COVER SHEET

8 4 5

SEC Registration Number

S O L I D   G R O U P , I N C .

(Company's Full Name)

S O L I D   H O U S E   B L D G . ,   2 2 8 5

P A S O N G   T A M O   E X T .   M A K A T I   C I T Y

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

Meline Tan

Contact Person

8937989

Company Telephone Number

AMENDED **(2)**

Definitive Information Statement

(SEC FORM 20-IS)

1 2	3 1		0 5	
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

SOLID GROUP INC.

September 4, 2008

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

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

Gentlemen:

We hereby submit the Amended Definitive Information Statement of Solid Group Inc. addressing the additional comments of the Securities and Exchange Commission on the amounts reflected in the previous years which were reclassified to conform with the 2007 financial statements presentation.

Very truly yours,

IRENEO D. TUBIO JR.
Corporate Information Officer

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

SOLID GROUP, INC.

Solid House Bldg., #2285 Pasong Tamo Ext., Makati City

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Stockholders:

Please be advised that the annual meeting of the stockholders of SOLID GROUP, INC. will be held on September 23, 2008 at 3:00 p.m. at Fairways, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

The following is the agenda of the meeting:

1. Call to Order
2. Proof of Notice and Certification of Quorum
3. Approval of Minutes of Previous Stockholders' Meeting
4. Management Report and Audited Financial Statements for the Year Ended December 31, 2007
5. Ratification of Previous Corporate Acts
6. Amendment of By-laws to Change the Date of the Annual Meeting to the Last Thursday of June of Each Year
7. Election of Directors
8. Appointment of External Auditors
9. Others Matters
10. Adjournment

For purposes of the meeting, stockholders of record as of June 25, 2008 are entitled to notice and to vote at the said meeting. Registration for the said meeting begins at 2:00 p.m. For convenience in registering your attendance, please have available some form of identification, such as, a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy from, duly signed and accomplished, to the Corporate Secretary at the Solid House Building, 2285 Pasong Tamo Ext., Makati City, no later than September 13, 2008. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required I.D., present a sub-proxy or notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting. Validation of proxies will be held on September 18, 2008 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, August 13, 2008.

ROBERTO V. SAN JOSE
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

Information Statement Pursuant to Section 20
of the Securities Regulation Code

1. Check the appropriate box:

____ Preliminary Information Statement

_X_ **Definitive Information Statement**

2. Name of Registrant as specified in its charter SOLID GROUP, INC.

3. Province, country or other jurisdiction of incorporation or organization Philippines

4. SEC Identification Number 845

5. BIR Tax Identification Code 321-000-508-536

6. Address of principal office: Solid House Bldg., 2285 Pasong Tamo Ext., Makati City
Postal Code 1600

7. Registrant's telephone number, including area code (632) 843-1511

8. Date, time and place of the meeting of security holders September 23, 2008 at 3:00 p.m. at the Fairways, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders September 2, 2008.

10. Securities Registered pursuant to Section 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares if Common Stock Outstanding or Amount of Debt Outstanding
Common	2,030,975,000 Common Shares (including Treasury Shares)

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

Yes X No____

WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY

SOLID GROUP, INC.

INFORMATION STATEMENT

A. GENERAL INFORMATION

Date, Time and Place of Meeting of Security Holders:

The annual stockholders' meeting will be held on **September 23, 2008** at 3:00 pm at the Fairways, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

The complete mailing address of the principal office is Solid House Building, 2285 Pasong Tamo Ext., Makati City, Metro Manila.

The approximate date when the information statement will be first sent to security holders will be on **September 2, 2008**.

Dissenters' Right of Appraisal

There are no matters to be taken up during the annual stockholders' meeting with respect to which the law allows the exercise of appraisal right by any dissenting stockholder. The Corporation Code limits the exercise of the appraisal right to the following instances:

a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of share, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);

b. In case of the sale, lease, exchange, transfer, mortgage, pledge of other disposition of all or substantially all of the corporate property and assets (Section 81);

c. In case of merger or consolidation (Section 81);

d. In case of investments in another corporation, business or purpose (Section 42).

Since the matters to be taken up do not include any of the foregoing, the appraisal right will not be available.

However, if at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any stockholder who voted against the proposed action and who wishes to exercise such right must make a written demand, within thirty (30) days after the date of the meeting or when the vote was taken, for the payment of the fair market value of his shares. Upon payment, he must surrender his certificates of stock. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

Interest of Certain Persons in or Opposition to Matters to be Acted Upon

The directors, officers, nominees for directors and their associates do not have a substantial interest, direct or indirect, in any matter to be acted upon, other than election to office.

The registrant has not been informed in writing by any person that he intends to oppose any action to be taken by the Registrant at the meeting.

B. CONTROL AND COMPENSATION INFORMATION

Voting Securities and Principal Stockholders

As of June 25, 2008, there are 1,821,542,000 outstanding common shares (excluding treasury) entitled to notice and to vote during the meeting. Each common share is entitled to one vote, except with respect to the election of directors where the stockholders are entitled to cumulative voting. There is no classification of voting securities.

The record date to determine the stockholders entitled to notice and to vote at the meeting is on June 25, 2008.

The election of the board of directors for the current year will be taken up and all stockholders have the right to cumulate their votes in favor of their chosen nominees for director 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 the 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.

Persons Known to the Registrant to be Directly or Indirectly the Record or Beneficial Owner of More Than 5% of Any Class of the Registrant's Voting Securities:

Owners of more than 5% of the Company's voting securities as of May 31, 2008 are as follows:

(1) Title of	(2) Name and address of	(3) Name of	(4) Citizen-	(5) No. of Shares	(6) % to

Class	record owner and relationship with issuer	Beneficial Owner (or proxy) and Relationship with Record Owner	ship	Held [record (r) or beneficial (b)]	Total Outstanding
Common	AA Commercial, Inc. [1] 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim (Proxy) Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r)[1]	32.03
Common	AV Value Holdings Corporation [2] 2285 Pasong Tamo Ext, Makati Affiliate	David S. Lim (Proxy) President of AV Value Holdings Corp.	Filipino	499,999,999 (r)[2]	27.45
Common	PCD Nominee Corporation (F) [3] G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	316,940,327 (r) [3]	17.40
Common	David S. Lim c/o Solid House, 2285 Pasong Tamo Ext, Makati	David S. Lim (Record and beneficial owner are the same person)	Filipino	179,488,591 (r and b)	9.85

<u>Note</u> 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 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

Security Ownership of Management:

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

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Citizenship	(5) % to Total Outstanding
Common	Lim, Elena S.	1,894 (direct)	Filipino	-

Common	Tan, Susan L.	78,645 (direct)	Filipino	-
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		499,999,999 (indirect)[2]		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect)[1]		32.03
Common	San Jose, Roberto V.	242,000 (direct)	Filipino	0.01
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	3,500,000 (indirect)	Australian	0.19
	Cu, Stephen	10,000 (indirect)	Filipino	-
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	-	Filipino	-
Common	Tubio, Ireneo Jr.	-	Filipino	-
Common	Corpuz, Mellina T.	-	Filipino	-
Common	Reig, Danilo M.	-	Filipino	-
Common	Directors and Officers as a Group Unnamed	1,403,772,293	Filipino	77.07%

<u>Note</u> *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 President of AV Value Holdings Corporation.

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. is a company 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 President of AV Value Holdings Corporation.

Change in Control

There has been no change in control of the Registrant since the beginning of its last fiscal year. There are no arrangements which may result in changes in control of the Registrant.

Directors and Executive Officers

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

Position	Name	Age	Citizenship
Chairman Emeritus	Elena S. Lim	78	Filipino
Chairman of the Board	Susan L. Tan	54	Filipino
Director and President and Chief Executive Officer	David S. Lim	52	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	51	Filipino
Director and Sr. VP for Finance and Investments	Vincent S. Lim	50	Filipino
Treasurer	Lita Joaquin	47	Filipino
Independent Director (re-nominated)	Quintin Chua	48	Australian
Independent Director	Stephen Cu	66	Filipino
Independent Director (nominee)	Luis-Maria L. Zabaljauregui	62	Filipino
Sr. VP and Chief Financial Officer	Ireneo D. Tubio Jr.	56	Filipino
Corporate Secretary	Roberto V. San Jose	65	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak	39	Filipino
Chief Accounting Officer	Mellina T. Corpuz	41	Filipino
Chief, Internal Audit	Danilo M. Reig	47	Filipino

Nominees for Election

The following directors have been nominated for election at the annual stockholders' meeting:

Position	Name	Age	Citizenship
Director	Elena S. Lim	78	Filipino
Director	Susan L. Tan	54	Filipino
Director	David S. Lim	52	Filipino
Director	Jason S. Lim	51	Filipino
Director	Vincent S. Lim	50	Filipino
Independent Director	Quintin Chua	48	Australian
Independent Director (nominee)	Luis-Maria L. Zabaljauregui	62	Filipino

The following is a summary of the business experience of each director and executive officer in the past five years:

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

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

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

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

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

Mr. Quintin Chua has been 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. Chua is not related to Ms. Elena S. Lim. Mr. Chua is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement.

Mr. Stephen Cu was elected as Independent Director on August 7, 2007. Mr. Cu is currently the Chairman of Tocoms Philippines, Inc. and Cocolight Trading Corporation and has held both positions since 2002 until the present. He is also concurrently President and Chairman of

Lightworks Ventures, Inc. (2001 to present), Dart Electric Works, Inc. (1982 to present), and Starbright Sales Enterprise, Inc. (1977 to present); as well as director of The Champs Customs Brokerage and Services, Inc. since 1988 to the present. Mr. Cu was elected Chairman of the Philippine Lighting Industry Association and has held the position since 2006. Mr. Cu is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement. Mr. Cu has declined his re-nomination as Independent Director due to the mounting demands of his other business concerns. There were no disagreements between Mr. Cu and the Company on any matter relating to the Company or the Company's operations.

Mr. Luis-Maria L. Zabaljauregui is nominated as Independent Director by Ms. Susan L. Tan. He was Executive Vice President of Leyte Agri Corporation from 2001 up to 2003. He was Vice President and Resident Manager of Central Azucarera de la Carlota, Inc. from January 2004 to June 2008. He is currently Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008. He has business experience for more than five (5) years. Mr. Zabaljauregui is not related to Ms. Susan L. Tan. Mr. Zabaljauregui is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement.

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

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

Mr. Roberto V. San Jose has been the Corporate Secretary since 1996. He also serves as chairman of Mabuhay Holdings Corporation, director in Interport Resources Corporation, and corporate secretary of Anglo Philippine Holdings Corporation, Beneficial-PNB Life Insurance Co., Inc., FMF Development Corporation, Alsons Consolidated Resources Corporation, CP Group of Companies, Carlos Palanca Foundation, Inc., CP Equities Corporation, ISM Communications Corporation, Philweb Corporation, PNOC Energy Development Corporation, MAA Consultants, Inc., United Paragon Mining Corporation, The Metropolitan Club, Inc. and various other client corporations. He graduated *summa cum laude* at the De La Salle University for his A. B. degree in 1962, and then *magna cum laude* and Class Valedictorian at the U. P. College of Law in 1966. Thereafter, he placed 1st in the 1966 Bar Examinations. His expertise lies in the fields of business and corporate law, securities, real property and natural resources. He was admitted to the Philippine Bar in 1967.

Ms. Ana Maria Katigbak has been the Assistant Corporate Secretary since 1997. She is also a director in Mabuhay Holdings Corporation and Interport Resources Corporation, corporate secretary of Minerales Industrias Corporation, and serves as assistant corporate secretary in AJO.net Holdings, Inc., Boulevard Holdings, Inc., ISM Communications Corporation, Mabuhay Holdings Corporation, Philweb Corporation, Energy Development Corporation, Premiere Entertainment Productions, Inc. and The Metropolitan Club, Inc. She graduated *cum laude* at the University of the Philippines for her A. B. degree. She is a graduate of the U. P. College of Law Class of 1994. She is a member of the Phi Kappa Phi international honor society. Her practice areas are corporate law and securities. She was admitted to the Philippine Bar in 1995.

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

Danilo M. Reig was appointed Chief of Internal Audit in June 2006. He formerly held the position of Senior Audit Manager for more than five years.

Independent Directors - Nominees

Mr. Chua is an incumbent Independent Director of the Corporation. He has been re-nominated for Independent Director by Ms. Elena S. Lim. He is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement. Mr. Chua is not related to Ms. Elena S. Lim. Mr. Quintin Chua has been 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. He has business experience for more than five (5) years.

Mr. Luis-Maria Zabaljauregui has been nominated for Independent Director of the Corporation by Ms. Susan L. Tan. He is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement. He is not related to Ms. Susan L. Tan. Mr. Zabaljauregui 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. Mr. Zabaljauregui is currently Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008. He has business experience for more than five (5) years.

Nomination and Election of Independent Directors

The Company complies with the requirements of SRC Rule 38 on the nomination and election of independent directors. During the stockholders' meeting held on August 7, 2007, the Company stockholders approved an amendment to the Company's by-laws to formally adopt such requirements.

In compliance with SRC Rule 38 and the Company's Manual on Corporate Governance, a Nomination Committee was constituted with the following as current members:

1. Mr. David S. Lim (Chairman)
2. Mr. Jason S. Lim (Vice-Chairman)
3. Mr. Stephen Cu (independent director)
4. Mr. Ireneo Tubio Jr. (non-voting)

The Nomination Committee pre-screened and accepted the nomination of Mr. Quintin Chua and Mr. Luis Zabaljauregui as Independent Directors conformably with the criteria prescribed in SRC Rule 38 and the Company's Code of Corporate Governance. Mr. Chua was nominated by Mrs. Elena S. Lim while Mr. Zabaljauregui was nominated by Ms. Susan L. Tan. Mr. Chua and Ms. Lim are not related to each other. Mr. Zabaljauregui and Ms. Tan are likewise not related to each other.

Family Relationships and Related Transactions

Ms. Susan L. Tan, Mr. Vincent S. Lim, Mr. Jason S. Lim, and Mr. David S. Lim are the children of Ms. Elena S. Lim. all directors and executive officers of the Corporation. Ms. Lita Joaquin, the Treasurer of the Corporation, is the niece of Ms. Elena S. Lim. Other than the ones disclosed, there are no other family relationships known to the Company.

Significant Employees

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

Involvement in Certain Legal Proceedings

Ms. Elena S. Lim is included as co-defendant in a case filed by a certain bank against AA Export and Import Corporation for the collection of unsecured business loans granted to that company. In another collection case filed by another bank against AA Export and Import Corporation, Ms. Elena S. Lim, Ms. Susan L. Tan, Mr. David S. Lim and Mr. Vincent S. Lim are impleaded as co-defendants. Except by above, none of the directors and officers was involved in the past five years up to August 8, 2008 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.

Material Pending Legal Proceedings Involving the Company or its Subsidiaries

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, individually or taken as a whole, does 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.

Certain Relationships and Related Transactions

1. 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.

2. 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.

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

4. The following are the related party transactions of the Company and its subsidiaries. For further discussion, please refer to Note 25 of the Company's 2007 audited financial statements.

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

Sale of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
Sale of goods –					
Professional equipment, accessories and tapes	**P -**	P -	P 354,041	**P -**	P -
Sale of services:					
Use of cable infrastructure	**85,392,857**	65,096,591	43,008,182	**59,967,007**	234,260,547
Commissions	**1,591,100**	1,895,244	4,157,050	**31,371,160**	-
Management services	**1,200,000**	1,200,000	1,200,000	**97,000**	-
	88,183,957	68,191,835	48,365,232	**91,435,167**	234,260,547
	P88,183,957	P68,191,835	P48,719,273	**P91,435,167**	P234,260,547

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

Solid Broadband Corporations's broadband cable infrastructure is used by Destiny Cable Inc., a company owned by ultimate majority stockholders. Billings were based on a fixed fee per subscriber and per type of service under an agreed contract.

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

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

Purchase of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
Purchase of goods	**P 79,097,937**	P 72,099,355	P 76,070,918	**P -**	P 25,800
Availment of management services	**2,318,182**	4,370,370	3,344,498	**-**	-
	P81,416,119	P 76,469,725	P 79,415,416	**P -**	P 25,800

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

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

Lease of Real Property

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
Group as lessor	**P 571,973**	P 593,333	P 826,213	**P 53,384**	P 18,211
Group as lessee	**P 190,269**	P 90,269	P 190,269	**P -**	P -

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

Solid Laguna Corporation rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated income statements. There are no outstanding liabilities related to this lease in 2007 and 2006.

Granting of Loans

	Business Loans	Car Loans	Total

Amount of transactions:			
2007	P -	P -	P -
2006	-	-	-
2005	35,000,000	4,294,650	64,294,650
Interest income earned:			
2007	4,140,000	122,375	4,262,375
2006	4,388,339	321,629	4,709,968
2005	4,179,533	837,720	5,017,253
Outstanding balances:			
2007	46,000,000	168,902	46,168,902
2006	46,000,000	1,490,594	47,490,594

Solid Manila Finance Inc., in the normal course of business grants interest-bearing business and other loans to companies owned by the majority stockholders of the Company. Interest rates range from 9% to 12% for 2007 and 2006. Interest earned on these loans are presented as part of Interest Income under Other Operating Income in the consolidated income statements while outstanding balances are shown as Finance Receivables under the Trade and Other Receivables account in the consolidated balance sheets.

Advances to and from Related Parties

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

Transactions with Solid Trading Limited (STL)

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

Transactions with related parties are generally made on an arms-length basis and are priced generally at prevailing market price or approximate market price at transaction dates.

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.

Compensation of Directors and Executive Officer

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 Emeritus and each of the Company's four most highly compensated executive officers.

SUMMARY COMPENSATION TABLE

		Annual Compensation		
(a)	(b)	(c)	(d)	(e)
Name and Principal Position	Year	Salary (₱)	Bonus (₱)	Other Annual Compensation Income (₱)
Chairman and four most highly compensated executive officers	2008 (Est.)	12,500,000	700,000	800,000
	2007	12,712,890	740,462	802,359
	2006	15,717,413	771,847	1,020,000
Susan L. Tan	Chairman of the Board			
David S. Lim	Director, President and Chief Executive Officer			
Jason S. Lim	Director, Senior VP and Chief Operating Officer			
Vincent S. Lim	Director, Senior VP for Finance and Investments			
James H. Uy	Senior VP for Broadband Division			
	2005	17,101,958	1,177,500	1,365,000
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			
Enrique L. Ligeralde	Senior VP for Corporate Administration and Control			
All officers and directors as a group unnamed	2008 (Est.)	4,500,000	370,000	2,060,000
	2007	4,290,894	348,000	1,959,238
	2006	4,684,333	346,000	2,037,522
	2005	4,506,991	490,583	2,437,758

No action will be taken during the meeting with regard to any bonus, profit sharing, pension or retirement plan, options, warrants or right to purchase securities.

Standard Arrangements, Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

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, except that directors receive a per diem of Php 25,000 for each meeting actually attended.

There is also no existing plan or arrangement as a result of the resignation, retirement or any other termination of an executive officer or director's employment with the Registrant and its subsidiaries or from a change-in-control of the Registrant or a change in the executive officer or directors' responsibilities following a change-in-control.

Warrants and Options Outstanding; Repricing

The Company has no outstanding warrants and options.

Independent Public Accountants

The independent public accountant recommended for re-appointment for the current year is Punongbayan & Araullo ("P&A"). P&A was the auditor for the previous fiscal year ended 2007. There were no disagreements with P&A on any matter of accounting principle or practice, or financial disclosure.

Representatives of P&A shall be present at the meeting, will have the opportunity to make a statement if they choose to do so, and will be available to respond to appropriate questions.

The 2007 audit of the Company by P&A is in compliance with SRC Rule 68(3)(b)(iv) which provides that the external auditor should be rotated every five (5) years or earlier or the handling partner shall be changed.

The annual audited financial statements are approved by the Company's Audit Committee consisting of the following members:

Chairman:	Quintin Chua (Independent Director)
Vice Chairman:	Vincent S. Lim
Members:	Susan L. Tan
	Ireneo D. Tubio, Jr. (non-director)
	Stephen Cu (Independent Director)

D. OTHER MATTERS

Action with Respect to Reports:

The Management Report and 2007 Audited Financial Statements, as set forth in the accompanying Annual Report, and the Minutes of the Annual Stockholders' Meeting will be submitted for stockholder's approval. Copies of the Annual Report are attached to this Information Statement.

Approval of the Annual Report constitutes a ratification of the Company's performance during the previous fiscal year as contained in the Annual Report and includes the following: (i) election of directors and officers; (ii) election of committee members and compliance officers; (iii) approval of bank transactions; (iv) investment in fixed-income securities; (v) sale of vehicles; (vi) amendment of By-laws to adopt the requirements under SRC Rule 38 on the nomination and election of Independent Directors; and (viii) approval of audited financial statements and budget.

Approval of the Minutes of the Annual Stockholders' Meeting held on August 7, 2007 constitutes a ratification of the accuracy and faithfulness of the Minutes to the events which transpired during the meeting which includes the following: (i) approval of minutes of the previous meeting ; (ii) approval of the annual report and 2006 audited financial statements; (iii) ratification of management's acts; (iv) amendment of By-laws to adopt the requirements under SRC rule 38 on the nomination and election of Independent Directors; (v) election of directors; and (vi) appointment of external auditors. This does not constitute a second approval of the same matters taken up at the annual stockholders' meeting which were previously approved.

Amendment of By-laws

Management will propose to the stockholders to approve an amendment to the By-laws to move the date of the annual stockholders' meeting from the month of May to the last Thursday of June of each year. Such amendments will avoid any unnecessary postponements of the annual stockholders' meeting resulting from a delay in the completion of the annual audit.

Item 19. Voting Procedure:

For the election of directors, the seven (7) nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will apply.

For all other matters to be taken up including the amendment of the By-laws, the approval of stockholders owning a majority of the outstanding capital stock present and represented at the Meeting where a quorum is existing shall be sufficient.

Voting shall be done *viva voce* or by raising of hands and the votes for or against the matter submitted shall be tallied by the Corporate Secretary in case of a division of the house.

UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, FREE OF CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

Solid Group, Inc.
Solid House Bldg.
2285 Pasong Tamo Extn.,
Makati City, Metro Manila

Attention: Ms. Meline Corpuz
Chief Accounting Officer

SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on August 27, 2008.

Solid Group, Inc.

By: AKatigbak
Ana Maria A. Katigbak
Asst. Corporate Secretary

Info Statement 2008(Def)27Aug08/solid[c:aak]

SOLID GROUP INC.

MANAGEMENT REPORT
Pursuant to SRC Rule 20(4)(A)

For the 2008 Annual Stockholders' Meeting

A. Audited Financial Statements for Fiscal Year Ended December 31, 2007

(Please refer to accompanying audited financial statements for 2007)

B. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

The Company has no disagreements with the external auditor on accounting and financial disclosure.

On August 7, 2007, the Company appointed Punongbayan and Araullo (P&A) as its external auditors for the year 2007.

There was no change in our existing auditor for the years 2006 and 2007. However, in compliance with the Code of Corporate Governance, pursuant to SEC Memorandum Circular No. 2, series of 2002, on the rotation of external auditors, a P&A Partner-In-Charge, Ms. Mailene S. Sigue-Bisnar was assigned by P&A for the independent audit of our Company financial statements beginning with the 2006 financial statements.

C. Management's Discussion and Analysis or Plan of Operations.

Full Fiscal Years

(1) Plan of Operation

For 2008, the Company expects substantial improvement in its profitability which will come from significant growth in its mobile phone business, higher sales from its condominium project and further improvement in the operations of its broadband services business. These steps are intended to address the loss incurred by the Company in 2007.

Future prospects that would further improve the Company's profitability and financial condition are: (1) expansion of mobile phone business and the introduction of additional digital consumer electronics products for the local market; (2) additional revenues from real estate projects in China and in the Philippines; and (3) higher revenues from the use of its `broadband infrastructure and the introduction of additional broadband services.

(2) Management's Discussion and Analysis

Full Fiscal Years

<u>Key Performance Indicators</u>

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

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

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

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

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

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

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

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

Key performance indicators for 2007, 2006 and 2005 are as follows:

		Dec. 31, 2007	Dec. 31, 2006	Dec. 31, 2005
Revenue growth	Change in revenues (a)	P268,760,786	P(59,792,681)	P(182,357,933)
	Revenues of the previous year (b)	1,157,070,517	1,216,863,198	1,399,221,131
	Revenue growth (a/b)	23%	(5)%	(13)%
Asset turnover	Revenues (c)	1,425,831,303	1,157,070,517	1,216,863,198
	Average total assets (d)	7,359,865,970	7,553,020,130	7,515,447,234
	Asset turnover (c/d)	19%	15%	16%
Operating expense ratio	Operating expense (e)	300,818,971	235,752,873	250,536,306
	Revenues (f)	1,425,831,303	1,157,070,517	1,216,863,198
	Operating expense ratio (e/f)	21%	20%	21%
EBITDA	Income before tax (g)	1,638,222	(82,867,871)	54,179,667
	Depreciation and amortization (h)	119,997,921	118,277,074	129,054,878
	Impairment loss (I)	5,039,000	56,806,000	14,360,000
	Interest expense (j)	28,368,954	29,575,943	20,257,994
	EBITDA (g+h+i+j)	155,044,097	121,791,146	217,852,539
Earnings (loss) per share	Net income (loss) (k)	(54,430,446)	(84,435,882)	49,954,975
	Number of issued and outstanding share (l)	1,821,542,000	1,821,542,000	1,821,542,000
	Earnings (loss) per share (k/l)	(0.03)	(0.05)	0.03
Current ratio	Current assets (m)	3,522,886,074	3,507,649,658	3,632,540,523
	Current liabilities (o)	1,011,261,792	953,591,376	1,051,043,491
	Current ratio (m/o)	3.48 : 1	3.68 : 1	3.46
Debt to equity ratio	Total liabilities (excluding amounts due to related parties) (p)	843,716,950	865,996,500	963,211,795
	Total equity (q)	6,251,849,903	6,479,686,989	6,600,567,654
	Debt to equity ratio (p/q)	0.13 : 1	0.13 : 1	0.15 : 1

The Company posted revenue growth of 23% in 2007 vs. 5% decline in the previous year principally driven by improved revenues from broadband services and sale of mobile phones which was introduced in the second half of the year and improved real estate sales from condominium units and industrial lots.

Asset turnover grew to 19% in 2007 from 15% in 2006 mainly from higher revenues.

Operating expense ratio slightly went up to 21% in 2007 against 20% in 2006 to support the higher revenues.

EBITDA reached P155 million in 2007 compared with P121 million of the previous year. The increase was mainly attributed to higher operating profit.

Loss per share was lower at P0.03 in 2007 against P0.05 in last year mainly due to lower net loss.

Current ratio declined to 3.48 as of December 31, 2007 from 3.68 : 1 as of December 31, 2006 primarily from higher current liabilities.

Debt to equity ratio remained the same at 0.13 : 1 as of December 31, 2007 and at end of last year.

<u>Results of Operations</u>

2007

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

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

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

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

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

Interest income amounted to P89 million in 2007 or lower by 6% from P105 million in 2006 principally from lower investible funds.

Cost of sales, services and rentals amounted to P 1,021 million in 2007, or an increase of 9% from P940 million in 2006 as discussed below.

Cost of services reached P484 million in 2007, increasing by 5% from P460 million in 2006 mainly in relation to increase in service revenues.

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

Cost of rentals amounted to P69 million in 2007, or higher by 11% from P62 million in 2006 mainly from higher rental cost and depreciation and amortization.

