of any of them;
(iii) Independent Directors		<p>b) Any person who, by reason of misconduct, after hearing, is permanently enjoined by a final judgment or order of the Commission or any court or administrative body of competent jurisdiction from: (a) acting as underwriter, broker, dealer, investment adviser, principal distributor, mutual fund dealer, futures commission merchant, commodity trading advisor, or floor broker; (b) acting as director or officer of a bank, quasi-bank, trust company, investment house, or investment company; (c) engaging in or continuing any conduct or practice in any of the capacities mentioned in sub-paragraphs (a) and (b) above, or willfully violating the laws govern securities and banking activities. The disqualification shall also apply if such person is currently the subject of an order of the Commission or any court or administrative body denying, revoking or suspending any registration, license or permit issued to him under the Corporation Code, Securities Regulation Code or any other law administered by the Commission or Bangko Sentral ng Pilipinas (BSP), or under any rule or regulation issued by the Commission or BSP, or has otherwise been restrained to engage in any activity involving securities and banking; or such person is currently the subject of an effective order of a self-regulatory organization suspending or expelling</p>

		<p>him from membership, participation or association with a member or participant of the organization;</p> <p>c) Any person convicted by final judgment or order by a court or competent administrative body of an offense involving moral turpitude, fraud, embezzlement, theft, estafa, counterfeiting, misappropriation, forgery, bribery, false affirmation, perjury or other fraudulent acts;</p> <p>d) Any person who has been adjudged by final judgment or order of the Commission, court, or competent administrative body to have willfully violated, or willfully aided, abetted, counseled, induced or procured the violation of any provision of the Corporation Code, Securities Regulation Code or any other law administered by the Commission or BSP, or any of its rule, regulation or order;</p> <p>e) Any person earlier elected as independent director who becomes an officer, employee or consultant of the Corporation;</p> <p>f) Any person judicially declared as insolvent;</p> <p>g) Any person found guilty by final judgment or order of a foreign court or equivalent financial regulatory authority of facts, violations or misconduct similar to any of the acts, violations or misconduct enumerated in sub-paragraphs (l) to (v) above;</p> <p>h) Conviction by final judgment of an offense punishable by imprisonment for more than six (6) years, or a violation of the Corporation Code committed within five (5) years prior to the date of his election or appointment.</p>
<b>d. Temporary Disqualification</b>		

(i) Executive Directors		<p>The Board may provide for the temporary disqualification of a director for any of the following reasons:</p> <p>a) Refusal to comply with the disclosure requirements of the Securities Regulation Code and its implementing Rules and Regulations. The disqualification shall be in effect as long as the refusal persists.</p>
(ii) Non-Executive Directors		<p>b) Absence in more than fifty (50) percent of all regular and special meetings of the Board during his incumbency, or any twelve (12) month period during the said incumbency, unless the absence is due to illness, death in the immediate family or serious accident. The disqualification shall apply for purposes of the succeeding election.</p>
(iii) Independent Directors	<p>Nomination Committee shall review and evaluate the qualifications of all persons nominated to the Board of Directors. The Committee shall pre-screen all nominees, considering the rules and issuances by the SEC and in conformity to the Company Manual on Corporate Governance.</p>	<p>c) Dismissal or termination for cause as director of any corporation covered by this Code. The disqualification shall be in effect until he has cleared himself from any involvement in the cause that gave rise to his dismissal or termination.</p> <p>d) If the beneficial equity ownership of an independent director in the Corporation or its subsidiaries and affiliates exceeds two percent (2%) of its subscribed capital stock. The disqualification shall be lifted if the limit is later complied with.</p> <p>e) If any of the judgments or orders cited in the grounds for permanent disqualification has not yet become final.</p> <p>A temporarily disqualified director shall, within sixty (60) business days from such disqualification, take the appropriate action to remedy or correct the qualification. If he fails or refuses to do so for unjustified reasons, the disqualification shall become permanent.</p>

e. Removal		
(i) Executive Directors	Same process stated above for permanent disqualification.	Same criteria stated above for permanent disqualification.
(ii) Non-Executive Directors		
(iii) Independent Directors		
f. Re-instatement		
(i) Executive Directors	Same process stated above for selection/appointment.	Same criteria stated above for selection/appointment.
(ii) Non-Executive Directors		
(iii) Independent Directors		
g. Suspension		
(i) Executive Directors	Same process stated above for temporary disqualification.	Same criteria stated above for temporary disqualification.
(ii) Non-Executive Directors		
(iii) Independent Directors		

#### Voting Result of the last Annual General Meeting

Name of Director	Votes Received
Elena S. Lim	1,402,405,186 votes
Susan L. Tan	
David S. Lim	
Jason S. Lim	
Vincent S. Lim	
Quintin Chua	
Luis-Maria Zabaljauregui	
Joseph Lim	
Beda Manalac	

#### 6) Orientation and Education Program

- (a) Disclose details of the company's orientation program for new directors, if any.

New directors are asked to attend the Corporate Governance Orientation Program conducted by Institute of Corporate Directors (ICD).

- (b) State any in-house training and external courses attended by Directors and Senior Management<sup>3</sup> for the past three (3) years:

<sup>3</sup> Senior Management refers to the CEO and other persons having authority and responsibility for planning, directing and controlling the activities of the company.

Corporate Governance Orientation Program conducted by Institute of Corporate Directors  
SEC's Revised Code of Corporate Governance conducted by Center for Global Best Practices  
Enterprise Risk Management Seminar conducted by The Institute of Internal Auditors.

(c) Continuing education programs for directors: programs and seminars and roundtables attended during the year.

<b>Name of Director/Officer</b>	<b>Date of Training</b>	<b>Program</b>	<b>Name of Training Institution</b>
Quintin Chua	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Joseph Lim	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Elena S. Lim	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Susan L. Tan	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
David S. Lim	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Jason S. Lim	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Vincent S. Lim	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Beda T. Manalac	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Roberto V. San Jose	February 18, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Ana Maria Margarita A. Katigbak	February 18, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Lita Joaquin	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Mellina T. Corpuz	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.
Josephine T. Santiago	December 3, 2014	Seminar on Corporate Governance	Risks, Opportunities, Assessment and Management (ROAM), Inc.

## B. CODE OF BUSINESS CONDUCT & ETHICS

- 1) Discuss briefly the company's policies on the following business conduct or ethics affecting directors, senior management and employees:

Business Conduct & Ethics	Directors	Senior Management	Employees
(a) Conflict of Interest	Director should act in the best interest of the Company in a manner characterized by transparency, accountability and fairness. He should avoid situations that may compromise his impartiality.	Senior Management do not tolerate conflict of interest. Managers who approve and implement incentive/ promotion programs for employees or customers shall not be entitled to such incentives unless disclosed and approved.	The Company does not tolerate conflict of interest. Employees are required to disclose possible areas of conflict of interest.
(b) Conduct of Business and Fair Dealings	Directors should conduct fair business transactions with the Company and ensure that his personal interest does not conflict with the interest of the Company.	Senior Management is honest and fair in dealing with Business Partners and Suppliers/Buyers and do not engage in bribery, extortion or corruption.	The Company is honest and fair in dealing with Business Partners and Suppliers/Buyers and do not engage in bribery, extortion or corruption.
(c) Receipt of gifts from third parties	Directors do not solicit or accept personal gifts from Suppliers/ Buyers. If given, gifts, incentive trips, or major raffle items won in corporate events are considered intended for the company and should be disclosed or surrendered.	Senior Management do not solicit or accept personal gifts from Suppliers/ Buyers. If given, gifts, incentive trips, or major raffle items won in corporate events are considered intended for the company and should be disclosed or surrendered for management discretion.	Employees do not solicit or accept personal gifts from Suppliers/ Buyers. If given, gifts, incentive trips, or major raffle items won in corporate events are considered intended for the company and should be disclosed or surrendered for management discretion.
(d) Compliance with Laws & Regulations	Directors should abide by government laws and regulations including payment of taxes and duties.	Senior Management abides by government laws and regulations including payment of taxes and duties.	Employees abide by government laws and regulations including payment of taxes and duties.
(e) Respect for Trade Secrets/Use of Non-public Information	Directors should keep secure and confidential all non-public information he may acquire or learn by reason of his position as director. He should not reveal confidential information to unauthorized persons without the authority of the Board.	Senior Management will maintain confidentiality of information including but not limited to legal suits, marketing strategies, financial data and other sensitive information.	Employees will maintain confidentiality of information including but not limited to legal suits, marketing strategies, financial data and other sensitive information.



