SOLID GROUP INC.

September 8, 2010

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

Attention: MS. JANET A. ENCARNACION
Head – Disclosure Department

Gentlemen:

We are submitting herewith the SEC Form 20-IS Definitive Information Statement.

We trust that you will find everything in order.

Very truly yours,

MELLINA T. CORPUZ
Corporate Information Officer

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

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

    ✔ 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 30, 2010 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 8, 2010

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 of 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 30, 2010** 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 8, 2010.**

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 Holders

The record date to determine the stockholders entitled to notice and to vote at the meeting is on August 9, 2010.

As of August 9, 2010, 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 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.

Security Ownership of Certain Record and Beneficial Owners of More than 5%

Owners of more than 5% of the Company's voting securities as of July 31, 2010 are as follows:

(1) Title of Class	(2) Name and address of record owner and relationship with issuer	(3) Name of Beneficial Owner (or proxy) and Relationship with Record Owner	(4) Citizenship	(5) No. of Shares Held [record (r) or beneficial (b)]	(6) Percent
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	344,233,827 (r) [3]	18.90
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. Mr. David S. Lim is also the President and Chief Executive Officer of Solid Group Inc.

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, and nominees for director, own the following shares of the Company's stock as of July 31,2010 and the record date August 9, 2010 as set forth across their names below.

(1) Title of Class	(2) Name of Beneficial Owner	(3) Amount and Nature of Beneficial Ownership	(4) Citizenship	(5) Percent of Class
Common	Lim, Elena S.	1,894 (direct)	Filipino	-
Common	Tan, Susan L.	78,645 (direct)	Filipino	-
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		499,999,999 (indirect) 2		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect) 1		32.03
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Joseph S. Lim	2	Filipino	0
Common	Chua, Quintin	5,000 (direct)	Australian	-
		3,500,000 (indirect)		0.19
Common	Zabaljauregui, Luis-Maria	5,000 (direct)	Filipino	
Common	San Jose, Roberto V.	242,000 (direct)	Filipino	0.01
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	10,000 (direct)	Filipino	-
Common	Corpuz, Mellina T.	-	Filipino	-
				-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,403,772,295 or 77.07% of the total issued and outstanding shares.

<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 the 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 nine (9) seats in the Board. The term of office of each member is one (1) year. The names, ages and citizenship of current directors and executive officers are as follows:

Position	Name	Age	Citizenship
Chairman Emeritus	Elena S. Lim	80	Filipino
Chairman of the Board	Susan L. Tan	56	Filipino
Director and President and Chief Executive Officer	David S. Lim	54	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	53	Filipino
Director and Sr. VP for Finance and Investments	Vincent S. Lim	51	Filipino
Director	Joseph S. Lim	85	Filipino
Director	Quintin Chua	50	Australian
Director	Luis-Maria Zabaljauregui	64	Filipino
Sr. VP and Chief Financial Officer	Ireneo D. Tubio Jr. *	58	Filipino
Treasurer	Lita Joaquin	49	Filipino
Corporate Secretary	Roberto V. San Jose	67	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	41	Filipino
Chief Accounting Officer	Mellina T. Corpuz	43	Filipino

*Mr. Tubio passed away last June 21, 2010. The vacancy in the Board will be filled up in the Annual Stockholders' Meeting.

Nominees for Election

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

Position	Name	Age	Citizenship
Director	Elena S. Lim	80	Filipino
Director	Susan L. Tan	56	Filipino
Director	David S. Lim	54	Filipino
Director	Jason S. Lim	53	Filipino
Director	Vincent S. Lim	51	Filipino
Independent Director	Quintin Chua	50	Australian
Independent Director	Luis-Maria L. Zabaljauregui	64	Filipino
Director	Joseph Lim	85	Filipino
Director	Beda T. Mañalac	49	Filipino

The following is a summary of the business experience in the past five years of each director and executive officer as well as the nominees for Regular and Independent Directors in the 2010 Annual Stockholders' Meeting:

Ms. Elena S. Lim has been 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 has been 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 has been 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 has been 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 has been 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 was President of Zen Towers Corporation from October 2007 up to August 2008. 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 an 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 regular Director of Hexagon Financing Corp. Mr. Chua does not hold a directorship in other public corporations.

Mr. Luis-Maria L. Zabaljauregui has been an Independent Director since September 23, 2008. He was Executive Vice President of Leyte Agri Corporation from 2001 up to 2003. He was vice President and Resident Manager of Central Azucarera de la Carlota, Inc. from January 2004 to June 2008. He is currently Vice-President – Ethanol Project of Roxol Bioenergy Corp. effective July 2008. Mr. Zabaljauregui does not hold a directorship in other public corporations.

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

Mr. Ireneo D. Tubio Jr. has been Sr. VP and Chief Financial Officer since June 2006. He was formerly Chief Accounting Officer in 1996. Prior to that, he was 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. Tubio passed away last June 21, 2010.

Mr. Beda T. Mañalac is Vice President for Business Development of MyPhone mobile phones under MySolid Technologies and Devices Corporation and Solid Broadband Corporation since 2007. Prior to that, he was Vice President for Sales and Marketing of Destiny Cable Inc and Vice President for Broadband Services of Solid Broadband Corporation.

Ms. Lita Joaquin has been 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. Roberto V. San Jose has been Corporate Secretary since 1996. He is a member of the Philippine Bar and a Consultant of the Castillo Laman Tan Pantaleon and San Jose Law Offices.

He is Chairman of Mabuhay Holdings Corporation; Director of Interport Resources Corporation, MAA Consultants, Inc.; Director/Corporate Secretary of CP Group of Companies, Anglo Philippine Holdings Corporation, Atlas Resources Management Group. He is also Corporate Secretary of Alsons Consolidated Resources, Inc., Marcventures Holdings, Inc., Premiere Entertainment Philippines, Inc., ISM Communications Corp., PhilWeb Corp., United Paragon Mining Corporation and FMF Development Corporation. He is also a director, corporate secretary and/or officer of various client corporations of their law firm.

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

Mr. Tubio passed away on on June 21, 2010 and Mr. Mañalac is being nominated to the vacancy on the Board. None of the directors have resigned or declined to stand for re-election as director.

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 re-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's stockholders approved an amendment to the Company's by-laws to formally adopt such requirements. On June 9, 2009, the SEC approved the Amended By-laws incorporating the requirements under SRC Rule 38 on the nomination and election of independent directors.

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. Ms. Susan L. Tan (Chairman)
2. Mr. Quintin Chua (Vice-Chairman, Independent Director)
3. Mr. Jason S. Lim
4. Mr. Ireneo Tubio Jr. (non-voting)

The Nomination Committee pre-screened and accepted the nominations 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 and Mr. Joseph 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 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 2009 audited financial statements.
Solid Broadband Corporation sold majority of its mobile phone inventories to MyTel Mobility Solutions Inc.

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 Corporation's broadband cable infrastructure is used by Destiny Cable Inc. (DCI), a company owned by ultimate majority stockholders. Billings were based on a fixed fee per subscriber and per type of service.

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

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

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

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

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

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

Solid Manila Finance Inc. grants interest-bearing business and other loans to companies owned by ultimate majority stockholders. Interest earned on these loans are presented as part of Interest Income under Revenues in the consolidated statements of income while outstanding balance are shown as Finance Receivables under 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 unsecured, non-interest bearing cash advances to and from related parties companies owned by Group's ultimate majority stockholders for working capital, acquisition of property and equipment and other purposes.

Outstanding balances arising from these transactions are presented as Advances to and from Related Parties accounts in the consolidated balance sheets.

Solid Video Corporation (SVC) earns commission from sales of Solid Trading Limited (STL), a company owned by the 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 transaction are included as part of Advances to Related Parties in the balance sheets.

Solid Broadband Corporation purchases mobile phone from Solid Company Limited (Hongkong), a related party owned by the Company's majority stockholders. Total purchases are presented as part of Cost of Sales in the consolidate statements of income. There are no outstanding liabilities relating to these purchases.

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account.

c. 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 (P)	Bonus (P)	Other Annual Compensation Income (P)
Chairman and four most highly compensated executive officers	2010 (Est.)	14,400,000	800,000	1,200,000
	2009	13,100,000	725,000	1,035,804
	2008	13,100,000	725,000	1,093,892

Susan L. Tan	Chairman of the Board
David S. Lim	Director, President and Chief Executive Officer
Jason S. Lim	Director, Senior VP and Chief Operating Officer
Vincent S. Lim	Director, Senior VP for Finance and Investments
Ireneo D. Tubio Jr.	Senior VP and Chief Financial Officer

All officers and directors as a group unnamed	2010 (Est.)	3,000,000	260,000	2,400,000
	2009	2,783,196	233,183	2,430,202
	2008	2,886,000	240,500	1,842,213

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") with Ms. Dalisay B. Duque as Partner-In-Charge. P&A was the auditor for the previous fiscal year ended 2009. 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 2009 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.

Luis-Maria L. Zabaljauregui (Independent Director)

D. OTHER MATTERS

Action with Respect to Reports:

The Management Report and 2009 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; and (iv) approval of audited financial statements.

Approval of the Minutes of the Annual Stockholders' Meeting held on July 30, 2009 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 2008 audited financial statements; (iii) ratification of management's acts; (iv) amendment of By-laws to change the date of the annual stockholders' meeting to the last Thursday of June of each year; (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.