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

Gross profit improved by 87% to P404 million in 2007 compared with P216 million in 2006 principally due to increase in revenues as mentioned above.

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

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

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

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

Operating profit amounted to P129 million in 2007 from P10 million in 2006 principally from increase in gross profit as explained above.

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

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

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

Income before tax amounted to P1 million in 2007 compared with P82 million loss in 2006 mainly from higher operating profit as discussed above.

Tax expense amounted to P55 million in 2007 from P5 million in 2006 due to higher pre-tax income of certain subsidiaries.

Net loss amounted to P53 million in 2007 against P88 million in 2006 due mainly to foreign currency losses when the Company converted majority of its foreign currency short term placements to peso to lessen its foreign currency fluctuation exposure and minimize future foreign currency losses.

Net loss attributable to equity holders of the parent amounted to P54 million in 2007 compared with P84 million for the same period in 2006 as discussed above.

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

Loss per share amounted to P0.03 in 2007 against P0.05 in 2006 mainly due to lower net loss for the year.

2006

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

2005

The Company posted revenues of P1,216 million in 2005, 13% lower than P1,399 million in 2004 as discussed below.

Asset turnover was 16% for 2005 compared to 19% in 2004 mainly from lower revenues generated during the year as explained above.

Service revenue amounted to P506 million in 2005, up by 15% from P441 million in 2004 mainly from increase in broadband revenues arising from increase in cable subscribers.

Sale of goods reached P489 million in 2005, declining by 2% from P500 million mainly from lower volume of injected cabinets sold during the first quarter of the year since our production capacity was affected by the fire last December 2004 and lower sales of plastic resin.

Rental income amounted to P117 million in 2005, improving by 6% compared with P110 in 2004 due to additional space rented out.

Revenue from sale of land amounted to P6 million in 2005 against P220 million in 2004 or lower by 97% principally due to lower sale of industrial lots during the year.

Interest income amounted to P97 million in 2007 or 23% lower from P125 million in 2006 mainly as a result of the transfer of certain peso placements to foreign currency denominated placements which contributed lower yields.

Cost of sales, services and rentals amounted to P987 million in 2005, down by 13% from P1,141 million in 2004 as discussed below.

Cost of services amounted to P482 million in 2005, or lower by 1% from P485 million in 2004 despite an improvement in service revenues principally from reduction in costs of servicing the broadband operations arising from decrease in employee benefits, transponder rental and lease line and depreciation charges.

Cost of sales amounted to P433 million in 2005, or higher by 2% compared to P425 million in 2004 principally due to high overhead costs during the first quarter of the year by the plastic injection factory which was damaged by fire last December 2004 and higher cost of plastic resin.

Cost of rentals amounted to P65 million in 2005, or higher by 7% from P61 million in 2004 mainly from increase in taxes and licenses and utility costs.

Cost of land sold amounted to P5 million in 2005 against P170 million in 2004 in relation to lower sale of land for the year.

Gross profit amounted to P229 million in 2005 from P257 million in 2004 mainly due to lower revenues.

Other operating expenses (income) amounted to P224 million expense in 2005 from P219 million as explained below.

General and administrative expenses amounted to P223 million in 2005 or 6% lower from P238 million in 2004 principally from lower taxes and licenses and others.

Selling and distribution costs amounted to P27 million in 2005 compared with P19 million in 2004, up by 38% mainly from higher advertising and promotion expenses.

Other operating income amounted to P26 million in 2005, down by 31% from P38 million in 2004 primarily from lower other income offset by increase in cash surrender value of investment in life insurance policy.

Operating expense ratio was higher at 21% in 2005 compared with 18% in 2004 principally due to lower revenues for the period.

Operating profit amounted to P5 million in 2005 compared with P37 million profit in 2004 due to lower volume of revenues as explained above.

Other income (charges) amounted to P49 million in 2005 from P130 million in 2004 as discussed below:

Finance income amounted to P101 million in 2005, up by 22% from P83 million in 2004 mainly from increase in fair value gains on financial assets and gain on sale of available for sale financial assets.

Finance costs amounted to P90 million in 2005, higher by 922% compared with P8 million in 2004 principally from foreign currency losses, impairment losses on trade and other receivables and higher interest expense on loans.

Other gains – net amounted to P37 million in 2005, lower by 33% from P55 million in 2004 mainly from partial return of investment in an associate and recognition of negative goodwill as income in 2004.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to P217 million in 2005 compared with P343 million in 2004. The decrease was mainly due lower revenues during the year.

Tax expense amounted to P9 million in 2005, or 79% lower from P46 million 2004 due to lower pre-tax income for the year.

Income from continuing operations amounted to P44 million in 2005 from P121 million in 2004 as a result of the factors mentioned above.

- Discontinued Operations

There was no reported loss from discontinued operations in 2005 while in 2004, the remaining business of the consumer manufacturing division reported a loss of P5 million.

- Combined Operations

Net income reached P44 million in 2005 against P116 million in 2004 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P49 million in 2005 compared with P101 million in 2004 as discussed above.

Net income attributable to minority interest amounted to P5.6 million loss in 2005 compared to P15 million income in 2004 due to low income performance of the real estate segment.

Earnings per share amounted to P0.03 in 2005 against P0.06 in 2004.

Financial Position

2007

Financial Position

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

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

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

Trade and other receivables amounted to P453 million as of December 31, 2007 against P384 million as of December 31, 2006, increase of 18% mainly from receivables from new consumer electronics business. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

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

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

Inventories reached P190 million, up by 160% as of December 31, 2007 compared with P73 million as of December 31, 2006 due to the stock up of mobile phone inventories.

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

Other current assets amounted to P175 million as of December 31, 2007, or an increase of 16% compared with P151 million as of December 31, 2006 mainly from higher input value-added tax and prepaid expenses.

Total current assets amounted to P3,522 million as of December 31, 2007 from P3,507 million as of December 31, 2006 as discussed above.

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

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

Property, plant and equipment amounted to P1,456 million as of December 31, 2007 from P1,506 million as of December 31, 2006. There was no material variance for this account.

Investment property amounted to P1,719 million as of December 31, 2007 against P1,741 million as of December 31, 2006. There was no material variance for this account.

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

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

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

Total non-current assets amounted to P3,752 million as of December 31, 2007 from P3,936 million as of December 31, 2006 as discussed above.

Total assets reached P7,275 million as of December 31, 2007 from P7,444 million as of the December 31, 2006 as discussed above.

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

Trade and other payables amounted to P377 million as of December 31, 2007 against P385 million as of December 31, 2006, or decrease of 2%. There is no material variance for this account.

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

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

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

Total current liabilities stood at P1,011 million as of December 31, 2007, higher by 6% from P953 million as of December 31, 2006 as discussed above.

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

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

Deferred tax liabilities -net amounted to P760 thousand as of December 31, 2007, higher by 2072% against P35 thousand as of December 31, 2006 mainly from deferred rent income from PAS 17.

Total non-current liabilities amounted to P12 million as of December 31, 2007 against P10 million as of December 31, 2006.

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

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

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

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

Deficit amounted to P349 million as of December 31, 2007 from P294 million as of December 31, 2006 as a result of net loss during the period.

Total equity attributable to Equity holders of Parent amounted to P5,997 as of December 31, 2007 from P6,225 million as of December 31, 2006 due to lower revaluation reserves and net loss during the period.

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

Total stockholders' equity amounted to P6,251 million as of December 31, 2007 from P6,479 million as of December 31, 2006. Book value per share stood at P3.43 as of December 31, 2007 and P3.56 as of December 31, 2006.

2006

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position

2005

Cash and cash equivalents amounted to P1,382 million as of end of December 2005, down by 15% from 2004. Cash was mainly used for operating activities principally for increase in trade and other receivables, real estate inventories, financial assets, offset by interest received and provided from financing activities from additional loans

Financial assets at fair value through profit or loss amounted to P488 million as of December 31, 2005, up by 49% compared with P328 million as of December 31, 2004 primarily from additional placements of funds.

Trade and other receivables amounted to P489 million as of December 31, 2005, or an increase of 48% from P330 million as of December 31, 2004 mainly from advances to contractors and transfer to current receivable of currently maturing finance receivables. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts, which are considered doubtful of collection.

Advances to related parties amounted to P52 million in 2005 from P78 million in 2004 principally from collection of advances.

Available-for-sale financial assets amounted to P499 million as of December 31, 2005, increasing by 18% compared with P422 million as of end of 2004 primarily from additional investments.

Inventories stood at P95 million as of December 31, 2005, or decrease of 21% compared with P120 million as of end of the year 2004 mainly from lower inventory of raw materials, service parts and supplies.

Real estate inventories amounted to P525 million as of December 31, 2005, up by 65% from P318 million as of December 31, 2004 arising from the construction and development of the condominium project of the Company.

Other current assets amounted to P99 million as of December 31, 2005, up by 20% from P82 million as of December 31, 2004 mainly from increase in input value-added tax.

Total current assets amounted to P3,632 million as of December 31, 2005 from P3,300 million as of end of the 2004 as discussed above. Current ratio went down to 3.46 : 1 as of December 31, 2005 versus 4.28 : 1 as of December 31, 2004 principally due higher current liabilities.

Non-current trade and other receivable amounted to P587 million as of December 31, 2005 against P500 million as of December 31, 2004 mainly from increase in investment in cash surrender value of life insurance.

Non-current available-for-sale financial assets amounted to P22 million as of December 31, 2005 compared with P21 million as of end of 2004 primarily from fair value gains on club shares, offset by decrease in investment in equity securities.

Property, plant and equipment amounted to P743 million as of December 31, 2005 from P749 million as of December 31, 2004. There was no material variance for this account.

Investment property amounted to P2,576 million as of December 31, 2005 against P2,710 million as of December 31, 2004 mainly from depreciation during the year.

Retirement benefit assets amounted to P43 million as of December 31, 2005 or an increase of 14% from P38 million as of December 31, 2004 mainly from contributions made.

Deferred tax assets amounted to P14 million as of December 31, 2005 from P4 million as of December 31, 2004.primarily from tax benefit for allowance for impairment loss.

Other non-current assets amounted to P41 million as of December 31, 2005 from P45 million as of December 31, 2004 mainly from transfer of property under discontinued operations to property, plant and equipment, offset by increase in prepaid insurance.

Total non-current assets amounted to P4,029 million as of December 31, 2005 from P4,068 million as discussed above.

Total assets reached P7,661 million as of the December 31, 2005 from P7,369 million as of December 31, 2004 as discussed above.

Interest-bearing loans amounted to P596 million as of December 31, 2005 versus P262 million as of December 31, 2004. The increase was principally due to additional loans availed during the year, which were used to partially fund additional investments in financial assets.

Trade and other payables amounted to P333 million as of December 31, 2005, down by 13% from P383 million as of December 31, 2004 mainly for payment to suppliers.

Estimated liability for land and development costs stood at P19 million as of December 31, 2005 and 2004.

Advances from related parties amounted to P98 million as of December 31, 2005 from P96 million as of December 31, 2004. There is no material variance for this account.

Income tax payable amounted to P3 million as of December 31, 2005 or a decrease of 55% from P7 million as of December 31, 2004 mainly from lower tax expense.

Total current liabilities stood at P1,051 million as of December 31, 2005 compared with P770 million as of end of 2004, increasing by 36% principally from additional interest bearing loans.

Refundable deposits amounted to P5 million as of December 31, 2005 or higher by 16% from P4 million as of December 31, 2004 from additional deposits received.

Retirement benefit obligation amounted to P3 million as of December 31, 2005 or an increase of 25% from P2 million as of end of 2004 mainly from retirement expense for the year.

Deferred tax liabilities amounted to P1.4 million as of December 31, 2005, lower by 91% from P16 million as of December 31, 2004 mainly due to the foreign currency losses as of end of 2005.

Total non-current liabilities went down to P10 million as of December 31, 2005 from P23 million as of December 31, 2004 from decline in deferred tax liabilities as discussed above.

Capital stock stood at P2,030 million as of December 31, 2005 and 2004.

Additional paid-in capital amounted to P4,641 million as of December 31, 2005 and 2004.

Treasury shares amounted to P115 million as of December 31, 2005 and 2004.

Revaluation reserves amounted to P4 million loss as of December 31, 2005 from P14 million as of December 31, 2004 mainly from lower difference of cost over fair value of available-for-sale financial assets

Deficit amounted to P210 million as of December 31, 2005 against P260 million as of December 31, 2004 as a result of net income during the year.

Total equity attributable to Equity holders of Parent amounted to P6,342 million as of December 31, 2005 from P6,311 million as of end of December 2004 mainly from net income during the year.

Minority interest amounted to P257 million as of December 31, 2005, or lower by 2% from P263 million as of December, 2004. There is no material variance for this account.

Total stockholders' equity amounted to P6,600 million as of December 31, 2005 against P6,574 million as of December 31, 2004 mainly from lower deficit as discussed above.

Debt to equity ratio stands at 0.15: 1 as of December 31, 2005 and 0.11 : 1 as of December 31, 2004.

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.

i. 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.

ii. 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 2008 to amount P550 million for the completion of phase 1 development of Tri-Tower Residential Condominium, construction and development of the real estate project in China, renovation of building and acquisition of other properties and upgrade of the data and cable internet and satellite equipment of the Solid Broadband Corp. The construction and/ or purchase of these capital expenditures will be financed through a combination of internally generated funds of the Company and loans.

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

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

Solid Electronics Corporation, a wholly-owned subsidiary of the Company, provides in-warranty and out-of-warranty services for Sony products sold in the Philippines under the After-Sales Service and Network Support Agreements, which was effective until September 30, 2004. In May 2005, the Company entered into an informal agreement with Sony wherein these agreements was renewed annually until revoked. This contributed 5% of total revenues in 2007.

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

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

vi. Causes for any Material Changes from Period to Period

The carrying values of financial and non-financial assets of the Company were reviewed for impairment losses As a result, impairment provisions were taken up amounting to P5 million, P56.8 million, P14.4 million for 2007, 2006 and 2005 respectively.

Balance Sheet Items (2007 vs. 2006)

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

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

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

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

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

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

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

Trade and other receivables – 18% increase to P453 million from P384 million

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

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

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

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

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

Inventories – 160% increase to P190 million from P73 million

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

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

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

Other current assets – 16% increase to P175 million from P151 million.

Mainly from higher input value-added tax and prepaid expenses. This account stood at 2% as a percentage of total assets in 2007 and 2006.

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

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

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

Primarily from disposal of club shares.

Property, plant and equipment – 3% decrease to P1,456 million from P1,506 million

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

Investment property – 1% decrease to P1,719 million from 1,741million

There was no material variance for this account. This account stood at 24% as a percentage of total assets in 2007 and 2006.

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

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

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

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

Other non-current assets – 31% decrease to P30 million from P44 million

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

Interest-bearing loans – 8% decrease to P409 million from P446 million

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

Trade and other payables – 2% decrease to P377 million from P385 million

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

Advances from related parties – 83% increase to P179 million from P98 million

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

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

Principally due to progress development of the real estate project.

Income tax payable – 41% increase to P7 million from P5 million

Mainly from higher pre-tax income.

Refundable deposits – 15% increase to P8 million from P7 million

Due to additional deposits received.

Retirement benefit obligation – 7% decrease to P3.2 million from P3.5 million

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

Deferred tax liabilities – 2072% increase to P760 thousand from P35 thousand

Mainly from deferred rent income from PAS 17.

Capital stock – no change

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

Additional paid-in capital – no change

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

Treasury shares – no change

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

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

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

Deficit – 18% increase to P349 million from P294 million

Due to net loss during the period. Deficit stood at 5% and 4% as a percentage of total liabilities and equity in 2007 and 2006, respectively.

Minority interest – no material variance

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

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

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

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

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

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

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

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

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

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

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

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

Inventories – 23% decrease to P73 million from P95 million

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Mainly due to unrealized foreign currency loss.

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

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

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

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

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

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

Advances from related parties – no significant change

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

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

Mainly due to payment of development cost.

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

Mainly from tax expense of certain subsidiaries.

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

Mainly from additional deposits made.

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

Principally due to retirement expense incurred for the year.

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

Mainly due to the foreign currency losses during the year.

Capital stock – no change

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

Additional paid-in capital – no change

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

Treasury shares – no change

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

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

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

Deficit – 40% increase to P294 million from P210 million

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

Minority interest – No material change

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

Balance Sheet Items (2005 vs. 2004)
(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 15% decrease to P1,382 million from P1,619 million

Mainly used for operations principally for increase in trade and other receivables, real estate inventories, financial assets, offset by interest received. As a percentage of total assets cash and cash equivalents stood at 18% and 22% in 2005 and 2004, respectively.

Financial assets at fair value through profit or loss – 49% increase to P488 million from P328 million

Primarily due to additional placements of funds. As a percentage of total assets, financial assets at fair value through profit or loss stood at 6% in 2005 and 4% in 2004.

Trade and other receivables – 48% increase to P489 million from P330 million

Mainly due to advances to contractors and transfer to current receivable of currently maturing finance receivables. As a percentage of total assets, trade and other receivables stood at 6% and 4% in 2005 and 2004, respectively.

Advances to related parties – 32% decrease to P52 million from P78 million

Principally due collection of advances. Advances to related parties remained at 1% of the total assets in 2005 and 2004.

Available-for-sale financial assets – 18% increase to P499 million from P422 million

Primarily due to additional investments. Available-for-sale financial assets stood at 7% in 2005 and 6% in 2004 as a percentage of total assets.

Inventories – 21% decrease to P95 million from P120 million

Largely due to lower inventory of raw materials, service parts and supplies. As a percentage of total assets, inventories stood at 1% in 2005 and 2% in 2004.

Real estate inventories – 65% increase to P525 million from P318 million

Due to the construction and development of the condominium project of the Company. Real estate inventories stood at 7% and 4%, as a percentage of total assets in 2005 and 2004, respectively.

Other current assets – 20% increase to P99 million from P82 million

Mainly due to increase in input value-added tax. Other current assets remained at 1% of the total assets in 2005 and 2004.

Non-current trade and other receivable – 17% increase to P587 million from P500 million

Principally due to increase in investment in cash surrender value of life insurance. Non-current trade and other receivable is 8% and 7% of the total assets in 2005 and 2004, respectively.

Non-current available-for-sale financial assets – 5% increase to P22 million from P21 million

Principally due to fair value gains on club shares, offset by decrease in investment in equity securities.

Property, plant and equipment – 1% decrease to P743 million from P749 million

As a percentage of total assets, property, plant and equipment remained at 10% in 2005 and 2004.

Investment property – 5% decrease to P2,576 million from P2,710 million

Principally due to depreciation during the year. Investment property stood at 34% in 2005 and 37% in 2004 as a percentage of total assets.

Retirement benefit assets – 14% increase to P43 million from P38 million

Principally due to contributions made. Retirement benefits assets remained at 1% as a percentage of total assets in 2005 and 2004.

Deferred tax assets – 230% increase to P14 million from P4 million

Principally due to tax benefit for allowance for impairment loss.

Other non-current assets – 9% decrease to P41 million from P45 million

Mainly due to transfer of property under discontinued operations to property, plant and equipment, offset by increase in prepaid insurance. Other non-current assets remained at 1% as a percentage of total assets in 2005 and 2004.

Interest-bearing loans – 127% increase to P596 million from P262 million

Principally due to additional loans availed during the year, which were used to partially fund additional investments in financial assets. Interest-bearing loans stood at 8% and 4% as a percentage of total liabilities and equity in 2005 and 2004, respectively.

Trade and other payables – 13% decrease to P333 million from P383 million

Principally due to payment to suppliers. As a percentage of total assets, trade and other payables stood at 4% and 5% in 2005 and 2004, respectively.

<u>Advances from related parties – no significant change</u>

This account remained at 1% of the total liabilities and equity as of 2005 and 2004.

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

<u>Income tax payable – 55% decrease to P3 million from P7 million</u>

Principally due to lower tax expense.

<u>Refundable deposits – 16% increase to P5 million from P4 million</u>

Principally due to additional deposits received.

<u>Retirement benefit obligation – 25% increase to P3 million from P2 million</u>

Principally due to retirement expense for the year.

<u>Deferred tax liabilities – 91% decrease to P1.4 million from P16 million</u>

Mainly due to the foreign currency losses as of end of 2005.

<u>Capital stock – no change</u>

Capital stock stood 27% and 28% as a percentage of total liabilities and equity in 2005 and 2004.

Additional paid-in capital – no change

Additional paid-in capital stood at 61% and 63% as a percentage of total liabilities and equity in December 31, 2005 and 2004, respectively.

Treasury shares – no change

Treasury shares remained at 2% of total liabilities and equity in 2005 and 2004.

Revaluation reserves – 128% decrease to P4 million loss from P14 million

Principally due to lower difference of cost over fair value of available-for-sale financial assets.

Deficit – 19% decrease to P210 million from P260 million

Principally due to net income during the year. Deficit stood at 3% and 4% as a percentage of total liabilities and equity in 2005 and 2004, respectively.

Minority interest – 2% decrease to P257 million from P263 million

There is no material variance for this account. Minority interest stood at 3% and 4% as a percentage of total liabilities and equity in 2005 and 2004, respectively.

Income Statement Items (2007 vs. 2006)

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

<u>Service revenue – 30% increase to P641 million from P493 million</u>

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

<u>Sale of goods – 8% increase to P474 million from P439 million</u>

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

<u>Rental income – 10% increase to P117 million from P107 million</u>

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

<u>Sale of land – 757% increase to 102 million from P11 million</u>

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

<u>Interest income – 15% decrease to P89 million from P105 million</u>

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

<u>Cost of services –5% increase to P484 million from P460 million</u>

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

<u>Cost of sales - 1% decrease to P405 million from P409 million</u>

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

<u>Cost of rentals – 11% increase to P69 million from P62 million</u>

Mainly from higher rental cost and depreciation and amortization. As a percentage of total revenues, this account stood at 5% in both years.

<u>Cost of land sold – 631% increase to P61 million from P8 million</u>

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

<u>General and administrative expenses – 26% increase to P270 million from P213 million</u>

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

<u>Selling and distribution costs – 39% increase to P30 million from P22 million</u>

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

<u>Other operating income – 14% decrease to P25 million from P29 million</u>

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

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

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

<u>Finance costs – 32% increase to P165 million from P124 million</u>

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

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

Due to gain on sale of investments.

<u>Tax expense – 945% increase to P55 million to P5 million</u>

Due to higher pre-tax income of certain subsidiaries. As a percentage of total revenues, this account stood at 4% and 0.5% in 2007 and 2006, respectively.

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

<u>Service revenue – 2% decrease to P493 million from P506 million</u>

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

<u>Sale of goods – 10% decrease to 439 million from P489 million</u>

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

<u>Rental income – 9% decrease to P107 million from P117 million</u>

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

<u>Revenue from sale of land – 85% increase to 11 million from P6 million</u>

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

<u>Interest income – 8% increase to P105 million from P97 million</u>

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

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

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

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

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

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

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

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

Increase is in relation to bigger area sold this year.

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

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

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

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

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

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

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

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

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

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

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

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

Tax expense – 46% decrease to P5 million to P9 million

Due to lower pre-tax income for the year.

Income Statement Items (2005 vs. 2004)
(Increase or decrease of 5% or more in the financial statements)

Service revenue – 15% increase to P506 million from P441 million

Largely due to increase in broadband revenues arising from increase in cable subscribers. As a percentage of total revenues, service revenues went up to 42% in 2005 from 32% in 2004.

Sale of goods – 2% decrease to P489 million from P500 million

Mainly due to lower volume of injected cabinets sold during the first quarter of the year since our production capacity was affected by the fire last December 2004 and lower sales of plastic resin. As a percentage of total revenues, sale of goods increased to 40% in 2005 from 36% in 2004.

Rental income – 6% increase to P117 million from P110

Principally due to additional space rented out.

Revenue from sale of land – 97% decrease to P6 million from P220 million

Principally due to lower sale of industrial lots during the year. As a percentage of total revenues, revenue from sale of land declined to 1% in 2005 from 16% in 2004.

Interest income – 23% decrease to P97 million from P125 million

Mainly as a result of the transfer of certain peso placements to foreign currency denominated placements which contributed lower yields. This account represented 8% and 9% in 2005 and 2004, respectively.

Cost of services – 1% decrease to P482 million from P485 million

Primarily due to reduction in costs of servicing the broadband operations arising from decrease in employee benefits, transponder rental and lease line and depreciation charges. This accounted for 40% in 2005 and 35% in 2004 as a percentage of total revenues.

Cost of sales - 2% increase to P433 million from P425 million in 2004

Principally due to high overhead costs during the first quarter of the year by the plastic injection factory, which was damaged by fire, last December 2004 and higher cost of plastic resin. Cost of sales represented 36% and 30% of total revenues in 2005 and 2004, respectively.

Cost of rentals – 7% increase to P65 million from P61 million

Mainly from increase in taxes and licenses and utility costs. This accounted 5% in 2005 and 4% in 2004 as a percentage of total revenues.

Cost of land sold – 97% decrease to P5 million from P170 million

Decrease was in relation to lower sale of land for the year. This represented 0.5% in 2005, lower from 12% in 2004 based on total revenues.

General and administrative expenses – 6% decrease to P223 million from P238 million

Principally from lower taxes and licenses and others. This comprised 18% in 2005 or slightly higher from 17% in 2004 as a percentage of total revenues.

Selling and distribution costs – 38% increase to P27 million from P19 million

Mainly due to higher advertising and promotion expenses. This accounted 2% and 1% of total revenues, in 2005 and 2004, respectively.

Other operating income – 31% decrease to P26 million from P38 million

Primarily from lower other income offset by increase in cash surrender value of investment in life insurance policy. This account represented 2% in 2005 from 3% in 2004 based on total revenues.

Finance income – 22% increase to P101 million from P83 million

Mainly from increase in fair value gains on financial assets and gain on sale of available for sale financial assets. This account grew to 8% in 2005 from 6% in 2004 based on total revenues.

Finance costs – 922% increase to P90 million from P8 million

Principally from foreign currency losses, impairment losses on trade and other receivables and higher interest expense on loans. This account represented 7% in 2005 from 1% in 2004 based on total revenues.

Other gains – net – 33% decrease to P37 million from P55 million

Mainly from partial return of investment in an associate and recognition of negative goodwill as income in 2004. This remained at 3% and 4% based on total revenues in 2005 and 2004, respectively.

Tax expense – 79% decrease to P9 million from P46 million

Due to lower pre-tax income for the year. This represented 1% in 2005 from 3% in 2004 as a percentage of total revenues.

Loss from discontinued operations - 100% decrease to none from P5 million

There was no reported loss from discontinued operations in 2005 while in 2004, the remaining business of the consumer manufacturing division reported a loss of P5 million.

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.

Second Quarter Ended June 30, 2008

Please refer to the discussion and interim financial statements in the accompanying Quarterly Report on SEC Form 17Q

C. General Nature and Scope of Business

1. Business Development

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

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

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

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

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

The Company has eleven (11) wholly-owned subsidiaries as of December 31, 2007, as follows:

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

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

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

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

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

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

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

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

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

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

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

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

2. Business of Issuer

Principal Products and Services

Solid Broadband Corp. owns and operates a broadband cable infrastructure, which provides broadband multimedia services such as data transport services, high-speed cable internet access, VSAT, broadcast uplink, leased line services and other multimedia services. The broadband multimedia business reported revenues of P287 million or 44% of service income in 2007, P199 or 40% of service revenue in 2006 and P192 million or 38% of service revenue in 2005.