(f) Use of Company Funds, Assets and Information	The Company prohibits Directors the use of company funds and assets without proper approval. Information should be treated with confidentiality and cannot be released without proper approval.	The Company prohibits Senior Management the use of company funds and assets without proper approval. Information should be treated with confidentiality and cannot be released without proper approval.	The Company prohibits Employees the use of company funds and assets without proper authorization. Information should be treated with confidentiality and cannot be released without proper approval.
(g) Employment & Labor Laws & Policies	Directors abide by labor laws and regulations especially on wages, health and safety in the workplace.	Senior Management abides by labor laws and regulations especially on wages, health and safety in the workplace.	Employees abide by labor laws and regulations especially on wages, health and safety in the workplace.
(h) Disciplinary action	Directors should abide the Company policy on disciplinary action.	Senior Management should abide the Company policy on disciplinary action.	Employees should abide the Company policy on disciplinary action.
(i) Whistle Blower	The Company has whistle blowing policy to aid in the discovery of fraud and to reinforce ethical behavior.	The Company has whistle blowing policy to aid in the discovery of fraud and to reinforce ethical behavior.	The Company has whistle blowing policy to aid in the discovery of fraud and to reinforce ethical behavior.
(j) Conflict Resolution	The Company initiates investigation which are confidential and conducted urgently and discreetly. Corrective actions are made after the investigation.	The Company initiates investigation which are confidential and conducted urgently and discreetly. Corrective actions are made after the investigation.	The Company initiates investigation which are confidential and conducted urgently and discreetly. Corrective actions are made after the investigation.

2) Has the code of ethics or conduct been disseminated to all directors, senior management and employees?

Yes. The Company Code of Ethics and Business Conduct has been disseminated to all directors, senior management and employees.

3) Discuss how the company implements and monitors compliance with the code of ethics or conduct.

The Company has Code of Ethics and Business Conduct and Whistle Blowing Policy. Under this Whistle Blowing policy, stakeholders can report fraud, waste, abuse or misconduct activities. The Company made a group-wide orientation and dissemination of the policy. The policy is available online. Reports can also be made by text, calls and emails.

4) Related Party Transactions

(a) Policies and Procedures

Describe the company's policies and procedures for the review, approval or ratification, monitoring and recording of related party transactions between and among the company and its parent, joint ventures, subsidiaries, associates, affiliates, substantial stockholders, officers and directors, including their spouses, children and dependent siblings and parents and of interlocking director relationships of members of the Board.

Related Party Transactions	Policies and Procedures								
(1) Parent Company	<p>All Related Party Transactions (RPT) shall be made on terms equivalent to those that prevail in an arm's length transactions.</p> <p>The Audit Committee may assists in the review of the propriety of RPT and their required reporting disclosures.</p> <p>RPT before its commencement or if the same is not identified beforehand shall be approved in accordance with the Threshold policy.</p> <p>The Director or Officer may participate in any discussion or approval of a RPT for which he/she or any member of his/her Immediate Family is a Related Person provided any damages/loss incurred by Company related to his/her action/inaction detrimental to the Company shall be borne by him/her.</p> <p>The total amount per annum of each RPT shall be considered for purposes of applying these thresholds.</p> <table border="1" data-bbox="579 846 1457 1086"> <thead> <tr> <th>Threshold Amount</th><th>Required Approval of Authority</th></tr> </thead> <tbody> <tr> <td>Php0.5 million and below</td><td>Local Management</td></tr> <tr> <td>Php0.5 million up to Php20.0 million</td><td>Parent's Executive Management</td></tr> <tr> <td>Above Php20.0 million</td><td>Board</td></tr> </tbody> </table> <p>Each Director, Officer or Significant Stockholder shall promptly notify respective authority based on threshold policy of any materials interest that such person or an Immediate Family Member of such person had, has or may have in a Related Party Transactions. The notice shall include a description of the transaction and the aggregate amount.</p> <p>During review, the respective authority shall consider whether the terms of the Related Party Transactions are on arms' length and fair to the Company, and such factors as the following: (1) Materiality (2) The purpose and timing of the transactions (3)Extend of the Related Party's interest (4) Conflict of interest, actual or apparent, of the Related Party participating in the transaction (5)Any other relevant information regarding the transaction.</p> <p>If any Director or Officer becomes aware of a Related Party Transaction with a Related Party that has not been approved or ratified prior to its consummation, he/she shall promptly inform the respective authority based on threshold policy for proper review. Such authority shall consider the General Criteria listed above upon review and approval.</p> <p>If the Related Party Transactions is pending or on-going, the respective authority may ratify, amend, or terminate the transaction; if it has been completed, the respective authority may ratify or rescind the transaction; and in either-case, the respective authority may direct an Officer, Internal Auditors or Independent Auditors to evaluate the internal controls and procedures to determine why the transaction was not submitted for prior approval.</p> <p>The Board through the Audit Committee may establish guidelines to manage and monitor Related Party Transactions.</p>	Threshold Amount	Required Approval of Authority	Php0.5 million and below	Local Management	Php0.5 million up to Php20.0 million	Parent's Executive Management	Above Php20.0 million	Board
Threshold Amount	Required Approval of Authority								
Php0.5 million and below	Local Management								
Php0.5 million up to Php20.0 million	Parent's Executive Management								
Above Php20.0 million	Board								

(2) Joint Ventures	NA; no joint venture.
(3) Subsidiaries	Same as with parent company.
(4) Entities Under Common Control	
(5) Substantial Stockholders	
(6) Officers including spouse/children/siblings /parents	
(7) Directors including spouse/children/siblings /parents	
(8) Interlocking director relationship of Board of Directors	

(b) Conflict of Interest

(i) Directors/Officers and 5% or more Shareholders

Identify any actual or probable conflict of interest to which directors/officers/5% or more shareholders may be involved.

	Details of Conflict of Interest (Actual or Probable)
Name of Director/s	Not Applicable
Name of Officer/s	Not Applicable
Name of Significant Shareholders	Not Applicable

(ii) Mechanism

Describe the mechanism laid down to detect, determine and resolve any possible conflict of interest between the company and/or its group and their directors, officers and significant shareholders.

	Directors/Officers/Significant Shareholders
Company	<p>The Company has a policy that seeks to adopt measures to avoid, identify and disclose the existence of conflict of interest. It has mechanism that sets out the process and internal controls to facilitate compliance. The policy describes the level of authority, accountabilities and responsibilities of all directors, officers, employees and consultants.</p> <p>The Company obtains approval for transactions with directors/officers/significant shareholders. No contract or other transaction between the Company and any other corporation and no act of the Company shall in any way be affected or invalidated by the fact that any of the directors of the Company are pecuniarily or otherwise interested in,</p>
Group	

	<p>or are directors or officers, of such other corporation; any director individually, or any firm of which any director may be a member, may be a party to, or may be pecuniarily or otherwise interested in, any contract or transaction of the Company, provided that the fact that he or such firm is so interested shall be disclosed or shall have been known to the board of directors or a majority thereof; and any director of the Company who is also a director or officer of such corporation or who is interested may be counted in determining the existence of a quorum at any meeting of the board of directors of the Company which shall authorize any such contract or transaction and may vote thereat to authorize any such contract or transaction with like force and effect as if he were not such director or officer of such corporation or not so interested.</p> <p>RPT are fully disclosed in the notes to financial statements.</p>
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5) Family, Commercial and Contractual Relations

- (a) Indicate, if applicable, any relation of a family,<sup>4</sup> commercial, contractual or business nature that exists between the holders of significant equity (5% or more), to the extent that they are known to the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description of the Relationship
Elena S. Lim	Family	Married to Joseph Lim
Joseph Lim	Family	Married to Elena Lim
Susan L. Tan	Family	Daughter of Joseph and Elena Lim
David S. Lim	Family	Son of Joseph and Elena Lim
Jason S. Lim	Family	Son of Joseph and Elena Lim
Vincent S. Lim	Family	Son of Joseph and Elena Lim

- (b) Indicate, if applicable, any relation of a commercial, contractual or business nature that exists between the holders of significant equity (5% or more) and the company:

Names of Related Significant Shareholders	Type of Relationship	Brief Description
AV Value Holdings Corp.	Business	Solid Broadband Corp. (SBC) , a wholly owned subsidiary of the Company, bills Destiny Cable Inc. (DCI), a subsidiary of AV Value Holdings Corp., a fee per subscriber for the use of the cable infrastructure. In May 2012, SBC sold the broadband assets to Sky Cable Corporation and the billings to DCI were stopped.
Lim, David S.	Business	Solid Manila Finance Inc. (SMFI), a wholly owned subsidiary of the Company, grants business loans to Avid Sales Corp., AA Export and Import Corp., AA Marine Development Corp., Philippine Prawn, Inc., Baybayan Farm,

<sup>4</sup> Family relationship up to the fourth civil degree either by consanguinity or affinity.