The acts and resolutions of the Board and Management for ratification by the stockholders include the following: election of directors and officers; reorganization of Board committees; increase in number of directors from 7 to 9 and amendment of the Articles of Incorporation; Mytel subscription; revised PSE listing agreement; issuance of scripless shares without a jumbo certificate to comply with the PSE No-Jumbo Rule; appointment of Meline Corpuz; approval of financial statements; and opening of bank accounts.

Voting Procedure:

For the election of directors, the nine (9) 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, the approval of stockholders owning a majority of the outstanding capital stock 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

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 September 6, 2010.

Solid Group, Inc.

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

<u>SOLID GROUP INC.</u>

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

For the 2010 Annual Stockholders' Meeting

A. Audited Financial Statements for Fiscal Year Ended December 31, 2009

Please refer to the accompanying audited financial statements for 2009 and quarterly report on SEC Form 17Q for the period ended June 30, 2010.

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 July 30, 2009, the Company appointed Punongbayan and Araullo (P&A) as its external auditors for the year 2009.

There was no change in our existing auditor for the years 2007, 2008 and 2009. However, in 2008, in compliance with the Code of Corporate Governance, pursuant to SEC Memorandum Circular No. 2, series of 2002, on the rotation of external auditors, P&A assigned Partner-In-Charge, Ms. Dalisay B. Duque for the independent audit of our Company financial statements beginning the year ending December 31, 2008 to replace the previous Partner-In-Charge, Ms. Mailene Sigue-Bisnar who handled the audit of the 2007 financial statements.

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

Full Fiscal Years

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

(1) Plan of Operation

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

(2) Management's Discussion and Analysis

Key Performance Indicators

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

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

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

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

EBITDA was determined by adding back interest expense, depreciation and amortization charges, 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 2009, 2008 and 2007 are as follows:

	December 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Revenue growth	41%	24%	23%
Asset turnover	26%	19%	17%
Operating expense ratio	15%	20%	21%
EBITDA	P408 million	P431 million	P155 million
Earnings (loss) per share	P0.12	P0.18	(0.01)
Current ratio	3.94:1	3.33: 1	3.47: 1
Debt to equity ratio	0.23 : 1	0.23: 1	0.24: 1

2009

Revenue growth improved to 41% in 2009 vs. 24% in 2008. The improvement was mainly due to higher volume of sales of the digital products of the trading segment, sale of industrial lots of the real estate segment and improved broadband revenues.

Asset turnover was 26% in 2009 compared with 19% in 2008 principally due to higher revenues generated during the year.

Operating expense ratio was 15% in 2009 which improved from last year's 20% mainly due to higher revenues as explained above.

EBITDA amounted to P408 million in 2009 against P431 million in 2008. The decrease was mainly due to finance costs from losses on sale of financial assets by Brilliant Reach Limited offset by higher operating profits of the trading and broadband segments.

Earnings per share amounted to P0.12 in 2009 versus P0.18 in 2008 mainly from lower net income for the year.

Current ratio stood at 3.94: 1 as of December 31, 2009 and 3.33: 1 as of December 31, 2008 mainly due to higher current assets.

Debt to equity ratio was 0.23: 1 as of December 31, 2009 and 2008.

2008

The Company posted revenue growth of 24% in 2008 vs. 23% growth in 2007 principally driven by improved revenues from broadband services of the broadband segment and sale of mobile phones of the trading segment.

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

Operating expense ratio went down to 20% in 2008 from 21% in 2007 due to improved revenues as explained above and effective control of expenses which increased only by 13% or a little over one-half of the increase in revenues..

EBITDA reached P431 million in 2008 from P155 million in 2007. The increase was mainly attributed to higher operating profit as explained above and fair value gains on investment property of the real estate segment.

Earnings per share reached P0.18 in 2008 compared with loss per share of P0.01 in 2007 mainly due to improved net income in 2008 principally from higher revenues and fair value gains on investment property as explained above.

Current ratio declined to 3.33: 1 as of December 31, 2008 vs. 3.47:1 as of December 31, 2007 primarily from lower current assets of the investing, financing and other business segment as certain investments in foreign currency denominated bonds were classified as non-current assets in 2008.

Debt to equity ratio was slightly lower at 0.23: 1 as of December 31, 2008 from 0.24 : 1 as of December 31, 2007.

2007

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

Asset turnover grew to 17% in 2007 from 15% in 2006 mainly from higher revenues as explained above.

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 from improved revenues as explained above.

Loss per share was at P0.01 in 2007 against P0.05 in 2006 mainly due to lower net loss.

Current ratio declined to 3.47 as of December 31, 2007 from 3.68: 1 as of December 31, 2006 primarily from higher current liabilities.

Debt to equity ratio was higher at 0.24: 1 as of December 31, 2007 vs. 0.13 as of end of 2006 mostly from higher liabilities from deferred tax liabilities as a result of the appraisal of investment property of the real estate segment.

Key performance indicators of the **broadband segment** for 2009, 2008 and 2007 are as follows:

	December 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Revenue growth	9%	(2%)	45%
Asset turnover	37%	31%	27%
EBITDA	P90.6 million	P58.5 million	P62.4 million
Net income (loss) to revenue ratio	6%	1%	(2%)
Debt to equity ratio	0.16 : 1	0.16 : 1	0.12 :1

2009

Revenue growth of the broadband segment improved to 9% in 2009 arising from higher transport revenues of Solid Broadband Corporation (SBC).

Asset turnover of the broadband segment reached 37% in 2009 from 31% in 2008 principally from the higher revenues of SBC as explained above.

EBITDA of the broadband segment amounted to P90 million in 2009 from P58 million in 2008 also contributed by the increase in revenues of SBC as explained above.

Net income or (loss) to revenue ratio of the broadband segment posted a profit ratio of 6% in 2009 versus 1% of 2008. This was mainly due to higher profit of SBC of P19 million in 2009 versus P2 million in 2008 and improved revenues of SBC.

Debt to equity ratio of the broadband segment was at 0.16 : 1 in 2009 and 2008.

2008

Revenue growth of the broadband segment declined to 2% in 2008 from 45% in 2007 mainly due to decline in internet subscribers and transport revenues of Solid Broadband Corporation (SBC).

Asset turnover of the broadband segment reached 31% in 2008 from 27% in 2007 principally from the higher revenues of SBC as explained above.

EBITDA of the broadband segment amounted to P58 million in 2008 from P62 million in 2007 mainly from lower revenues as explained above.

Net income or (loss) to revenue ratio of the broadband segment posted a profit ratio of 1% versus a loss ratio of 2% in 2007. This was mainly due to reported income of SBC of P2 million in 2008 versus P5 million loss in 2007.

Debt to equity ratio of the broadband segment was higher at 0.16 : 1 in 2008 against 0.12 : 1 in 2007.

2007

Revenues of the broadband segment improved by 45% in 2007 compared with 2% decline in 2006 mostly due to increase in internet subscribers by 34% and increase in transport income of SBC.

Asset turnover of the broadband segment was 27% in 2007 or almost the same level as last year at 22%.

EBITDA of the broadband segment went up to P62 million from P32 million loss in 2007 and 2006 respectively. The increase was mainly due to improved revenues of SBC as explained above and higher profitability from lower of cost services.

Loss to revenue ratio was lower at 2% loss from a previous 51% principally from improved profitability as explained above.

Debt to equity ratio was slightly lower at 0.12 : 1 in 2007 from 0.15 : 1 in 2006.

Key performance indicators of the **manufacturing and related support services segment** for 2009, 2008 and 2007 are as follows:

	December 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Revenue growth	3%	(2%)	13%
Asset turnover	58%	55%	71%

EBITDA	P9.8 million	P134 million	P30.8 million
Net income (loss) to revenue ratio	(1%)	13%	0%
Debt to equity ratio	0.37 : 1	0.32 : 1	0.47 : 1

2009

Revenue of the manufacturing and related support services segment improved by 3% in 2009 from 2% decline in 2008 principally from higher volume of the plastic injection business of Solid Laguna Corporation (SLC) and higher service income of Solid Electronics Corporation (SEC).

Asset turnover of the manufacturing and related support services stood at 58% in 2009 from 55% in 2008 principally from the higher revenues of SLC and SEC.

EBITDA of the manufacturing and related support services segment declined to P9.8 million in 2009 from P134 million in 2008 due to the termination of the unprofitable plastic injection manufacturing business of SLC. Also, Kita Corporation incurred fair value loss of P10 million in 2009 versus fair value gain of P95 million in 2008.

Net income or (loss) to revenue ratio of the manufacturing and related support services segment stood at 1% loss ratio in 2009 against 13% in 2008. This was primarily due to net loss reported by this segment in 2009.

Debt to equity ratio of the manufacturing and related support services segment was higher at 0.37 : 1 in 2009 from 0.32 : 1 in 2008.

2008

Revenue of the manufacturing and related support services segment incurred a decline of 2% in 2008 from the 13% growth in 2007 principally from lower volume of the plastic injection business of Kita Corporation (Kita).

Asset turnover of the manufacturing and related support services declined to 55% in 2008 from 71% in 2007 principally from lower revenues of Kita.

EBITDA of the manufacturing and related support services segment improved to P134 million in 2008 from P30.8 million in 2007 mainly from fair value gains on investment property.

Net income or (loss) to revenue ratio of the manufacturing and related support services segment was up by 13% in 2008 against 0% in 2007. This was primarily due to net loss reported by this segment in 2008 as a result of the fair value gains on investment property as explained above.