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

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

The other consumer electronics business of the Company as of December 31, 2007 are: (1) subcontract or toll manufacturing of color TV sets for other brand owners (i.e. TCL, Singer, etc.) which generated tolling fee of P19 million in 2007 (for 125,239 units produced) or 3% of service revenues, P18 in 2006 (for 120,812 units produced) or 8% of service revenue in 2006 and P23 million in 2005 (for 147,809 units produced) or 5% of service revenue in 2005; and (2) after-sales service for principally SONY and AIWA brands of consumer electronic products with its 31 company-owned service centers throughout the Philippines and 77 independent authorized service centers as of end of 2006 which generated service income of P207 million or 32% of service revenues in 2007, P196 million or 40% of service revenue in 2006, P204 million or 40% of service revenue in 2005 and P193 million or 44% of service revenue in 2004; and (3) warehousing and distribution of consumer electronic products with service revenue of P68 million or 11% of service revenues in 2007, P58 million or 12% of service revenue in 2006, and P50 million or 10% of service revenue in 2005 and other service income of P71 million or 11% in 2007 P22 million or 4% of service revenue in 2006, P37 million or 7% of service revenue in 2005 and P14 million or 3% of service revenue in 2004.

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

The Company's products are sold in the Philippines. Revenues for the last 3 years, are as follows: sales from distribution of mobile phones of P96 million or 20% of sales in 2007 and none for 2006 and 2005, injected plastic parts of P158 million or 33% of sales in 2007, P125 million or 28% of sales in 2006 and P244 million or 49% of sales in 2005; broadcast/professional equipment and accessories of P59 million or 13% of sales in 2007, P148 million or 33% of sales in 2006 and P81 million or 16% of sales in 2005; plastic resins of P137 million or 29% of sales in 2007, P147 million or 32% of sales in 2006 and P138 million or 28% of sales in 2005 and other products of P24 million or 6% of sales in 2007, P19 million or 4 % of sales in 2006 and P26 million or 6% of sales in 2005. Real estate sales amounted to P102 or 7% of revenues in 2007 P12 million or 1 % of sales in 2006, and P6 million or 1% or revenues.

Distribution

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

The mobile phones sold by the Company is distributed its subsidiary, Solid Broadband Corporation (SBC). All domestic sales are made to an independent dealer network. As at December 31, 2007, SBC supplied approximately 40 dealer accounts representing about 200 retail outlets.

Status of any-publicly announced new product or service

None.

Competition

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

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

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

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

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

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

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

Raw Materials, Parts and Components

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

Broadband and Production Facilities

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

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

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

Dependency of the business upon a single or few customers

Kita Corporation, a wholly-owned subsidiary of the Company, is dependent on 1 major customer for its sale of injected plastic parts, which account for about 6% of annual consolidated revenues. There are no major existing sales contracts.

Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2007, it has 31 service centers throughout the Philippines and 77 independent authorized service centers.

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements except for a loan granted to Solid Manila Finance Inc. Subsidiaries of the Company generally depend on one another for supply of certain parts and components and lease of properties. (See Note 25 in the Notes to Financial Statements for Related Party Transactions)

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

Principal Terms and Expiration Dates of all Licenses and Agreements

- Franchise

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

- Joint Venture Agreement

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

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

- After-Sales Service and Network Support Agreements

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

Need for any government approval

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

Effect of existing and probable governmental regulations on the business

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

Research and development activities

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

Costs and effects of compliance with environmental laws

The Company has complied with environmental laws at minimal costs.

Employees

The Company and its subsidiaries have 694 regular employees as at December 31, 2007 as shown in the table below. It estimates to have 800 employees by the end of December 31, 2008. There is no existing union as of December 31, 2007. There are no employees who would be on strike nor have been on strike in the past three (3) years, nor are threatening to strike. The Company has no supplemental benefits and incentive arrangements with its employees other than the regular Christmas bonus, thirteenth month pay, performance incentives and leave conversions.

	Number of employees
Management	12
Sales and Distribution	100
Production	132
Broadband	155
Service	165
Administration	72
Finance	58
Total	694

Major Risks involved in the Businesses of the Company

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

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

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

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,	73,532	Factory & warehouses

Laguna		
Marilao, Bulacan	30,029	Raw land (Intended for sale)
La Huerta, Bicutan, Paranaque	18,490	Factory & warehouses
San Dionisio, Paranaque	6,690	Warehouses for lease
San Antonio, Paranaque	4,056	Warehouses for lease
Valenzuela	10,493	Warehouses
Laguna International Industrial Park, Binan, Laguna	5,141	Warehouse
Pasong Tamo, Makati City	5,000	Office building
Concepcion St., Ermita, Manila	4,506	Condominium tower under construction (for sale)
Osmena Blvd., Cebu City	3,859	Service center & office building
Outlook Drive, Baguio City	3,846	Raw land (Intended for lease)
Brgy. Tabuco, Naga City	3,059	Raw land (Intended for service center & office building)
Tandang Sora, Quezon City	2,511	Building
Barrio Pantal, Dagupan City	1,918	Raw land (Intended for sale)
Barrio San Rafael, Iloilo City	1,750	Service Center and Office building
J. Bocobo St., Ermita, Manila	1,724	Office building
Brgy. San Roque, San Pablo City	1,714	Service center, office building and warehouse
Oliveros, Balintawak, Quezon City	1,400	Raw land (Intended for lease)
Bacoor, Cavite	1,334	Office building
Cabanatuan City, Nueva Ecija	1,212	Service center, office building & warehouse for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	193,000	Industrial/ Commercial lots for development (for sale)
Araneta, Quezon City	1,000	Land for lease
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

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

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's

Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption is being reviewed by the Claims Division of the Bureau of Agrarian Legal Assistance, DAR Central Office. Since the DAR revised its procedures, Solid Manila Corporation amended its application as of March 2004. In the meantime, all farmer-beneficiaries concerned have showed lack of interest in pursuing their claim over the property.

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

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

Plant and equipment

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

Franchise

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

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

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

Lease agreements

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	7,400*	March and August 2019
Dr. A. Santos Ave., Paranaque	2,940	October 31, 2008
Metro Manila	22,069**	September 6, 2007 and March 14, 2009
Metro Manila	20,574***	January 7, 2006
Orbital space	14,900****	December 31, 2007

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

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

*** Represents lease of internet connection.

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

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

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Bacoor, Cavite	3,935	Various up to October 30, 2009
Balintawak, Quezon City	12,265	Various up to September 30, 2008
Cagayan de Oro	1,323	Various up to August 1, 2011
Chino Roces Ave, Makati City	16,783	Various up to November 24, 2016
Clark, Pampanga	15,159	Various up to August 21, 2011
Laguna International Industrial Park, Binan, Laguna	34,989	Various up to August 31, 2011

Laguna International Industrial Park, Binan, Laguna	3,711	February 14, 2008
Ermita, Manila	7,419	Various up to February 14, 2012
San Dionisio, Paranaque City	1,360	June 30, 2008
San Antonio, Paranaque City	4,200	October 31, 2008
Valero St, Makati	1,123	November 26, 2007 and June 26, 2008

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2008 to amount P100 million for the completion of phase 1 development of Tri-Tower Residential Condominium, renovation of building and acquisition of other properties and also for the upgrade of the data and cable internet and satellite equipment of the Solid Broadband Corp. The construction and/ or purchase of these capital expenditures will be financed through the funds of the Company.

D. Directors and Executive Officers

The following is a brief summary of the business experience of each director and officer in the last five years:

Ms. Elena S. Lim has been Chairman Emeritus since May 2001 an a director since 1996. Prior to that, she was President/ Chief Executive Officer from 1996 to May 2001. 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 has been Chairman of the Board since May 2001 and a Director since 1996. She was also Vice President of the Company from April 1999 to April 2001 and Chief Operating Officer from 1996 until March 1999. She is currently President of Solid Laguna Corporation and Solid Corporation and is also Managing Director of Solid Electronics Corporation, Solid Distributors, Inc. and Solid Video Corporation. Ms. Tan is the daughter of Joseph and Elena Lim.

Mr. David S. Lim has been President and Chief Executive Officer since May 2001 and a Director since 1996. He was Vice-President since 1996 up to April 2001. He is also President and Chief Executive Officer of Solid Broadband Inc. since1995 and presently Chairman of Destiny Cable Inc. and also Vice-President of Solid Corporation for more than five years and was formerly VP/Managing Director of Solid Video Corporation for more than five years. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Jason S. Lim has been Sr. Vice President and Chief Operating Officer since May 2002 and a Director since May 1998. He was also EVP and Chief Operating Officer of Destiny Cable Inc. up to September 2000. 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 has been the Sr. Vice President for Finance and Investments since June 2006 and was Sr. VP and Chief Financial Officer from May 2002 up to June 2006. He has been 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. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Quintin Chua has been 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. Stephen Cu was elected as Independent Director on August 7, 2007. Mr. Cu is currently the Chairman of Tocoms Philippines, Inc. and Cocolight Trading Corporation and has held both positions since 2002 until the present. He is also concurrently President and Chairman of Lightworks Ventures, Inc. (2001 to present), Dart Electric Works, Inc. (1982 to present), and Starbright Sales Enterprise, Inc. (1977 to present); as well as director of The Champs Customs Brokerage and Services, Inc. since 1988 to the present. Mr. Cu was elected Chairman of the Philippine Lighting Industry Association and has held the position since 2006.

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

Mr. James H. Uy has been Sr. Vice President for Broadband Division since June 2004 up to February 1, 2008. He is also Chief Operating Officer of Solid Broadband Inc. (formerly Destiny Inc.) and has held this position since July 2001 up to February 1, 2008. Prior to that, he was Vice-President and General Manager of Solid Laguna Corporation and Solid Corporation for more than ten years.

Ms. Lita Joaquin has been the Treasurer since May 2002 and was also a director until August 7, 2007. She was Comptroller in 1996 to April 2002 and a Director in May 1997 where she held office up to May 1998. She also became General Manager of Solid Manila Finance Inc. in October 1999. She is also Assistant Treasurer of Solid Corporation for more than five years and holds the same position for Solid Distributors, Inc., Solid Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Ms. Joaquin is the niece of Mr. Joseph Lim.

Mr. Roberto V. San Jose has been the Corporate Secretary since 1996. He also serves as chairman of Mabuhay Holdings Corporation, director in Interport Resources Corporation, and corporate secretary of Anglo Philippine Holdings Corporation, Beneficial-PNB Life Insurance Co., Inc., FMF Development Corporation, Alsons Consolidated Resources Corporation, CP Group of Companies, Carlos Palanca Foundation, Inc., CP Equities Corporation, ISM Communications Corporation, Philweb Corporation, PNOC Energy Development Corporation, MAA Consultants, Inc., United Paragon Mining Corporation, The Metropolitan Club, Inc. and various other client corporations. He graduated *summa cum laude* at the De La Salle University for his A. B. degree in 1962, and then *magna cum laude* and Class Valedictorian at the U. P. College of Law in 1966. Thereafter, he placed 1st in the 1966 Bar Examinations. His expertise lies in the fields of business and corporate law, securities, real property and natural resources. He was admitted to the Philippine Bar in 1967.

Ms. Ana Maria Katigbak has been the Assistant Corporate Secretary since 1997. She is also a director in Mabuhay Holdings Corporation and Interport Resources Corporation, corporate secretary of Minerales Industrias Corporation, and serves as assistant corporate secretary in AJO.net Holdings, Inc., Boulevard Holdings, Inc., ISM Communications Corporation, Mabuhay Holdings Corporation, Philweb.Corporation, PNOC Energy Development Corporation, Premiere Entertainment Productions, Inc. and The Metropolitan Club, Inc. She graduated *cum laude* at the University of the Philippines for her A. B. degree. She is a graduate of the U. P. College of Law

Class of 1994. She is a member of the Phi Kappa Phi international honor society. Her practice areas are corporate law and securities. She was admitted to the Philippine Bar in 1995.

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

Danilo M. Reig was appointed Chief of Internal Audit in June 2006. He formerly held the position of Senior Audit Manager for more than five years.

E. Market Price of and Dividend on the Registrant's Common Equity

Principal Market

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

Common Equity

The high and low sales prices for each quarter within the last two years are as follows:

	High (₱)	Low (₱)
2008		
Second Quarter	0.60	0.41
First Quarter	0.70	0.57
2007		
First quarter	0.84	0.65
Second quarter	1.06	0.64
Third quarter	0.93	0.61
Fourth quarter	0.82	0.61
2006		
First quarter	0.57	0.45
Second quarter	0.67	0.51
Third quarter	0.65	0.51
Fourth quarter	0.85	0.60

The Company shares were trading at P0.47 as of August 6, 2008 (the latest practicable trading date).

Holders

The number of shareholders of record date June 25, 2008 was 4,786. Common shares outstanding as of June 25, 2008 were 1,821,542,000 shares. Total issued shares as of June 25, 2008 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of June 25, 2008:

	Name of Stockholder	No. of Shares Held	% to Total Outstanding
1.	AA Commercial, Inc.	583,377,817	32.03
2.	AV Value Holdings Corporation	499,999,999	27.45
3.	PCD Nominee Corporation (F)	329,753,327	18.10
4.	Lim, David S.	179,488,591	9.85
5.	Lim, Vincent S.	71,887,187	3.95
6.	Lim, Jason S.	65,176,160	3.58

7.	PCD Nominee Corporation (NF)	37,324,200	2.05
8.	Chua, Willington Chua &/or Constantino	11,610,000	0.64
9.	Chua, Constantino &/or Willington &/or George	1,750,000	0.10
10.	Tan, Luciano H.	1,510,000	0.08
11.	Hottick Development Corporation	1,408,000	0.08
12.	Chow, Elizabeth C.	1,140,000	0.06
13.	Chua, Willington	1,110,000	0.06
14.	Paz, Venson	1,065,000	0.06
15.	Columbian Motors Corporation	1,000,000	0.05
16.	Uy, Chun Bing	800,000	0.04
17.	Ong, Victoria	632,000	0.03
18.	Union Properties, Inc.	625,000	0.03
19.	Lim Florencio I.	600,000	0.03
20.	Lim, Julia	590,000	0.03

Dividends

No dividends were declared in 2006 and 2007.

The Company's retained earnings as of December 31, 2007 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, 2007.

Recent Sales of Unregistered Securities in the Past Three Years

There was no sale of unregistered or exempt securities in 2005 through 2007.

G. Compliance with Corporate Governance Practices

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 Renumeration 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. In 2006, 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, 2006 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.

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 Company complied with the appropriate self-rating assessment and performance evaluation system to determine and measure compliance with the Manual and submitted a certification of its compliance on January 30, 2008. There were no major deviations from the adopted Manual on Corporate Governance.

The Company has reappointed Mr. Quintin Chua as Independent Director during the Annual Stockholders meeting on August 7, 2007. The Company also elected Mr. Stephen Cu as the new Independent Director during the Annual Stockholders' Meeting on August 7, 2007.

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 the Institute of Corporate Directors.

The Company is committed to good corporate governance and continues to pursue efforts towards attaining full compliance with its Manual on Corporate Governance. The Company is developing a plan and timetable for compliance with certain leading practices and principles of good corporate governance.

H. External Audit Fees and Services

1. 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:

(a) 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, 2007 and 2006 amounted to P2.33 million and P1.96 million respectively. For the year ended December 31, 2008, the audit fee is estimated to be P2.6 million million.

(b) 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 2007 and 2006. None are expected for 2008.

2. 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, 2007, 2006 amounted to P180 thousand for both years. For the year ended December 31, 2008, the tax fees are estimated to be P200 thousand.

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

There were no other fees paid for the years 2007 and 2006. None are expected to 2008.

(b) The audit committee's approval policies and procedures for the above services.

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

I. UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, FREE OF CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.

ALL REQUEST MAY BE SENT TO THE FOLLOWING ADDRESS:

Solid Group, Inc.
Solid House Bldg. 2285 Pasong Tamo Extn.,
Makati City, Metro Manila
Attention: Ms. Meline Corpuz

management report2008(Def)/solid [c:aak]

SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Solid Group, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

SUSAN L. TAN
Chairman of the Board

DAVID S. LIM
President

IRENEO D. TUBIO
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this ___APR 29 2008___ day of ___________ affiants exhibiting to me their Community Tax Certificates as follows:

Name	CTC No.	Date Issued	Place Issued
Susan L. Tan	19496764	January 22, 2008	Makati City
David S. Lim	19496765	January 22, 2008	Makati City
Ireneo D. Tubio	10620133	February13, 2008	Manila

Doc. No. 451;
Page No. 91;
Book No. XXXI;
Series of 2008.

MARIO B. ESPIRITU, JR.
Commission No. M-58
Notary Public for City of Makati
Until December 31, 2009
4th Floor MMP Bldg.
2283 Pasong Tamo Ext, Makati City
PTR No. 6749851 01-02-08 Kawit, Cavite
IBP No. 700246 12-20-07 Cavite Chapter
Roll No.39509

Consolidated Financial Statements and Independent Auditors' Report

Solid Group Inc. and Subsidiaries

December 31, 2007, 2006 and 2005

Punongbayan & Araullo

Report of Independent Auditors

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

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F +63 2 886-5506; +63 2 886-5507
www.punongbayan-araullo.com

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

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2007 and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and subsidiaries as of December 31, 2007 and 2006, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner
CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 0986665, January 4, 2008, Makati City
SEC Accreditation No. 0396-A
BIR AN 08-002511-20-2006 (Sept. 8, 2006 to 2009)

March 31, 2008

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Amounts in Philippine Pesos)

	Notes	**2007**	2006
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 1,206,991,793**	P 1,373,706,187
Financial assets at fair value through profit or loss	6	**-**	147,159,284
Held-to-maturity investments	6	**53,000,000**	-
Trade and other receivables - net	7	**453,501,305**	384,746,648
Advances to related parties	25	**130,091,376**	46,820,938
Available-for-sale financial assets	8	**388,448,319**	514,904,785
Merchandise inventories and supplies - net	9	**190,167,830**	73,206,232
Real estate inventories - net	10	**925,679,328**	815,860,191
Other current assets	13	**175,006,123**	151,245,393
Total Current Assets		**3,522,886,074**	3,507,649,658
NON-CURRENT ASSETS			
Trade and other receivables	7	**482,201,959**	547,900,179
Available-for-sale financial assets - net	8	**7,611,527**	14,509,980
Property, plant and equipment - net	11	**1,456,897,277**	1,506,406,919
Investment property - net	12	**1,719,903,430**	1,741,044,416
Retirement benefit asset	21	**42,211,671**	45,998,327
Deferred tax assets - net	22	**13,220,460**	36,112,069
Other non-current assets	13	**30,632,386**	44,545,607
Total Non-current Assets		**3,752,678,710**	3,936,517,497
TOTAL ASSETS		**P 7,275,564,784**	P 7,444,167,155

Forward

	Notes	2007	2006
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 409,435,521**	P 446,885,511
Trade and other payables	15	**377,220,679**	385,482,194
Advances from related parties	25	**179,997,931**	98,483,666
Estimated liability for land and land development costs		**36,886,345**	17,249,351
Income tax payable		**7,721,316**	5,490,654
Total Current Liabilities		**1,011,261,792**	953,591,376
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**8,445,041**	7,349,795
Retirement benefit obligation	21	**3,247,908**	3,503,995
Deferred tax liabilities - net	22	**760,140**	35,000
Total Non-current Liabilities		**12,453,089**	10,888,790
Total Liabilities		**1,023,714,881**	964,480,166
EQUITY			
Equity attributable to parent company			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital	23	**4,641,701,922**	4,641,701,922
Treasury shares - at cost		**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**(210,977,374)**	(36,819,816)
Deficit		**(349,027,740)**	(294,597,294)
Equity attributable to equity holders of the parent company		**5,997,057,428**	6,225,645,432
Minority interest		**254,792,475**	254,041,557
Total Equity		**6,251,849,903**	6,479,686,989
TOTAL LIABILITIES AND EQUITY		**P 7,275,564,784**	P 7,444,167,155

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
REVENUES				
Rendering of services		**P 641,626,011**	P 493,657,814	P 506,272,144
Sale of goods		**474,458,952**	439,186,300	489,899,827
Rentals		**117,992,418**	107,189,748	117,194,101
Sale of land		**102,422,478**	11,952,900	6,459,750
Interest income		**89,331,444**	105,083,755	97,037,376
		1,425,831,303	1,157,070,517	1,216,863,198
COSTS OF SALES, SERVICES AND RENTALS				
Cost of services	17	**484,311,361**	460,167,153	482,367,187
Cost of sales	17	**405,481,865**	409,141,037	433,661,630
Cost of rentals	17	**69,651,729**	62,990,373	65,717,411
Cost of land sold	19	**61,997,555**	8,481,841	5,925,376
		1,021,442,510	940,780,404	987,671,604
GROSS PROFIT		**404,388,793**	216,290,113	229,191,594
OTHER OPERATING EXPENSES (INCOME)				
General and administrative expenses	19	**270,070,987**	213,572,741	223,466,217
Selling and distribution costs	19	**30,747,984**	22,180,132	27,070,089
Other operating income	18	**(25,548,205)**	(29,627,550)	(26,379,627)
		275,270,766	206,125,323	224,156,679
OPERATING PROFIT (LOSS)		**129,118,027**	10,164,790	5,034,915
OTHER INCOME (CHARGES)				
Finance income	20	**33,051,608**	52,542,582	101,797,191
Finance costs	20	**(165,269,830)**	(124,927,423)	(90,242,805)
Other gains (losses) - net	20	**4,738,417**	(20,647,820)	37,590,366
		(127,479,805)	(93,032,661)	49,144,752
INCOME (LOSS) BEFORE TAX		**1,638,222**	(82,867,871)	54,179,667
TAX EXPENSE	22	**55,317,750**	5,292,838	9,891,432
NET INCOME (LOSS)		**(P 53,679,528)**	(P 88,160,709)	P 44,288,235
Attributable to:				
Equity holders of the parent company		**(P 54,430,446)**	(P 84,435,882)	P 49,954,975
Minority interest		**750,918**	(3,724,827)	(5,666,740)
		(P 53,679,528)	(P 88,160,709)	P 44,288,235
Earnings (Loss) per share for net income (loss) attributable to equity holders of the parent company	24	(P 0.03)	(P 0.05)	P 0.03

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
CAPITAL STOCK - P1 par value				
Authorized - 5,000,000,000 shares				
Subscribed, issued and outstanding - 2,030,975,000 shares		**P 2,030,975,000**	P 2,030,975,000	P 2,030,975,000
ADDITIONAL PAID - IN CAPITAL		**4,641,701,922**	4,641,701,922	4,641,701,922
TREASURY SHARES - At cost		**(115,614,380)**	(115,614,380)	(115,614,380)
REVALUATION RESERVES	23			
Balance at beginning of year		**(36,819,816)**	(4,099,860)	14,425,419
Currency differences on translating balances of foreign operations		**(171,427,558)**	(34,195,400)	(18,329,519)
Fair value gains (losses) on available-for-sale financial assets, net of taxes		**(2,730,000)**	1,475,444	(195,760)
Balance at end of year		**(210,977,374)**	(36,819,816)	(4,099,860)
DEFICIT				
Balance at beginning of year				
As previously reported		**(297,194,160)**	(211,400,057)	(260,116,387)
Prior period adjustments	23	**2,596,866**	1,238,645	-
As restated		**(294,597,294)**	(210,161,412)	(260,116,387)
Net income (loss) attributable to equity holders of the parent company		**(54,430,446)**	(84,435,882)	49,954,975
Balance at end of year		**(349,027,740)**	(294,597,294)	(210,161,412)
Total Equity Attributable to Equity Holders of the Parent Company		**5,997,057,428**	6,225,645,432	6,342,801,270
MINORITY INTEREST				
Balance at beginning of year		**254,041,557**	257,766,384	263,433,124
Net income (loss) attributable to minority interest		**750,918**	(3,724,827)	(5,666,740)
Balance at end of year		**254,792,475**	254,041,557	257,766,384
TOTAL EQUITY		**P 6,251,849,903**	P 6,479,686,989	P 6,600,567,654
Net Losses Recognized Directly in Equity		**(P 174,157,558)**	(P 32,719,956)	(P 18,525,279)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

	Notes	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before tax		P 1,638,222	(P 82,867,871)	P 54,179,667
Adjustments for:				
Depreciation and amortization	19	119,997,921	118,277,074	129,054,878
Finance costs	20	165,269,830	124,927,423	90,242,805
Unrealized foreign currency losses (gains) - net		119,446,635	39,805,739	50,667,757
Impairment loss on investment property	20	-	21,103,136	-
Gain on sale of property and equipment	20	(174,168)	(184,209)	(663,779)
Fair value gains on financial assets at fair value through profit or loss	20	-	(29,821,299)	(32,691,738)
Interest income	20	(108,804,388)	(118,875,323)	(123,603,700)
Gain from insurance proceeds	20	-	-	(45,448,725)
Gain on sale of financial assets	20	(2,595,101)	(7,508,465)	(15,465,100)
Gain on sale of investment property		-	-	(4,953,667)
Operating income before working capital changes		294,778,951	64,856,205	101,318,398
Decrease (increase) in trade and other receivables		(3,056,437)	143,947,590	(249,999,079)
Decrease (increase) in inventories		(116,961,598)	22,352,195	24,879,621
Decrease (increase) in financial assets at fair value through profit or loss		149,754,385	378,462,063	(127,297,279)
Increase in available-for-sale financial assets		(40,413,832)	(40,499,318)	(80,880,228)
Increase in real estate inventories		(109,819,137)	(265,101,612)	(103,013,949)
Increase in investment held-to-maturity		(53,000,000)	-	-
Decrease (increase) in other current assets		(23,760,730)	(52,154,247)	(16,707,959)
Decrease in retirement benefit asset		3,786,656	(2,232,250)	(5,489,516)
Decrease (increase) in other non-current assets		13,913,221	(3,358,960)	3,999,427
Increase (decrease) in trade and other payables		(12,386,163)	63,609,612	(66,425,841)
Increase (decrease) in estimated liability for land and land development costs		19,636,994	(2,684,947)	117,850
Increase in refundable deposits		1,095,246	1,854,279	742,083
Increase (decrease) in retirement benefit obligation		(256,087)	167,267	669,306
Cash generated from (used in) operations		123,311,469	309,217,877	(518,087,166)
Interest received		108,804,388	118,875,323	123,603,700
Cash paid for income taxes		(27,262,280)	(26,077,234)	(39,230,692)
Net Cash From (Used in) Operating Activities		204,853,577	402,015,966	(433,714,158)
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease in advances to related parties		(78,165,018)	5,903,282	25,660,543
Proceeds from sale of property, plant and equipment		864,864	2,175,568	7,929,521
Acquisitions of investment property		(12,902,483)	(19,959,231)	(2,585,175)
Acquisitions of property, plant and equipment		(37,135,506)	(81,661,308)	(92,535,636)
Proceeds from insurance claims		-	-	48,321,580
Proceeds from sale of investment property		-	-	6,795,455
Net Cash From (Used in) Investing Activities		(127,338,143)	(93,541,689)	(6,413,712)
Forward		77,515,434	308,474,277	(440,127,870)

	2007	2006	2005
Balance Forwarded	**P 77,515,434**	P 308,474,277	(P 440,127,870)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	(168,847,468)	(128,505,061)	(82,334,336)
Proceeds (payments) of interest-bearing loans - net	(37,449,990)	(149,698,103)	334,171,009
Increase in advances from related parties	81,514,265	390,010	1,396,171
Net Cash From (Used in) Financing Activities	(124,783,193)	(277,813,154)	253,232,844
Effect of Currency Rate Changes on Cash and Cash Equivalents	(119,446,635)	(39,805,739)	(49,467,744)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(166,714,394)	(9,144,616)	(236,362,770)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,373,706,187	1,382,850,803	1,619,213,573
CASH AND CASH EQUIVALENTS AT END OF YEAR	P 1,206,991,793	P 1,373,706,187	P 1,382,850,803

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2007, 2006 AND 2005
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

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

The Company holds ownership interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership 2007	2006	2005	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100%**	100%	100%		Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of color televisions
Solid Broadband Corporation (SBC)	**100**	100	100	1.2	Broadband cable and satellite services
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	1.2, b	Information and communications technology systems
Precos, Inc. (Precos)	**100**	100	100	b 1.3	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Zen by the Park, Inc. (ZPI)	**100**	-	-	f	Real estate
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100	1.3, g	Real estate
Skyworld Corporation (Skyworld)	**75**	75	75	1.2, d	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	1.2, a, b	Investment holding company
Starworld Corporation (Starworld)	**50**	50	50	d, e	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	50	a, c	Real estate

Notes:
- a Indirectly owned through SC
- b Pre-operating or non-operating
- c LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- d Indirectly owned through SMC
- e Starworld is 20% owned by SMC and 40% owned by Skyworld
- f Incorporated in 2007 and had not yet started commercial operations; indirectly owned through SMC.
- g In 2005, ZTC was incorporated and took over the development of the Tri-Tower Condominium Project from SMC.