		Inc. and Kawayan Farm, Inc., companies where Mr. David Lim holds an ownership.
Lim, David S.	Business	Solid Video Corp. (SVC), a wholly owned subsidiary of the Company, earns commission from Solid Trading Ltd. (STL), a company where Mr. David Lim holds an ownership.
Lim, David S.	Business	My Solid Technologies & Devices Corp., a wholly owned subsidiary of the Company, purchases mobile phones from STL, a company where Mr. David Lim holds an ownership.
Lim, David S.	Business	Brilliant Reach Ltd., a wholly owned subsidiary of the Company, granted an unsecured, interest-bearing loan to Solid Company Ltd. (SCL), a company where Mr. David Lim holds an ownership.
Lim, David S.	Business	Fil-Dragon, 51% owned by the Company, obtained loans from companies owned by SCL, a company where Mr. David Lim holds an ownership.

- (c) Indicate any shareholder agreements that may impact on the control, ownership and strategic direction of the company:

Name of Shareholders	% of Capital Stock affected (Parties)	Brief Description of the Transaction
Not applicable; the Company has no shareholder agreements.		

6) Alternative Dispute Resolution

Describe the alternative dispute resolution system adopted by the company for the last three (3) years in amicably settling conflicts or differences between the corporation and its stockholders, and the corporation and third parties, including regulatory authorities.

Alternative Dispute Resolution System	
Corporation & Stockholders	The Company's manual on corporate governance provides that the board shall establish and maintain an alternative dispute resolution system in the Company that can amicably settle conflicts or differences between the Corporation and its stockholders, and the Corporation and third parties, including the regulatory authorities.
Corporation & Third Parties	
Corporation & Regulatory Authorities	

## C. BOARD MEETINGS & ATTENDANCE

- 1) Are Board of Directors' meetings scheduled before or at the beginning of the year?

They are scheduled before the meeting.

2) Attendance of Directors

Board	Name	Date of Election	No. of Meetings Held during the year	No. of Meetings Attended	%
Chairman	Susan L. Tan	June 26, 2014	4	4	100
Member	Elena S. Lim	June 26, 2014	4	4	100
Member	David S. Lim	June 26, 2014	4	4	100
Member	Jason S. Lim	June 26, 2014	4	3	75
Member	Vincent S. Lim	June 26, 2014	4	4	100
Member	Joseph Lim	June 26, 2014	4	2	50
Member	Beda Manalac	June 26, 2014	4	4	100
Independent	Quintin Chua	June 26, 2014	4	3	75
Independent	Luis Maria L. Zabaljauregui	June 26, 2014	4	1	25

- 3) Do non-executive directors have a separate meeting during the year without the presence of any executive? If yes, how many times? None.

- 4) Is the minimum quorum requirement for Board decisions set at two-thirds of board members? Please explain.

No. A majority of the entire number of directors present shall constitute a quorum for the transaction of all business. Action or decision of the Board shall be taken only upon the affirmative vote of a majority of the directors present; unless the Corporation Code or the Company By-Laws require the vote of a greater number.

5) Access to Information

- a. How many days in advance are board papers<sup>5</sup> for board of directors meetings provided to the board? 3 days.
- b. Do board members have independent access to Management and the Corporate Secretary?

Yes

- c. State the policy of the role of the company secretary. Does such role include assisting the Chairman in preparing the board agenda, facilitating training of directors, keeping directors updated regarding any relevant statutory and regulatory changes, etc?

Yes. The Corporate Secretary shall be a Filipino citizen and a resident of the Philippines and an officer of the corporation. He shall be responsible for the safekeeping and preservation of the integrity of the minutes of the meeting of the Board and its committees. He shall work fairly and objectively with the Board, Management and stockholders, inform the members of the board, in accordance to the by-laws of the agenda of their meetings and ensure that the members have before them accurate information that will enable them to arrive at intelligent decisions on matters that require their approval, ensure that all board procedures, rules and regulations are strictly followed by the members and keep them updated regarding relevant statutory and regulatory changes.

- d. Is the company secretary trained in legal, accountancy or company secretarial practices? Please explain should the answer be in the negative.

Yes.

<sup>5</sup> Board papers consist of complete and adequate information about the matters to be taken in the board meeting. Information includes the background or explanation on matters brought before the Board, disclosures, budgets, forecasts and internal financial documents.

e. Committee Procedures

Disclose whether there is a procedure that Directors can avail of to enable them to get information necessary to be able to prepare in advance for the meetings of different committees:

Yes ☒

No ☐

Committee	Details of the procedures
Executive	Not applicable; no executive committee.
Audit	Directors are given access to management. They can obtain information, including background, explanation, disclosure, budgets, forecasts and internal financial documents.
Nomination	
Remuneration	
Others (specify)	NA

6) External Advice

Indicate whether or not a procedure exists whereby directors can receive external advice and, if so, provide details:

Procedures	Details
The Company's Manual on Corporate Governance provides that directors have access to independent professional advice at the Company's expense, such as seeking legal advice and/or opinion.	The director can consult the Corporate Secretary, outside counsel or the external auditor.

7) Change/s in existing policies

Indicate, if applicable, any change/s introduced by the Board of Directors (during its most recent term) on existing policies that may have an effect on the business of the company and the reason/s for the change:

Existing Policies	Changes	Reason
Not applicable: no significant changes on policies.		

## D. REMUNERATION MATTERS

1) Remuneration Process

Disclose the process used for determining the remuneration of the CEO and the four (4) most highly compensated management officers:

Process	CEO	Top 4 Highest Paid Management Officers
(1) Fixed remuneration	Company salary structure. Adjustments are approved by the Board.	
(2) Variable remuneration		
(3) Per diem allowance	None	
(4) Bonus	Approved bonus per company policy.	
(5) Stock Options and other financial instruments	None	
(6) Others (specify)	None	

2) Remuneration Policy and Structure for Executive and Non-Executive Directors

Disclose the company's policy on remuneration and the structure of its compensation package. Explain how the compensation of Executive and Non-Executive Directors is calculated.

	Remuneration Policy	Structure of Compensation Packages	How Compensation is Calculated
Executive Directors	Based on company salary structure.	Fixed compensation and variable amount and bonus based on approved company policy.	Monthly salary is divided by 26.08 to arrive at daily rate which is used for benefits and leave conversions.
Non-Executive Directors	Non-executive director and independent director receive fixed amount (P30,000- net of taxes) per meeting participation.		

Do stockholders have the opportunity to approve the decision on total remuneration (fees, allowances, benefits-in-kind and other emoluments) of board of directors? Provide details for the last three (3) years.

Yes

Remuneration Scheme	Date of Stockholders' Approval
There has been no change in remuneration policy and scheme in the last three years which would require stockholders' approval.	

3) Aggregate Remuneration

Complete the following table on the aggregate remuneration accrued during the most recent year:

Remuneration Item	Executive Directors	Non-Executive Directors (other than independent directors)	Independent Directors
(a) Fixed Remuneration	16,695,000		-
(b) Variable Remuneration	-	-	-
(c) Per diem Allowance	-	233,333	170,588
(d) Bonuses	3,069,547	-	-
(e) Stock Options and/or other financial instruments	-	-	-
(f) Others (Specify)	-	-	
<b>Total</b>	<b>19,764,547</b>	<b>233,333</b>	<b>170,588</b>



Other Benefits	Executive Directors	Non-Executive Director (other than independent directors)	Independent Directors
1) Advances	None	None	
2) Credit granted	None	None	
3) Pension Plan/s Contributions	Included as part of the Company's contribution	None	
(d) Pension Plans, Obligations incurred	Included as part of the Company's contribution	None	
(e) Life Insurance Premium	The Company paid premium on life insurance policy of its key officers. However, the Company is also the main beneficiary.	None	
(f) Hospitalization Plan	Included as part of the Company's health plan.	None	
(g) Car Plan	The Company provides car to its executive directors.	None	
(h) Others (Specify)		None	
<b>Total</b>			

#### 4) Stock Rights, Options and Warrants

##### (a) Board of Directors

Complete the following table, on the members of the company's Board of Directors who own or are entitled to stock rights, options or warrants over the company's shares:

Director's Name	Number of Direct Option/Rights/Warrants	Number of Indirect Option/Rights/Warrants	Number of Equivalent Shares	Total % from Capital Stock
Not Applicable; There are no outstanding stock rights, options or warrants.				

##### (b) Amendments of Incentive Programs

Indicate any amendments and discontinuation of any incentive programs introduced, including the criteria used in the creation of the program. Disclose whether these are subject to approval during the Annual Stockholders' Meeting:

Incentive Program	Amendments	Date of Stockholders' Approval
Not applicable; the Company has no amendments or discontinuation of incentive program.		