Debt to equity ratio of the manufacturing and related support services segment was lower at 0.32 : 1 in 2008 from 0.47 : 1 in 2007.

2007

Revenue growth of the manufacturing and related support services went down to 13% in 2007 from 25% in 2006 mainly due to lower revenues of the plastic injection business of Kita and Solid Laguna Corporation (SLC).

Asset turnover of the manufacturing and related support services decreased to 71% from 78% in 2007 and 2006, respectively, primarily due to lower revenues as explained above.

EBITDA of the manufacturing and related support services amounted to P30.8 million in 2007 and P12 million in 2006.

Net income or loss to revenue ratio of the manufacturing and related support services was 0% compared to 6% loss in 2007 and 2006, respectively, primarily due positive results as a result of higher revenues and margins as explained above generated by this segment in 2007 as against losses in 2006.

Debt to equity ratio of the manufacturing and related support services was higher at 0.47 : 1 in 2007 from 0.22 : 1 in 2006.

Key performance indicators of the **real estate segment** for 2009, 2008 and 2007 are as follows:

	December 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Revenue growth	187%	(27%)	105%
Asset turnover	7%	3%	5%
EBITDA	P137 million	P105 million	P57 million
Net income (loss) to revenue ratio	20%	83%	13%
Debt to equity ratio	0.22 : 1	0.27 : 1	0.37 : 1

2009

Revenue of the real estate segment grew by 187% in 2009 as compared with 27% decline in 2008 mainly due to increase in sale of industrial lots of Starworld Corporation and condominium units of Zen Towers. Casa Bocobo Hotel, Inc. also reported a full year operation in 2009.

Asset turnover of the real estate segment went up to 7% in 2009 from 3% in 2008 principally from higher revenues as explained above.

EBITDA of the real estate segment reached P137 million in 2009 from P105 million in 2008 primarily due to higher revenues as explained above.

Net income or (loss) to revenue ratio of the real estate segment declined to 20% from 83% in 2008. The decrease was principally due to in 2008, Solid Manila Corporation reported a one-time tax income of P61 million mainly resulting from a decrease in regular corporate income tax rate.

Debt to equity ratio of the real estate segment was lower at 0.22 : 1 in 2009 against 0.27 : 1 in 2008.

2008

Revenue of the real estate segment posted a decline by 27% in 2008 mainly due to lower sales reported by the condominium project under Zen Tower Corporation (ZTC) and also no sales of industrial estate lots was reported by Starworld Corporation (Starworld) which was partly offset by increase in rental income of Solid Manila Corporation (SMC).

Asset turnover of the real estate segment declined to 3% in 2008 from 5% in 2007 principally from the lower revenues in 2008 as explained above.

Despite lower revenues, EBITDA of the real estate segment reached P105 million in 2008 from P57 million in 2007 primarily due to fair value gains on investment property.

Net income or (loss) to revenue ratio of the real estate segment posted significant growth reaching 83% in 2008 from 13% in 2007. The increase was mostly a result of the fair value gains on investment property as explained above and also from the one-time tax income of Solid Manila Corporation amounting to P61 million resulting from a decrease in regular corporate income tax rate.

Debt to equity ratio of the real estate segment was lower at 0.27 : 1 in 2008 against 0.37 : 1 in 2007.

2007

The real estate segment reported a revenue growth of 105% in 2007 compared with 1% growth in 2006. The increase was achieved mostly due to sales of condominium units by ZTC during the year (ZTC started its selling activity in 2007) and also due to higher land area of industrial estate lots sold by Starworld during the year.

Asset turnover of the real estate segment was 5% and 3% in 2007 and 2006, respectively, mainly due to higher revenues as explained above.

EBITDA of the real estate segment went up to P57 million from P33 million in 2007 and 2006, respectively, mostly due to the higher revenues as explained above.

Net income or loss to revenue ratio of the real estate segment was 13% in 2007 while it was a 30% loss in 2006 primarily due to higher revenues as explained above.

Debt to equity ratio of the real estate segment was higher at 0.37 : 1 in 2007 from 0.05 : 1 in 2006 mostly from higher liabilities from deferred tax liabilities as a result of the appraisal of investment property of this segment.

Key performance indicators of the **trading segment** for 2009, 2008 and 2007 are as follows:

	December 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Revenue growth	48%	113%	18%
Asset turnover	251%	217%	151%
EBITDA	P165.7 million	P62.3 million	P10.7 million
Net income (loss) to revenue ratio	10%	6%	2%

Debt to equity ratio	0.09 : 1	0.20 :1	0.29 : 1

2009

The trading segment posted a revenue growth of 48% in 2009 compared with 113% in 2008. Although revenue growth in 2009 was high at 48%, this could not reach 2008 figures because in 2008, the Digital Devices Division of Solid Broadband Corporation reported its full year operation.

Asset turnover of the trading segment grew to 251% in 2009 from 217% in 2008 principally from higher sales in 2009.

Due to above segment's improved revenues, EBITDA increased to P165.7 million in 2009 from P62.3 million in 2008 mostly because of the higher revenues as explained above.

Similarly, net income to revenue ratio of the trading segment was higher at 10% in 2009 versus 6% in 2008. The increase was mainly because of increased sales in mobile phones and television sets.

Debt to equity ratio of the trading segment was at 0.09 : 1 in 2009 compared with 0.20 : 1 in 2008 mainly due to higher equity of this segment.

2008

The trading segment posted a revenue growth of 113% in 2008 compared with 18% in 2007 mainly attributable to higher sales of mobile phones as the Digital Devices Division of SBC reported a full year of operation in 2008 against five (5) months in 2007.

Asset turnover of the trading segment grew to 217% in 2008 from 151% in 2007 principally from the increase in sales as explained above.

EBITDA was similarly higher to P62.3 million in 2008 from P10.7 million in 2007 principally due to higher revenues as explained above.

Similarly, net income to revenue ratio of the trading segment was higher at 6% in 2008 versus 2% in 2007. The increase was mainly due to higher net income.

Debt to equity ratio of the trading segment was lower at 0.20 : 1 in 2008 compared with 0.29 : 1 in 2007 mainly due to higher equity of this segment.

2007

Revenue growth of the trading segment grew by 18% mainly due to mobile phone sales of the Digital Devices Division of SBC.

Asset turnover of the trading segment was lower at 151% from 223% in 2007 and 2006, respectively, primarily due to higher assets employed by this segment.

EBITDA of the trading segment amounted to P10 million and P16 million in 2007 and 2006, respectively.

Net income to revenue ratio of the trading segment was 2% and 3% in 2007 and 2006, respectively.

Debt to equity ratio of the trading segment was slightly higher at 0.29 : 1 and 0.22 : 1 in 2007 and 2006, respectively.

Key performance indicators of the **investing, financing and other business segment** for 2009, 2008 and 2007 are as follows:

	December 31, 2009	Dec. 31, 2008	Dec. 31, 2007
Revenue growth	(57%)	(19%)	151%
Asset turnover	1%	4%	5%
EBITDA	P8.6 million	P123.5 million	P130 million
Net income (loss) to revenue ratio	3%	85%	33%
Debt to equity ratio	0.06 : 1	0.06 : 1	0.08 : 1

2009

Revenue of the investing, financing and other business segment decreased by 57% in 2009 compared with 19% decline in 2008 due to lower earnings from placements of the company and financing activities of Solid Manila Finance, Inc (SMFI).

Asset turnover of the investing, financing and other business segment went down to 1% from 4% in 2008 due to lower revenues as explained above.

EBITDA of the investing, financing and other business segment amounted to P8.6 million in 2009 from P123.5 million in 2008. This was principally due to lower revenues as explained. Moreover, this segment incurred losses on disposal of financial assets of Brilliant Reach Limited as management decided to switch to better quality financial instruments.

Net income to revenue ratio of the investing, financing and other business segment stood at 3% in 2009 compared with 85% in 2008 mainly due to lower profits as mentioned above.

Debt to equity ratio of the investing, financing and other business segment was at 0.06 : 1 in 2009 and 2008.

2008

Revenue of the investing, financing and other business segment declined by 19% in 2008 compared with 151% growth in 2007. The decline was mainly due to lower interest earnings of SGI.

Asset turnover of the investing, financing and other business segment was at 4% in 2008 and 5% in 2007.

EBITDA of the investing, financing and other business segment amounted to P123.5 million in 2008 from P130 million income in 2007. This was principally due lower revenue in Solid Group Inc. (SGI) in 2008.

Net income to revenue ratio of the investing, financing and other business segment stood at 85% in 2008 compared with income ratio of 33% in 2007. This was mainly due to the foreign currency losses of SGI in 2007as mentioned above.

Debt to equity ratio of the investing, financing and other business segment was lower at 0.06 : 1 in 2008 against 0.08 : 1 in 2007.

2007

Revenues of the investing, financing and other business segment increased in 2007 by 151% from 2% increase in 2006. This was mainly due to interest earnings of SGI and Brilliant Reach Limited (BRL).

Asset turnover of the investing, financing and other business segment was at 5% for 2007 and 2% in 2006.

EBITDA of the investing, financing and other business segment amounted to P130 million in 2007 from P52 million income in 2006 principally due to higher revenues as explained above.

Net income or loss to revenue ratio of the investing, financing and other business segment was 33% income against 68% loss in 2007 and 2006.
Debt to equity ratio of the investing, financing and other business segment was lower at 0.08 : 1 in 2007 against 0.07 : 1 in 2006.