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

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

1.2 Status of Operations

The Group has continuously incurred losses amounting to P53.7 million in 2007 and P88.2 million in 2006 that resulted in significant deficits amounting to P349.0 million, P294.6 million and P210.2 million as of December 31, 2007, 2006 and 2005, respectively. Such losses resulted mainly from operations of SBC, Skyworld, LIIP, Interstar and SGTC. In spite of these results, management strongly affirms the Group's ability to continue as a going concern since its total current assets of P3.42 billion far exceeds its total current assets of P1.01 billion, for a current ratio of 3.43 : 1. Also, the total financial assets of the Group account to P1.66 billion against total financial liabilities, trade and other payables of P0.79 billion and it has total inventories which could be liquidated amounted to P1.12 billion.

1.3 Merger of SBC and Destiny, Inc. (DI) and its Subsidiaries

On November 5, 2003, the stockholders of SBC and DI and its subsidiaries approved the merger of the companies. The merger dissolved DI and its subsidiaries and transferred all their operations, assets and liabilities to SBC, the surviving company. The Securities and Exchange Commission (SEC) approved the merger on August 26, 2005. Prior to the merger, the companies were wholly-owned subsidiaries of SGI. The merger was accounted for at historical cost in a manner similar to that of pooling of interest method. The combined net assets of SBC and DI after the merger amounted to P724.3 million as of December 31, 2005. In 2005, the combined net loss of SBC and DI amounted to P87.2 million.

1.4 Other Corporate Information

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

BRL	- 2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands (registered office and principal place of business)
Kita	- 7170 Clark Special Economic Zone, Clarkfield, Pampanga (registered office and principal place of business)
OLC	- Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna (registered office and principal place of business)
Precos	- 26F Tower I, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City (registered office)
SC	- 17 A. Fernando St., Marulas, Valenzuela, Metro Manila (registered office and principal place of business)
SMC	- 1000 J. Bocobo St., Ermita, Manila (registered office and principal place of business)

SGTC and SE Corp.	- 1172 E. delos Santos Avenue, Balintawak, Quezon City (registered office and principal place of business)
Starworld	- Bo. Prinza, Calamba City (registered office and principal place of business)
ZTC	- 1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila (registered office and principal place of business)

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

1.5 Approval for Release of Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2007 (including comparatives for the years ended December 31, 2006 and 2005) were authorized for issue by the Board of Directors (BOD) on March 31, 2008.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation 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 (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

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

(b) Functional and Presentation Currency

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

(c) Reclassifications of Accounts

Certain accounts in the 2006 and 2005 consolidated financial statements were reclassified to conform to the 2007 consolidated financial statement presentation.

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) *Effective in 2007 that are relevant to the Company*

In 2007, the Group adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

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

Discussed below are the impact on the financial statements of these new accounting standards.

(i) Philippine Accounting Standards (PAS) 1 (Amendment), *Presentation of Financial Statements.* PAS 1 introduces new disclosures on the Group's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 31.

(ii) PFRS 7, *Financial Instruments: Disclosures.* PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments; and,

- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Company availed of the transitional relief granted by the FRSC and presented only the relevant new disclosures required by the PFRS 7 for 2007 (see Note 30).

(iii) Philippines Interpretation IFRIC 10, *Interim Financial Reporting and Impairment.* This Philippine Interpretation prohibits the reversal through profit and loss at a subsequent balance sheet date of any impairment losses recognized on goodwill and financial assets carried at cost at an interim period. The Group did not recognize impairment losses on its interim consolidated financial statements. Accordingly, adoption of this Philippine Interpretation has no impact on the Group's consolidated financial statements.

The first time application of these standard, amendment and interpretation has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) Effective in 2007 but not relevant to the Group

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, *Financial Reporting in Hyper Inflationary Economies*
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives

(c) Effective subsequent to 2007

There are new and amended standards and Philippine Interpretations that are effective for periods subsequent to 2007. The following new standards are relevant to the Group and which the Group will apply in accordance with their transitional provisions.

2008:

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PFRS 8	:	Operating Segments

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

(i) Philippine Interpretation IFRIC 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes the practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Group based on the set-up of the pension trust fund, the Group determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

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

(iii) PFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports, adoption of this new standard will not have a material impact on the Group's consolidated financial statements.

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

(b) Transactions with Minority Interests

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

2.4 Segment Reporting

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

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

2.5 Financial Assets

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

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

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

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

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

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

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

(b) Loans and Receivables

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

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

The Group's loans and receivables are presented as Trade and Other Receivables and Advances to Related Parties in the consolidated balance sheet.

(c) Held-to-maturity Investments

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

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

(d) Available-for-sale Financial Assets

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

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

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

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

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

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

2.6 Inventories

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

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

(a) *Merchandise inventories, raw materials, and supplies* – purchase cost on a moving average method; and,

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

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

2.7 Real Estate Inventories

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

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

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

(b) *Property Development Costs (ZTC)*

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

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

2.8 Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

2.9 Investment Property

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

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

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

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

2.10 Financial Liabilities

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

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

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

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

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

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

2.11 Business Combination

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

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

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

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

2.12 Provisions

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

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

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

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

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

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

2.13 Revenue and Expense Recognition

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

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

(b) *Sale of goods (other than sale of land)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

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

(d) *Warranty and network support fee (shown as part of rendering of services)* – Revenue from warranty is recognized within 30 days after the actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony).

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

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

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

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

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

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

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

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

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

2.14 Leases

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

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

2.15 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

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

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

(c) Translation of Financial Statements of a Foreign Subsidiary

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in BRL is taken to equity under Revaluation Reserves. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the gain or loss on sale.

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

2.16 Impairment of Non-financial Assets

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

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

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

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

2.17 Employee Benefits

(a) Retirement Benefit Asset and Obligation

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

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

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

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

(b) Termination Benefits

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

(c) Compensated Absences

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

2.18 Income Taxes

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

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

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

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

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

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

2.19 Equity

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

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

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

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

Deficit includes all current and prior period results as reported in the consolidated income statement.

2.20 Earnings Per Share

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical 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) Held-to-maturity Investments

The Group follows guidance of PAS 39, *Financial Instruments: Recognition and Measurements,* in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making the judgment, the Group evaluates its intention and ability to hold its investments in bonds up to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. In such a case, the investments would therefore be measured at fair value, not at amortized cost.

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

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

(d) Distinction Between Investment Property and Owner-occupied Property

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

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

(e) 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.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Notes 15 and 29.

3.2 Key Sources of Estimation Uncertainty

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

(a) Determining Net Realizable Value of Inventories

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

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

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

(c) Allowance for Impairment of Trade and Other Receivables

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

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

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

(e) Realizable Amount of Deferred Tax Assets

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

(f) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(g) Retirement Benefits

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

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband Services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure.

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for Sony products (see Note 27.1).

(c) Real Estate segment activities include leasing and development and sale of industrial and other real estate properties.

(d) Trading segment is involved in the sale of plastic resins, professional audio and video equipment and peripherals and mobile phones.

(e) Investing, Financing and Others segment is presently engaged in the business of fund investments, automotive and consumer financing, and credit extension.

Segment accounting policies are the same as the policies described in Note 2.

4.2 Segment Assets and Liabilities

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

4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of December 31, 2007, 2006 and 2005 and the related revenue and profit information for the years then ended (in thousands).

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing Financing and Others	Eliminations	Consolidated
2007							
REVENUES							
Sales to external customers	P 210,616	P 481,549	P 208,197	P 418,500	P 17,637	P -	P 1,336,500
Intersegment sales	17,000	10,591	14,619	-	10,194	(52,404)	-
Total revenues	P 227,616	P 492,140	P 222,816	P 418,500	P 27,831	(P 52,404)	P 1,336,500
RESULTS							
Segment results	(P 16,022)	P 14,037	P 38,421	P 88,971	P 216	(P 301,688)	P 39,787
Finance income	2,662	5,719	9,385	4,389	42,749	57,480	122,383
Finance costs	(13,128)	(7,239)	(1,447)	(181)	(155,389)	12,115	(165,270)
Other gains (losses) – net	-	(2,036)	(743)	(724)	22,275	(14,033)	4,738
Income (loss) before tax	(26,488)	10,481	45,616	92,455	125,701	(246,126)	1,638
Tax expense	1,597	(9,034)	(17,669)	(2,859)	(24,158)	-	(55,318)
Net income (loss)	(P 28,085)	P 1,446	P 27,947	P 89,596	P 101,542	(P 246,126)	(P 53,680)
ASSETS AND LIABILITIES							
Segment assets	P 718,506	P 534,999	P 2,210,066	P 308,004	P 1,768,559	P 1,436,075	P 6,976,209
Investments in subsidiaries – at cost	-	-	262,387	-	5,282,419	(5,544,806)	-
Advances to related parties	241,662	-	535,321	-	455,975	(933,602)	299,356
Total assets	P 960,168	P 534,999	P 3,007,774	P 308,004	P 7,506,953	(P 5,042,333)	P 7,275,565
Segment liabilities	P 87,647	P 129,021	P 317,768	P 39,113	P 545,440	(P 193,758)	P 925,231
Advances from related parties	119,282	909	545,548	133,940	200,494	(901,690)	98,484
Total liabilities	P 206,929	P 129,930	P 863,316	P 173,054	P 745,934	(P 1,095,448)	P 1,023,715
OTHER SEGMENT INFORMATION							
Capital expenditures	P 22,107	P 8,797	P 27,237	P 1,683	P 311	P -	P 60,045
Depreciation and amortization	55,613	22,477	14,705	1,533	131	-	94,458
Impairment losses	-	2,209	1,400	-	1,430	-	5,039
Other non-cash expenses	-	-	-	4,457	(12,612)	-	(8,155)

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2006							
REVENUES							
Sales to external customers	P 198,187	P 427,988	P 104,398	P 302,071	P 19,343	P -	P 1,051,987
Intersegment sales	-	2,651	13,113	-	5,040	(20,804)	-
Total revenues	P 198,187	P 430,639	P 117,511	P 302,071	P 24,383	(P 20,804)	P 1,051,987
RESULTS							
Segment results	(P 101,359)	(P 16,305)	P 1,230	P 13,540	(P 72,308)	P 80,283	(P 94,919)
Finance costs	-	(85)	-	-	(29,491)	62,275	32,699
Other gains (losses) – net	-	695	(29,975)	32	-	8,600	(20,648)
Income (loss) before tax	(101,359)	(15,695)	(28,745)	13,572	(101,799)	151,157	(82,868)
Tax expense	45	9,584	6,178	3,560	(14,074)	-	5,293
Net income (loss)	(P 101,404)	(P 25,279)	(P 34,923)	P 10,012	(P 87,725)	P 149,800	(P 88,161)
ASSETS AND LIABILITIES							
Segment assets	P 798,806	P 536,742	P 3,992,000	P 126,981	P 2,232,447	(P 289,630)	P 7,397,346
Investments in subsidiaries – at cost	-	-	421,389	-	4,520,469	(4,941,858)	-
Advances to related parties	104,169	-	(7,175)	-	104,169	(154,342)	46,821
Total assets	P 902,975	P 536,742	P 4,406,214	P 126,981	P 6,857,085	(P 5,385,830)	P 7,444,167
Segment liabilities	P 104,083	P 116,355	P 187,459	P 22,684	P 467,942	(P 32,527)	P 865,996
Advances from related parties	100,472	263	99,958	236	1,951	(104,396)	98,484
Total liabilities	P 204,555	P 116,618	P 287,417	P 22,920	P 469,893	(P 129,220)	P 964,480
OTHER SEGMENT INFORMATION							
Capital expenditures	P 59,725	P 21,926	P 20,229	P 286	P 65	P -	P 102,231
Depreciation and amortization	56,833	28,034	32,571	2,021	176	-	119,635
Impairment losses	12,442	88	29,703	311	154,557	(140,295)	56,806
Other non-cash expenses	-	-	-	2,057	(13,111)	-	(11,054)

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2005							
REVENUES							
Sales to external customers	P 192,575	P 570,715	P 110,594	P 223,525	P 22,417	P -	P 1,119,826
Intersegment sales	9,900	-	6,012	-	8,092	(24,004)	-
Total revenues	P 202,475	P 570.715	P 116,606	P 223,525	P 30,509	(P 24,004)	P 1,119,826
RESULTS							
Segment results	(P 87,109)	P 6,266	P 120,385	P 24,028	P 81,040	(P 236,612)	(P 92,002)
Finance costs	-	(107)	(106)	-	(20,045)	128,850	108,592
Other gains (losses) – net	-	45,890	(5,860)	(651)	(37,452)	35,663	37,590
Income (loss) before tax	(87,109)	52,049	114,419	23,377	23,544	(72,100)	54,180
Tax expense (income)	65	18,018	(8,914)	1,322	(600)	-	9,891
Net income (loss)	(P 87,174)	P 34,031	P 123,333	P 22,055	P 24,144	(P 73,339)	P 44,288
ASSETS AND LIABILITIES							
Segment assets	P 819,170	P 568,478	P 3,812,177	P 143,544	P 2,264,541	P -	P 7,607,910
Investments in subsidiaries – at cost	-	-	142,687	-	4,126,078	(4,268,765)	-
Advances to related parties	117,163	-	557,226	717	480,049	(1,102,431)	52,724
Total assets	P 936,333	P 568,478	P 4,512,090	P 144,261	P 6,870,668	(P 5,371,196)	P 7,660,634
Segment liabilities	P 105,325	P 123,421	P 187,934	P 18,534	P 527,997	P -	P 963,211
Advances from related parties	106,756	53,156	780,193	26,807	135,603	(1,004,423)	98,094
Total liabilities	P 212,081	P 176,577	P 968,127	P 45,341	P 663,600	(P 1,004,421)	P 1,061,305
OTHER SEGMENT INFORMATION							
Capital expenditures	P 43,392	P 35,416	P 16,057	P 164	P 92	P -	P 95,121
Depreciation and amortization	60,852	29,147	36,795	1,615	646	-	129,055
Impairment losses	11,701	88	6,339	-	8,338	(12,106)	14,360
Other non-cash expenses	-	-	742	2,192	2,360	-	5,294

5. CASH AND CASH EQUIVALENTS

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

	2007	2006
Cash on hand and in banks	**P 315,167,358**	P 205,235,912
Short-term placements	**891,824,435**	1,168,470,275
	P1,206,991,793	P1,373,706,187

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 30 to 60 days and earn interest at the respective short-term placement rates ranging from 3% to 9% per annum in 2007 and 2006.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD-TO-MATURITY INVESTMENTS

6.1 Financial Assets

This account consists of mutual funds amounting to P147.2 million as of December 31, 2006.

In 2007, the Company recognized a gain from the disposal of its financial assets designated at fair value through profit or loss amounting to P2.6 million. The gain from disposal is presented as part of Finance Income account in the 2007 consolidated income statement (see Note 20.1).

The amounts for mutual funds have been determined directly by reference to net asset value per share quoted in the mutual fund statements.

The Group recognized the net increase in value of financial assets at fair value through profit or loss of P29.8 million in 2006 and P32.7 million in 2005, which were included in the Finance Income account in the 2006 and 2005 consolidated income statements (see Note 20.1).

6.2 Held-to-Maturity Investments

This account consists of various short-term money market placements which the Company intends to hold until maturity. These investments have maturity periods of 185 days and have interest rates at 8.00% per annum.

Management believes that the carrying amounts of held-to-maturity investments are a reasonable approximation of their fair values.

7. TRADE AND OTHER RECEIVABLES

This account includes the following as of December 31:

	Notes	**2007**	2006
Current:			
Trade receivables	25	**P 374,930,974**	P 304,071,086
Finance receivables		**75,903,392**	77,218,963
Advances to contractors	10	**22,512,690**	39,793,183
Other receivables		**100,686,819**	82,904,980
		574,033,875	
Allowance for impairment losses		**(120,532,570)**	(119,241,564)
		P 453,501,305	P 384,746,648

	2007	2006
Non-current:		
Cash surrender value of life insurance	P 381,677,516	P 439,953,477
Finance receivables – net of current portion	100,524,443	107,946,702
	P 482,201,959	P 547,900,179

Trade and other receivables are usually collected within 30 to 90 days and are noninterest-bearing. All trade and other receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers and third parties.

Advances to contractors pertain to downpayments made by ZTC in relation to the construction of the Tri-Towers condominium building, which is 99% completed in 2007 (see Note 10).

Interest rates per annum on finance receivables range from 9% to 18% in 2007 and 2006. Certain business loans of SMFI are secured by land and shares of stock of companies which are owned by certain stockholders of the Company.

Investment in cash surrender value of life insurance pertains to insurance policies purchased by BRL for its directors. The beneficiary of the insurance policies is SGI and the investment is accounted for under the Cash Surrender Value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately by BRL. The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid Insurance under Other Non-Current Assets and is amortized over 10 years (see Note 13). The investment in cash surrender value of life insurance is used as collateral for interest-bearing loans of BRL (see Note 14).

Other receivables include cash advances granted by Starworld in 2004 to a third party which is secured by the third party's stockholdings in a certain company to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). Due to certain delays in the arbitration proceedings with the Land Registration Auhtority (LRA), LARES still has not resumed the implementation of its land titling project with the government as of December 31, 2007.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and losses have been recognized accordingly.

A reconciliation of the allowance for impairment at beginning and end of 2007 and 2006 is shown below.

	Note	2007	2006
Balance at beginning of year		**P 119,241,564**	P 93,556,047
Impairment loss during the year	20.2	**11,581,155**	25,685,517
Reversal of impairment loss on receivables	20.1	**(10,290,149)**	-
Balance at end of year		**P 120,532,570**	P 119,241,564

In addition to impaired receivables, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired as of December 31, 2007 is as follows:

Not more than 3 months	P 87,670,744
More than 3 months but not more than one year	17,321,570
More than one year	34,952,334
	P 139,944,648

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the consolidated balance sheets comprise the following available-for-sale financial assets:

	2007	2006
Current –		
Investment in foreign currency denominated bonds	**P 388,448,319**	P 514,904,785
Non-current:		
Club shares	**8,950,000**	14,230,000
Investment in equity securities	**8,580,000**	8,580,000
Others	**1,216,518**	2,634,971
	18,746,518	25,444,971
Allowance for impairment losses	**(11,134,991)**	(10,934,991)
	7,611,527	14,509,980
	P 396,059,846	P 529,414,765

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

	Notes	2007	2006
Balance at beginning of year		**P 529,414,765**	P 521,649,403
Fair value gains (loss) – net		**(80,000)**	8,418,743
Additions		**-**	306,607,732
Disposals		**(131,874,919)**	(297,839,438)
Impairment losses	20.2	**(1,400,000)**	(8,600,000)
Foreign currency losses – net	23	**-**	(821,675)
Balance at end of year		**P 396,059,846**	P 529,414,765

The Group's management has determined that there is objective evidence that the decline in the values of certain equity securities and club shares is other than temporary. Accordingly, the Group recognized impairment losses amounting to P8.6 million in 2006. Impairment losses on permanent decline of value of available-for-sale financial assets are presented as Finance Costs in the 2006 consolidated income statements (see Note 20.2).

In 2007, the SMC sold two golf club shares with total carrying values of P8.3 million. No gain or loss has been recognized on the sale of these Available-for-sale financial assets.

Investments in foreign currency denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 14).

Investment in equity securities include P8.6 million investment in shares of stock of Sony, which was reclassified from the Investment in an Associate account in 2005 since management believes that the Company no longer has significant influence over the investee company. The investment in Sony is fully provided with allowance for impairment loss.

The fair values of other available-for-sale financial assets have been determined directly by reference to published prices in active market.

9. MERCHANDISE AND SUPPLIES

The details of this account are shown below (see Note 17.2).

	2007	2006
Merchandise and finished goods	**P 134,863,612**	P 30,409,716
Work-in-process	**3,168,275**	2,459,891
Raw materials	**16,327,723**	13,193,852
Service parts, supplies and others	**76,482,334**	69,838,712
	230,841,944	115,902,171
Allowance for obsolescence	**(40,674,114)**	(42,695,939)
	P 190,167,830	P 73,206,232

The movement in allowance for obsolescence is as follows:

	Note	2007	2006
Balance at beginning of year		**P 42,695,939**	P 44,642,340
Reversal of inventory obsolescence	19	**(1,396,008)**	-
Recovery of allowance		**(868,383)**	(761,089)
Write-off of inventories previously provided with an allowance		**-**	(2,602,725)
Loss on inventory obsolescence		**242,566**	1,417,413
		P 40,674,114	P 42,695,939

10. REAL ESTATE INVENTORIES

This account is composed of:

	Notes	2007	2006
Land and land development costs:			
Land		**P 152,664,544**	P 183,925,699
Land development costs		**222,041,937**	146,976,115
		374,706,481	330,901,814
Allowance for impairment		**(2,022,800)**	(2,022,800)
		372,683,681	328,879,014
Property development costs:			
Land	12, 29.5	**-**	129,801,264
Construction in progress and development costs		**552,995,647**	357,179,913
		552,995,647	486,981,177
		P 925,679,328	P 815,860,191

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

Allowance for impairment loss pertains to the estimated cost of parcels of land deemed unsaleable by management. No additional impairment was recognized in 2007 and 2006.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land. As of December 31, 2007 and 2006, lot areas totalling 82 hectares and 65 hectares, respectively, have been acquired and developed while 18 hectares of land already acquired are still under development.

The Group, through ZTC, has initiated the planning and construction of the "Tri-Towers" condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC (see Note 1.1 (g)). As of December 31, 2007, the construction of Tower 1 which started in 2007, is 99% complete.

In October 2007, ZTC obtained its permit to sell that would allow preselling of the condominium units, and has entered into several construction contracts with various contractors for the construction of the other towers. Advances made to contractors are shown as part of Trade and Other Receivables (see Note 7).

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2007 and 2006 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2007												
Cost	P 897,854,682	P 221,531,041	P 138,425,839	P 110,701,600	P 72,111,363	P 1,172,698,579	P 111,482,648	P 61,929,213	P 38,221,392	P 18,507,212	P 18,633,101	P 2,862,096,670
Accumulated depreciation and amortization	-	(120,631,439)	(123,902,361)	(95,666,773)	(55,217,558)	(443,994,494)	(72,319,021)	(56,730,284)	(34,648,817)	(17,088,646)	-	(1,020,199,393)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 65,899,602**	**P 14,523,478**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,418,566**	**P 18,633,101**	**P 1,456,897,277**
December 31, 2006												
Cost	P 897,854,682	P 220,140,212	P 137,999,219	P 107,098,955	P 65,662,047	P 1,155,722,528	P 109,286,027	P 59,289,080	P 38,148,727	P 17,359,439	P 18,630,474	P 2,827,191,390
Accumulated depreciation and amortization	-	(108,908,439)	(121,571,205)	(89,575,041)	(49,105,061)	(397,272,864)	(67,009,709)	(54,123,749)	(32,685,205)	(15,533,198)	-	(935,784,471)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919
December 31, 2005												
Cost	P 121,200,000	P 167,852,827	P 133,514,998	P 106,593,820	P 94,965,188	P 1,098,340,889	P 105,844,521	P 56,307,766	P 37,512,249	P 17,528,200	P 21,849,707	P 1,961,510,165
Accumulated depreciation and amortization	-	(51,043,938)	(118,697,838)	(87,292,630)	(75,365,283)	(351,675,116)	(60,910,813)	(50,862,468)	(30,342,734)	(13,432,127)	-	(839,622,947)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 121,200,000	P 81,808,889	P 14,817,160	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 736,887,218

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of property, plant and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919
Additions		1,390,829	426,620	3,665,961	8,616,226	16,976,051	2,196,621	2,640,133	72,665	1,147,773	2,627	37,135,506
Disposals	-	-	-	(31,668)	(659,028)	-	-	-	-	-	-	(690,696)
Depreciation and amortization charges for the year	-	(11,723,000)	(2,331,156)	(6,123,380)	(7,620,379)	(46,721,630)	(5,309,312)	(2,606,535)	(1,963,612)	(1,555,448)	-	(85,954,452)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment losses	**P 897,854,682**	**P 65,899,602**	**P 14,523,478**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,418,566**	**P 18,633,101**	**P 1,456,897,277**
Balance at January 1, 2006, net of accumulated depreciation, amortization and impairment loss	P 121,200,000	P 81,808,889	P 14,817,160	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 736,887,218
Additions	-	5,208,617	4,484,221	4,573,539	6,034,800	54,162,406	3,441,506	2,981,314	636,478	138,427	-	81,661,308
Reclassifications	-	-	-	2,151	-	3,219,233	-	(2,151)	-	-	(3,219,233)	-
Transfer from investment property (see Note 12)	776,654,682	-	-	-	-	-	-	-	-	-	-	776,654,682
Disposals	-	-	-	-	(1,722,569)	-	-	-	-	(268,790)	-	(1,991,359)
Depreciation and amortization charges for the year	-	(10,785,733)	(2,873,367)	(6,352,966)	(7,355,150)	(45,597,748)	(6,098,896)	(3,259,130)	(2,342,471)	(2,139,469)	-	(86,804,930)
Balance at December 31, 2006 net of accumulated depreciation, amortization and impairment losses	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and building and improvements amounts to P1.0 billion and P153.7 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer seller in an arm's length transaction as at the valuation date.