#### 5) Remuneration of Management

Identify the five (5) members of management who are not at the same time executive directors and indicate the total

remuneration received during the financial year:

Name of Officer/Position	Total Remuneration
Senior management as a group (includes the following officers: Lita L. Joaquin/ VP & Treasurer, Mellina T. Corpuz/ VP & Chief Accounting Officer, Josephine Santiago/Chief Information Officer, Roberto V. San Jose/ Corporate Secretary, Ana Maria A. Katigbak-Lim/ Assistant Corporate Secretary	P3,648,495

## E. BOARD COMMITTEES

### 1) Number of Members, Functions and Responsibilities

Provide details on the number of members of each committee, its functions, key responsibilities and the power/authority delegated to it by the Board:

Committee	No. of Members			Committee Charter	Functions	Key Responsibilities	Power
	Executive Director (ED)	Non-executive Director (NED)	Independent Director (ID)				
Executive	NA; the Company has no executive committee						
Audit	2	-	2	Audit Committee Charter	Assists the Board in its oversight responsibility for the financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations.	Key responsibilities are :  (1) Financial Statements - Review significant accounting and reporting issues and recent regulatory pronouncements and understand their impact on the financial statements.  (2) Internal Control – monitor and evaluate the adequacy and effectiveness of the Company's internal control system, including financial reporting control and information technology security  (3) Internal Audit – review the charter, annual internal audit plans to ensure its conformity with the objectives of the Company  (4) External Audit – review the appointment of an independent external auditor, the audit fees and any question of resignation or	The Committee is empowered to conduct or authorize investigations into any matter within its scope of responsibility and seek any information it requires, as necessary.

						dismissal, if any. 5) Others- Report to the Board significant / critical compliance issues.	
Nomination	2	-	1	Corporate Governance and Nominations Committee Charter	Reviews and evaluates the qualifications of all persons nominated to the Board and other appointments for Board's approval and assess the effectiveness of the Board's processes and procedures or replacement of directors.	Implement a process for the selection of directors who can add value and contribute independent judgment to the formulation of sound corporate strategies and policies, appoint competent professional, honest and highly motivated management officers and adopt an effective succession planning program for the management.	The Committee is empowered to enforce and administer the Nomination procedures of the Company.
Remunerati on	3	-	1	Compensation or Remuneration Committee Charter	To establish a formal and transparent procedure for developing policy on remuneration of directors and officers by constant review and appropriate recommendations ..	Establish a system with sufficient levels of remuneration to be able to attract and retain the services of qualified and competent directors and officers with a portion of the remuneration of executive directors to be structured or based on corporate and individual performance.	Develop policy on executive remuneration and compensation packages based on formal and transparent procedures or determine remuneration levels for individual directors and officers depending on the particular needs of the Corporation.
Others (specify) Risk Managemen t	3	-	1	Risk Management Committee Charter	To oversee the identification, measurement, monitoring and controlling of the Company's principal business	Identify risk areas and performance indicators and monitor these factors with due diligence to enable the	The Committee has an oversight role on the company's risk management program and after reviewing

					risks.	Corporation to anticipate and prepare for possible threats to its operational and financial viability.	and evaluating, makes recommendation to the Board for approval on matters relating to risk management.
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## 2) Committee Members

### (a) Executive Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Not applicable; the company has no executive committee.					
Member (ED)						
Member (NED)						
Member (ID)						
Member						

### (b) Audit Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Quintin Chua	June 26, 2014	2	2	100	3
Member (ED)	Vincent S. Lim	June 26, 2014	2	2	100	3
Member (ED)	Susan L. Tan	June 26, 2014	2	2	100	3
Member (NED)	-					
Member (ID)	Luis Maria Zabaljauregui	June 26, 2014	2	-	-	3
Member	Mellina T. Corpuz	June 26, 2014	2	2	100	3

Disclose the profile or qualifications of the Audit Committee members.

Mr. Quintin Chua has Bachelor of Science in Business Administration, major in Economics from Philippine School of Business Administration. He is the Chairman and Managing Director of Quantum Capital Management, Inc. (formerly QC Investments Pty. Ltd) and Chairman and President of Nature's Harvest Corp. He has business experience for more than five (5) years.

Mr. Vincent S. Lim holds a Bachelor of Science in Business Administration from the Philippine School of Business Administration. He is Sr. Vice President and Chief Financial Officer since September 2010 and was Sr. Vice President for Finance and Investments since June 2006 up to September 2010. He was Sr. VP and Chief Financial Officer from May 2002 up to June 2006. He was VP/ Chief Financial Officer from 1996 up to May 2002. 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, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. He has business experience for more than five (5) years.

Ms. Susan L. Tan has Bachelor of Science in Mathematics (Cum Laude) from the University of the Philippines. She is Chairman of the Board since May 2001. She was Vice President of the Company from April 1999 to April 2001. 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. She is Director of Sony Philippines Inc. since 1997 up to the present. She has business experience for more than five (5) years.

Mr. Luis-Maria L. Zabaljauregui is currently consultant of Roxas Holdings Inc. 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 was Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008 up to June 2011. He has business experience for more than five (5) years.

Mellina T. Corpuz has Bachelor of Science in Commerce from University of San Carlos Cebu City and is a Certified Public Accountant. She 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. She has business experience for more than five (5) years.

Describe the Audit Committee's responsibility relative to the external auditor.

The Audit Committee performs oversight function over the Company's external auditor. It ensures that external auditors act independently from the internal auditor of the Company and that the auditor are given unrestricted access to all records, properties and personnel to enable them to perform their audit function.

(c) Nomination Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Susan L. Tan	June 26, 2014	1	1	100	3
Member (ED)	Vincent S. Lim	June 26, 2014	1	1	100	3
Member (NED)	-	-	-	-	-	-
Member (ID)	Quintin Chua	June 26, 2014	1	1	100	1
Member	Mellina T. Corpuz	June 26, 2014	1	1	100	3

(d) Remuneration Committee

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman	Vincent S. Lim	June 26, 2014	1	1	100	3
Member (ED)	Susan L. Tan	June 26, 2014	1	1	100	3
Member (ED)	Jason S. Lim	June 26, 2014	1	1	100	1
Member (NED)	-					
Member (ID)	Quintin Chua	June 26, 2014	1	1	100	1
Member	-					

(e) Others (Specify)

Risk Management Committee

Provide the same information on all other committees constituted by the Board of Directors:

Office	Name	Date of Appointment	No. of Meetings Held	No. of Meetings Attended	%	Length of Service in the Committee
Chairman (ID)	Luis Maria L. Zabaljauregui	June 26, 2014	1	1	100	1
Member (ED)	David S. Lim	June 26, 2014	1	1	100	1
Member (ED)	Susan L. Tan	June 26, 2014	1	1	100	2
Member (ED)	Vincent S. Lim	June 26, 2014	1	1	100	2
Member (ED)	Beda T. Manalac	June 26, 2014	1	1	100	4
Member (NED)						
Member (ID)	-					
Member						

### 3) Changes in Committee Members

Indicate any changes in committee membership that occurred during the year and the reason for the changes:

Name of Committee	Name	Reason
Executive	Not applicable; the Company has no executive committee.	
Audit	Current Chairman is Quintin Chua (previously was Luis Maria L. Zabaljauregui).	Observance of good corporate governance
Nomination	Current Chairman is Susan L. Tan (previously was Vincent S. Lim). Current Vice Chairman is Luis Maria L. Zabaljauregui (previously was Quintin Chua).	Observance of good corporate governance
Remuneration	Current Chairman is Vincent S. Lim (previously was David S. Lim). Current Vice Chairman is Jason S. Lim (previously was Susan L. Tan.) Current Member is Quintin Chua (previously was Luis Maria L. Zabaljauregui).	Observance of good corporate governance
Others (specify) Risk Management	Current Chairman is Luis Maria L. Zabaljauregui (previously was Quintin Chua).	Observance of good corporate governance

### 4) Work Done and Issues Addressed

Describe the work done by each committee and the significant issues addressed during the year.

Name of Committee	Work Done	Issues Addressed
Executive	NA; The Company has no executive committee.	
Audit	Assisted the board in the performance of its oversight responsibility for financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations. Review of quarterly reports and annual audited FS prior to submission to the board. Review the appointment/ approval of external auditor. Review and	Compliance to rules and regulations and reporting deadlines.

	approval of internal audit plans.	
Nomination	Reviewed and evaluated the qualifications of candidates nominated to the Board and other appointments that require Board approval. Recommended appointment and approval of directors and officers.	None
Remuneration	Established a formal procedure for developing a policy on compensation of directors and officers.	None
Others (specify) Risk management	Assisted the Board to oversee the identification, measurement, monitoring and controlling of the Company's principal business risk. Created awareness of risk management through Enterprise Risk Management Seminar.	Asset impairment and obsolescence. Credit risk on receivables.