Results of Operations

2009
Revenues reached P2,487 million in 2009, achieving growth of 41% from P1,765 million in 2008 as discussed below.

Sale of goods reached P1,287 million in 2009, posting growth of 41% from P911 in 2008 mainly due higher volume of sales of the digital products.

Service revenue amounted to P630 million in 2009, up by 7% against P589 million in 2008, mainly due to improved broadband revenues.

Sale of real estate amounted to P360 million in 2009, improving by 1,078% from P30 million in 2008. This was principally due the sale of industrial lots.

Rental income amounted to P112 million in 2009 or lower by 17% from P136 million in 2008 primarily due to reduction in rates.

Interest income amounted to P95 million in 2009, or lower by 2% from P97 million in 2008 mainly due to lower interest from business loans.

Cost of sales, services and rentals amounted to P1,768 million in 2009, or an increase of 40% from P1,265 million in 2008 as discussed below.

Cost of sales amounted to P993 million in 2009, was higher by 29%, from P771 million in 2008 in mainly in relation to higher sales.

Cost of services was higher by 5% at P458 million in 2009 from P435 million for the same period of 2008 principally in relation to increase in service revenues.

Cost of real estate sold amounted to P282 million in 2009, or up by 1,159% from P22 million in 2008. The increase was mainly in relation to higher sale of land.

Costs of rentals amounted to P33 million in 2009, or lower by 7% from P36 million in 2008 primarily from lower taxes and licenses and utilities.

Gross profit went up to P718 million in 2009 from P500 million in 2008, improving by 44% due to improved margins from the sale of digital products.

Other operating expenses (income) amounted to P321 million in 2009 against P202 million in 2008 as explained below.

General and administrative expenses amounted to P273 million in 2009, or slightly lower by 3% from P282 million in 2008.

Selling and distribution costs amounted to P101 million in 2009, up by 36% from P74 million in 2008 mainly from higher advertising and warranty expenses.

Other operating income –net amounted to P52 million in 2009 compared with P154 million in 2008 or lower by 66% principally from lower fair value gains on investment property.

Operating profit amounted to P397 million in 2009 from P298 million in 2008, or higher by 33%, mainly from higher gross profit as explained above.

Other income (charges) amounted to P83 million loss in 2009 against P32 million income in 2008 mainly from the following:

Finance income amounted to P37 million in 2009, down by 52% compared with P77 million in 2008 primarily due to decrease in foreign currency gains.

Finance costs amounted to P122 million in 2009, increasing by 143% against P50 million in 2008 mainly due loss on sale of investments offset by lower interest expenses.

Income before tax was lower at P313 million in 2009 from P330 million in 2008 mainly due to the higher finance costs as explained above.

Tax expense amounted to P70 million in 2009 from 9 million in 2008 due to higher taxable income of certain subsidiaries.

Net income amounted to P243 million in 2009 against P321 million in 2008 due to the higher finance costs as discussed above.

Net income attributable to equity holders of the parent amounted to P220 million in 2009 against P320 million in 2008 as discussed above.

Net income attributable to non-controlling interest amounted to P23 million in 2009 compared with P406 thousand in 2008 due to earnings of the industrial estate business of the Company.

2008

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

Service revenue amounted to P589 million in 2008, or lower by 6% against P625 million in 2007, mainly due to revenue earned for services rendered for the ASEAN Summit in 2007and lower broadband revenues for the current period.

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

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

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

Interest income amounted to P97 million in 2008, or a decline of 8% from P105 million in 2007 mainly from lower investible funds and lower average dollar conversion rate for the year.

Cost of sales, services and rentals amounted to P1,265 million in 2008, or higher by 29% from P983 million in 2007 as discussed below.

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

Cost of sales amounted to P771 million in 2008,or higher by 91% from P403 million in 2007 mainly in relation to higher sales for the period.

Cost of rentals amounted to P36 million in 2008, or up by 1% from P35 million in 2007 primarily in relation of higher rental income.

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

Gross profit improved by 13% to P500 million in 2008 compared with P442 million in 2007 due to higher volume from mobile phone sales.

Other operating expenses (income) amounted to P202 million in 2008 against P279 million in 2007 as explained below.

General and administrative expenses amounted to P282 million in 2008, up by 4% from P271 million in 2007. There was material change for this account.

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

Other operating income amounted to P154 million in 2008 compared with P23 million in 2007, or an increase of 565% principally due to fair value gains on investment property.

Operating profit amounted to P298 million in 2008 compared with P162 million in 2007 mainly from higher gross profit and other operating income as explained above.

Other income (charges) amounted to P32 million in 2008 against P127 million loss in 2007 mainly from the following:

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

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

Income before tax reached P330 million in 2008, improving from P35 million in 2007 mainly due to higher operating profit and other income as explained above.

Tax expense amounted to P9 million in 2008 from P61 million in 2007 or lower by 85% due to lower deferred tax expense resulting from decrease in regular income tax rate to 30%.

Net income amounted to P321 million in 2008 against P25 million loss in 2007 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P320 million in 2008 against P26 million loss in 2007 as discussed above.

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

Earnings per share amounted to P0.18 in 2008 versus P0.01 loss in 2007 mainly from higher income for the period.

2007

The Company reported revenues of ₱1,425 million in 2007, improving by 23% from ₱1,157 million for the same period in 2006 as discussed below.

Service revenue reached ₱625 million in 2007, up by 27% from ₱493 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 ₱474 million in 2007 improving by 8% from ₱439 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 ₱117 million in 2007, or higher by 12% from ₱105 million in 2006 principally from increase in total area rented out.

Sale of land amounted to ₱102 million in 2007, down by 4% versus ₱107 million for the same period in 2006 as a result of decrease in the sale of industrial lots and condominium units for the year.

Interest income amounted to ₱105 million in 2007 higher by 785% from ₱105 million in 2006 principally from lower investible funds.

Cost of sales, services and rentals amounted to ₱987 million in 2007, or an increase of 5% from ₱940 million in 2006 as discussed below.

Cost of services reached ₱482 million in 2007, increasing by 5% from ₱460 million in 2006 mainly in relation to increase in service revenues.

Cost of sales amounted to ₱405 million in 2007 compared with ₱409 million in 2006, lower by 1% principally due to improvement of gross profit from mobile products sold during the second half of the year.

Costs of rentals amounted to ₱37 million in 2007, or lower by 41% from ₱62 million in 2006 mainly from lower depreciation and amortization offset by higher rental cost.

Cost of land amounted to ₱61 million in 2007 from ₱8 million for the same period in 2006 in relation to increase in sale of land during the period.

Gross profit improved by 103% to ₱438 million in 2007 compared with ₱216 million in 2006 principally due to increase in revenues as mentioned above.

Other operating expenses (income) amounted to ₱275 million in 2007 compared with ₱206 million in 2006 as explained below.

General and administrative expenses amounted to ₱270 million in 2007, higher by 26% from ₱213 million in 2006 due to higher personnel costs and utilities.

Selling and distribution costs amounted to ₱30 million in 2007 from ₱22 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 ₱25 million in 2007, or lower by 14% from ₱29 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 ₱162 million in 2007 from ₱10 million in 2006 principally from increase in gross profit as explained above.

Finance income amount to ₱33 income in 2007, or lower by 37% against ₱52 million in 2006 mainly because no fair value gains on financial assets were realized in 2007.

Finance costs amounted to ₱165 million in 2007, up by 32% against ₱124 million in 2006 principally due to higher foreign currency losses during the year.

Other gains amounted to ₱4 million in 2007 from a ₱20 million loss in 2006 from increase in gain on sale of property and equipment.

Income before tax amounted to ₱35 million in 2007 compared with ₱82 million loss in 2006 mainly from higher operating profit as discussed above.

Tax expense amounted to ₱61 million in 2007 from ₱5 million in 2006 due to higher pre-tax income of certain subsidiaries.

Net loss amounted to ₱25 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 ₱26 million in 2007 compared with ₱84 million for the same period in 2006 as discussed above.

Net income attributable to minority interest amounted to ₱750 thousand in 2007 compared to ₱3.7 million loss in 2006.

Loss per share amounted to ₱0.01 in 2007 against ₱0.05 in 2006 mainly due to lower net loss for the year.

<u>Financial Position</u>

<u>2009</u>

Cash and cash equivalents amounted to ₱1,263 million as of December 31, 2009, up by 13% from ₱1,118 million as of December 31, 2008. Cash was mainly provided by operating activities primarily from decrease in merchandise inventories and supplies and by financing activities mainly from proceeds on loans.

Trade and other receivables reached ₱501 million as of December 31, 2009 against ₱313 million as of December 31, 2008, increasing by 60% mainly from increase in trade receivables on digital products. Trade customers are generally established and stable companies with reasonable assurance of collectability 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.

Available-for-sale financial assets amounted to ₱305 million as of December 31, 2009 from ₱63 million as of December 31, 2008, or higher by 381%. The increase was principally due to additions and reclassifications of certain held-to-maturity investments to available-for-sale financial assets in 2009.

Merchandise inventories and supplies - net amounted to ₱83 million as of December 31, 2009, down by 62% compared with ₱219 million as of December 31, 2008 mainly from lower merchandise and finished goods.

Real estate inventories amounted to ₱1,046 million as of December 31, 2009, or an increase of 1% from ₱1,036 million as of December 31, 2008. There was no material variance for this account.