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

	Notes	2007	2006
Cost of services	17.1	**P 61,967,044**	P 57,102,390
Cost of sales	17.2	**2,390,987**	5,436,189
General and administrative expenses		**19,749,524**	19,714,189
Selling and distribution expenses		**1,846,897**	5,910,383
		P 85,954,452	P 88,163,151

12. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2007 and 2006 are shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
December 31, 2007				
Cost	P 1,423,831,444	P 811,407,119	P 485,580	P 2,235,724,143
Accumulated depreciation and amortization	(8,443,000)	(438,056,096)	-	(446,499,096)
Accumulated impairment loss	(64,578,500)	(4,743,117)	-	(69,321,617)
Net carrying amount	**P 1,350,809,944**	**P 368,607,906**	**P 485,580**	**P 1,719,903,430**
December 31, 2006				
Cost	P 1,423,752,268	P 788,259,304	P 10,810,088	P 2,222,821,660
Accumulated depreciation and amortization	(8,432,003)	(404,023,624)	-	(412,455,627)
Accumulated impairment loss	(64,578,500)	(4,743,117)	-	(69,321,617)
Net carrying amount	P 1,350,741,765	P 379,492,563	P 10,810,088	P 1,741,044,416
December 31, 2005				
Cost	P 2,218,395,298	P 783,522,580	P -	P 3,001,917,878
Accumulated depreciation and amortization	(5,125,738)	(372,565,674)	-	(377,691,412)
Accumulated impairment loss	(43,475,364)	(4,743,117)	-	(48,218,481)
Net carrying amount	P 2,169,794,196	P 406,213,789	P -	P 2,576,007,985

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of Investment Property is shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 1,350,741,765	P 379,492,563	P 10,810,088	P 1,741,044,416
Additions	79,176	12, 823,307	-	12,902,483
Reclassification	-	10,324,508	(10,324,508)	-
Depreciation and amortization charges for the year (see Note 17.3)	(10,997)	(34,032,472)	-	(34,043,469)
Balance at December 31, 2007, net of accumulated depreciation, amortization and impairment loss	**P 1,350,809,944**	**P 368,607,906**	**P 485,580**	**P 1,719,903,430**
Balance at January 1, 2006, net of accumulated depreciation, amortization and impairment loss	P 2,169,794,196	P 406,213,789	P -	P 2,576,007,985
Additions	4,398,782	4,750,361	10,810,088	19,959,231
Transfer to property, plant and equipment (see Note 11)	(776,654,682)	-	-	(776,654,682)
Transfer to property development costs (see Note 11)	(25,692,838)	-	-	(25,692,838)
Impairment loss – net of recovery of impairment loss (see note 20.3)	(21,103,136)	-	-	(21,103,136)
Depreciation and amortization charges for the year (see Note 17.3)	(557)	(31,471,587)	-	(31,472,144)
Balance at December 31, 2006, net of accumulated depreciation, amortization and impairment loss	P 1,350,741,765	P 379,492,563	P 10,810,088	P 1,741,044,416

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and improvements and buildings and improvements amounted to P1.91 billion and P530.5 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Based on this report, the Group recognized impairment losses amounting to P64.6 million on certain parcels of land and it reversed the P43.5 million impairment on the parcel of land held by Precos. Impairment loss, net of reversal, is recorded under the Other Gains (Losses) account in the 2006 consolidated income statement (see Note 20.3).

In 2006, the Group transferred parcels of land costing P776,654,682 from Investment Property to Property, Plant and Equipment as management determined that these parcels of land were substantially used by the Group for its operations rather than held for rentals to third parties or held for capital appreciation (see Note 11).

Certain land properties of SMC and SC are a subject of an ongoing litigation brought up by third parties and expropriation coverage under the Agrarian Reform Act (see Note 29.4).

13. OTHER ASSETS

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

	Note	**2007**	2006
Current:			
Input VAT		**P 93,679,325**	P 80,493,583
Prepaid expenses		**39,847,763**	24,657,918
Creditable withholding taxes		**38,401,058**	37,166,283
Refundable deposits		**-**	5,986,172
Others		**3,077,977**	2,941,437
		P 175,006,123	P 151,245,393
Non-current:			
Prepaid insurance	7	**P 13,580,149**	P 19,047,346
Refundable deposits - net		**12,602,393**	13,290,150
Others		**4,449,844**	12,208,111
		P 30,632,386	P 44,545,607

14. INTEREST-BEARING LOANS

This account pertains to U.S. dollar denominated short-term loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of life insurance and all outstanding available-for-sale securities (see Notes 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.90% to 6.56% in 2007 and 1.98% to 6.56% in 2006. Interest expense arising from these loans are presented as Finance Costs in the consolidated income statements.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at balance sheet date.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2007	2006
Trade payables	23.2, 25.2	**P 130,982,514**	P 103,945,818
Accrued expenses	29.4	**87,981,559**	90,731,084
Refundable deposits	16	**7,804,080**	6,519,560
Provisions for warranty	27.2	**3,442,542**	3,158,051
Other payables		**147,009,984**	181,127,681
		P 377,220,679	P 385,482,194

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

Provision is recognized for expected warranty claims on products sold, based on SVC's past experience of the level of repairs and returns. SVC accrues warranty costs for products sold to customers (see Note 27.2).

The changes in provisions for warranty, presented as part of Other Operating Expenses (see Note 19), are as follows:

	2007	2006
Balance at beginning of year	**P 3,158,051**	P 2,191,763
Estimated warranty claims during the year	**501,384**	1,611,699
Reversals during the year	**(216,893)**	(645,411)
Balance at end of year	**P 3,442,542**	P 3,158,051

16. REFUNDABLE DEPOSITS

Refundable deposits represents long-term rental deposits returnable to various tenants totalling P12,990,096 with respect to lease agreements expiring or terminating by 2009 to 2011. The refundable deposits were remeasured at amortized cost using the effective interest rate of 15.24% to 15.77% for nine and ten years, respectively, at the inception of the lease terms in 1999 and 2000. Interest expense recognized in 2007, 2006 and 2005 is presented under the Finance Costs account in the consolidated income statements (see Note 20.3). The present value of these non-current refundable deposits as of December 31, 2007 and 2006 amounted to P8,445,041 and P7,349,795, respectively.

The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 15).

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Services

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

	Notes	**2007**	2006	2005
Salaries and employee benefits		**P 94,001,287**	P 101,967,249	P 83,000,184
Materials and other consumables		**87,631,420**	75,758,604	81,057,966
Outside services		**62,269,844**	31,484,728	45,253,042
Depreciation and amortization	11	**61,967,044**	57,102,390	64,127,872
Communication, light and water		**43,447,018**	41,819,591	38,869,506
Transponder rental and leased line		**35,872,080**	40,399,563	41,717,081
Rentals	29.3	**26,692,873**	38,857,726	40,156,870
Transportation and travel		**18,782,539**	19,236,662	15,162,679
Repairs and maintenance		**14,975,052**	25,940,717	47,063,406
Cable services		**7,500,000**	5,075,250	6,854,000
Others		**31,172,204**	22,524,673	19,104,581
	19	**P 484,311,361**	P 460,167,153	P 482,367,187

17.2 Cost of Sales

The details of this account are shown below.

	Notes	**2007**	2006	2005
Merchandise and finished goods at beginning of year		**P 30,409,716**	P 36,601,637	P 27,383,375
Net purchases of merchandise during the year	19	**355,957,936**	272,764,218	202,964,214
Cost of goods manufactured:				
Raw materials at beginning of year		**13,193,852**	19,623,731	29,342,021
Work-in-process at beginning of year		**2,459,891**	6,645,348	3,051,116
Net purchases of raw materials during the year		**101,507,096**	56,818,184	132,697,920
Direct labor		**18,890,315**	22,741,002	19,565,284
Manufacturing overhead	11	**37,422,669**	40,010,376	81,528,416
Raw materials at end of year	9	**(16,327,723)**	(13,193,852)	(19,623,731)
Work-in-process at end of year	9	**(3,168,275)**	(2,459,891)	(6,645,348)
		184,387,541	166,786,535	267,299,053
Goods available for sale		**540,345,477**	439,550,753	470,263,267
Merchandise and finished goods at end of year	9	**(134,863,612)**	(30,409,716)	(36,601,637)
	20	**P 405,481,865**	P 409,141,037	P 433,661,630

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2007	2006	2005
Depreciation and amortization	12	**P 34,043,469**	P 31,472,144	P 31,190,299
Taxes and licenses		**11,580,592**	13,639,389	11,179,677
Rental		**9,230,693**	2,285,640	3,056,981
Light and water		**6,664,736**	7,201,448	7,859,549
Security and janitorial services		**4,306,696**	3,596,262	3,789,026
Repairs and maintenance		**1,569,342**	2,035,839	2,903,871
Salaries and employee benefits		**717,497**	849,946	848,356
Others		**1,538,704**	1,909,705	4,889,652
	19	**P 69,651,729**	P 62,990,373	P 65,717,411

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Note	2007	2006	2005
Increase in cash surrender value of investment in life insurance	7	**P 12,493,503**	P 13,177,887	P 4,760,029
Others		**13,054,702**	16,449,663	21,619,627
		P 25,548,205	P 29,627,550	P 26,379,627

19. OPERATING EXPENSES BY NATURE

Operating expenses is composed of the following:

	Notes	**2007**	2006	2005
Net purchases of merchandise inventories	17.2	**P 355,957,936**	P 272,764,218	P 202,964,214
Salaries and employee benefits	21	**215,531,162**	218,783,088	233,695,018
Materials, supplies and other consumables		**188,169,656**	149,222,433	239,949,730
Depreciation and amortization	11, 12	**119,997,921**	118,277,074	129,054,878
Manpower and other outside services		**111,560,549**	60,531,478	85,350,163
Communication, light and water		**81,899,585**	74,988,181	82,721,426
Cost of land sold		**61,997,555**	8,481,841	5,925,376
Rentals	25, 29	**40,327,073**	40,502,990	59,205,434
Transponder rental and leased line		**35,872,080**	39,186,031	41,717,081
Transportation and travel		**32,261,048**	34,418,432	30,473,630
Taxes and licenses		**31,216,226**	27,572,073	27,851,232
Repairs and maintenance		**28,603,447**	39,868,888	67,443,584
Loss on inventory obsolescence	9	**242,566**	1,417,413	1,902,649
Change in merchandise, finished goods and work-in-process inventories	15	**(99,401,238)**	10,377,378	(12,812,494)
Others		**118,275,697**	80,141,759	42,765,989
		P1,322,261,481	P1,176,533,277	P1,238,207,910

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

	Notes	**2007**	2006	2005
Cost of services	17.1	**P 484,311,361**	P 460,167,153	P 482,367,187
Cost of sales	17.2	**405,481,865**	409,141,037	433,661,630
Cost of land sold		**61,997,555**	8,481,841	5,925,376
Cost of rentals	17.3	**69,651,729**	62,990,373	65,717,411
General and administrative expenses		**270,070,987**	213,572,741	223,466,217
Selling and distribution costs		**30,747,984**	22,180,132	27,070,089
		P1,322,261,481	P1,176,533,277	P1,238,207,910

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	**2007**	2006	2005
Interest income from banks	4	**P108,804,388**	P118,875,323	P123,603,700
Fair value gains on financial assets at fair value through profit or loss – net	6	**-**	29,821,299	32,691,738
Reversal of impairment on receivables	7	**10,290,149**	-	19,565,838
Gain on sale of financial assets	6, 8	**2,595,101**	7,508,465	15,465,100
Others		**693,414**	1,421,250	7,508,191
		P122,383,052	P157,626,337	P198,834,567

Interest income of SGI and BRL are presented under Revenues in the income statement.

20.2 Finance Costs

This account consists of the following:

	Notes	**2007**	2006	2005
Foreign currency losses (gains) – net		**P119,446,635**	P 61,065,963	P 50,418,973
Interest expense arising from loans	14	**28,368,954**	29,575,943	20,257,994
Impairment losses on trade and other receivables	7	**11,581,155**	25,685,517	19,565,838
Impairment losses on available-for-sale financial assets	8	**1,400,000**	8,600,000	-
Others		**4,473,086**	-	-
		P165,269,830	P124,927,423	P 90,242,805

20.3 Other Gains (Losses)

This account consists of the following:

	Notes	**2007**	2006	2005
Gain on sale of investments		**P 2,011,066**	P -	P -
Reversal of impairment of inventory		**1,396,008**	-	-
Gain on sale of property and equipment	11	**174,168**	184,209	663,779
Gain from insurance proceeds		**-**	-	45,448,725
Impairment of land and leasehold rights held as investment property - net	12	**-**	(21,103,136)	-
Others – net		**1,157,175**	271,107	(8,522,138)
		P 4,738,417	(P 20,647,820)	P 37,590,366

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expense recognized for salaries and employee benefits is summarized below (see Notes 19 and 25.7).

	2007	2006	2005
Salaries, wages and other short-term benefits	**P 206,010,002**	P 213,245,448	P 226,500,126
Retirement – defined benefit plan	**9,447,660**	5,059,243	3,354,766
Termination benefits	**73,500**	478,397	3,840,126
	P 215,531,162	P 218,783,088	P 233,695,018

21.2 Employee Retirement Benefit Obligation

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

The Group obtained an actuarial valuation to determine the retirement benefit obligation and asset as of December 31, 2005. The Company did not obtain an updated actuarial valuation report in 2006 since there were no significant movements or changes in the actuarial assumptions used in 2005. However, the Company was provided with additional plan information applicable in 2006 based on the same assumptions used in 2005. The latest actuarial valuation report obtained by the Company for the valuation of the Company's retirement benefit plan as of December 31, 2007 is dated March 18, 2008. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

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

	2007	2006
Fair value of plan assets	**P115,047,327**	P111,842,541
Present value of the obligation	**73,028,736**	47,482,490
Excess of plan assets	**42,018,591**	64,360,051
Unrecognized actuarial losses (gains)	**193,080**	(18,361,724)
Retirement benefit asset	**P 42,211,671**	P 45,998,327

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

	2007	2006
Fair value of plan assets	**P 37,420,112**	P 39,199,902
Present value of the obligation	**23,114,304**	31,074,244
Excess of plan assets	**14,305,808**	8,125,658
Unrecognized actuarial gains	**(17,553,716)**	(11,629,653)
Retirement benefit obligation	**P 3,247,908**	P 3,503,995

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

	2007	2006
Fair value of plan assets	**P152,467,439**	P 151,042,443
Present value of the obligation	**96,143,040**	78,556,734
Net excess in the plan	**P 56,324,399**	P 72,485,709

Experience adjustments arising from the plan assets amounted to P2.5 million in 2007, P23.4 million in 2006 and P2.2 million in 2005. Management has determined that experience adjustments on plan liabilities are not material for all years presented.

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

	2007	2006
Balance at beginning of year	**P 78,556,734**	P 66,872,164
Current service and interest cost	**19,355,460**	14,201,770
Benefits paid	**(11,051,415)**	(2,517,200)
Actuarial losses	**9,282,261**	-
Balance at end of year	**P 96,143,040**	P 78,556,734

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

	2007	2006
Balance at beginning of year	**P151,042,443**	P113,584,009
Contributions paid into the plan	**5,917,091**	7,124,225
Benefits paid by the plan	**(11,051,415)**	(2,517,200)
Expected return on plan assets	**9,062,547**	9,115,264
Actuarial (losses) gains	**(2,503,227)**	23,736,145
Balance at end of year	**P152,467,439**	P151,042,443

Actual returns on plan assets amounted to P6.3 million and P32.8 million in 2007 and 2006, respectively. The Group expects to pay P6.7 million in contributions to retirement benefit plans in 2008.

The plan assets consist of the following:

	2007	2006
Government securities	**P 146,834,608**	P 138,005,262
Mutual and trust funds	**5,059,044**	11,147,047
Others	**573,787**	1,890,134
	P152,467,439	P 151,042,443

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

	2007	2006	2005
Current service costs	**P 13,187,011**	P 6,707,541	P 4,046,206
Interest costs - net	**6,168,449**	7,494,229	6,929,702
Expected return on plan assets	**(9,062,547)**	(9,115,264)	(7,611,067)
Net actuarial gains recognized during the year	**(845,253)**	(27,263)	(10,075)
	P 9,447,660	P 5,059,243	P 3,354,766

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

	2007	2006	2005
Discount rates	**7.0%-8.3%**	10.2%-12.0%	11.6%-14.5%
Expected rate of return on plan assets	**6%**	8.0%	8.0%
Expected rate of salary increases	**10%**	10.0%	10.0%

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

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

22. TAXES

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

	2007	2006	2005
Consolidated income statements:			
Current tax expense:			
Regular corporate income tax (RCIT) at 35% in 2007 and 2006 and 35% and 32% in 2005	**P 24,561,791**	P 17,537,525	P 27,472,829
Final taxes at 20% and 7.5%	**3,201,386**	9,730,448	9,119,310
Preferential taxes at 5%	**2,253,912**	1,009,589	861,760
Minimum corporate income tax (MCIT) at 2%	**1,579,012**	10,909	77,640
	31,596,001	28,288,471	37,531,539
Deferred tax expense (income):			
Derecognition of deferred tax asset	**16,227,675**	-	-
Origination and reversal of temporary differences	**7,084,977**	(22,822,739)	(24,722,255)
Benefit from previously unrecognized MCIT and net operating loss carry over (NOLCO)	**(258,513)**	(172,894)	(2,378,627)
Increase in RCIT rate	**667,610**	-	(539,225)
	23,721,749	(22,995,633)	(27,640,107)
Tax expense reported in the consolidated income statements	**P 55,317,750**	P 5,292,838	P 9,891,432
Consolidated statements of changes in equity –			
Deferred tax on fair value gains of available-for-sale financial assets (see Note 23)	**P 7,000**	P 14,000	P 49,000

Kita is duly registered with Clark Development Corporation (CDC) while SMC and Starworld are registered with Philippine Economic Zone Authority (PEZA) which entitle them to tax and duty-free importation of goods and exemption from national and local taxes (see Note 26).

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

	2007	2006	2005
Tax on pre-tax income at 35%	**P 573,378**	(P 29,003,755)	P 18,962,883
Adjustment for income subject to lower tax rates	**(28,240,626)**	(21,889,935)	(19,573,976)
Tax effects of:			
Derecognized and unrecognized deductible temporary differences	**70,931,081**	54,296,279	35,959,535
Nondeductible expenses	**13,827,777**	14,392,256	38,845,693
Income of foreign subsidiary not subject to taxes	**(10,607,463)**	(12,851,202)	(11,475,971)
Amortization of goodwill attributable to property, plant and equipment	**7,105,351**	7,105,351	7,105,351
Loss on non-recoverable foreign exchange loss	**4,687,071**	-	-
Benefit from previously unrecognized deferred tax assets	**(3,493,915)**	-	(50,020,040)
Unrecognized MCIT	**1,547,736**	-	-
Non-taxable income	**(923,653)**	(51,597)	-
Fair value gains of financial assets at fair value through profit or loss	**(908,285)**	(10,460,762)	(11,465,831)
Decrease in deferred tax assets due to decrease in applicable tax rates	**630,758**	-	-
Deferred tax assets recognized	**156,073**	-	-
Others	**32,468**	3,756,203	1,553,788
Tax expense	**P 55,317,750**	P 5,292,838	P 9,891,432

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

	Consolidated Balance Sheets		Consolidated Income Statements		
	2007	2006	**2007**	2006	2005
Deferred tax assets:					
Allowance for impairment of receivables	**P 10,081,768**	20,799,205	**(P 10,717,437)**	(P 4,746,649)	(P 14,483,830)
Unamortized past service costs	**1,875,056**	2,736,830	**(861,774)**	(1,473,486)	(885,754)
Accrued employee benefits	**1,167,900**	-	**1,167,900**	529,773	1,182,523
Advance rental	**184,198**	446,189	**(261,991)**	1,656,341	(1,681,704)
Accrued rent	**65,436**	-	**65,436**	-	-
Allowance for inventory obsolescence	**36,033**	610,289	**(574,256)**	(260,289)	(30,000)
NOLCO	**12,170**	-	**12,170**	-	-
Unrealized foreign currency losses	**-**	16,935,656	**(16,935,656)**	(16,935,656)	
Provisions for warranty	**-**	1,105,318	**(1,105,318)**	(1,105,318)	-
Deferred rent expense – PAS 17	**-**	755,335	**(755,335)**	(755,335)	-
	13,422,561	43,388,822	**(29,966,261)**	(23,090,619)	(15,898,765)
Deferred tax liabilities:					
Deferred rent income – PAS 17	**(202,101)**	(4,290,974)	**4,088,873**	1,179,403	3,111,571
Retirement benefits	**-**	(2,985,779)	**2,985,779**	296,299	2,689,480
Benefit from previously unrecognized MCIT	**-**	-	**-**	-	(2,378,627)
	(202,101)	(7,276,753)	**7,074,652**	(1,475,702)	(3,422,424)
Deferred Tax Income			**(P 22,891,609)**	(P 21,614,917)	(P 12,476,341)
Net Deferred Tax Assets	**P 13,220,460**	P 36,112,069			

The net deferred tax liabilities of companies which have a net deferred tax liability position as of December 31 relates to the following:

	Consolidated Balance Sheets		Consolidated Income Statements and Statements of Changes in Equity		
	2007	2006	**2007**	2006	2005
Deferred tax assets:					
Allowance for impairment of receivables	**P 6,898,681**	P -	**P 6,898,681**	P 406,108	(P 406,108)
Provision for warranty	**1,204,889**	-	**1,204,889**	767,117	(767,117)
Unamortized past service costs	**886,123**	-	**886,123**	2,231,362	(224,773)
Allowance for inventory obsolescence	**355,220**	-	**355,220**	338,429	(338,429)
Deferred revenue	**94,837**	-	**94,837**	1,590,909	(1,590,909)
Accrued employee benefits	**-**	-	**-**	1,167,855	(1,167,855)
Allowance for impairment of prepayments	**-**	-	**-**	231,056	(231,056)
NOLCO	**-**	-	**-**	-	5,275,176
MCIT	**-**	-	**-**	-	145,329
	9,439,750	-	**9,439,750**	6,732,836	694,258
Deferred tax liabilities:					
Deferred rent income – PAS 17	**(4,778,726)**	-	**(4,778,726)**	(-)	(1,193,814)
Retirement benefits	**(4,214,392)**	-	**(4,214,392)**	(1,400,875)	(107,193)
Unrealized foreign currency gains	**(1,221,845)**	-	**(1,221,845)**	(5,395,010)	(15,874,684)
Accrued rent income	**(54,927)**		**(54,927)**		
Deferred costs	**-**	-	**-**	1,317,667	1,317,667
	(10,269,890)	-	**(10,269,890)**	(8,113,552)	(15,858,024)
Deferred Tax Income recognized in consolidated income statements			**(P 830,140)**	(P 1,380,716)	(P15,163,766)
Deferred tax liability on change in fair value of available-for-sale financial assets and tax expense recognized directly in equity (see Note 23.6)	**70,000**	(77,000)	**(P 7,000)**	P 14,000	P 49,000
	70,000	(77,000)			
Net Deferred Tax Liabilities	**(P 760,140)**	(P 77,000)			

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2007	P 162,723,032	P	P -	P -	P 167,591,098	2010
2006	106,624,420	-	639,776	-	105,984,644	2009
2005	120,750,609	-	98,833	-	115,783,710	2008
2004	142,025,018	-	9,305,475	132,719,543	-	2007
	P 532,123,079	P -	P 10,044,084	P 132,719,543	P 389,359,452	
MCIT:						
2007	P 1,579,012	P -	P -	P -	P 1,579,012	2010
2006	56,553	-	-	-	56,553	2009
2005	21,087	-	-	-	21,087	2008
2004	38,281	-	-	38,281	-	2007
	P 1,688,878.00	P -	P -	P 38,821	P 1,656,652	

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

	2007		2006	
	Amount	**Tax Effect**	Amount	Tax Effect
NOLCO	**P 389,359,452**	**P 136,275,808**	P 398,155,310	P 139,354,359
Unrealized foreign currency gains	**59,619,781**	**20,866,923**	5,790,654	2,026,729
Allowance for impairment of trade and other receivables	**96,360,678**	**33,726,237**	86,643,649	30,325,277
Allowance for impairment loss on available for-sale financial assets	**5,220,000**	**1,827,000**	5,220,000	1,827,000
Unrecognized retirement benefit expense	**3,447,679**	**1,206,688**	-	-
MCIT	**1,656,652**	**1,656,652**	126,327	126,327
Allowance for impairment of property, plant and equipment	**385,000,000**	**134,750,000**	350,000,000	122,500,000
Allowance for inventory obsolescence	**37,804,064**	**13,231,422**	37,804,063	13,231,422
Unamortized past service cost	**3,443,603**	**1,205,261**	4,126,560	1,444,296
	P 981,911,909	**P 344,745,991**	P 887,866,563	P 310,835,410

23. EQUITY

23.1 Revaluation Reserve

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

	Notes	2007	2006	2005
Fair value gains on available-for-sale financial assets:				
Balance at beginning of year		**P 12,336,169**	P 10,860,725	P 11,056,485
Foreign currency gains (losses)	8	**-**	(821,675)	1,016,404
Fair value gains (losses) for the year – net of fair value gains recognized in consolidated income statements		**(2,723,000)**	2,311,119	869,644
Tax expense on fair value gains	22	**(7,000)**	(14,000)	(49,000)
Balance at end of year		**9,606,169**	12,336,169	10,860,725
Foreign currency difference:				
Balance at beginning of year		**(49,155,985)**	(4,960,585)	3,368,934
Currency differences on translating financial statements of foreign operations		**(138,270,028)**	(26,786,679)	(18,329,519)
Unrealized foreign currency loss on equity advances of SGI to BRL		**(33,157,530)**	(7,408,721)	-
Balance at end of year		**(220,583,543)**	(49,155,985)	(14,960,585)
		(P 210,977,374)	(P 36,819,816)	P 4,099,860

23.2 Prior Period Adjustments

In 2007, as a result of the SBC, SMC, SVC and SLC's availment of the tax amnesty under R.A. 9480 or the Tax Amnesty Law which covers 2005 and prior taxable years, these subsidiaries restated their trade and other payables in 2005 and prior years to reverse long outstanding liabilities amounting to P3.4 million. In addition, Kita made prior period adjustments to correct the overstatement of depreciation expense. These prior period adjustments resulted in an increase in net income in 2006 and 2005 by P1.4 million and P3.4 million, respectively; and a decrease in deficit as of January 1, 2007 and 2006 by P2.6 million and P1.2 million, respectively.

24. EARNINGS (LOSS) PER SHARE

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

	2007	2006	2005
Net income (loss) (a):	**(P 54,430,446)**	(P 84,435,882)	P 49,954,975
Weighted average shares outstanding (b):			
Number of shares issued	**2,030,975,000**	2,030,975,000	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
Earnings (loss) per share (a/b)	**(P 0.03)**	(P 0.05)	P 0.03

There were no outstanding potentially dilutive instruments as of December 31, 2007, 2006 and 2005, hence, no information on diluted earnings (loss) per share is presented.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
Sale of goods –					
Professional equipment, accessories and tapes	**P -**	P -	P 354,041	**P -**	P -
Sale of services:					
Use of cable infrastructure	**85,392,857**	65,096,591	43,008,182	**59,967,007**	234,260,547
Commissions	**1,591,100**	1,895,244	4,157,050	**31,371,160**	-
Management services	**1,200,000**	1,200,000	1,200,000	**97,000**	-
	88,183,957	68,191,835	48,365,232	**91,435,167**	234,260,547
	P 88,183,957	P 68,191,835	P 48,719,273	**P 91,435,167**	P 234,260,547

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

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

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

Revenue from Sale of Goods and Services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables (see Note 7).

25.2 Purchase of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
Purchase of goods	**P 79,097,937**	P 72,099,355	P 76,070,918	**P -**	P 25,800
Availment of management services	**2,318,182**	4,370,370	3,344,498	**-**	-
	P 81,416,119	P 76,469,725	P 79,415,416	**P -**	P 25,800

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

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note17.1) and General and Administrative Expenses, respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
Group as lessor	**P 571,973**	P 593,333	P 826,213	**P 53,384**	P 18,211
Group as lessee	**P 190,269**	P 90,269	P 190,269	**P -**	P -

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rental in the consolidated income statements. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

SLC rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated income statements (see Note 19). There are no outstanding liabilities related to this lease in both 2007 and 2006.