5) Committee Program

Provide a list of programs that each committee plans to undertake to address relevant issues in the improvement or enforcement of effective governance for the coming year.

Name of Committee	Planned Programs	Issues to be Addressed
Executive	Not applicable; the Company has no executive committee.	
Audit	Amendment of the Audit Committee Charter.	Compliance to SEC Audit Committee self-assessment form.
Nomination	Succession planning of Company directors and officers.	Implement formal process for effective succession planning program for management.
Remuneration	Annual update of formal policy on compensation structure and benefits.	None
Others (specify) Risk Management	Formal policy on credit setting and limits. Setting of shared services for accounting and financial transactions.	Formulate a formal and transparent policy on credit risk assessments and setting of credit limits. Create a team to monitor the migration of accounting and other financial transactions.

**F. RISK MANAGEMENT SYSTEM**

1) Disclose the following:

(a) Overall risk management philosophy of the company;

Risk assessment and risk management are the responsibility of the Corporation's management. The Board and Management believe that risk management is an integral part of corporate planning. It is a process to identify, measure, monitor and manage uncertainty.

(b) A statement that the directors have reviewed the effectiveness of the risk management system and commenting on the adequacy thereof;

The Directors had no formal written statement about the review of the risk management system. However, 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 Board for corrective action/ resolution. Risk Management Committee of the Company: (a) ensures that the overall risk management policies and procedures exist for the Corporation, (b) reviews the adequacy of the Corporation's risk management framework / process, (c) reviews the results of the annual risk assessment done by the Corporation and /or its subsidiaries, including the risks identified and the risk treatments, their impact on the Corporation's business, (d) evaluates the risk assessment and treatment report submitted by the Corporation and/or its subsidiaries, which may include existing and identified possible risks as well as action plans adopted by Management, (e) monitors the Corporation's implementation of the various risk management activities and evaluate effectiveness of the risk treatments and action plans, with the assistance of the internal auditors. This includes a framework for Whistleblower Program and plans for Corporation's business continuity, and, (f) meets with Management to discuss the Committee's observation and evaluation on its risk management activities.

(c) Period covered by the review; 2014

(d) How often the risk management system is reviewed and the directors' criteria for assessing its effectiveness; and

Review is conducted yearly during the corporate planning process. The criteria for assessing its effectiveness is through use of benchmarking such as industry practices and best practices provided by experts.

(e) Where no review was conducted during the year, an explanation why not. – Not applicable; annual review is conducted.

## 2) Risk Policy

(a) Company

Give a general description of the company's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Compliance	Annual tax planning and review. Tax training and hiring tax consultants	Ensure timely submission and accurate information.

(b) Group

Give a general description of the Group's risk management policy, setting out and assessing the risk/s covered by the system (ranked according to priority), along with the objective behind the policy for each kind of risk:

Risk Exposure	Risk Management Policy	Objective
Market competition	Continuous market research on trends and products.	Maximize available opportunities in the market.
Rapid technology changes which may cause inventory obsolescence.	The Company will set reasonable inventory levels considering market demands.	Effective management of inventory levels to limit product obsolescence.
Compliance	Annual tax planning and review.	Ensure timely submission and accurate information.



	Tax training and hiring tax consultants	
Credit exposure	Formal policy on credit setting and limits.	Implement a formal and transparent policy on credit risk assessments and setting of credit limits.
Legal exposure	Review of contracts by in house or outside counsel. Approval of contracts by management.	Limit legal exposure and ensure compliance to laws.

(c) Minority Shareholders

Indicate the principal risk of the exercise of controlling shareholders' voting power.

<b>Risk to Minority Shareholders</b>
Although there is a risk on the exercise of the controlling shareholder's voting power to their advantage, the Board is committed to good corporate governance. The Board shall respect the rights of the stockholders as provided for in the Company's articles of incorporation, by-laws and the Corporation Code. A director should conduct fair business transactions with the Company, and ensure that his personal interest does not conflict with the interest of the Company.
Although all stockholders should be treated equally or without discrimination, minority stockholders may request in writing the holding of a meeting, subject to the requirement under the by-laws that such requesting stockholder is the holder of record of not less than one-third of the subscribed and voting capital stock of the Corporation.

3) Control System Set Up

(a) Company

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

<b>Risk Exposure</b>	<b>Risk Assessment (Monitoring and Measurement Process)</b>	<b>Risk Management and Control (Structures, Procedures, Actions Taken)</b>
Compliance to laws, rules and regulations	Risk rating based on impact and probability (high to low)	Install compliance and monitoring team.

(b) Group

Briefly describe the control systems set up to assess, manage and control the main issue/s faced by the company:

<b>Risk Exposure</b>	<b>Risk Assessment (Monitoring and Measurement Process)</b>	<b>Risk Management and Control (Structures, Procedures, Actions Taken)</b>
Market competition	High	Close tie-up with technology principal.
Rapid technology changes which may cause inventory obsolescence.	High	Management of inventory levels to limit product obsolescence.
Compliance to laws, rules and regulations	High to low	Annual tax planning and review. Monitor compliance to law, rules and regulations

Credit exposure	High	Implement a formal and transparent policy on credit risk assessments and setting of credit limits.
Legal exposure	Medium	Review of contracts by in house or outside counsel. Approval of contracts by management.

(c) Committee

Identify the committee or any other body of corporate governance in charge of laying down and supervising these control mechanisms, and give details of its functions:

Committee/Unit	Control Mechanism	Details of its Functions
Audit Committee	Assisted the board in the performance of its oversight responsibility for financial reporting process, system of internal control, audit process and monitoring of compliance with applicable laws, rules and regulations.	Ensures/ monitors compliance to financial reporting process, internal control and to laws, rules and regulations.
Risk Management Committee	Assisted the Board to oversee the identification, measurement, monitoring and controlling of the Company's principal business risk.	Oversees that the risk management process are implemented as part of corporate planning.

## G. INTERNAL AUDIT AND CONTROL

### 1) Internal Control System

Disclose the following information pertaining to the internal control system of the company:

(a) Explain how the internal control system is defined for the company;

The Company is in a non-COSO environment wherein internal control systems are established/ categorized based on four functions: organizing, planning, directing and controlling. Although policies are set by the Board, Management is primarily responsible for the design and implementation of the internal control system of the Company. The Audit Committee evaluates and monitors the adequacy and effectiveness of the internal control system of the Company.

(b) A statement that the directors have reviewed the effectiveness of the internal control system and whether they consider them effective and adequate;

The directors had no formal written statement on the review of the effectiveness of the internal control system but had conducted review during corporate planning and budget meetings and external audit planning.

(c) Period covered by the review;

2014

(d) How often internal controls are reviewed and the directors' criteria for assessing the effectiveness of the internal control system; and

Review is conducted twice a year. The criteria for assessing the effectiveness of the internal control system are: compliance with laws, regulations, contracts and internal policies; achievement of strategic objectives; reliable financial reporting; effective operations; and safeguarding of assets.

- (e) Where no review was conducted during the year, an explanation why not.

Not applicable; review is conducted.

## 2) Internal Audit

- (a) Role, Scope and Internal Audit Function

Give a general description of the role, scope of internal audit work and other details of the internal audit function.

Role	Scope	Indicate whether In-house or Outsource Internal Audit Function	Name of Chief Internal Auditor/Auditing Firm	Reporting process
Evaluate and provide reasonable assurance.	Governance, risk management and internal control	In-house	Ericson Salvador	Reporting to the Audit Committee
Consulting	Governance, risk management and internal control	In-house	Ericson Salvador	Reporting to the Audit Committee
Anti-fraud programs	Fraud	In-house	Ericson Salvador	Reporting to the Audit Committee

- (b) Do the appointment and/or removal of the Internal Auditor or the accounting /auditing firm or corporation to which the internal audit function is outsourced require the approval of the audit committee?

Yes

- (c) Discuss the internal auditor's reporting relationship with the audit committee. Does the internal auditor have direct and unfettered access to the board of directors and the audit committee and to all records, properties and personnel?

Yes, this is stated in the Internal Audit Charter as approved by the Audit Committee.

- (d) Resignation, Re-assignment and Reasons

Disclose any resignation/s or re-assignment of the internal audit staff (including those employed by the third-party auditing firm) and the reason/s for them.

Name of Audit Staff	Reason
Randolph Asuncion	Resignation/ transfer to another company
Faye Margaret Rocero	Resignation/ transfer to another company

- (e) Progress against Plans, Issues, Findings and Examination Trends

State the internal audit's progress against plans, significant issues, significant findings and examination trends.