Advances to related parties amounted to ₱504 million as of December 31, 2009 from ₱192 million as of December 31, 2008. The increase was mainly due to additional advances.

Other current assets amounted to ₱299 million as of December 31, 2009, lower by 21% compared with ₱376 million as of December 31, 2008 principally from decrease in advances to suppliers and contractors.

Total current assets amounted to ₱4,003 million as of December 31, 2009 from ₱3,319 million as of December 31, 2008 as discussed above.

Non-current trade and other receivable amounted to ₱679 million as of December 31, 2009, increasing by 2% from ₱666 million as of December 31, 2008. There was no material variance for this account.

Non-current available-for-sale financial assets stood at ₱8 million as of December 31, 2009 against ₱7 million as of December 31, 2008 or an increase of 7% mainly from higher club shares.

There was no non-current held-to-maturity investments as of end of 2009 against ₱161 million as of end of 2008 principally due to disposal of financial assets and reclassification to available-for-sale financial assets.

Property, plant and equipment amounted to ₱1,397 million as of December 31, 2009 or lower by 3% from ₱1,438 million as of December 31, 2008. There was no material variance for this account.

Investment property amounted to ₱3,776 million as of December 31, 2009 from ₱3,766 as of December 31, 2008. There was no material variance for this account.

Retirement benefit assets amounted to ₱45 million as of December 31, 2009 from ₱36 million as of December 31, 2008. The increase was primarily due to contributions for the year.

Deferred tax assets - net amounted to ₱3.4 million as of December 31, 2009 from ₱4.3 million and December 31, 2008. The decrease was mainly due to application of certain deferred tax assets.

Other non-current assets amounted to ₱24 million as of December 31, 2009, down by 11% from ₱28 million December 31, 2008 mainly from lower prepaid expenses and refundable deposits.

Total non-current assets amounted to ₱5,936 million as of December 31, 2009 from ₱6,109 million as of December 31, 2008 as discussed above.

Non-current assets held for sale amounted to ₱12 million as of December 31, 2009 vs. none in 2008 mainly as a result of reclassification of certain property, plant and equipment of Solid Laguna Corporation.

Total assets reached ₱9,952 million as of December 31, 2009 from ₱9,429 million as of the December 31, 2008 as discussed above.

Interest-bearing loans amounted to ₱419 million as of December 31, 2009, down by 9% from ₱458 million as of December 31, 2008 mainly due to payments during the period.

Trade and other payables amounted to ₱322 million as of December 31, 2009 against ₱352 million as of December 31, 2008, lower by 9% primarily due to decrease in refundable deposits and other payable offset by higher accrued expenses.

Advances from related parties amounted to ₱201 million as of December 31, 2009 from ₱111 million as of December 31, 2008. The increase was due to advances availed during the period.

Estimated liability for land and land development costs amounted to ₱68 million as of December 31, 2009 and December 31, 2008. There was no movement for this account.

Income tax payable amounted to ₱4 million as of December 31, 2009 from ₱6 million as of December 31, 2008 mainly from payments made.

Total current liabilities stood at ₱1,016 million as of December 31, 2009, higher by 23% from ₱998 million as of December 31, 2008 as explained above mainly due to higher advances from related parties.

Non-current interest-bearing loans amounted to ₱135 million as of December 31, 2009 vs. none in 2008. The increase was mainly due to availment of loan.

Non-current refundable deposits amounted to ₱11 million as of December 31, 2009 from ₱9 million as of December 31, 2008. The increase was mainly due to additional deposits during the year.

Retirement benefit obligation amounted to ₱1 million as of December 31, 2009 from ₱7 million as of December 31, 2008 mainly due to payments made.

Deferred tax liabilities -net amounted to ₱849 million as of December 31, 2009 from ₱830 million as of December 31, 2008. The increase was principally in relation to additional fair value gains.

Total non-current liabilities amounted to ₱997 million as of December 31, 2009 from ₱847 million as of December 31, 2008.

Capital stock stood at ₱2,030 million as of December 31, 2009 and December 31, 2008.

Additional paid-in capital amounted to ₱4,641 million as of December 31, 2009 and December 31, 2008.

Treasury shares amounted to ₱115 million as of December 31, 2009 and December 31, 2008.

Revaluation reserves amounted to ₱101 million loss as of December 31, 2009 from ₱213 million loss as of December 31, 2008 principally due to fair value gains on available for sale financial assets and reclassification adjustments for other losses, gain on reclassification adjustments of financial assets offset by currency differences on translating financial statements of foreign operations

Retained earnings amounted to ₱1,065 million as of December 31, 2009 from ₱845 million as of December 31, 2008 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to ₱7,521 million as of December 31, 2009 from ₱7,189 million as of December 31, 2008 due to higher retained earnings and lower revaluation reserves.

Non-controlling interest amounted to ₱417 million as of December 31, 2009 from ₱394 million as of December 31, 2008, or an increase of 6%. The increase was due to minority share in net income during the year.

Total equity amounted to ₱7,521 million as of December 31, 2009 from ₱7,189 million as of December 31, 2008.

2008

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

Held-to-maturity investments amounted to none as of December 31, 2008 against ₱53 million as of end of last year mainly due to maturity of these investments.

Trade and other receivables reached ₱313 million as of December 31, 2008 against ₱428 million as of December 31, 2007, decreasing by 27% mainly from decrease in trade and other receivables. Trade customers are generally established and stable companies with reasonable assurance of collectability 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 ₱192 million as of December 31, 2008, up by 48% from ₱130 million as of December 31, 2007 mainly from additional advances.

Available-for-sale financial assets amounted to ₱63 million as of December 31, 2008, down by 84% from ₱388 million as of December 31, 2007 mainly due to reclassification of certain bonds to held to maturity investments.

Merchandise inventories and supplies - net amounted to ₱219 million was higher by 25% as of December 31, 2008 compared with ₱175 million as of December 31, 2007 principally due to higher merchandise and finished goods.

Real estate inventories amounted to ₱1,036 million as of December 31, 2008, up by 12% from P925 million as of December 31, 2007, primarily from additional cost on property development.

Other current assets amounted to ₱376 million as of December 31, 2008, increasing by 113% compared with P176 million as of December 31, 2007 principally from creditable withholding taxes.

Total current assets amounted to ₱3,319 million as of December 31, 2008 from P3,484 million as of December 31, 2007 as discussed above.

Non-current trade and other receivable amounted to ₱666 million as of December 31, 2008, up by 38% from ₱482 million as of December 31, 2007 mainly from higher cash surrender value of life insurance policy.

Non-current available-for-sale financial assets stood at ₱7 million as of December 31, 2008 and December 31, 2007. There was no material change for this account.

Non-current held-to-maturity investments amounted to ₱161 million as of December 31, 2008 versus none as of end of last year. The account represented investments in foreign currency denominated bonds which was reclassified as held to maturity in 2008.

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

Investment property amounted to ₱3,766 million as of December 31, 2008 against ₱3,493 million as of December 31, 2007 or higher by 8% principally due to fair value gains from appraisal of investment property.

Retirement benefit assets amounted to ₱36 million as of December 31, 2008 and ₱42 million as of December 31, 2007 or an decrease of 13% from implementation of limit on retirement assets.

Deferred tax assets - net amounted to ₱4 million as of December 31, 2008, a decrease of 67% from ₱13 million as of December 31, 2007. The decrease was mainly due to reversal of certain allowance for impairment.

Other non-current assets amounted to P28 million as of December 31, 2008, or down by 8% from P30.6 million as of December 31, 2007 mainly from lower prepaid expenses.

Total non-current assets amounted to P6,109 million as of December 31, 2008 from P5,524 million as of December 31, 2007 as discussed above.

Total assets reached P9,429 million as of December 31, 2008 from P9,009 million as of the December 31, 2007 as discussed above.

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

Trade and other payables amounted to P352 million as of December 31, 2008 against P370 million as of December 31, 2007, down by 5% primarily due to lower trade payables and accrued expenses offset by higher refundable deposits.

Advances from related parties amounted to P111 million as of December 31, 2008, down by 38% from P179 million as of December 31, 2007 mainly from payments of advances.

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

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

Total current liabilities stood at P998 million as of December 31, 2008 from P1,004 million as of December 31, 2007 as explained above.

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

Retirement benefit obligation amounted to P7 million as of December 31, 2008, up by 127% from P3 million as of December 31, 2007 from higher present value of plan obligation.

Deferred tax liabilities - net amounted to P830 million as of December 31, 2008 from P867 million as of December 31, 2007 or lower by 4%. There was no material variance for this account.

Total non-current liabilities amounted to P847 million as of December 31, 2008 from P879 million as of December 31, 2007.

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

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

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

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

Retained earnings amounted to P845 million as of December 31, 2008, up by 61% from P524 million as of December 31, 2007 as a result of net income for the year.

Total equity attributable to Equity holders of Parent amounted to P7,189 million as of December 31, 2008 from P6,870 million as of December 31, 2007 due to higher retained earnings.

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

Total equity amounted to P7,583 million as of December 31, 2008 from P7,125 million as of December 31, 2007.

2007

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

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

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

Trade and other receivables amounted to P428 million as of December 31, 2007 against P384 million as of December 31, 2006, increase of 11% mainly from receivables from new consumer electronics business. Trade customers are generally established and stable companies with reasonable assurance of collectability of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

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

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

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

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

Other current assets amounted to P176 million as of December 31, 2007, or an increase of 16% compared with P151 million as of December 31, 2006. There was no material variance for this account.