25.4 Granting of Loans

	Business Loans	Car Loans	Total
Amount of transactions:			
2007	P -	P -	P -
2006	-	-	-
2005	35,000,000	4,294,650	64,294,650
Interest income earned:			
2007	4,140,000	122,375	4,262,375
2006	4,388,339	321,629	4,709,968
2005	4,179,533	837,720	5,017,253
Outstanding balances:			
2007	46,000,000	168,902	46,168,902
2006	46,000,000	1,490,594	47,490,594

SMFI grants interest-bearing business and other loans to companies owned by the majority stockholders of SGI. Interest rates range from 9% to 12% for 2007, 2006 and 2005. Interest earned on these loans are presented as part of Interest Income under Other Operating Income in the consolidated income statements (see Note 18) while outstanding balances are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

25.5 Advances to and from Related Parties

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

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by the parent company's majority stockholders, to customers in the Philippines. Commission revenue amounted to P1,591,100 and P1,895,244 in 2007 and 2006, respectively, and are presented as part of Rendering of Services account in the income statements. SVC also advances funds to STL to pay foreign suppliers. The outstanding balance of these advances amounted to P31,371,160 and P7,395,781 as of December 31, 2007 and 2006, respectively, and are included as part of Trade Receivables under Trade and Other Receivables account in the balance sheets (see Note 7).

25.7 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2007, 2006 and 2005 are as follows (see Note 21.1):

	2007	2006	2005
Salaries, professional fees and other short-term benefits	**P 25,890,580**	P 24,577,115	P 23,635,258
Retirement benefit expense	**1,613,830**	1,243,537	1,243,537
Termination benefits	**-**	-	1,500,000
	P 27,504,410	P 25,820,652	P 26,378,795

26. REGISTRATION WITH ECONOMIC ZONE AUTHORITIES

26.1 Registration with the Clark Development Corporation (CDC)

Kita is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.* As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items (see Note 22). In lieu of said taxes, the Company is subject to a 5% preferential tax rate on its registered activities. However, the 35% RCIT rate is applied to income which comes from sources other than the Company's registered activities.

26.2 Registration with the Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes (see Note 22).

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

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with Sony

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

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

The breakdown of network support fees is shown below.

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
SONY Products	**P 32,030,215**	P 29,903,703	P 27,074,743	**P 13,409,249**	P 9,878,105
AIWA Products	**600,000**	600,000	600,000	**-**	-
	P 32,630,215	P 30,503,703	P 27,674,743	**P 13,409,249**	P 9,878,105

Network support fees earned are presented as part of Rendering of Services in the consolidated income statements. Outstanding receivables arising from this transaction are included in the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

27.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are under the 12 month-warranty period at its own costs and expenses (see Note 15). The Agreement is still in effect although no formal renewal was made in 2007.

27.3 Contract Agreement with RTVM

In October 2006, SVC entered into an agreement with RTVM. Under the agreement, SVC will provide integration services, equipments, labor and rental of materials and equipment for the full turn key implementation of the International Media Center to be used in the 12th ASEAN summit which originally was scheduled in December 2006. However, due to certain events beyond SVC's control, the summit was rescheduled to January 2007. The Company recognized revenue of P99.6 million relating to this transaction, of which P44 million is recognized as part of Sale of Goods account in 2006 while P55.5 million is recorded as part of Rendering of Services account in 2007.

28. EVENT AFTER BALANCE SHEET DATE

On February 15, 2008, the Company acquired 12,750 shares of stocks of Phil-Nanning Consortium, Inc. (PNCI) for a total acquisition price of P1.275 million (equivalent to the par value of the PNCI shares purchased). The Company became the parent company of PNCI after the acquisition. PNCI is registered with the SEC on December 31, 2005 to engage in the business of real estate development but has not yet started commercial operations since its registration.

Under the terms of the purchase agreements, the Company shall pay the sellers the amount of P318,750 upon closing of the purchase transaction and assume seller's liability for the unpaid portion of their respective subscriptions in PNCI shares in the aggregate amount of P956,250.

29. COMMITMENTS AND CONTINGENCIES

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

29.1 Planned Acquisition of LARES

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

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P2.0 million in 2006 and P0.9 million in 2005. The amount is still unpaid as of December 31, 2007. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6.0 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

(a) P3.0 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(b) The balance of P3.0 million shall be used for working capital and operating expenses of LARES.

As of December 31, 2007, LARES has already obtained a portion of the loan amounting to P3.9 million.

In September 2007, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements.

29.2 Operating Lease Commitments – Group as Lessor

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

	2007	2006	2005
Within one year	**P 12,041,244**	P 71,857,133	P 75,138,776
After one year but not more than five years	**9,556,733**	156,753,601	173,991,314
More than five years	**3,613,297**	8,005,451	17,879,714
	P 25,211,274	P 236,616,185	P 267,009,804

29.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2007, these leases have a remaining term of 12 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%.

	2007	2006	2005
Within one year	**P 5,196,035**	P 4,747,016	P 4,544,560
After one year but not more than five years	**27,054,655**	24,157,140	22,345,582
More than five years	**63,387,324**	70,753,956	77,794,530
	P 95,638,014	P 99,658,112	P 104,684,672

Total rental expense from these operating leases amounted to P8,280,347 in 2007, P7,415,493 in 2006 and P4,747,033 in 2005, and are shown as part of Rental under Cost of Services in the consolidated income statements (see Note 17.1).

29.4 Legal Claims

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

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

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

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

(b) Certain parcels of land owned by SC are being subject to expropriation coverage under the Agrarian Reform Act and claims by third parties.

As of December 31, 2007, the outcome of these legal claims cannot be ascertained by the Group.

In previous years, the SC was involved in a litigation with a local bank concerning letters of credit issued in connection with shipments of electronic parts to the SC. On January 8, 2007, the Company and the bank's assignor agreed to a full settlement of the case for P50 million (which was paid in full during 2007). No additional expense was recognized by the Company in 2007 as the Company had enough provision accrued in prior years (see Note 15).

As a result of the settlement, cash in bank accounts under garnishment totaling P1.0 million as of December 31, 2006, was released to the Company in 2007. Garnished cash in bank accounts are presented as Other Non-current Assets in the consolidated balance sheets (see Note 13).

29.5 Purchase Commitments

In December 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 9).

29.6 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 might be affected by the plans of the National Government for the construction of the proposed 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri-towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project (see Note 10).

29.7 Others

There are commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

30.1 Foreign Currency Sensitivity

The Group's net exposure to foreign currency risk as of December 31, 2007 is as follows:

	Notes	In U.S. Dollars	In Philippine Pesos
Assets:			
Cash and cash equivalents	5	$ 3,372,937	P 139,642,980
Trade and other receivables	7	828,891	34,316,911
		4,201,828	173,959,891
Liabilities:			
Interest-bearing loans	14	9,889,508	409,435,521
Trade and other payables	15	115,939	4,800,000
		10,005,447	414,235,521
Net liabilities exposure to foreign currency risk that will directly impact profit and loss		$ 5,803,619	P 240,275,630
Net assets exposure that will be taken directly to equity		$ 6,224,002	P 285,397,379

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

The following illustrates the sensitivity of the net result for the year as regards to the Company's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-20.72% change of the Philippine peso/ U.S. dollar exchange rate for the year ended December 31, 2007. This percentage has been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each balance sheet date, with effect estimated from the beginning of the year.

If the Philippine peso had strengthened against the U.S. dollar, income before tax for the year would have increased by P18.4 million. Conversely, if the Philippine had weakened against the U.S. dollars, income before tax in 2007 would have decreased by the same amount.

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 Company's currency risk.

30.2 Credit Risk

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

	Notes	
Cash and cash equivalents	5	P 1,206,991,793
Trade and other receivables – net	7	766,438,473
Advances to related parties	25	299,356,167
Available-for-sale financial assets	8	396,059,846
		P 2,668,846,279

Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

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

30.3 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 are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2007, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans, trade and other payables which have contractual maturities of within six months and advances from related parties which have contractual maturities of 6 to 12 months. These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet dates.

30.4 Interest Rate Sensitivity

At December 31, 2007, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates. All other financial assets have fixed rates (see Note 4).

The Philippine peso-denominated cash in bank and cash equivalents are tested on a reasonably possible change of +/-4.46% in 2007. On the other hand, U.S. dollar-denominated cash in bank are tested on reasonably possible changes of +/-1.79% in 2007. The calculations are based on Philippine peso-denominated and U.S. dollar-denominated financial instruments held at balance sheet, estimated at 99% level of confidence.

All other variables held constant, if the interest rate these financial assets increased by 4.46% for peso-denominated financial assets and 1.79% for U.S. dollar-denominated financial assets, income before tax in 2007 would have increased by P8.1 million. Conversely, if the interest rate decreased by same percentage, income before tax would have been lower by the same amount.

30.5 Cash Flow and Fair Value Interest Rate Risks

The Group's interest rate risk arises from the cash equivalents of SGI and its subsidiaries and from the short-term borrowings of BRL. Market interest rate risk generally changes every 30 days. The Group is exposed to changes in market interest rate through its cash and cash equivalents and interest bearing loan.

As of December 31, 2007, the Group has P877.4 million cash equivalents which is subject to fluctuations in market interest rate. Market interest rate for 2007 ranged from 3.0% to 9.0% for peso cash equivalents and 4.3% to 5.0% for U.S. dollar cash equivalents.

As of December 31, 2007, bank borrowings at floating interest rates amounted to P409.4 million. Market interest rate for borrowings for 2007 ranged from 1.9% to 6.6%.

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

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

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

	2007	2006
Total liabilities (excluding amounts due to related parties)	**P 843,716,950**	P 865,996,500
Total equity	**6,251,849,903**	6,479,686,989
Debt-to-equity ratio	**0.13 : 1**	0.13 : 1

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended: June 30, 2008

2. Commission Identification Number: 845

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

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

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

6. _________ (SEC Use Only)
Industry Classification Code

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

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

9. Former name, former address and former fiscal year, if changed since last report: N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 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 pa r value	1,821,542,000 shares

11. Are any or all of the securities listed on the Philippine Stock Exchange?
Yes [X] No [ ]

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 12 months (or for such shorter period the registrant was required to file such reports)

Yes [X] No [ ]

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

Yes [X] No [ ]

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the three (6) months period ended June 30, 2008 are attached to this report.

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

Key Performance Indicators

The following key performance indicators are identified by the Company and included in the discussion of the results of operations and financial condition: asset turnover, revenue growth, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, current ratio and debt to equity ratio.

Revenue growth is determined as follows: revenues for the current period less revenues for last period divided by the revenues of the previous period. Revenue growth was by 15% for the first semester of 2008 as explained in the results of operations. Target revenue growth for 2008 is 25%

Asset turnover is computed based on the revenues (annualized) earned during the period divided by the average total assets. Asset turnover was 20% for the first semester in 2008 compared with 17.8% for the same period in 2007 principally due to higher revenues generated for the first half of the year as discussed in the results of operations. Target asset turnover for 2008 is 25%

Operating expense ratio is calculated as follows: operating expenses for the period divided by revenues for period. Operating expense ratio was 22.7% in 2008 which was slightly higher than 18% registered in 2007 principally due to higher operating expenses. Target operating expense ratio for 2008 is 25%.

EBITDA is determined by adding back interest expense, depreciation and amortization charges, impairment losses to income from operations before income tax for the period. EBITDA amounted to P126 million for the first semester of 2008 against P69 million for the same period in 2007. The increase was mainly due to higher gross profit during the period as discussed in the results of operations. Target EBITDA for 2008 is P250 million.

Earnings per share (EPS) is computed based on the net income or loss for the period divided by the weighted average shares outstanding during the year. Earnings per share amounted to P0.02 in 2008 versus P0.01 loss in 2007. Target EPS for 2008 is P0.05.

Current ratio is computed as follows: total current assets as of end of the period divided by total current liabilities as of end of the period. Current ratio stood at 3.01 as of June 30, 2008 and 3.48 : 1 as of December 31, 2007 mainly from higher current liabilities as discussed in the financial position. Target current ratio for 2008 is 3: 1.

Debt to equity ratio is computed by dividing the total liabilities excluding amounts due to related parties as of end of the period by the total equity as of end of the period. Debt to equity ratio stood at 0.16 : 1 as of June 30, 2008 from 0.13 : 1 as of December 31, 2007 due to higher liabilities. Target debt to equity ratio is 1 : 1.

Results of Operations

The Company reported revenues of P755 million for the first semester of 2008, improving by 15% from P656 million for the same period in 2007 as discussed below. The Company expects revenues to improve by 25% for the whole year of 2008.

Asset turnover was 20% for the first semester in 2008 (versus target of 25% for the year) compared with 17.8% for the same period in 2007 principally due to higher revenues generated for the first half of the year.

Service revenue amounted to P288 million for the first semester of 2008, down by 11% against P323 million for the same period in 2007, mainly due to revenue earned for services rendered for the ASEAN Summit in 2007, partly offset by higher broadband revenues for the current period.

Sale of goods amounted to P360 million for the first semester of 2008, improving by 88% from P192 million for the same period in 2007 mainly due to mobile phone sales.

Rental income amounted to P60 million for the first semester of 2008, up by 13% from P53 million for the same period in 2007 primarily from higher occupancy.

Sale of land amounted to P15 million for the first semester of 2008, or lower by 67% from P46 million for the same period in 2007. The decline was principally because of zero sales of industrial lots for the period.

Interest income amounted to P30 million for the first semester of 2008, or a decrease of 25% from P40 million for the same period in 2007 mainly from lower investible funds and lower dollar conversion rate for the period.

Cost of sales, services and rentals amounted to P544 million for the first semester of 2008, or up by 10% from P494 million for the first semester of 2007 as discussed below.

Cost of services reached P218 million for the first semester of 2008, or lower by 18% from P268 million for the same period of 2007, principally in relation to the decline in service revenues.

Cost of sales amounted to P284 million for the first semester of 2008, or higher by 68% from P169 million for the first semester of 2007 mainly in relation to higher sales for the period.

Cost of rentals amounted to P32 million for the first semester of 2008, up by 4% from P31 million for the same period in 2007 primarily from increase in repairs.

Cost of land amounted to P8 million for the first semester of 2008, or a decrease of 67% from P25 million for the first semester of 2007. The decrease was mainly in relation to the decline in sale of land.

Gross profit improved by 30% to P210 million for the first semester of 2008 compared with P161 million for the first semester of 2007 due to improved margins from mobile phone sales.

Other operating expenses (income) amounted to P161 million for the first semester of 2008 against P109 million for the same period in 2007 as explained below.

General and administrative expenses amounted to P132 million for the first semester of 2008, higher by 32% from P100 million for the first semester of 2007 primarily from increase in manpower costs.

Selling and distribution costs amounted to P38 million for the first semester of 2008, up by 120% from P17 million for the first semester of 2007 mainly from higher advertising charges for the mobile phone business.

Other operating income amounted to P9 million for the first semester of 2008 compared with P8 million for the same period in 2007, or higher by 7% primarily due to miscellaneous income, offset by lower cash surrender value of investment in life insurance policy.

Operating expense ratio was 22.7% in 2008 (versus a target of 25% for the whole year of 2008) which was slightly higher than 18% registered in 2007 principally due to higher operating expenses.

Operating profit amounted to P48 million for the first semester of 2008 compared with P52 million for the same period in 2007 mainly from higher operating expenses as explained above.

Other income (charges) amounted to P604 thousand million for the first semester of 2008 against P55 million loss for the same period in 2007 mainly from the following:

Finance income amounted to P7 million for the first semester of 2008, down by 49% compared with P15 million with the same period of last year primarily due to lower gain on sale of financial assets.

Finance costs went down to P7 million for the first semester in 2008, down by 88% against P71 million for the same period in 2007 mainly from lower interest rates in 2008 and also due foreign currency losses incurred last year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) amounted to P126 million for the first semester of 2008 against P69 million for the same period in 2007. The increase was mainly due to higher gross profit during the period. The Company is on target to achieve EBITDA of P250 million for the whole year of 2008.

Income before tax reached P49 million for the first semester in 2008, improving from last year's loss of P2 million for the same period in 2007 mainly due to other charges incurred in 2007 as explained above.

Tax expense amounted to P15 million for the first semester of 2008 from (P106) thousand in 2007 due to higher income tax provision of certain subsidiaries in 2008.

Net income amounted to P33 million for the first semester of 2008 against P2 million loss for the same period in 2007 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P37 million for the first semester of 2008 against P9 million loss in for the same period of 2007 as discussed above.

Net income attributable to minority interest amounted to P3.5 million loss for the first semester of 2008 compared with P6 million income in 2007 due to losses incurred by the industrial lot business and China project of the Company.

Earnings per share amounted to P0.02 in 2008 versus P0.01 loss in 2007. Target earnings per share for 2008 is P0.05

Financial Position

The Company reported cash and cash equivalents of P 1,092million as of June 30, 2008, down by 10% from P1,206 million as of December 31, 2007. Cash was mainly used for investing activities principally for acquisition of investment properties and used for operating activities primarily for increase in real estate inventories.

Held-to-maturity investments amounted to none as of June 30, 2008 against P53 million as of end of last year mainly due to maturity of these investments.

Trade and other receivables reached P621 million as of June 30, 2008 against P453 million as of December 31, 2007, increasing by 37% mainly from increase in other receivables. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P130 million as of June 30, 2008 and December 31, 2007. There was no movement for this account.

Available-for-sale financial assets went up to P378 million as of June 30, 2008, or decrease of 3% from P388 million as of December 31, 2007. There was no major variance for this account.

Merchandise inventories and supplies - net amounted to P125 million was lower by 34% as of June 30, 2008 compared with P190 million as of December 31, 2007, mainly due to lower merchandise and finished goods.

Real estate inventories amounted to P1,217 million as of June 30, 2008, up by 32% from P925 million as of December 31, 2007, primarily from additional cost on property development.

Other current assets amounted to P185 million as of June 30, 2008, increasing by 6% compared with P175 million as of December 31, 2007 principally from refundable deposits and increase in other assets.

Total current assets amounted to P3,750 million as of June 30, 2008 from P3,522 million as of December 31, 2007 as discussed above. Current ratio stood at 3.01 as of June 30, 2008 and 3.48 : 1 as of December 31, 2007 mainly from higher current liabilities. The Company met its target current ratio of 3 : 1.

Non-current trade and other receivable amounted to P569 million as of June 30, 2008, up by 18% from P482 million as of December 31, 2007 mainly from higher finance receivables and cash surrender value of life insurance policy.

Non-current available-for-sale financial assets stood at P12 million as of June 30, 2008 against P7 million as of December 31, 2007 or an increase of 67% mainly from additional club shares and other investments.

Non-current held-to-maturity investments amounted to P109 million as of June 30, 2008 versus none as of end of last year primarily from investments made in relation to the acquisition of the China property project.

Property, plant and equipment amounted to P1,432 million as of June 30, 2008 or lower by 2% from P1,456 million as of December 31, 2007. There was no material variance for this account.

Investment property amounted to P1,844 million as of June 30, 2008 against P1,719 million as of December 31, 2007, or an increase of 7% mainly from additional acquisitions.

Retirement benefit assets amounted to P42 million as of June 30, 2008 and December 31, 2007.

Deferred tax assets - net amounted to P13 million as of June 30, 2008 and December 31, 2007.

Other non-current assets amounted to P30.1 million as of June 30, 2008, lower by 2% from P30.6 million as of December 31, 2007. There was no material variance for this account.

Total non-current assets amounted to P4,054 million as of June 30, 2008 from P3,752 million as of December 31, 2007 as discussed above.

Total assets reached P7,804 million as of June 30, 2008 from P7,275 million as of the December 31, 2007 as discussed above.

Interest-bearing loans amounted to P446 million as of June 30, 2008, up by 9% from P409 million as of December 31, 2007 mainly from additional loans.

Trade and other payables amounted to P584 million as of June 30, 2008 against P377 million as of December 31, 2007, up by 55% primarily due to higher other payables.

Advances from related parties amounted to P179 million as of June 30, 2008 and December 31, 2007. There was no movement for this account.

Estimated liability for land and land development costs amounted to P33 million as of June 30, 2008 compared with P36 million as of December 31, 2007, or lower by 9% primarily due to payment of development cost.

Income tax payable amounted to P3 million as of June 30, 2008 from P7 million as of December 31, 2007 mainly from payment of taxes.

Total current liabilities stood at P1,247 million as of June 30, 2008, higher by 2% from P1,011 million as of December 31, 2007 as explained above.

Non-current refundable deposits amounted to P8 million as of June 30, 2008 from P8 million as of December 31, 2007.

Retirement benefit obligation amounted to P3 million as of June 30, 2008 and December 31, 2007.

Deferred tax liabilities -net amounted to P760 thousand as of June 30, 2008 and December 31, 2007.

Total non-current liabilities amounted to P12 million as of June 30, 2008 and December 31, 2007.

Capital stock stood at P2,030 million as of June 30, 2008 and December 31, 2007.

Additional paid-in capital amounted to P4,641 million as of June 30, 2008 and December 31, 2007.

Treasury shares amounted to P115 million as of June 30, 2008 and December 31, 2007.

Revaluation reserves amounted to P111 million loss as of June 30, 2008 from P210 million loss as of December 31, 2007 mainly from the lower revaluation difference due to translation of the foreign subsidiary balances and transactions.

Deficit amounted to P311 million as of June 30, 2008 from P349 million as of December 31, 2007 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P6,134 million as of June 30, 2008 from P5,997 million as of December 31, 2007 due to lower revaluation reserve losses and net income during the period.

Minority interest amounted to P410 million as of June 30, 2008 from P254 million as of December 31, 2007, or an increase of 61% principally from additional issuance of shares of a subsidiary.

Total equity amounted to P6,545 million as of June 30, 2008 from P6,251 million as of December 31, 2007. Book value per share stood at P3.59 as of June 30, 2008 and P3.43 as of December 31, 2007.

Debt to equity ratio stood at 0.16 : 1 as of June 30, 2008 from 0.13 : 1 as of December 31, 2007 due to higher liabilities. The Company met its target ratio of 1 : 1.

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.

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

The Company estimates capital expenditures for the year 2008 to amount P550 million for the completion of phase 1 development of Tri-Tower Residential Condominium, construction and development of the real estate project in China, renovation of building and acquisition of other properties and upgrade of the data and cable internet and satellite equipment of the Solid Broadband Corp The construction and/ or purchase of these capital expenditures will be financed through a combination of internally generated funds of the Company and loans.

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

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

Solid Electronics Corporation, a wholly-owned subsidiary of the Company, provides in-warranty and out-of-warranty services for Sony products sold in the Philippines under the After-Sales Service and Network Support Agreements, which was effective until September 30, 2004. In May 2005, the Company entered into an informal agreement with Sony wherein these agreements was renewed annually until revoked. This contributed 5% of total revenues in 2007.

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

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

vii. Causes for any Material Changes from Period to Period

The discussion of the material changes for each account is included in the Management Discussion and Analysis.

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.

PART II –OTHER INFORMATION

None.

SIGNATURES

Pursuant to the requirements of the Securities Regulations Code, the issuer has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLID GROUP INC.

JASON S. LIM
Chief Operating Officer

IRENEO D. TUBIO, JR.
Chief Financial Officer

Republic of the Philippines)
Makati City) s.s.

SUBSCRIBED AND SWORN to before me this 1- Aug- 08 at Makati City, affiants exhibiting to me their Community Tax Certificates as follows:

Name	CTC No.	Date/Place of Issue
Jason S. Lim	19496766	January 22, 2008/Makati City
Ireneo D. Tubio	10620133	February 13, 2008/Manila
City		

Doc. No. 276;
Page No. 56;
Book No. XXXIX;
Series of 2008

MELVYN S. FLORENCIO
NOTARY PUBLIC
UNTIL DECEMBER 31 2009
PTR NO. 6118259
ISSUED ON 1/10/08 AT MANDALUYONG

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
JUNE 30, 2008 AND DECEMBER 31, 2007
(Amounts in Philippine Pesos)

	Notes	2008	2007
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 1,092,136,780**	P 1,206,991,793
Held-to-maturity investments	6	-	53,000,000
Trade and other receivables - net	7	**621,568,699**	453,501,305
Advances to related parties	25	**130,091,376**	130,091,376
Available-for-sale financial assets	8	**378,000,718**	388,448,319
Merchandise inventories and supplies - net	9	**125,395,448**	190,167,830
Real estate inventories - net	10	**1,217,782,079**	925,679,328
Other current assets	13	**185,390,539**	175,006,123
Total Current Assets		**3,750,365,639**	3,522,886,074
NON-CURRENT ASSETS			
Trade and other receivables	7	**569,597,960**	482,201,959
Available-for-sale financial assets - net	8	**12,733,291**	7,611,527
Held-to-maturity investments	6	**109,305,499**	-
Property, plant and equipment - net	11	**1,432,516,702**	1,456,897,277
Investment property - net	12	**1,844,637,865**	1,719,903,430
Retirement benefit asset	21	**42,211,671**	42,211,671
Deferred tax assets - net	22	**13,220,460**	13,220,460
Other non-current assets	13	**30,124,416**	30,632,386
Total Non-current Assets		**4,054,347,864**	3,752,678,710
TOTAL ASSETS		**P 7,804,713,503**	P 7,275,564,784

Forward

	Notes	2008	2007
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 446,273,327**	P 409,435,521
Trade and other payables	15	**584,356,927**	377,220,679
Advances from related parties	25	**179,997,931**	179,997,931
Estimated liability for land and land development costs		**33,505,328**	36,886,345
Income tax payable		**3,053,665**	7,721,316
Total Current Liabilities		**1,247,187,178**	1,011,261,792
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**8,445,041**	8,445,041
Retirement benefit obligation	21	**3,247,908**	3,247,908
Deferred tax liabilities - net	22	**760,140**	760,140
Total Non-current Liabilities		**12,453,089**	12,453,089
Total Liabilities		**1,259,640,267**	1,023,714,881
EQUITY			
Equity attributable to parent company			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital	23	**4,641,701,922**	4,641,701,922
Treasury shares - at cost		**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**(111,260,707)**	(210,977,374)
Deficit		**(311,546,226)**	(349,027,740)
Equity attributable to equity holders of the parent company		**6,134,255,609**	5,997,057,428
Minority interest		**410,817,627**	254,792,475
Total Equity		**6,545,073,236**	6,251,849,903
TOTAL LIABILITIES AND EQUITY		**P 7,804,713,503**	P 7,275,564,784