Progress Against Plans	Conducted audit on 1 of 6 auditee companies in the Group.
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<b>Issues<sup>6</sup></b>	Compliance issues
<b>Findings<sup>7</sup></b>	No critical findings
<b>Examination Trends</b>	Decrease

[The relationship among progress, plans, issues and findings should be viewed as an internal control review cycle which involves the following step-by-step activities:

- 1) Preparation of an audit plan inclusive of a timeline and milestones;
- 2) Conduct of examination based on the plan;
- 3) Evaluation of the progress in the implementation of the plan;
- 4) Documentation of issues and findings as a result of the examination;
- 5) Determination of the pervasive issues and findings (“examination trends”) based on single year result and/or year-to-year results;
- 6) Conduct of the foregoing procedures on a regular basis.]

(f) Audit Control Policies and Procedures

Disclose all internal audit controls, policies and procedures that have been established by the company and the result of an assessment as to whether the established controls, policies and procedures have been implemented under the column “Implementation.”

<b>Policies &amp; Procedures</b>	<b>Implementation</b>
Compliance with SGI Code of Ethics and Policies	Fully implemented.
Adopt and comply with ISPPIA Standards and Code of Ethics	Partially implemented/ on-going.
Performance appraisal	Fully implemented

(g) Mechanisms and Safeguards

State the mechanism established by the company to safeguard the independence of the auditors, financial analysts, investment banks and rating agencies (example, restrictions on trading in the company’s shares and imposition of internal approval procedures for these transactions, limitation on the non-audit services that an external auditor may provide to the company):

<b>Auditors (Internal and External)</b>	<b>Financial Analysts</b>	<b>Investment Banks</b>	<b>Rating Agencies</b>
The Company complies with the Manual on Corporate Governance (CG) on the appointment of internal auditor. The Audit Committee ensures that in the performance of the work of the internal auditor, he shall be free from interference by outside parties. and that he be given unrestricted access to all records, properties and personnel to enable them	There are no independence concerns with financial analysts, investment banks and rating agencies.		
The Company complies with SEC rules on selection of external auditor and with the Company’s Manual on CG on the rotation of the auditors or signing partners. External auditors also are not	There are no independence concerns with financial analysts, investment banks and rating agencies.		

<sup>6</sup> “Issues” are compliance matters that arise from adopting different interpretations.

<sup>7</sup> “Findings” are those with concrete basis under the company’s policies and rules.

allowed non-audit work.	
The Audit Committee ensures that the internal and external auditors act independently from the other and that each be given unrestricted access to all records, properties and personnel to enable them to perform their respective audit functions.	

- (h) State the officers (preferably the Chairman and the CEO) who will have to attest to the company's full compliance with the SEC Code of Corporate Governance. Such confirmation must state that all directors, officers and employees of the company have been given proper instruction on their respective duties as mandated by the Code and that internal mechanisms are in place to ensure that compliance.

The Chairman, President and CEO attest to the Company's full compliance with SEC Code of Corporate Governance. All its directors, officers and employees undertake to comply with the Code and or the Company's Manual of Corporate Governance and that internal mechanisms are in place to ensure compliance.

## H. ROLE OF STAKEHOLDERS

- 1) Disclose the company's policy and activities relative to the following:

	Policy	Activities
Customers' welfare	The Company gives priority to the Customers and attend to their needs and complaints promptly and cheerfully.	The Customer Welfare Desk of Solid Electronics Corporation was accredited by Department of Trade and Industry. This accepts the calls of the customers as well as their complaints.
Supplier/contractor selection practice	The Company is honest and fair in dealing with Business Partners and Suppliers and we do not engage in bribery, extortion or corruption.	The Company ensures that canvassing of at least 3 suppliers is made prior to selection and awarding of suppliers.
Environmentally friendly value-chain	The Company advocates Energy Conservation and Environment Protection.	The Company participated as sponsor in the 2014 Miss Earth beauty pageant.
Community interaction	The Company contribute to social causes and humanitarian concerns.	The Company will donate 60 school houses or my school in cooperation with Ninoy and Cory Foundation (NCAF) all over the country for a 5 year period. The advocacy started in 2011 and the Company had built 6 my school as of December 31, 2014.
Anti-corruption programmes and procedures	The Company advocate responsible citizenship and practice Christian values but do not participate in	The Company participated in ABS-CBN's Boto Mo Ipatrol Mo : Tayo Na (BMPM) Campaign. This is a

	partisan political activities.	campaign for a clean and fair election.
Safeguarding creditors' rights	The Company advocate and practice fair trade and competition.	The Company ensures that creditors and suppliers are paid in full and on a timely basis.

2) Does the company have a separate corporate responsibility (CR) report/section or sustainability report/section? None.

3) Performance-enhancing mechanisms for employee participation.

(a) What are the company's policy for its employees' safety, health, and welfare?

The Company is committed to provide a workplace where employees are respected, satisfied and appreciated.

(b) Show data relating to health, safety and welfare of its employees.

None

(c) State the company's training and development programmes for its employees. Show the data.

The Company sends its employees to outside and in-house training.

(d) State the company's reward/compensation policy that accounts for the performance of the company beyond short-term financial measures.

The Company has a compensation structure sufficient to attract and retain employees. The level of compensation of the employees is based on a fixed remuneration and also on individual and company performance subject to annual review.

4) What are the company's procedures for handling complaints by employees concerning illegal (including corruption) and unethical behaviour? Explain how employees are protected from retaliation.

The Company has a Whistle Blowing Policy. The policy encourages employees to raise complaints or report information on any misconduct or fraud including illegal and unethical behavior committed by employees and other stakeholders. Also, under the policy, identities of the employees and other stakeholders are properly protected.

## I. DISCLOSURE AND TRANSPARENCY

1) Ownership Structure

(a) Holding 5% shareholding or more

As of December 31, 2014

Shareholder	Number of Shares	Percent	Beneficial Owner
AA Commercial, Inc.	583,377,817	32.03	Vincent S. Lim (Treasurer of AA Commercial, Inc.)
AV Value Holdings Corporation	499,999,999	27.45	David S. Lim (President of AV Value Holdings Corporation)
PCD Nominee Corporation(F)	363,541,626	19.96	Various stockholders
David S. Lim	179,488,591	9.85	David S. Lim

Name of Senior Management	Number of Direct shares	Number of Indirect shares / Through (name of record owner)	% of Capital Stock
Elena S. Lim	1,894	-	-
Susan L. Tan	78,645	7,300,000/ (thru Christopher James Tan)	0.41
David S. Lim	179,488,591	499,999,999/ (thru AV Value Holdings Corp.) 5,000,000/ (thru Julia C.C. Lim)	37.58
Jason S. Lim	65,176,160	-	3.58
Vincent S. Lim	71,887,187	583,377,817/ (thru AA Commercial Inc.) 5,996,000/ (thru Michael Jordan T. Lim)	36.30
Beda T. Manalac	1,001	-	-
Lita Joaquin	7,010,000		0.38
Roberto San Jose	242,000		0.01
<b>TOTAL</b>	<b>323,885,478</b>	<b>1,101,673,816</b>	<b>78.26</b>

2) Does the Annual Report disclose the following:

Key risks	Yes
Corporate objectives	No
Financial performance indicators	Yes
Non-financial performance indicators	Yes
Dividend policy	No
Details of whistle-blowing policy	No
Biographical details (at least age, qualifications, date of first appointment, relevant experience, and any other directorships of listed companies) of directors/commissioners	Yes
Training and/or continuing education programmes attended by each director/commissioner	No
Number of board of directors/commissioners meetings held during the year	No
Attendance details of each director/commissioner in respect of meetings held	No
Details of remuneration of the CEO and each member of the board of directors/commissioners	Yes

Should the Annual Report not disclose any of the above, please indicate the reason for the non-disclosure.  
Some of the items above were not disclosed in the annual report since they are not required. However, the attendance details of each director in respect to meetings held were reported or disclosed in SEC Form 17-C.

3) External Auditor's fee

Name of auditor	Audit Fee	Non-audit Fee
Punongbayan & Araullo	P5.382 million	P 240 thousand
Grant Thornton Hong Kong Limited	HK\$274,000	None

4) Medium of Communication

List down the mode/s of communication that the company is using for disseminating information.  
Company website, mailing of information statement to shareholders

5) Date of release of audited financial report: April 7, 2015

6) Company Website

Does the company have a website disclosing up-to-date information about the following?