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

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

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

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

Investment property amounted to P3,493 million as of December 31, 2007 against P1,741 million as of December 31, 2006. The 100% increase was mainly due to change of valuation to fair value model from the cost model.

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

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

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

Total non-current assets amounted to P5,524 million as of December 31, 2007 from P3,936 million as of December 31, 2006 as discussed above.

Total assets reached P9,009 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 P370 million as of December 31, 2007 against P385 million as of December 31, 2006, or decrease of 4%. There is no material variance for this account.

Advances from related parties amounted to P179 million as of December 31, 2007, or higher by 83% from P98 million 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 111% 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 P1,004 million as of December 31, 2007, higher by 5% from P953 million as of December 31, 2006 as discussed above.

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

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

Deferred tax liabilities -net amounted to P867 million as of December 31, 2007 against P35 thousand as of December 31, 2006 mainly from recognition of deferred tax liabilities on the change in valuation of investment property and deferred rent income from PAS 17.

Total non-current liabilities amounted to P879 million as of December 31, 2007 against P10 million as of December 31, 2006 mainly from increase in deferred tax liabilities.

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

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

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

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

Retained earnings amounted to P524 million as of December 31, 2007 from deficit of P294 million as of December 31, 2006 mainly from prior period adjustment for the change in valuation of investment property to fair value model offset by net loss during the period.

Total equity attributable to Equity holders of Parent amounted to P6,870 as of December 31, 2007 from P6,225 million as of December 31, 2006 due to higher retained earnings offset by lower revaluation reserves.

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

Total stockholders' equity amounted to P7,125 million as of December 31, 2007 from P6,479 million as of December 31, 2006.

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

For the years ended December 31, 2009, 2008 and 2007, the Company has consistently maintained a strong financial condition as shown in its balance sheets for those periods so that it was always poised to take advantage of investment opportunities that would contribute to its overall business strategy. It increased its total assets to P9.95 billion in 2009 from P9.43 billion in 2008 and P9.01 billion in 2007. It increased its equity to P7.94 billion in 2009 from P7.58 billion in 2008 and P7.13 billion in 2007. It has maintained a low debt to equity ratio of 0.23 : 1 in 2009 and 2008 (from 0.24 : 1 in 2007) and even a lower gearing percentage (computed as net financial debt divided by total equity) of 7% in 2009 (from 6% in both 2008 and 2007) resulting from minimal financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. Additionally, the company kept significant amounts of cash and cash equivalents and short-term cash investments as part of its current assets to maintain its liquidity such that its current ratio had always exceeded the conservative rule of thumb of 2 : 1 by achieving a current ratio of 3.94 : 1 in 2009 (from 3.33 : 1 in 2008 and 3.47 : 1 in 2007).

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

The results of operations of the Group for the year ended December 31, 2009 was the a net income of P243.75 Million in 2009 from P321.19 Million in 2008 (from a net loss of P25.54 Million in 2007). However, the net income in 2009 was lower than in 2008, because in 2008, the Company had fair value gains on investment property of P136.41 Million (P9.82 Million only in 2009). Improvement in profitability were posted by the broadband and trading segments in 2009. On a consolidated basis, revenues improved by 41% driven by growth in all business segments aside from the investing, financing and other business segment which was affected by lower yields on investments.

The Group expects its consolidated operations to continue to be profitable in the future as robust growth is forecasted in its trading business segment as new products and models are introduced and as brand equity continues to grow. This strategic direction is consistent with the company's conscious effort to continue leveraging on its historical core competence in consumer electronics and similar products. The promising results shown by this business segment in 2009 is a confirmation that the company has retained its long-established business strengths in sourcing, production, marketing, and distribution. Moreover, its real estate business segment will continue to be a significant value driver in the future and, with constant revenue streams, provide a significant hedge against possible downturns in the other business segments. Property development project studies of significant properties in the Philippines are being undertaken so that these properties would eventually be converted into higher-value assets to benefit the company's shareholders. Also, the revenue from Broadband business segment is expected to grow by 10% annually from Internet subscriptions and data services, and from transport fees.

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.

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.

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.

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

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

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 2% of total revenues in 2009.

On November 23, 2009, the Company’s management disclosed in public its plan of phasing out its unprofitable plastic injection manufacturing business which includes Kita Corporation and Solid Laguna Corporation. Kita and SLC are expected to reduce about 1% and 5% of revenues, respectively.

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.

Causes for any Material Changes from Period to Period

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

Balance Sheet Items (2009 vs. 2008)
(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 13% increase to P1,263 million from P1,118 million

Mainly provided by operating activities primarily from decrease in merchandise inventories and supplies and by financing activities mainly from proceeds on loans. This account stood at 13% and 12% as a percentage of total assets in 2009 and 2008, respectively.

Trade and other receivables – 60% increase to P501 million from P313 million

Mainly from increase in trade receivables on digital products. This account stood at 5% and 3% as a percentage of total assets in 2009 and 2008, respectively.

Available-for-sale financial assets – 381% increase to P305 million from P63 million

The increase was principally due to additions and reclassifications of certain held-to-maturity investments to available-for-sale financial assets in 2009. This account stood at 3% and 1% as a percentage of total assets in 2009 and 2008, respectively.

Held-to-maturity investments – no balances in 2009 and 2008

Merchandise inventories and supplies – 62% decrease to P83 million from P219 million

Mainly from lower merchandise and finished goods. This account represented 1% and 25% as a percentage of total assets in 2009 and 2008, respectively.

Real estate inventories – 1% increase to P1,046 million from P1,036 million

There was no material variance for this account. This account stood at 11% as a percentage of total assets for both years.

Advances to related parties- 162% increase in 2009 to P504 million from P192 million

Mainly from additional advances. This account stood at 5% and 2% as a percentage of total assets in 2009 and 2008, respectively.

Other current assets – 21% decrease in 2009 to P299 million from P376 million

Principally from decrease in advances to suppliers and contractors. This account stood at 3% and 4% as a percentage of total assets in 2009 and 2008, respectively.

Non-current trade and other receivables – amounted to ₱679 million as of December 31, 2009, increasing by 2% from ₱666 million as of December 31, 2008.

There was no material variance for this account. This account remained at 7% as a percentage of total assets for both years.

Non-current available-for-sale financial assets – 7% increase in 2009 to P8 million from P7 million

Mainly from higher club shares. This account stood at 0.08% as a percentage of total assets for 2009 and 2008.

Non-current held-to-maturity investments – 100% decrease to none from P161 million

There was no non-current held-to-maturity investments as of end of 2009 against ₱161 million as of end of 2008 principally due to disposal of financial assets and reclassification to available-for-sale financial assets. This account stood at 2% of total assets in 2008.

Property, plant and equipment – 3% decrease to P1,397 million from P1,438 million

There was no material variance for the account. This represented 14% and 15% as a percentage of total assets in 2009 and 2008.

Investment property – P3,776 million for both years

There was no material variance for this account. This account stood at 38% and 40% as a percentage of total assets in 2009 and 2008, respectively.

Retirement benefit assets -25% increase to P45 million from P36 million

Increase was primarily due to contributions for the year. This represented 0.46% and 0.39% of total assets for both years.

Deferred tax assets –net - 21% decrease to P3.4 million from P4.3 million

The decrease was mainly due to application of certain deferred tax assets. This account stood at 0.03% and 0.05% of total assets in 2009 and 2008 respectively.

Other non-current assets – 11% decrease to P24 million from P28 million

Mainly from lower prepaid expenses and refundable deposits. This represented 0.25% and 0.30% as percentage to total assets in 2009 and 2008 respectively.

Non-current assets held for sale amounted to ₱12 million as of December 31, 2009 vs. none in 2008 mainly as a result of reclassification of certain property, plant and equipment of Solid Laguna Corporation.

Interest-bearing loans – 9% decrease to P419 million from P458 million

Mainly due to payments during the period. This account stood at 4% and 5% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

Trade and other payable – 9% decrease to P322 million from P352 million

Due to decrease in refundable deposits and other payable offset by higher accrued expenses. This account stood at 3% and 4% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

Advances from related parties – 80% increase to P201 million from P111 million

The increase was due to advances availed during the period. This account stood at 2% and 1% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

Estimated liability for land and land development costs – no change

There was no movement during the period. This account represented 1% as a percentage of total liabilities and equity for both years.

Income tax payable –amounted to P4 million as of December 31, 2009 from P6 million as of December 31, 2008

Mainly from payments made. This account was pegged at 0.05% and 0.07% of the total liabilities and equity in 2009 and 2008, respectively.

Non-current interest-bearing loans – 100% increase to P135 million vs. none in 2008

The increase was mainly due to availment of loan. This accounted for the 1% of the total liabilities and equity in 2009.

Non-current refundable deposits – 14% increase to P11 million from P9 million
The increase was mainly due to additional deposits during the year. This represented 0.11% and 0.10% of the total liabilities and equity in 2009 and 2008, respectively.

Retirement benefit obligation – 80% decrease to P1 million from P7 million

Mainly due to payments made. This account stood at 0.01% and 0.08% of the total liabilities and equity in 2009 and 2008, respectively.

Deferred tax liabilities – 2% increase to P849 million from P830 million

The increase was principally in relation to additional fair value gains. No material variance for this account. This account stood at 9% as a percentage of total liabilities and equity for both years.