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED INCOME STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2008 2nd Quarter	2008 1st Semester	2007 2nd Quarter	2007 1st Semester
REVENUES					
Rendering of services		143,942,612	P 288,444,036	135,292,850	P 323,434,751
Sale of goods		199,338,228	360,886,881	104,050,446	192,382,607
Rentals		30,702,492	60,100,377	27,255,983	53,367,583
Sale of land		4,524,428	15,373,872	0	46,456,784
Interest income		13,155,266	30,203,564	21,425,898	40,509,858
		391,663,026	755,008,730	288,025,177	656,151,583
COSTS OF SALES, SERVICES AND RENTALS					
Cost of services	17	114,788,014	218,855,341	123,968,645	268,179,686
Cost of sales	17	159,791,386	284,626,630	85,197,524	169,660,974
Cost of rentals	17	16,497,635	32,499,920	19,367,077	31,335,286
Cost of land sold	19	2,451,496	8,393,352	0	25,086,663
		293,528,531	544,375,243	228,533,246	494,262,609
GROSS PROFIT		98,134,495	210,633,487	59,491,931	161,888,974
OTHER OPERATING EXPENSES (INCOME)					
General and administrative expenses	19	72,723,049	132,624,741	34,063,795	100,360,346
Selling and distribution costs	19	23,233,379	38,813,593	11,859,679	17,624,596
Other operating income	18	(3,342,584)	(9,440,534)	-1,466,873	(8,821,214)
		92,613,844	161,997,800	44,456,601	109,163,728
OPERATING PROFIT		5,520,651	48,635,687	15,035,330	52,725,246
OTHER INCOME (CHARGES)					
Finance income	20	3,799,460	7,955,492	9,560,735	15,709,447
Finance costs	20	1,730,724	(7,850,702)	-49,864,431	(71,178,948)
Other gains - net	20	500,000	500,000	0	32,280
		6,030,184	604,790	-40,303,696	(55,437,221)
INCOME BEFORE TAX		11,550,835	49,240,477	-25,268,366	(2,711,975)
TAX EXPENSE	22	5,982,562	15,331,536	-12,188,667	(106,503)
NET INCOME		P 5,568,273	P 33,908,941	-13,079,699	(P 2,605,472)
Attributable to:					
Equity holders of the parent company		5,812,159	P 37,481,514	-11,982,424	(P 9,413,247)
Minority interest		(243,886)	(3,572,573)	-1,097,275	6,807,775
		P 5,568,273	P 33,908,941	-13,079,699	(P 2,605,472)
Earnings per share for net income attributable to equity holders of the parent company	24	P 0.00	P 0.02	P 0.01	(P 0.01)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENTS
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		P 49,240,477	(P 2,711,975)
Adjustments for:			
Depreciation and amortization	19	56,998,538	57,457,019
Interest expense	20	7,850,702	14,264,695
Unrealized foreign currency losses - net		(547,072)	51,959,828
Gain on sale of property and equipment	20	(500,000)	(3,579,446)
Fair value gains on financial assets at fair value			(32,280.00)
through profit or loss	20	-	(1,926,445)
Interest income	20	(37,896,587)	(47,709,944)
Operating income before working capital changes		75,146,058	67,721,452
Increase in trade and other receivables		(255,463,395)	(31,607,104)
Decrease (increase) in inventories		64,772,382	3,160,885
Decrease in financial assets at fair value through profit or loss		-	53,403,130
Decrease in available-for-sale financial assets		10,447,601	35,184,151
Increase in real estate inventories		(292,102,751)	(5,557,908)
Increase in investment held-to-maturity		53,000,000	
Increase in other current assets		(10,384,416)	9,605,908
Increase in other non-current assets		507,970	9,819,070
Decrease in trade and other payables		207,136,248	(94,773,350)
Decrease in estimated liability for land and land development costs		(3,381,017)	(911,592)
Increase in refundable deposits		-	-
Cash generated used in operations		(150,321,320)	46,044,642
Interest received		37,515,794	47,709,944
Cash paid for income taxes		(19,999,187)	(16,422,695)
Net Cash Used in Operating Activities		(132,804,713)	77,331,891
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from sale of property, plant and equipment		-	
Minority interest		159,597,725	-
Acquisitions of investment property		(143,528,869)	(6,513,612)
Acquisitions of property, plant and equipment		(18,728,989)	(29,027,270)
Net Cash Used in Investing Activities		(2,660,133)	(35,540,882)
		(135,464,846)	41,791,009
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(15,680,901)	(14,264,695)
Proceeds of interest-bearing loans - net		36,837,806	(9,946,399)
Net Cash From (Used in) Financing Activities		21,156,905	(24,211,094)
Effect of Currency Rate Changes on Cash and Cash Equivalents		(547,072)	(48,348,102)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(114,855,013)	(30,768,187)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,206,991,793	1,373,706,187
CASH AND CASH EQUIVALENTS AT END OF YEAR		P 1,092,136,780	P 1,342,938,000

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX-MONTH PERIOD ENDED JUNE 30, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2008	2007
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY			
CAPITAL STOCK - P1 par value			
Authorized - 5,000,000,000 shares			
Subscribed, issued and outstanding - 2,030,975,000 shares		P 2,030,975,000	P 2,030,975,000
ADDITIONAL PAID - IN CAPITAL		4,641,701,922	4,641,701,922
TREASURY SHARES - At cost		(115,614,380)	(115,614,380)
REVALUATION RESERVES	23		
Balance at beginning of year		(210,977,374)	(36,819,816)
Currency differences on translating balances of foreign operations		106,974,816	(33,092,746)
Fair value gains (losses) on available-for-sale financial assets, net of taxes		(7,258,149)	(293,324)
Balance at end of year		(111,260,707)	(70,205,886)
DEFICIT			
Balance at beginning of year		(349,027,740)	(297,194,160)
Net income (loss) attributable to equity holders of the parent company		37,481,514	(9,413,247)
Balance at end of year		(311,546,226)	(306,607,407)
Total Equity Attributable to Equity Holders of the Parent Company		6,134,255,609	6,180,249,249
MINORITY INTEREST			
Balance at beginning of year		254,792,475	254,041,557
Issue of share capital by a subsidiary		159,597,725	-
Net income (loss) attributable to minority interest		(3,572,573)	6,807,775
Balance at end of year		410,817,627	260,849,332
TOTAL EQUITY		P 6,545,073,236	P 6,441,098,581
Net Income (Loss) Recognized Directly in Equity		P 99,716,667	(P 33,386,070)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2008 AND DECEMBER 31, 2007
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or the Company) and its subsidiaries (collectively referred to hereinafter as the Group), are incorporated in the Philippines, except for Brilliant Reach Limited which was incorporated in the British Virgin Islands (BVI) and Guangxi Fil-Dragon Real Estate Development Limited (Fil-Dragon) which was organized under the laws of the People's Republic of China.

The Company holds ownership interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership 2008	2007	2006	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100%**	100%	100%		Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of color televisions
Solid Broadband Corporation (SBC)	**100**	100	100	1.2	Broadband cable and satellite services
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	1.2, b	Information and communications technology systems
Precos, Inc. (Precos)	**100**	100	100	b 1.3	 Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Zen by the Park, Inc. (ZPI)	**100**	100	-	f	Real estate
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100	1.3, g	Real estate
Phil-Nanning Consortium Inc.(PNCI)	**100**	-	-	b, h	Real estate
Guangxi Fil-Dragon Real Estate Development Limited (Fil-Dragon)	**51**	-	-	b, i	Real estate
Skyworld Corporation (Skyworld)	**75**	75	75	1.2, d	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	1.2, a, b	Investment holding company
Starworld Corporation (Starworld)	**50**	50	50	d, e	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	50	a, c	Real estate

Notes:

- a Indirectly owned through SC
- b Pre-operating or non-operating
- c LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- d Indirectly owned through SMC
- e Starworld is 20% owned by SMC and 40% owned by Skyworld
- f Incorporated in 2007 and had not yet started commercial operations; indirectly owned through SMC.
- g In 2005, ZTC was incorporated and took over the development of the Tri-Tower Condominium Project from SMC.
- h Indirectly owned through Precos.
- i Indirectly owned through PNCI.

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

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

1.2 Merger of SBC and Destiny, Inc. (DI) and its Subsidiaries

On November 5, 2003, the stockholders of SBC and DI and its subsidiaries approved the merger of the companies. The merger dissolved DI and its subsidiaries and transferred all their operations, assets and liabilities to SBC, the surviving company. The Securities and Exchange Commission (SEC) approved the merger on August 26, 2005. Prior to the merger, the companies were wholly-owned subsidiaries of SGI. The merger was accounted for at historical cost in a manner similar to that of pooling of interest method. The combined net assets of SBC and DI after the merger amounted to P724.3 million as of December 31, 2005. In 2005, the combined net loss of SBC and DI amounted to P87.2 million.

1.3 Other Corporate Information

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation 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 (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

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

(b) Functional and Presentation Currency

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

(c) Reclassifications of Accounts

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

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) Effective in 2007 that are relevant to the Company

In 2007, the Group adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

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

Discussed below are the impact on the financial statements of these new accounting standards.

(i) Philippine Accounting Standards (PAS) 1 (Amendment), *Presentation of Financial Statements*. PAS 1 introduces new disclosures on the Group's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 31.

(ii) PFRS 7, *Financial Instruments: Disclosures*. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments; and,
- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Company availed of the transitional relief granted by the FRSC and presented only the relevant new disclosures required by the PFRS 7 for 2007 (see Note 30).

(iii) Philippines Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*. This Philippine Interpretation prohibits the reversal through profit and loss at a subsequent balance sheet date of any impairment losses recognized on goodwill and financial assets carried at cost at an interim period. The Group did not recognize impairment losses on its interim consolidated financial statements. Accordingly, adoption of this Philippine Interpretation has no impact on the Group's consolidated financial statements.

The first time application of these standard, amendment and interpretation has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) *Effective in 2007 but not relevant to the Group*

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, *Financial Reporting in Hyper Inflationary Economies*
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives

(c) *Effective subsequent to 2007*

There are new and amended standards and Philippine Interpretations that are effective for periods subsequent to 2007. The following new standards are relevant to the Group and which the Group will apply in accordance with their transitional provisions.

2008:

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

2009:

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PFRS 8	:	Operating Segments

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

(i) Philippine Interpretation IFRIC 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes the practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Group based on the set-up of the pension trust fund, the Group determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

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

(iii) PFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports, adoption of this new standard will not have a material impact on the Group's consolidated financial statements.

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

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

(b) Transactions with Minority Interests

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

2.4 Segment Reporting

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

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

2.5 Financial Assets

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

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

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

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

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

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

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

(b) Loans and Receivables

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

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

The Group's loans and receivables are presented as Trade and Other Receivables and Advances to Related Parties in the consolidated balance sheet.

(c) Held-to-maturity Investments

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

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

(d) Available-for-sale Financial Assets

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

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

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

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

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

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

2.6 Inventories

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

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

(a) *Merchandise inventories, raw materials, and supplies* – purchase cost on a moving average method; and,

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

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

2.7 Real Estate Inventories

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

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

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

(b) *Property Development Costs (ZTC) and Guangxi Fil-Dragon*

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

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

2.8 Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

2.9 Investment Property

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

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

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

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

2.10 Financial Liabilities

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

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

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

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

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

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

2.11 Business Combination

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

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

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

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

2.12 Provisions

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

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

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

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

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

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

2.13 Revenue and Expense Recognition

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

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

(b) *Sale of goods (other than sale of land)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

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

(d) *Warranty and network support fee (shown as part of rendering of services)* – Revenue from warranty is recognized within 30 days after the actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony).

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

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

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

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

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

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

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

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

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

2.14 Leases

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

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

2.15 Functional Currency and Foreign Currency Transactions

(a) Functional and Presentation Currency

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

(b) Transactions and Balances

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

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

(c) Translation of Financial Statements of a Foreign Subsidiary

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

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

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

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

On consolidation, exchange differences arising from the translation of the net investment in BRL is taken to equity under Revaluation Reserves. When a foreign operation is sold, such exchange differences are recognized in the consolidated income statement as part of the gain or loss on sale.

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

2.16 Impairment of Non-financial Assets

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

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

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

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

2.17 Employee Benefits

(a) Retirement Benefit Asset and Obligation

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

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

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

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

(b) Termination Benefits

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

(c) Compensated Absences

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

2.18 Income Taxes

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

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

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

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

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

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

2.19 Equity

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

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

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

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

Deficit includes all current and prior period results as reported in the consolidated income statement.

2.20 Earnings Per Share

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical 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) Held-to-maturity Investments

The Group follows guidance of PAS 39, *Financial Instruments: Recognition and Measurements,* in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making the judgment, the Group evaluates its intention and ability to hold its investments in bonds up to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. In such a case, the investments would therefore be measured at fair value, not at amortized cost.

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

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

(d) Distinction Between Investment Property and Owner-occupied Property

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

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

(e) 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.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Notes 15 and 29.

3.2 Key Sources of Estimation Uncertainty

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

(a) Determining Net Realizable Value of Inventories

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

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

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

(c) Allowance for Impairment of Trade and Other Receivables

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

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

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

(e) Realizable Amount of Deferred Tax Assets

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

(f) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(g) Retirement Benefits

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

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband Services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure.

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for Sony products (see Note 27.1).

(c) Real Estate segment activities include leasing and development and sale of industrial and other real estate properties.

(d) Trading segment is involved in the sale of plastic resins, professional audio and video equipment and peripherals and mobile phones.

(e) Investing, Financing and Others segment is presently engaged in the business of fund investments, automotive and consumer financing, and credit extension.

Segment accounting policies are the same as the policies described in Note 2.

4.2 Segment Assets and Liabilities

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

4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of June 30, 2008 and December 31, 2007 and the related revenue and profit information for the period ended June 30, 2008 and 2007 (in thousands).

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing Financing and Others	Eliminations	Consolidated
2008							
REVENUES							
Sales to external customers	P 134,109	P 224,676	P 76,665	P 294,177	P 47,213	(P 21,831)	P 755,009
RESULTS							
Net income (loss)	(P 5,620	P 1,368	P 1,777	P 24,130	P 33,708	(P 21,455)	P 33,908
ASSETS AND LIABILITIES							
Total assets	P 852,557	P 527,727	P 3,211,718	P 372,124	P 7,345,015	(P 4,504,427)	P 7,804,714
Total liabilities	P 1,079,674	P 763,517	P 1,738,593	P 193,507	P 800,376	(P 3,316,027)	P 1,259,640
2007							
REVENUES							
Sales to external customers	P 122,855	P 248,395	P 100,110	P 164,776	P 52,684	(P 32,669)	P 656,151
RESULTS							
Net income (loss)	(P 16,241)	P 7,075	P 19,343	P 4,092	(P 6,724)	(P 10,151)	(P 2,605)
ASSETS AND LIABILITIES							
Total assets	P 960,168	P 534,999	P 3,007,774	P 308,004	P 7,506,953	(P 5,042,333)	P 7,275,565
Total liabilities	P 206,929	P 129,930	P 863,316	P 173,054	P 745,934	(P 1,095,448)	P 1,023,715

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are as follows:

	2008	2007
Cash on hand and in banks	**P 319,406,806**	P 315,167,358
Short-term placements	**772,729,974**	891,824,435
	P1,092,136,780	P1,206,991,793

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 30 to 60 days and earn interest at the respective short-term placement rates ranging from 4% to 9% per annum in 2008 and 3% to 9% per annum in 2007.

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD-TO-MATURITY INVESTMENTS

6.1 Financial Assets

In 2007, the Company recognized a gain from the disposal of its financial assets designated at fair value through profit or loss amounting to P377 thousand. The gain from disposal is presented as part of Finance Income account in the 2007 consolidated income statement (see Note 20.1).

The amounts for mutual funds have been determined directly by reference to net asset value per share quoted in the mutual fund statements.

6.2 Held-to-Maturity Investments

In 2007, Held-to-maturity investments under current asset consist of various short-term money market placements which the Company intends to hold until maturity. These investments have maturity periods of 185 days and have interest rates at 8.00% per annum.

Held-to-maturity investments under non-current assets pertains to a long-term receivable which has a maturity of 3 years due on March 1, 2011 and bears interest of 6.00% per annum.

Management believes that the carrying amounts of held-to-maturity investments are a reasonable approximation of their fair values.

7. TRADE AND OTHER RECEIVABLES

This account includes the following:

	Notes	2008	2007
Current:			
Trade receivables	25	**P 481,169,243**	P 374,930,974
Finance receivables		**16,399,674**	75,903,392
Advances to contractors	10	**4,908,218**	22,512,690
Other receivables		**265,401,858**	100,686,819
		767,878,993	574,033,875
Allowance for impairment losses		**(146,310,294)**	(120,532,570)
		P 621,568,699	P 453,501,305
Non-current:			
Cash surrender value of life insurance		**P 421,296,953**	P 381,677,516
Finance receivables – net of current portion		**148,301,007**	100,524,443
		P 569,597,960	P 482,201,959

Trade and other receivables are usually collected within 30 to 90 days and are noninterest-bearing. All trade and other receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers and third parties.

Advances to contractors pertain to downpayments made by ZTC in relation to the construction of the Tri-Towers condominium building, which is 99% completed in 2007 (see Note 10).

Interest rates per annum on finance receivables range from 9% to 28% in 2008 and 9% to 18% in 2007. Certain business loans of SMFI are secured by land and shares of stock of companies which are owned by certain stockholders of the Company.

Investment in cash surrender value of life insurance pertains to insurance policies purchased by BRL for its directors. The beneficiary of the insurance policies is SGI and the investment is accounted for under the Cash Surrender Value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately by BRL. The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid Insurance under Other Non-Current Assets and is amortized over 10 years (see Note 13). The investment in cash surrender value of life insurance is used as collateral for interest-bearing loans of BRL (see Note 14).

Other receivables include cash advances granted by Starworld in 2004 to a third party which is secured by the third party's stockholdings in a certain company to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). Due to certain delays in the arbitration proceedings with the Land Registration Auhtority (LRA), LARES still has not resumed the implementation of its land titling project with the government as of December 31, 2007.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and losses have been recognized accordingly.

A reconciliation of the allowance for impairment at beginning and end of 2007 is shown below.

	2007
Balance at beginning of year	P 119,241,564
Impairment loss during the year	11,581,155
Reversal of impairment loss on receivables	(10,290,149)
Balance at end of year	P 120,532,570

In addition to impaired receivables, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired as of December 31, 2007 is as follows:

Not more than 3 months	P 87,670,744
More than 3 months but not more than one year	17,321,570
More than one year	34,952,334
	P 139,944,648

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The amounts in the consolidated balance sheets comprise the following available-for-sale financial assets:

	2008	2007
Current –		
Investment in foreign currency denominated bonds	**P 378,000,718**	P 388,448,319
Non-current:		
Club shares	**14,652,400**	8,950,000
Investment in equity securities	**8,580,000**	8,580,000
Others	**6,335,882**	1,216,518
	29,568,282	18,746,518
Allowance for impairment losses	**(16,834,991)**	(11,134,991)
	12,733,291	7,611,527
	P 390,734,009	P 396,059,846

A reconciliation of the carrying amounts of available-for-sale financial assets for December 31, 2007 is shown below.

-	2007
Balance at beginning of year	P 529,414,765
Fair value gains (loss) – net	(80,000)
Disposals	(131,874,919)
Impairment losses	(1,400,000)
Balance at end of year	P 396,059,846

The Group's management has determined that there is objective evidence that the decline in the values of certain equity securities and club shares is other than temporary.

In 2007, the SMC sold two golf club shares with total carrying values of P8.3 million. No gain or loss has been recognized on the sale of these Available-for-sale financial assets.

Investments in foreign currency denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 14).

Investment in equity securities include P8.6 million investment in shares of stock of Sony, which was reclassified from the Investment in an Associate account in 2005 since management believes that the Company no longer has significant influence over the investee company. The investment in Sony is fully provided with allowance for impairment loss.

The fair values of other available-for-sale financial assets have been determined directly by reference to published prices in active market.

9. MERCHANDISE AND SUPPLIES

The details of this account are shown below (see Note 17.2).

	2008	2007
Merchandise and finished goods	**P 48,733,044**	P 134,863,612
Work-in-process	**5,070,021**	3,168,275
Raw materials	**41,808,474**	16,327,723
Service parts, supplies and others	**76,444,957**	76,482,334
	172,056,496	230,841,944
Allowance for obsolescence	**(46,661,048)**	(40,674,114)
	P 125,395,448	P 190,167,830

The movement in allowance for obsolescence for December 31, 2007 is as follows:

	2007
Balance at beginning of year	P 42,695,939
Reversal of inventory obsolescence	(1,396,008)
Recovery of allowance	(868,383)
Loss on inventory Obsolescence	242,566
	P40,674,114

10. REAL ESTATE INVENTORIES

This account is composed of:

	Notes	2008	2007
Land and land development costs:			
Land		**P 248,000**	P 152,664,544
Land development costs		**351,965,765**	222,041,937
		352,213,765	374,706,481
Allowance for impairment		**(2,022,800)**	(2,022,800)
		350,190,965	372,683,681
Property development costs:			
Land		**-**	-
Construction in progress and development costs		**867,591,114**	552,995,647
		867,591,114	552,995,647
		P1,217,782,079	P 925,679,328

Land and land development costs pertain to cost of land and related improvements held by Starworld and LIIP which are for sale. Allowance for impairment loss pertains to the estimated cost of parcels of land deemed unsaleable by management. No additional impairment was recognized in 2008 and 2007.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land. As of June 30, 2008 and December 31, 2007, lot areas totalling 65 hectares have been acquired and developed while 18 hectares of land already acquired are still under development.

Property development costs pertain to the cost of land and the accumulated site development and construction costs of the following projects which are for sale:

Zen Tower Condominium Project

The Group, through ZTC, has initiated the planning and construction of the "Tri-Towers" condominium building. The construction of the first building was started in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC (see Note 1.1 (g)). As of June 30, 2008, the construction of Tower 1 was 100% complete.

In October 2007, ZTC obtained a permit to sell allowing the Company to presell the condominium units, and has entered into several construction contracts with various contractors for the construction of the other towers. Advances made to contractors are shown as part of Trade and Other Receivables (see Note 7).

Golden Hill Project

This is the first real estate project of the Group in China through its 51%-owned subsidiary, Guangxi Fil-Dragon Real Estate Development Limited (Fil-Dragon). The project will involve the development of a cluster of multi-storey residential and commercial condominium buildings within the ASEAN Commercial Park at Nanning City, Guangxi Province, People's Republic of China. The ASEAN Commercial Park, which is part of the China-ASEAN Expo (CAEXPO), is intended to promote the establishment of a China-ASEAN Free Trade Area in accordance with the Framework Agreement on China-ASEAN Comprehensive Economic Cooperation.

The Project occupies a total land area of 39,210 sq. m. with an approved constructed area of 46,500 sq.m. The total cost of this project is estimated at CNY 142.5 million (P851 million).

Financing for the project is already secured. The following costs have been incurred on June 30, 2008:

	In CNY	In Philippine Peso
Land acquisition	CNY15,145,025	P 98,777,368
Construction materials purchased	25,139,560	163,962,724
Other development costs	1,548,204	10,097,544
	CNY41,832,789	P 272,837,636

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2008 and 2007 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
June 30, 2008												
Cost	P 897,854,682	P 277,890,214	P 131,076,484	P 93,574,283	P 72,382,312	P 1,178,209,175	P 105,947,635	P 62,208,078	P 39,596,911	P 17,180,425	P -	P 2,875,920,199
Accumulated depreciation and amortization	-	(154,630,021)	(116,622,503)	(87,645,539)	(54,986,446)	(464,173,920)	(68,353,372)	(59,242,641)	(36,022,585)	(16,726,470)	-	(1,058,403,497)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 88,260,193**	**P 14,453,981**	**P 5,928,744**	**P 17,395,866**	**P 364,035,255**	**P 37,594,263**	**P 2,965,437**	**P 3,574,326**	**P 453,955**	**P -**	**P 1,432,516,702**
December 31, 2007												
Cost	P 897,854,682	P 221,531,041	P 138,425,839	P 110,701,600	P 72,111,363	P 1,172,698,579	P 111,482,648	P 61,929,213	P 38,221,392	P 18,507,212	P 18,633,101	P 2,862,096,670
Accumulated depreciation and amortization	-	(120,631,439)	(123,902,361)	(95,666,773)	(55,217,558)	(443,994,494)	(72,319,021)	(56,730,284)	(34,648,817)	(17,088,646)	-	(1,020,199,393)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 65,899,602**	**P 14,523,478**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,418,566**	**P 18,633,101**	**P 1,456,897,277**

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of property, plant and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2008, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 65,899,602	P 14,523,478	P 15,034,827	P 16,893,805	P 378,704,085	P 39,163,627	P 5,198,929	P 3,572,575	P 1,418,566	P 18,633,101	P 1,456,897,277
Additions(Reclassification)	-	56,359,173	(7,349,355)	(17,127,317)	270,949	5,510,596	(5,535,013)	278,865	1,375,519	(1,326,787)	(18,633,101)	13,823,529
Reclassification /Depreciation	-	(33,998,582)	7,279,858	8,021,234	231,112	(20,179,426)	3,965,649	(2,512,357)	(1,373,768)	362,176		(38,204,104)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment losses	**P 897,854,682**	**P 88,260,193**	**P 14,453,981**	**P 5,928,744**	**P 17,395,866**	**P 364,035,255**	**P 37,594,263**	**P 2,965,437**	**P 3,574,326**	**P 453955**	**P -**	**P 1,432,516,702**
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919
Additions		1,390,829	426,620	3,665,961	8,616,226	16,976,051	2,196,621	2,640,133	72,665	1,147,773	2,627	37,135,506
Disposals	-	-	-	(31,668)	(659,028)	-	-	-	-	-	-	(690,696)
Depreciation and amortization charges for the year	-	(11,723,000)	(2,331,156)	(6,123,380)	(7,620,379)	(46,721,630)	(5,309,312)	(2,606,535)	(1,963,612)	(1,555,448)	-	(85,954,452)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment losses	**P 897,854,682**	**P 65,899,602**	**P 14,523,478**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,418,566**	**P 18,633,101**	**P 1,456,897,277**

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and building and improvements amounts to P1.0 billion and P153.7 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer seller in an arm's length transaction as at the valuation date.

12. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2008 and 2007 are shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
June 30, 2008				
Cost	P 1,555,638,230	P 808,032,916	P 12,642,694	P 2,376,313,840
Accumulated depreciation and amortization	(8,473,468)	(458,624,007)	-	(467,097,475)
Accumulated impairment loss	(64,578,500)	-	-	(64,578,500)
Net carrying amount	**P 1,482,586,262**	**P 349,408,909**	**P 12,642,694**	**P 1,844,637,865**
December 31, 2007				
Cost	P 1,423,752,268	P 811,407,119	P 485,580	P 2,235,724,143
Accumulated depreciation and amortization	(8,443,000)	(438,056,096)	-	(446,499,096)
Accumulated impairment loss	(64,578,500)	(4,743,117)	-	(69,321,617)
Net carrying amount	P 1,350,809,944	P 368,607,906	P 485,580	P 1,719,903,430

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 of Investment Property is shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 1,350,809,944	P 368,607,906	P 485,580	P 1,719,903,430
Additions/Reclassification	131,806,786	(3,374,203)	12,157,114	140,589,697
Depreciation and amortization charges for the year (see Note 17.3)	(30,468)	(15,824,794)	-	(15,855,262)
Balance at June 30, 2008, net of accumulate depreciation, amortization and impairment loss	**P 1,482,586,262**	**P 349,408,909**	**P 12,642,694**	**P 1,844,637,865**
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 1,350,741,765	P 379,492,563	P 10,810,088	P 1,741,044,416
Additions	79,176	12, 823,307	-	12,902,483
Reclassification	-	10,324,508	(10,324,508)	-
Depreciation and amortization charges for the year (see Note 17.3)	(10,997)	(34,032,472)	-	(34,043,469)
Balance at December 31, 2007, net of accumulated depreciation, amortization and impairment loss	**P 1,350,809,944**	**P 368,607,906**	**P 485,580**	**P 1,719,903,430**

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and improvements and buildings and improvements amounted to P1.91 billion and P530.5 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Based on this report, the Group recognized impairment losses amounting to P64.6 million on certain parcels of land and it reversed the P43.5 million impairment on the parcel of land held by Precos.