Business operations	Yes
Financial statements/reports (current and prior years)	Yes
Materials provided in briefings to analysts and media	NA
Shareholding structure	Yes
Group corporate structure	Yes
Downloadable annual report	Yes
Notice of AGM and/or EGM	Yes
Company's constitution (company's by-laws, memorandum and articles of association)	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

Not applicable

7) Disclosure of RPT

RPT	Relationship	Nature	Value
Solid Manila Finance Inc. (SMFI), a wholly owned subsidiary of the Company, grants business loans to Avid Sales Corp., AA Export and Import Corp., AA Marine Development Corp., Philippine Prawn, Inc., Baybayan Farm, Inc. and Kawayan Farm, Inc.	Related parties under common ownership	Granting of business loans	63,657,213
Solid Video Corp. (SVC), a wholly owned subsidiary of the Company, earns commission from Solid Trading Ltd. (STL).	Related parties under common ownership	Commissions	1,800,000
My Solid Technologies & Devices Corp., a wholly owned subsidiary of the Company, purchases mobile phones from STL.	Related parties under common ownership	Purchase of inventories	3,383,722,069
Brilliant Reach Ltd., a wholly owned subsidiary of the Company, granted an unsecured, interest-bearing loan to Solid Company Ltd. (SCL).	Related parties under common ownership	Granting of loans	113,031,548
Fil-Dragon, 51% owned by the Company, obtained loans from companies owned by SCL.	Related parties under common ownership	Availing of loans	609,101,168
Solid Electronics Corp., a wholly	Related parties under	Purchase of	4,653,561



owned subsidiary of the Company, purchases parts and supplies from CPD Corp.	common ownership	inventories	
--	------------------	-------------	--

When RPTs are involved, what processes are in place to address them in the manner that will safeguard the interest of the company and in particular of its minority shareholders and other stakeholders?

RPT are fully disclosed and approved by the Board. Purchases, granting of loans are others are done on an arms length basis.

## J. RIGHTS OF STOCKHOLDERS

### 1) Right to participate effectively in and vote in Annual/Special Stockholders' Meetings

#### (a) Quorum

Give details on the quorum required to convene the Annual/Special Stockholders' Meeting as set forth in its By-laws.

<b>Quorum Required</b>	2/3
------------------------	-----

#### (b) System Used to Approve Corporate Acts

Explain the system used to approve corporate acts.

<b>System Used</b>	For the ratification of the acts of the Board of Directors and Officers, the vote required is a majority of the outstanding common stock present in person or by proxy, provided constituting a quorum.
<b>Description</b>	The method by which votes shall be counted: Each outstanding common stock shall be entitled to one (1) vote. The votes shall be done viva voce or by raising of hands, upon motion duly made and seconded.

#### (c) Stockholders' Rights

List any Stockholders' Rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

<b>Stockholders' Rights under The Corporation Code</b>	<b>Stockholders' Rights <u>not</u> in The Corporation Code</b>
- Stockholders' Rights concerning Annual/Special Stockholders' Meeting are in accordance with provisions stated in the Corporation Code.	There are no stockholders' rights concerning Annual/Special Stockholders' Meeting that differ from those laid down in the Corporation Code.

Dividends

<b>Declaration Date</b>	<b>Record Date</b>	<b>Payment Date</b>
August 12, 2014	August 29, 2014	September 24, 2014

#### (d) Stockholders' Participation

1. State, if any, the measures adopted to promote stockholder participation in the Annual/Special Stockholders' Meeting, including the procedure on how stockholders and other parties interested may communicate directly with the Chairman of the Board, individual directors or board committees. Include in the discussion the steps

the Board has taken to solicit and understand the views of the stockholders as well as procedures for putting forward proposals at stockholders' meetings.

Measures Adopted	Communication Procedure
<p>The Board should be transparent and fair in the conduct of the annual and special stockholders' meetings of the corporation. The stockholders should be encouraged to personally attend such meetings. If they cannot attend, they should be apprised ahead of time of their right to appoint a proxy. Subject to the requirements of the By-laws, the exercise of that right shall not be unduly restricted and any doubt about the validity of a proxy should be resolved in the stockholder's favor.</p> <p>The Board promotes the rights of the stockholders, remove impediments to the exercise of those rights and provide an adequate avenue for them to seek timely redress for breach of their rights.</p> <p>To promote stockholders participation in the Annual Stockholders' Meeting, the Board should take the appropriate steps to remove excessive or unnecessary costs and other administrative impediments to the stockholders' meaningful participation in meetings, whether in person or by proxy. Accurate and timely information should be made available to the stockholders to enable them to make a sound judgment on all matters brought to their attention for consideration or approval.</p> <p>Although all stockholders should be treated equally or without discrimination, minority stockholders may request in writing the holding of a meeting, subject to the requirement under the By-laws that such requesting stockholder is the holder of record of not less than one-third of the subscribed and voting capital stock of the Corporation. [Revised Manual of Corporate Governance, page 15]</p>	<p>Shareholders are informed at least 15 business days before the Annual Stockholders' Meeting. The Notice includes the date, time, venue and agenda of the meeting, the record date of stockholders entitled to vote, and the date and place of proxy validation.</p> <p>Shareholders are provided through the Company's website, the disclosures, announcements and reports filed with the SEC, and PSE.</p>

2. State the company policy of asking shareholders to actively participate in corporate decisions regarding:
  - a. Amendments to the company's constitution
  - b. Authorization of additional shares
  - c. Transfer of all or substantially all assets, which in effect results in the sale of the company

Corporate decisions regarding the above amendments, authorization and/ or transfer of assets, which in effect results in the sale of the company will be taken up in the meeting with the shareholders.

3. Does the company observe a minimum of 21 business days for giving out of notices to the AGM where items to be resolved by shareholders are taken up? No
  - a. Date of sending out notices: June 4, 2014
  - b. Date of the Annual/Special Stockholders' Meeting: June 26, 2014
4. State, if any, questions and answers during the Annual/Special Stockholders' Meeting.

Questions and answers during the June 26, 2014 Annual Stockholders' Meeting are the following:

Question 1: What are the plans of the Corporation for the introduction of new products?

Answer by Susan Tan (Chairman) : The Corporation is focusing on smart phones and android phones, and the latest models launched are within the price range of P2,000.00 to P3,000.00 which are very strong in the mass market. The Corporation may look into octa-core technology phones to challenge for the premium market, but the Corporation's focus will remain with phones below the P5,000.00 price range.

Question 2: Are there any product lines that the Corporation will no longer pursue?

Answer by Susan Tan: The Corporation will no longer continue with the non-android and non-smart phone product lines.

Question 3: Will the Corporation engage in modular home business as a developer or as a supplier to businesses?

Answer by Susan Tan: The Corporation is looking to do both.

5. Result of Annual/Special Stockholders' Meeting's Resolutions

Resolution	Approving	Dissenting	Abstaining
Approval of the Minutes of Annual Stockholders' Meeting held on June 27, 2013.	1,402,405,186 votes representing 76.99%	---	---
Ratification of the acts of the Board of Directors / Officers	1,402,405,186 votes representing 76.99%	---	---
Election of Directors	1,392,873,186 votes representing 76.47%	9,532,000 votes representing 0.52%	---
Appointment of the External Auditors - Punongbayan & Araullo for the year 2014	1,402,405,186 votes representing 76.99%	---	---

6. Date of publishing of the result of the votes taken during the most recent AGM for all resolutions:

The results of the annual stockholders' meeting was immediately disclosed to the PSE's EDGE Submission System on the same date June 26, 2014.

(e) Modifications

State, if any, the modifications made in the Annual/Special Stockholders' Meeting regulations during the most recent year and the reason for such modification:

Modifications	Reason for Modification
None	

(f) Stockholders' Attendance

(i) Details of Attendance in the Annual/Special Stockholders' Meeting Held:

Type of Meeting	Names of Board members / Officers present	Date of Meeting	Voting Procedure (by poll, show of hands, etc.)	% of SH Attending in Person	% of SH in Proxy	Total % of SH attendance
Annual	Elena S. Lim Susan L. Tan David S. Lim Jason S. Lim Vincent S. Lim Quintin Chua Luis Maria Zabaljauregui Joseph Lim Beda Manalac	June 26, 2014	By Ballot	16.99%	60.00%	76.99%
Special	Not applicable; no special meeting					

- (ii) Does the company appoint an independent party (inspectors) to count and/or validate the votes at the ASM/SSMs?

Yes, the appointed independent party (inspectors) of the Company is the Stock Transfer Services Inc.

- (iii) Do the company's common shares carry one vote for one share? If not, disclose and give reasons for any divergence to this standard. Where the company has more than one class of shares, describe the voting rights attached to each class of shares.

The Company only has common stock. One common stock is entitled to one vote.