Capital stock – no change

This account stood at 20% and 22% of total liabilities and equity in 2009 and 2008, respectively.

Additional Paid-In-Capital – no change
This account represented 47% and 49% of total liabilities and equity in 2009 and 2008, respectively.

Treasury Shares – no change

This account represented 1% of total liabilities and equity in both years

Revaluation reserves – 52% increase to(P101) million from (P213)million

Principally due to fair value gains on available for sale financial assets and reclassification adjustments for other losses, gain on reclassification adjustments of financial assets offset by currency differences on translating financial statements of foreign operations. This account stood at 1% and 2% total liabilities and equity in 2009 and 2008, respectively.

Retained earnings – 26% increase to P1,065 million from P845 million

As a result of net income during the period. This account stood at 11% and 9% of total liabilities and equity in 2009 and 2008, respectively.

<u>Balance Sheet Items (2008 vs. 2007)</u>
(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 7% decrease to P1,118 million from P1,206 million

Mainly used for operating activities primarily for increase in real estate inventories. This account stood at 12% and 13% as a percentage of total assets in 2008 and 2007, respectively.

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

Mainly due to maturity of these investments. This account represented 1% in 2007.

Trade and other receivables – 12% increase to P503 million from P450 million

Mainly from advances to suppliers for the purchase of inventories increase in trade and other receivables. This account stood at 5% as a percentage of total assets for both years.

Advances to related parties – 48% increase to P192 million from P130 million

Mainly from additional advances. This account represented 2% and 1% as a percentage of total assets in 2008 and 2007, respectively.

Available-for-sale financial assets – 84% decrease to P63 million from P388 million

Mainly due to reclassification of certain bonds to held to maturity investments. This account represented 1% and 4% as a percentage of total assets in 2008 and 2007, respectively.

Merchandise inventories and supplies - net – 19% increase to P208 million from P175 million

Principally due to higher merchandise and finished goods. This account stood at 2% for both years.

Real estate inventories – 12% increase to P1,036 million from P925 million

Primarily from additional cost on property development. This represented 11% and 10% as a percentage of total assets in 2008 and 2007, respectively.

Other current assets – 27% increase to P196 million from P154 million

Principally from creditable withholding taxes. This account stood at 2% for both years.

Non-current trade and other receivable – 13% increase to P546 million from P482 million

Mainly from higher cash surrender value of life insurance policy. This account represented 6% and 5% in 2008 and 2007, respectively.

Non-current available-for-sale financial assets –no material change

This account stood at 0.08 % for both years.

Non-current held-to-maturity investments – 100% increase to P161 million from none

Due to the reclassification to held to maturity of the investments in foreign currency denominated bonds in 2008. This account represented 2% of total assets in 2008.

Property, plant and equipment – 1% decrease to P1,438 million from P1,455 million

There was no material variance for this account. This account stood at 15% and 16% of total assets in 2008 and 2007, respectively.

Investment property – 9% increase to P3,789 million from P3,489 million

Principally due to fair value gains from appraisal of investment property. This account stood at 40% and 39% as a percentage of total assets in 2008 and 2007, respectively.

Retirement benefit assets – 6% increase to P44 million from P42 million

Increase was mainly from additional contribution in 2008. This account stood at 1% of total assets in both years.

Deferred tax assets – 67% decrease to P4 million from P13 million

The decrease was mainly due to reversal of certain allowance for impairment.

Other non-current assets – 386% increase to P148 million from P30 million

Primarily from investments made in relation to the acquisition of the China property project. This account represented 2% and 0.3% as a percentage of total assets in 2008 and 2007, respectively.

Interest-bearing loans – 12% increase to P458 million from P409 million

Mainly from higher US dollar conversion rate as of end of the period. This account remained at 5% for both years.

Trade and other payables – 6% decrease to P347 million from P368 million

Primarily due to lower trade payables and accrued expenses offset by higher refundable deposits.

This account stood at 4% of total liabilities and stockholders' equity for both years.

Advances from related parties – 38% decrease to P111 million from P179 million

Mainly from payments of advances. This account represented 1% and 2% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

Estimated liability for land and land development costs – 85% increase to P68 million from P36 million

Primarily due to recognition of additional project development costs.

Income tax payable – 12% decrease to P6 million from P7 million

Mainly from lower tax expense.

Refundable deposits – 15% increase to P9 million from P8 million

Mainly from additional deposits received.

Retirement benefit obligation – 127% increase to P7 million from P3 million

Principally from higher present value of plan obligation.

Deferred tax liabilities – 3% decrease to P838 million from P866 million

There was no material variance for this account.

Capital stock – no change

Capital stock stood at 21% and 23% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

Additional paid-in capital – no change

Additional-paid-in capital stood at 49% and 52% of total liabilities and stockholders' equity in 2008 and 2007, respectively.

Treasury shares – no change

Treasury shares remained at 1% of total liabilities and equity in 2008 and 2007.

Revaluation reserves – decrease to (P213) million from (P210) million

There was no material variance for this account. This remained at 2% for both years.

Retained earnings– 67% increase to P873 million from P523 million

As a result of net income for the year. This account stood at 9% and 6% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

Minority interest – 55% increase to P394 million from P254 million
Principally from additional issuance of shares of a subsidiary. This account represented 4% and 3% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, 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

Primarily 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 13% and 18% as a percentage of total assets in 2007 and 2006, respectively.

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

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

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

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

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

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

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

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

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 4% and 7% as a percentage of total assets in 2007 and 2006, respectively.

Inventories – 140% increase to P175 million from P73 million

Due to the stock up of mobile phone inventories. This account stood at 2% 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 10% and 11% as a percentage of total assets in 2007 and 2006, respectively.

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

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

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

Principally from lower translation rate of foreign currency denominated financial assets. This account stood at 5% and 7% as a percentage of total assets in 2007 and 2006.

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

Primarily from disposal of club shares.

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

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

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

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

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

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

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

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

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 5% and 6% as a percentage of total liabilities and equity in 2007 and 2006.

Trade and other payables – 4% decrease to P368 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 – increase to P866 million from P35 thousand

Mainly from recognition of deferred tax liabilities on the change in valuation of investment property and deferred rent income from PAS 17.

Capital stock – no change

Capital stock remained at 23% 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 52% 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 2% and 0.5% as a percentage of total liabilities and equity in 2007 and 2006, respectively.

Retained earnings– increase to P523 million from P294 million deficit

Mainly from prior period adjustment for the change in valuation of investment property to fair value model offset by net loss during the period.

Minority interest – no material variance

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

<u>Income Statement Items (2009 vs. 2008)</u>
(Increase or decrease of 5% or more in the financial statements)

Service revenue – 7% increase to P630 million from P589 million

Mainly due to improved broadband revenues. As a percentage of total revenues, this account represents 25% and 33% in 2009 and 2008, respectively.

Sale of goods – 41% increase to P1,287 million from P911 million

Mainly due to higher volume of sales of the digital products. As a percentage of total revenues, this account remained at 52% of total revenues for both years.

Rental income – 17% decrease to P112 million from P136 million

Primarily due to reduction in rates. This account declined to 5% in 2009 from 8% of total revenues in 2008.

Sale of real estate – 1078% increase to P360 million from P30 million

The material change was principally due to sale of industrial lots. As a percentage of total revenues, this account increased to 15% in 2009 from 2% in 2008.

Interest income – 2% decrease to P95 million from P97 million

Mainly due to lower interest from business loans. As a percentage of total revenues, this account declined to 4% in 2009 from 6% in 2008.

Cost of sales, services and rentals amounted to P1,768 million in 2009, or an increase of 40% from P1,265 million in 2008 as discussed below:

Cost of services –5% increase to P458 million from P435 million

Principally in relation to the increase in service revenues. This account decreased to 18% from 25% in 2009 and 2008, respectively, as a percentage of total revenues.

Cost of sales - 29% increase to P993 million from P771 million
Mainly in relation to higher sales. As a percentage of total sales, this account represented 40% in 2009 from 44% in 2008.

Cost of rentals – 7% decrease to P33 million from P36 million

Primarily from lower taxes and licenses and utilities. This account decreased to 1% in 2009 from 2% in 2008 as a percentage of total revenues.

Cost of real estate sold – 1159% increase to P282 million from P22 million
The increase was mainly in relation to higher sale of land. This account increased to 11% in 2009 from 1% in 2008 as a percentage of total revenues.

General and administrative expenses – 3% decrease to P273 million from P282 million

No material change for this account. As a percentage of total revenues, this account decreased to 11% in 2009 from 16% in 2008.

Selling and distribution costs – 36% increase to P101 million from P74 million

Mainly from higher advertising and warranty expenses. This account remained at 4% of total revenues for both years.

Other operating income –net - 66% decrease to P52 million from P154 million

Principally due to lower fair value gains on investment property. This account decreased to 2% in 2009 from 9% in 2008 as a percentage of total revenues.

Finance income – 52% decrease to P37 million from P77 million

Primarily due to decrease in foreign currency gains. This account decreased to 1% in 2009 from 4% in 2008 as a percentage of total revenues.

Finance costs – 143% increase to P122 million from P50 million

Mainly due to loss on sale of investments offset by lower interest expenses. This account increased to 5% in 2009 from 3 % in 2008 as a percentage of total revenues.

Tax expense amounted to P70 million in 2009 from P9 million in 2008 due to higher taxable income of certain subsidiaries.