Certain land properties of SMC and SC are a subject of an ongoing litigation brought up by third parties and expropriation coverage under the Agrarian Reform Act (see Note 29.4).

13. OTHER ASSETS

The composition of these accounts is shown below.

	Note	2008	2007
Current:			
Input VAT		**P 93,676,997**	P 93,679,325
Prepaid expenses		**39,794,725**	39,847,763
Creditable withholding taxes		**39,609,697**	38,401,058
Refundable deposits		**2,241,595**	-
Others		**10,067,525**	3,077,977
		P 185,390,539	P 175,006,123
Non-current:			
Prepaid insurance	7	**P 14,263,994**	P 13.580,149
Refundable deposits - net		**10,244,271**	12,602,393
Others		**5,616,151**	4,449,844
		P 30,124,416	P 30,632,386

14. INTEREST-BEARING LOANS

This account pertains to the following:

a.) US $9,679,799 short-term loans obtained by BRL from ING Private Bank. Interest expense arising from these loans are presented as Finance Costs in the consolidated income statements.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at balance sheet date.

b.) CNY 2 million short-term unsecured loan obtained by Fil-Dragon from certain China companies owned by the majority stockholders of the Company. The loans bear interest at market rate prevailing at the time of loan availment which is 6% per annum.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2008	2007
Trade payables	23.2, 25.2	**P 106,399,008**	P 130,982,514
Accrued expenses	29.4	**95,992,281**	87,981,559
Refundable deposits	16	**15,016,896**	7,804,080
Output tax		**55,452,767**	-
Provisions for warranty	27.2	**3,476,303**	3,442,542
Other payables		**308,019,672**	147,009,984
		P 584,356,927	P 377,220,679

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

Provision is recognized for expected warranty claims on products sold, based on SVC's past experience of the level of repairs and returns. SVC accrues warranty costs for products sold to customers (see Note 27.2).

The changes in provisions for warranty, presented as part of Other Operating Expenses (see Note 19), are as follows:

	2008	2007
Balance at beginning of year	**P 3,442,542**	P 3,158,051
Estimated warranty claims during the year	**33,761**	501,384
Reversals during the year	**-**	(216,893)
Balance at end of year	**P 3,476,303**	P 3,442,542

16. REFUNDABLE DEPOSITS

Refundable deposits represents long-term rental deposits returnable to various tenants totalling P12,990,096 with respect to lease agreements expiring or terminating by 2009 to 2011. The refundable deposits were remeasured at amortized cost using the effective interest rate of 15.24% to 15.77% for nine and ten years, respectively, at the inception of the lease terms in 1999 and 2000. Interest expense recognized in 2007 is presented under the Finance Costs account in the consolidated income statements (see Note 20.3). The present value of these non-current refundable deposits as of December 31, 2007 amounted to P8,445,041.

The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 15).

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Services

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

	Notes	**2008**	2007
Salaries and employee benefits		**P 22,595,199**	P 28,710,586
Materials and other consumables		**43,801,756**	44,634,631
Outside services		**44,186,647**	88,547,986
Depreciation and amortization	11	**24,899,641**	25,779,125
Communication, light and water		**16,287,451**	14,302,485
Transponder rental and leased line		**16,482,033**	17,742,997
Rentals	29.3	12**,853,660**	13,297,443
Transportation and travel		**3,364,291**	2,351,284
Repairs and maintenance		**8,276,359**	5,229,106
Cable services		**3,750,000**	399,750.00
Others		**22,358,304**	27,184,293
	19	**P 218,855,341**	P 268,179,686

17.2 Cost of Sales

The details of this account are shown below.

	Notes	**2008**	2007
Merchandise and finished goods at beginning of year		**P 134,863,612**	P 30,409,716
Net purchases of merchandise during the year	19	**79,509,816**	28,426,296
Cost of goods manufactured:			
Raw materials at beginning of year		**16,327,723**	13,193,852
Work-in-process at beginning of year		**3,168,275**	2,459,891
Net purchases of raw materials during the year		118,**298,539**	114,297,540
Direct labor		5,**729,314**	4,369,473
Manufacturing overhead	11	**22,340,890**	21,821,437
Raw materials at end of year	9	**(41,808,474)**	(24,009,572)
Work-in-process at end of year	9	**(5,070,021)**	(5,002,460)
		118,986,246	127,130,161
Goods available for sale		**333,359,674**	185,966,173
Merchandise and finished goods at end of year	9	**(48,733,044)**	(16,305,199)
	20	**P 284,626,630**	P 169,660,974

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2008	2007
Depreciation and amortization	12	**P 10,131,930**	P 8,322,149
Taxes and licenses		**4,425,763**	7,334,649
Rental		**5,177,747**	7,349,227
Light and water		**3,214,533**	3,067,542
Security and janitorial services		**2,604,533**	1,900,049
Repairs and maintenance		**4,533,240**	862,760
Salaries and employee benefits		**408,721**	356,778
Others		**2,003,453**	2,142,132
	19	**P 32,499,920**	P 31,335,286

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Note	2008	2007
Increase in cash surrender value of investment in life insurance	7	**P 4,101,751**	P 8,821,214
Others		**5,338,783**	-
		P 9,440,534	P 8,821,214

19. OPERATING EXPENSES BY NATURE

Operating expenses is composed of the following:

	Notes	**2008**	2007
Net purchases of merchandise inventories	17.2	**P 79,509,816**	P28,426,296
Salaries and employee benefits	21	**82,115,070**	75,741,949
Materials, supplies and other consumables		**165,502,301**	161,203,415
Depreciation and amortization	11, 12	**56,998,538**	57,457,019
Manpower and other outside services		**62,082,614**	104,295,340
Communication, light and water		**30,791,923**	28,426,701
Cost of land sold		**8,393,352**	25,086,663
Rentals	25, 29	**21,540,854**	22,076,856
Transponder rental and leased line		**16,482,033**	17,742,997
Transportation and travel		**11,110,863**	8,274,986
Taxes and licenses		**15,553,772**	15,535,703
Repairs and maintenance		**17,900,133**	10,132,706
Change in merchandise, finished goods and work-in-process inventories	15	**58,748,071**	11,561,948
Others		**89,084,237**	46,284,972
		P 715,813,577	P 612,247,551

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

	Notes	**2008**	2007
Cost of services	17.1	**P 218,855,341**	P 268,179,686
Cost of sales	17.2	**284,626,630**	169,660,974
Cost of land sold		**8,393,352**	25,086,663
Cost of rentals	17.3	**32,499,920**	31,335,286
General and administrative expenses		**132,624,741**	100,360,346
Selling and distribution costs		**38,813,593**	17,624,596
		P 715,813,577	P 612,247,551

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2008	2007
Interest income from banks	4	**P 37,896,587**	P 47,709,944
Fair value gains on financial assets at fair value through profit or loss – net	6	**-**	1,926,445
Gain on sale of financial assets	6, 8	**248,295**	3,579,446
Forex gains		**14,174**	3,003,470
		P 38,159,056	P 56,219,305

Interest income of SGI and BRL are presented under Revenues in the income statement.

20.2 Finance Costs

This account consists of the following:

	Notes	2008	2007
Foreign currency losses - net		**P -**	P 56,914,253
Interest expense arising from loans	14	**7,850,702**	14,264,695
		P 7,850,702	P 71,178,948,

20.3 Other Gains

This account pertains to gain on sale of property and equipment.

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expense recognized for salaries and employee benefits is summarized below (see Notes 19 and 25.7).

	2008	2007
Salaries, wages and other short-term benefits	**P 78,555,700**	P 72,970,454
Retirement – defined benefit plan	**3,031,370**	1,644,088
Termination benefits	**528,000**	1,127,407
	P 82,115,070	P 75,741,949

21.2 Employee Retirement Benefit Obligation

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

The Group obtained an actuarial valuation to determine the retirement benefit obligation and asset as of December 31, 2005. The Company did not obtain an updated actuarial valuation report in 2006 since there were no significant movements or changes in the actuarial assumptions used in 2005. However, the Company was provided with additional plan information applicable in 2006 based on the same assumptions used in 2005. The latest actuarial valuation report obtained by the Company for the valuation of the Company's retirement benefit plan as of December 31, 2007 is dated March 18, 2008. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

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

	2007
Fair value of plan assets	P115,047,327
Present value of the obligation	73,028,736
Excess of plan assets	42,018,591
Unrecognized actuarial losses (gains)	193,080
Retirement benefit asset	P 42,211,671

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

	2007
Fair value of plan assets	P 37,420,112
Present value of the obligation	23,114,304
Excess of plan assets	14,305,808
Unrecognized actuarial gains	(17,553,716)
Retirement benefit obligation	P 3,247,908

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

	2007
Fair value of plan assets	P152,467,439
Present value of the obligation	96,143,040
Net excess in the plan	P 56,324,399

Experience adjustments arising from the plan assets amounted to P2.5 million in 2007. Management has determined that experience adjustments on plan liabilities are not material for all years presented.

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

	2007
Balance at beginning of year	P 78,556,734
Current service and interest cost	19,355,460
Benefits paid	(11,051,415)
Actuarial losses	9,282,261
Balance at end of year	P 96,143,040

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

	2007
Balance at beginning of year	P 151,042,443
Contributions paid into the plan	5,917,091
Benefits paid by the plan	(11,051,415)
Expected return on plan assets	9,062,547
Actuarial (losses) gains	(2,503,227)
Balance at end of year	P 152,467,439

Actual returns on plan assets amounted to P6.3 million in 2007. The Group expects to pay P6.7 million in contributions to retirement benefit plans in 2008.

The plan assets consist of the following:

	2007
Government securities	P 146,834,608
Mutual and trust funds	5,059,044
Others	573,787
	P 152,467,439

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

	2007
Current service costs	P 13,187,011
Interest costs - net	6,168,449
Expected return on plan assets	(9,062,547)
Net actuarial gains recognized during the year	(845,253)
	P 9,447,660

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

	2007
Discount rates	7.0%-8.3%
Expected rate of return on plan assets	6%
Expected rate of salary increases	10%

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

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

22. TAXES

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

	2007
Consolidated income statements:	
Current tax expense:	
Regular corporate income tax (RCIT) at 35% in 2007 and 2006 and 35% and 32% in 2005	P 24,561,791
Final taxes at 20% and 7.5%	3,201,386
Preferential taxes at 5%	2,253,912
Minimum corporate income tax (MCIT) at 2%	1,579,012
	31,596,001
Deferred tax expense (income):	
Derecognition of deferred tax asset	16,227,675
Origination and reversal of temporary differences	7,084,977
Benefit from previously unrecognized MCIT and net operating loss carry over (NOLCO)	(258,513)
Increase in RCIT rate	667,610
	23,721,749
Tax expense reported in the consolidated income statements	P 55,317,750
Consolidated statements of changes in equity –	
Deferred tax on fair value gains of available-for-sale financial assets (see Note 23)	P 7,000

Kita is duly registered with Clark Development Corporation (CDC) while SMC and Starworld are registered with Philippine Economic Zone Authority (PEZA) which entitle them to tax and duty-free importation of goods and exemption from national and local taxes (see Note 26).

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

	2007
Tax on pre-tax income at 35%	P 573,378
Adjustment for income subject to lower tax rates	(28,240,626)
Tax effects of:	
Derecognized and unrecognized deductible temporary differences	70,931,081
Nondeductible expenses	13,827,777
Income of foreign subsidiary not subject to taxes	(10,607,463)
Amortization of goodwill attributable to property, plant and equipment	7,105,351
Loss on non-recoverable foreign exchange loss	4,687,071
Benefit from previously unrecognized deferred tax assets	(3,493,915)
Unrecognized MCIT	1,547,736
Non-taxable income	(923,653)
Fair value gains of financial assets at fair value through profit or loss	(908,285)
Decrease in deferred tax assets due to decrease in applicable tax rates	630,758
Deferred tax assets recognized	156,073
Others	32,468
Tax expense	P 55,317,750

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

	Consolidated Balance Sheets 2007	Consolidated Income Statements 2007
Deferred tax assets:		
Allowance for impairment of receivables	P 10,081,768	(P 10,717,437)
Unamortized past service costs	1,875,056	(861,774)
Accrued employee benefits	1,167,900	1,167,900
Advance rental	184,198	(261,991)
Accrued rent	65,436	65,436
Allowance for inventory obsolescence	36,033	(574,256)
NOLCO	12,170	12,170
Unrealized foreign currency losses	-	(16,935,656)
Provisions for warranty	-	(1,105,318)
Deferred rent expense – PAS 17	-	(755,335)
	13,422,561	(29,966,261)
Deferred tax liabilities:		
Deferred rent income – PAS 17	(202,101)	4,088,873
Retirement benefits	-	2,985,779
	(202,101)	7,074,652
Deferred Tax Income		(P 22,891,609)
Net Deferred Tax Assets	P 13,220,460	

The net deferred tax liabilities of companies which have a net deferred tax liability position as of December 31 relates to the following:

	Consolidated Balance Sheets	Consolidated Income Statements and Statements of Changes in Equity
	2007	2007
Deferred tax assets:		
Allowance for impairment of receivables	P6,898,681	P 6,898,681
Provision for warranty	1,204,889	1,204,889
Unamortized past service costs	886,123	886,123
Allowance for inventory obsolescence	355,220	355,220
Deferred revenue	94,837	94,837
	9,439,750	9,439,750
Deferred tax liabilities:		
Deferred rent income – PAS 17	(4,778,726)	(4,778,726)
Retirement benefits	(4,214,392)	(4,214,392)
Unrealized foreign currency gains	(1,221,845)	(1,221,845)
Accrued rent income	(54,927)	(54,927)
	(10,269,890)	(10,269,890)
Deferred Tax Income recognized in consolidated income statements		(P 830,140)
Deferred tax liability on change in fair value of available-for-sale financial assets and tax expense recognized directly in equity (see Note 23.6)	70,000	(P 7,000)
	70,000	
Net Deferred Tax Liabilities	(P 760,140)	

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2007	P 162,723,032	P	P -	P -	P 167,591,098	2010
2006	106,624,420	-	639,776	-	105,984,644	2009
2005	120,750,609	-	98,833	-	115,783,710	2008
2004	142,025,018	-	9,305,475	132,719,543	-	2007
	P 532,123,079	P -	P 10,044,084	P 132,719,543	P 389,359,452	
MCIT:						
2007	P 1,579,012	P -	P -	P -	P 1,579,012	2010
2006	56,553	-	-	-	56,553	2009
2005	21,087	-	-	-	21,087	2008
2004	38,281	-	-	38,281	-	2007
	P 1,688,878.00	P -	P -	P 38,821	P 1,656,652	

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

	2007	
	Amount	Tax Effect
NOLCO	P 389,359,452	P 136,275,808
Unrealized foreign currency gains	59,619,781	20,866,923
Allowance for impairment of trade and other receivables	96,360,678	33,726,237
Allowance for impairment loss on available for-sale financial assets	5,220,000	1,827,000
Unrecognized retirement benefit expense	3,447,679	1,206,688
MCIT	1,656,652	1,656,652
Allowance for impairment of property, plant and equipment	385,000,000	134,750,000
Allowance for inventory obsolescence	37,804,064	13,231,422
Unamortized past service cost	3,443,603	1,205,261
	P 981,911,909	P 344,745,991

23. EQUITY

Prior Period Adjustments

In 2007, as a result of the SBC, SMC, SVC and SLC's availment of the tax amnesty under R.A. 9480 or the Tax Amnesty Law which covers 2005 and prior taxable years, these subsidiaries restated their trade and other payables in 2005 and prior years to reverse long outstanding liabilities amounting to P3.4 million. In addition, Kita made prior period adjustments to correct the overstatement of depreciation expense. These prior period adjustments resulted in an increase in net income in 2006 and 2005 by P1.4 million and P3.4 million, respectively; and a decrease in deficit as of January 1, 2007 and 2006 by P2.6 million and P1.2 million, respectively.

24. EARNINGS PER SHARE

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

	2008	2007
Net income (a):	**P 37,481,514**	P 9,413,247
Weighted average shares outstanding (b):		
Number of shares issued	**2,030,975,000**	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)
	1,821,542,000	1,821,542,000
Earnings per share (a/b)	**P 0.02**	P 0.01

There were no outstanding potentially dilutive instruments as of June 30, 2008 and 2007, hence, no information on diluted earnings (loss) per share is presented.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Services

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

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

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

Revenue from Sale of Goods and Services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables (see Note 7).

25.2 Purchase of Goods and Services

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

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note17.1) and General and Administrative Expenses, respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rental in the consolidated income statements. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

SLC rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated income statements (see Note 19). There are no outstanding liabilities related to this lease in both 2008 and 2007.

25.4 Granting of Loans

SMFI grants interest-bearing business and other loans to companies owned by the majority stockholders of SGI. Interest rates range from 9% to 12% for 2008 and 2007. Interest earned on these loans are presented as part of Interest Income under Other Operating Income in the consolidated income statements (see Note 18) while outstanding balances are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

25.5 Advances to and from Related Parties

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

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by the parent company's majority stockholders, to customers in the Philippines. Commission revenue are presented as part of Rendering of Services account in the income statements. SVC also advances funds to STL to pay foreign suppliers. The outstanding balance of these advances are included as part of Trade Receivables under Trade and Other Receivables account in the balance sheets (see Note 7).

25. 7 Availment of loan

Certain subsidiary of the Company obtained loans from the other companies owned by the Group's majority stockholders for temporary working capital purposes. The loan bears an interest of 6% per annum and is payable within the year. Outstanding balances arising from these transactions are presented as Interest-Bearing Loans in the consolidated balance sheets.

25.8 Long-term receivable

Certain subsidiary of the Company holds an unsecured long-term note of a Hongkong company owned by the majority stockholders of the Company. The note, which has a principal amount of CNY 17.34 million, is due in 3 years and bears interest of 6% per annum (see Note 6.2).

26. REGISTRATION WITH ECONOMIC ZONE AUTHORITIES

26.1 Registration with the Clark Development Corporation (CDC)

Kita is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.* As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items (see Note 22). In lieu of said taxes, the Company is subject to a 5% preferential tax rate on its registered activities. However, the 35% RCIT rate is applied to income which comes from sources other than the Company's registered activities.

26.2 Registration with the Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes (see Note 22).

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

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with Sony

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

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

Network support fees earned are presented as part of Rendering of Services in the consolidated income statements. Outstanding receivables arising from this transaction are included in the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

27.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are under the 12 month-warranty period at its own costs and expenses (see Note 15). The Agreement is still in effect although no formal renewal was made in 2007.

27.3 Contract Agreement with RTVM

In October 2006, SVC entered into an agreement with RTVM. Under the agreement, SVC will provide integration services, equipments, labor and rental of materials and equipment for the full turn key implementation of the International Media Center to be used in the 12th ASEAN summit which originally was scheduled in December 2006. However, due to certain events beyond SVC's control, the summit was rescheduled to January 2007.

28. EVENT AFTER BALANCE SHEET DATE

On February 15, 2008, the Company acquired 12,750 shares of stocks of Phil-Nanning Consortium, Inc. (PNCI) for a total acquisition price of P1.275 million (equivalent to the par value of the PNCI shares purchased). The Company became the parent company of PNCI after the acquisition. PNCI is registered with the SEC on December 31, 2005 to engage in the business of real estate development but has not yet started commercial operations since its registration.

Under the terms of the purchase agreements, the Company shall pay the sellers the amount of P318,750 upon closing of the purchase transaction and assume seller's liability for the unpaid portion of their respective subscriptions in PNCI shares in the aggregate amount of P956,250.

29. COMMITMENTS AND CONTINGENCIES

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

29.1 Planned Acquisition of LARES

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

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P2.0 million in 2006 and P0.9 million in 2005. The amount is still unpaid as of December 31, 2007. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6.0 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

(a) P3.0 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(b) The balance of P3.0 million shall be used for working capital and operating expenses of LARES.

As of December 31, 2007, LARES has already obtained a portion of the loan amounting to P3.9 million.

In September 2007, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements.

29.2 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease various properties for a period of 1 to 10 years. Some of these lease transactions are subject to 5% to 10% escalation rate.

29.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2007, these leases have a remaining term of 12 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%.

Total rental expense from these operating leases amounted to P6,391,051 in 2008 and P4,771,028 in 2007, and are shown as part of Rental under Cost of Services in the consolidated income statements (see Note 17.1).

29.4 Legal Claims

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

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

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

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

(b) Certain parcels of land owned by SC are being subject to expropriation coverage under the Agrarian Reform Act and claims by third parties.

As of December 31, 2007, the outcome of these legal claims cannot be ascertained by the Group.

In previous years, the SC was involved in a litigation with a local bank concerning letters of credit issued in connection with shipments of electronic parts to the SC. On January 8, 2007, the Company and the bank's assignor agreed to a full settlement of the case for P50 million (which was paid in full during 2007). No additional expense was recognized by the Company in 2007 as the Company had enough provision accrued in prior years (see Note 15).

As a result of the settlement, cash in bank accounts under garnishment totaling P1.0 million as of December 31, 2006, was released to the Company in 2007. Garnished cash in bank accounts are presented as Other Non-current Assets in the consolidated balance sheets (see Note 13).

29.5 Purchase Commitments

In December 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 9).

As of June 30, 2008, Fil-Dragon has likewise entered into several agreements with suppliers relative to its Golden Hill Property Development project in Nanning City, Guangxi, People's Republic of China (see Note 10).

29.6 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 might be affected by the plans of the National Government for the construction of the proposed 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri-towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project (see Note 10).

29.7 Others

There are commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

30.1 Foreign Currency Sensitivity

The Group's net exposure to foreign currency risk as of December 31, 2007 is as follows:

	Notes	In U.S. Dollars	In Philippine Pesos
Assets:			
Cash and cash equivalents	5	$ 3,372,937	P 139,642,980
Trade and other receivables	7	828,891	34,316,911
		4,201,828	173,959,891
Liabilities:			
Interest-bearing loans	14	9,889,508	409,435,521
Trade and other payables	15	115,939	4,800,000
		10,005,447	414,235,521
Net liabilities exposure to foreign currency risk that will directly impact profit and loss		$ 5,803,619	P 240,275,630
Net assets exposure that will be taken directly to equity		$ 6,224,002	P 285,397,379

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

The following illustrates the sensitivity of the net result for the year as regards to the Company's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-20.72% change of the Philippine peso/ U.S. dollar exchange rate for the year ended December 31, 2007. This percentage has been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each balance sheet date, with effect estimated from the beginning of the year.

If the Philippine peso had strengthened against the U.S. dollar, income before tax for the year would have increased by P18.4 million. Conversely, if the Philippine had weakened against the U.S. dollars, income before tax in 2007 would have decreased by the same amount.

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 Company's currency risk.

30.2 Credit Risk

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

	Notes	
Cash and cash equivalents	5	P 1,206,991,793
Trade and other receivables – net	7	766,438,473
Advances to related parties	25	299,356,167
Available-for-sale financial assets	8	396,059,846
		P 2,668,846,279

Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

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

30.3 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 are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2007, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans, trade and other payables which have contractual maturities of within six months and advances from related parties which have contractual maturities of 6 to 12 months. These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet dates.

30.4 Interest Rate Sensitivity

At December 31, 2007, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates. All other financial assets have fixed rates (see Note 4).

The Philippine peso-denominated cash in bank and cash equivalents are tested on a reasonably possible change of +/-4.46% in 2007. On the other hand, U.S. dollar-denominated cash in bank are tested on reasonably possible changes of +/-1.79% in 2007. The calculations are based on Philippine peso-denominated and U.S. dollar-denominated financial instruments held at balance sheet, estimated at 99% level of confidence.

All other variables held constant, if the interest rate these financial assets increased by 4.46% for peso-denominated financial assets and 1.79% for U.S. dollar-denominated financial assets, income before tax in 2007 would have increased by P8.1 million. Conversely, if the interest rate decreased by same percentage, income before tax would have been lower by the same amount.

30.5 Cash Flow and Fair Value Interest Rate Risks

The Group's interest rate risk arises from the cash equivalents of SGI and its subsidiaries and from the short-term borrowings of BRL. Market interest rate risk generally changes every 30 days. The Group is exposed to changes in market interest rate through its cash and cash equivalents and interest bearing loan.

As of December 31, 2007, the Group has P877.4 million cash equivalents which is subject to fluctuations in market interest rate. Market interest rate for 2007 ranged from 3.0% to 9.0% for peso cash equivalents and 4.3% to 5.0% for U.S. dollar cash equivalents.

As of December 31, 2007, bank borrowings at floating interest rates amounted to P409.4 million. Market interest rate for borrowings for 2007 ranged from 1.9% to 6.6%.

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

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

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

	2008	2007
Total liabilities (excluding amounts due to related parties)	**P 1,079,642,336**	P 843,716,950
Total equity	**6,545,073,236**	6,251,849,903
Debt-to-equity ratio	**0.16 : 1**	0.13 : 1

COVER SHEET

845

SEC Registration Number

SOLID GROUP, INC.

(Company's Full Name)

SOLID HOUSE BLDG., 2285

PASONG TAMO EXT. MAKATI CITY

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

Contact Person

843-1561

Company Telephone Number

Letter-Addendum to the Definitive Information Statement (SEC Form 20)

12	31		05	
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

CC: PHILIPPINE STOCK EXCHANGE

CASTILLO LAMAN TAN PANTALEON & SAN JOSE

Law Firm

Corporation Finance Department
Securities and Exchange Commission
SEC Building, E. Delos Santos Avenue
Greenhills, Mandaluyong City

Attention: Ms. Cita Correa

Re: Solid Group Inc.

Gentlemen:

Further to the latest Amended Definitive Information Statement of Solid Group, Inc. (the "Company"), we hereby submit the attached addendum, consisting of the revised write-up under "Plan of Operations" discussing the Company's prospects for the future.

The attached addendum will be incorporated in the updated Management Report to be distributed to the stockholders in connection with the annual stockholders' meeting.

Very truly yours,

CASTILLO LAMAN TAN PANTALEON & SAN JOSE

By:

ANA MARIA A. KATIGBAK

L-SEC (1Sept08) AmDIS/SGI[c:aak]

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XV

(1) Plan of Operation

For 2008, improvement in the Company's profitability will come from significant growth in its mobile phone business which was launched only on the last quarter of 2007, higher sales of its condominium project and further improvement in the operations of its broadband services business. These steps are to be undertaken in order to address the loss incurred by the Company in 2007.

Future prospects that would further improve the Company's profitability and financial condition are: (1) expansion of mobile phone business and the introduction of additional digital consumer electronics products to its local market such as LCD television and other audio and video products, and personal computing and other information technology (IT) products; (2) additional revenues from real estate projects in China and in the Philippines; and (3) higher revenues from the use of its broadband infrastructure and the introduction of additional broadband services.

The China real estate project in Nanning City, Guangxi, China involves the development and sale of a cluster of multi-storey residential and commercial buildings. This project is located within the China-ASEAN Business District and occupies the entire 3.9 hectares designated for the Philippines. The project will generate revenues of P1.4 billion over a three-year period.

The Company's investible funds stood at P1.2 billion as of end of December 2007. This, plus internally generated funds from operations would be sufficient to finance the activities mentioned earlier. The Company has no plans to raise additional funds in the next twelve (12) months.

There is no significant product research and development expenditures for 2008. The Company does not expect to purchase or sell any or portion of its plant and significant equipment except for acquisition of programmed capital expenditures for normal upgrades and replacements, and capacity and capability enhancements for its broadband infrastructure. The Company estimates to have 800 employees by the end of December 31, 2008, which is about 15% higher than 2007.