(g) Proxy Voting Policies

State the policies followed by the company regarding proxy voting in the Annual/Special Stockholders' Meeting.

	Company's Policies
Execution and acceptance of proxies	The Company By-laws allows the execution and acceptance of proxy.
Notary	For corporate shareholders, the Company requires notarized secretary's certificate as to authority of the representative to attend the meeting.
Submission of Proxy	The Company By-laws allows the submission of proxy.
Several Proxies	If the stockholder intends to designate several proxies, the number of shares of stock to be represented by each proxy shall be specifically indicated in the proxy form. If some of the proxy forms do not indicate the number of shares, the total shareholdings of the stockholder shall be tallied and the balance thereof, if any, shall be allotted to the holder of the proxy form without the number of shares. If all are in blank, the stocks shall be distributed equally among the proxies. The number of persons to be designated as proxies may be limited by the By-Laws.
Validity of Proxy	Unless otherwise provided in the proxy, it shall be valid only for the meeting for which it is intended. No proxy shall be valid and effective for a period longer than five (5) years at

	any one time(Sec. 58 of the Corporation Code of the Philippines)
Proxies executed abroad	Proxies executed abroad shall be duly authenticated by the Philippine Embassy or Consular Office.
Invalidated Proxy?	A proxy shall not be invalidated on the ground that the stockholder who executed the same has no signature card on file with the Corporate Secretary or Transfer Agent, unless it can be shown that he/she had refused to submit the signature card despite written demand to that effect duly received by the said stockholder at least ten (10) days before the annual stockholders' meeting. There shall be a presumption of regularity in the execution of proxies and shall be accepted if they have the appearance of prima facie authenticity in the absence of a timely and valid challenge.
Validation of Proxy	The Company By-laws requires the validation of proxy. Validation of proxies shall be held at the date, time and place as may be stated in the Notice of the stockholders' meeting which in no case shall be less than five (5) calendar days prior to the date of stockholders meeting.
Violation of Proxy	Any violation of this Rule on Proxy shall be subject to the administrative sanctions provided for under Section 144 of the Corporation Code and Section 54 of the Securities Regulation Code, and shall render the proceedings null and void.

(h) Sending of Notices

State the company's policies and procedure on the sending of notices of Annual/Special Stockholders' Meeting.

Policies	Procedure
The Company abides by the SEC requirement of sending out notices not later than 15 days prior to the Annual Stockholder's Meeting. The Company also send out the notices to the addresses of the shareholders.	The Company mail the notices to the addresses of the shareholders on June 4, 2014.

(i) Definitive Information Statements and Management Report

<b>Number of Stockholders entitled to receive Definitive Information Statements and Management Report and Other Materials</b>	4,395
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by market participants/certain beneficial owners</b>	June 4, 2014
<b>Date of Actual Distribution of Definitive Information Statement and Management Report and Other Materials held by stockholders</b>	June 4, 2014
<b>State whether CD format or hard copies were distributed</b>	Combined CD format and hard copies
<b>If yes, indicate whether requesting stockholders were provided hard copies</b>	Yes

(j) Does the Notice of Annual/Special Stockholders' Meeting include the following:

Each resolution to be taken up deals with only one item.	Yes
Profiles of directors (at least age, qualification, date of first appointment, experience, and directorships in other listed companies) nominated for election/re-election.	Yes
The auditors to be appointed or re-appointed.	Yes
An explanation of the dividend policy, if any dividend is to be declared.	No
The amount payable for final dividends.	No
Documents required for proxy vote.	Yes

Should any of the foregoing information be not disclosed, please indicate the reason thereto.

The dividend policy was not included in the notice. However, during the Annual Stockholders' Meeting, it was explained that the Company will declare the dividends before the end of the year.

## 2) Treatment of Minority Stockholders

(a) State the company's policies with respect to the treatment of minority stockholders.

Policies	Implementation
The Company respect the rights of the stockholders as provided in the Company's articles of incorporation, By-laws and the Corporation Code; right to vote on all matters that require their consent or approval, right to inspect corporate books and records, right to information, right to dividends and appraisal right.	Shareholders are informed at least 15 business days before the Annual Stockholders' Meeting. Notice for the June 26, 2014 Annual Stockholders' Meeting was sent on June 04, 2014. The Company implements 1 vote for 1 share. Shareholders are entitled to equal amount of dividends per share. Shareholders are provided through the Company's website, the disclosures, announcements and reports filed with the SEC, and PSE.

(b) Do minority stockholders have a right to nominate candidates for board of directors? Yes

## K. INVESTORS RELATIONS PROGRAM

- 1) Discuss the company's external and internal communications policies and how frequently they are reviewed. Disclose who reviews and approves major company announcements. Identify the committee with this responsibility, if it has been assigned to a committee.

The Company's announcements and periodic and annual reports are disclosed to the SEC and PSE. This are also uploaded in the Company website. The Company has a designated Investor Relations Officer that handles queries and communications with stockholders. The Chairman and President/CEO reviews and approves major company announcements.

- 2) Describe the company's investor relations program including its communications strategy to promote effective communication with its stockholders, other stakeholders and the public in general. Disclose the contact details (e.g. telephone, fax and email) of the officer responsible for investor relations.

	Details
(1) Objectives	To promote shareholder awareness of Company activities and operations.
(2) Principles	Transparency and good corporate governance.
(3) Modes of Communications	SEC and PSE disclosure; newspaper publication
(4) Investors Relations Officer	Josephine Santiago

- 3) What are the company's rules and procedures governing the acquisition of corporate control in the capital markets, and extraordinary transactions such as mergers, and sales of substantial portions of corporate assets?

Name of the independent party the board of directors of the company appointed to evaluate the fairness of the transaction price.

The Company ensures that acquisition, sales and other substantial transactions, if any, are properly evaluated. It may consider the appointment of an independent party to assist and/ or evaluate the fairness of the transaction price.

#### L. CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

Discuss any initiative undertaken or proposed to be undertaken by the company.

Initiative	Beneficiary
The Company will donate 60 school houses or my school in cooperation with Ninoy and Cory Foundation (NCAF) all over the country for a 5 year period. The advocacy started in 2011 and the Company had built 6 my school as of December 2014.	School children
The Company donated Segunda Mana Charity Store to Caritas Manila.	Caritas Manila
The Company donated school houses	Department of Education for Typhoon Yolanda victims in the Visayas

#### M. BOARD, DIRECTOR, COMMITTEE AND CEO APPRAISAL

Disclose the process followed and criteria used in assessing the annual performance of the board and its committees, individual director, and the CEO/President.

	Process	Criteria
<b>Board of Directors</b>	The Company assesses and evaluates the performance of its Board of Directors by accomplishing the ICD Corporate Governance Scorecard	Adequate to Best compliance criteria
<b>Board Committees</b>	None	
<b>Individual Directors</b>		
<b>CEO/President</b>		

## N. INTERNAL BREACHES AND SANCTIONS


Discuss the internal policies on sanctions imposed for any violation or breach of the corporate governance manual involving directors, officers, management and employees

Violations	Sanctions
The Company ensures that it complies with the requirements of the Company's Manual of Corporate Governance. Violate or breach of the manual will be grounds for disqualification.	Removal or disqualification of directors and officers.



Pursuant to the requirement of the Securities and Exchange Commission, this Annual Corporate Governance Report is signed on behalf of the registrant by the undersigned, thereunto duly authorized, in the City of Makati on April 7, 2015.

**SIGNATURES**

  
\_\_\_\_\_  
Susan L. Tan  
Chairman of the Board

  
\_\_\_\_\_  
David S. Lim  
Chief Executive Officer

  
\_\_\_\_\_  
Quintin Chua  
Independent Director

\_\_\_\_\_  
Luis Maria Zabaljauregui (Deceased)  
Independent Director

  
\_\_\_\_\_  
Mellina T. Corpuz  
Compliance Officer


APR 7 2015

**SUBSCRIBED AND SWORN** to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2015 affiant(s) exhibiting to me their passports, as follow:

NAME/NO.	DATE OF ISSUE	PLACE OF ISSUE
Susan L. Tan/ EC24117904	10/14/2014	Manila
David S. Lim / EB4305124	12/20/2011	Manila
Quintin Chua / E4108507	07/05/2013	Australia
Mellina T. Corpuz / EB0552738	07/10/2010	Manila

**NOTARY PUBLIC**

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Series of 1015

  
**RUBEN T.M. RAMIREZ**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2015  
2734 M. AURORA ST., MAKATI CITY  
APPT. NO. M-17 (2014-2015)  
IBP NO. 978780 / CY-2015  
ROLL NO. 28947 / MC-EX-10-006324/6-12-12  
PTR NO. MKT-47507317-15-15 MAKATI CITY