<u>Income Statement Items (2008 vs. 2007)</u>
(Increase or decrease of 5% or more in the financial statements)

Service revenue – 6% decrease to P605 million from P641 million

Mainly due to revenue earned for services rendered for the ASEAN Summit in 2007, partly offset by higher broadband revenues for the current period. As a percentage of total revenues, this account decreased to 34% from 45% in 2008 and 2007, respectively.

Sale of goods – 92% increase to P911 million from P474 million

Mainly due to mobile phone sales. As a percentage of total revenues, this account increased to 52% from 33% in 2008 and 2007, respectively.

Rental income – 15% increase to P136 million from P117 million

Primarily from higher occupancy. This account remained at 8% of total revenues for both years.

Sale of land – 70% decrease to P30 million from P102 million
The decline was principally because of zero sales of industrial lots for the period. As a percentage of total revenues, this account declined to 2% in 2008 from 7% in 2007.

Interest income – 9% decrease to P81 million from P89 million

Mainly from lower investible funds and lower average dollar conversion rate for the year. As a percentage of total revenues, this account declined to 5% in 2008 from 6% in 2007.
Cost of services –10% decrease to P435 million from P482 million

Principally in relation to the decline in service revenues. This account decreased to 25% from 34% in 2008 and 2007, respectively, as a percentage of total revenues.

Cost of sales - 93% increase to P782 million from P405 million

Mainly in relation to higher sales for the period. As a percentage of total sales, this account represented 44% in 2008 from 28% in 2007.

Cost of rentals – 6% increase to P39 million from P37 million

Primarily in relation of higher rental income in 2008.

Cost of land sold – 64% decrease to P22 million from P61 million

The decrease was mainly in relation to the decline in sale of land. This account decreased to 1% in 2008 from 4% in 2007 as a percentage of total revenues.

General and administrative expenses – 1% decrease to P267 million from P270 million

There was material change for this account. As a percentage of total revenues, this account decreased to 15% in 2008 from 19% in 2007.

Selling and distribution costs – 142% increase to P74 million from P30 million

Mainly from higher advertising charges for the mobile phone and digital devices businesses.

Other operating income – 654% increase to P192 million from P25 million

Principally due to fair value gains on investment property. This account increased to 11% in 2008 from 2% in 2007 as a percentage of total revenues.

Finance income – 133% increase to P77 million from P33 million

Primarily due to higher foreign currency gains.

Finance costs – 70% decrease to P50 million from P165 million

Mainly from lower interest rates in 2008 and also due foreign currency losses incurred last year. This account decreased to 3% in 2008 from 12 % in 2007 as a percentage of total revenues.

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

Income Statement Items (2007 vs. 2006)
(Increase or decrease of 5% or more in the financial statements)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Cost of rentals – 41% decrease to P37 million from P62 million

Mainly from lower depreciation expenses.

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

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

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

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

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

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

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

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

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

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

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

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

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

Due to gain on sale of investments.

Tax expense – increase to P61 million to P5 million

Due to higher pre-tax income of certain subsidiaries.

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

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

2nd Quarter Ended June 30, 2010

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

D. 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 fourteen 14 wholly-owned subsidiaries as of December 31, 2009, 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. On November 23, 2009, the Company's management disclosed in public its plan of phasing out its unprofitable plastic injection manufacturing business which includes Kita.

Solid Laguna Corporation (SLC) was incorporated on May 15, 1995. SLC merged with Solid City Industrial and Commercial Corporation (SCICC), a wholly-owned subsidiary of Solid Corporation, on December 28, 2001 with SLC as the surviving company. SLC ceased its consumer electronics manufacturing operations in December 2002 after its manufacturing agreement with SPH expired in September 2002 and was not renewed. Subsequently, SLC's business is injected plastics manufacturing which was the business of SCICC prior to their merger. SLC ceased the operations of the plastic injection manufacturing business at the end of 2009. SLC will operate as a lessor of real estate.

Brilliant Reach Limited (BRL) was incorporated on March 12, 2003 in the British Virgin Islands and acquired by the Company on July 31, 2003. BRL handles and manages the placement of the

Company's investible funds in foreign currency fixed income financial assets and other investments.

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

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

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

My Solid Technologies & Devices Corporation was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development.

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

2. Business of Issuer

<u>Principal Products and Services</u>

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 P306 million or 49% of service income in 2009, P282 million or 48% of service income in 2008 P2 and 287 million or 46% of service income in 2007.

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 hour access will further extend broadband service market reach to budget users who still wish to upgrade. Another growing market is the medium sized business and institutional requirements not only for Internet access but also for private data networks and other business services.

The Company's consumer electronic products manufacturing and distribution business was formerly anchored on 2 leading foreign brands, SONY and AIWA. However, shifts in global business practices of brand owners resulted to the drastic reduction and/or cessation of significant portions of this business activity such that: (a) on May 9, 1997, the Company entered into a joint venture agreement with Sony Corporation for the formation of Sony Philippines, Inc.

(SPH) to take over the local marketing and distribution of SONY consumer electronic products in the Philippines, with the Company owning 33% of SPH; accordingly, the Company ceased all selling activities of SONY products on October 1, 1997 and transferred this activity to SPH; (b) the Company closed its consumer electronics manufacturing operations located in Laguna International Industrial Park in December 2002 after its manufacturing agreement with SPH expired and was no longer renewed; (c) the Company shut down its color TV manufacturing operations located in the Clark Special Economic Zone in April 2001 when Aiwa Co. Ltd., its principal export customer, stopped its orders after the purchase agreement with the Company expired in April 2000 and was no longer renewed; and (d) the Company stopped the marketing and distribution of AIWA brand effective July 1, 2003 as these activities were taken over by SPH as part of a worldwide business realignment brought on by Sony's takeover and integration of Aiwa as a second brand. In August 2007, Solid Broadband Corporation Mobile Division introduced mobile phones in the Philippine market under the MyPhone brand.

The other consumer electronics business of the Company as of December 31, 2009 are:
(1) sale of mobile phones and LCD televisions which generated sales of P1,005 million in 2009 (for 200,362 units), or 78% of sales in 2009, P514 million in 2008 (for 173,061 units) or 56% of sales in 2008 and P96 million in 2007 (for 13,643 units) or 56 %of sales in 2007; (2) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of P20 million in 2009 (for 121,347 units produced)or 3% of service revenues in 2009, P17 million in 2008 (for 102,604 units produced) or 3% of service revenues and P19 million in 2007 (for 125,239 units produced) or 3% of service revenues; and (3) after-sales service for principally SONY and AIWA brands of consumer electronic products with its 31 company-owned service centers throughout the Philippines and 100 independent authorized service centers as of end of 2009 which generated service income of P 210 million or 33% of service revenues in 2009, P203 million or 34% of service revenues in 2008 and P207 million or 33% of service revenues in 2007; and (4) warehousing and distribution of consumer electronic products with service revenue of P60 million or 9 % of service revenues in 2009, P65 million or 11% of service revenues in 2008 and P68 million or 11% of service revenues in 2007 and (5) other service income of P32 million or 6% of service revenues in 2009, P22 million or 4% of service revenues in 2008 and P44 million or 7% of service revenues in 2007.

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

The Company's products are sold in the Philippines. Revenues for the last 3 years, are as follows: injected plastic parts of P157 million or 12% of sales in 2009, P127 million or 14% of sales in 2008 and P158 million or 33% of sales in 2007; broadcast/professional equipment and accessories of P88 million or 7% of sales in 2009, P87 million or 10% of sales in 2008 and P59 million or 13% of sales in 2007 ; plastic resins of P16 million or 1% of sales in 2009, P136 million or 15% of sales in 2008, P137 million or 29% of sales in 2007 and other products of P21 million or 2% of sales in 2009, P47 million or 5% of sales in 2008 and P24 million or 6% of sales in 2007. Real estate sales amounted to P361 million or 14% of revenues in 2009, P31 million or 2% of revenues in 2008 and P102 or 7% of revenues in 2007 and P12 million.

<u>Distribution</u>

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

The mobile phones are sold by the Company through the Mobile Division of its subsidiary, Solid Broadband Corporation (SBC). All domestic sales are made by SBC to 3 independent distributors as at December 31, 2009 and to MyTel Mobility Solutions Inc. in the fourth quarter of 2009. The distributors supply an independent dealer network.

Status of any-publicly announced new product or service

None.

Competition

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

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

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

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

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

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

The MyPhone brand cell phones 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 are no existing major 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 substantially dependent on one major customer for its sale of injected plastic parts, which account for about 1% 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, 2009, it has 32 service centers throughout the Philippines and 100 independent authorized service centers.

Related Party Transactions

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

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

Principal Terms and Expiration Dates of all Licenses and Agreements

- Franchise

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

- Joint Venture Agreement

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

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

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

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony and Aiwa products. Under the MOU, Sony authorized the Company to perform in-warranty and out-of warranty services to customers in the Philippines for a fee calculated as a percentage of Sony's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by Sony. Also, Sony agrees to pay the Company network support fee equal to 1% of net sales for SONY products and 1% or P50,000 per month whichever is higher for AIWA products. In the first quarter of 2009, SEC and Sony agreed that the network support fees shall be fixed P1.25 million per month effective April 2009. The Company's management believes that the MOU is effective unless revoked by any of the parties.

- Distributor Agreement with Sony Corporation

Solid Video Corporation has a non-exclusive Distributor Agreement with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of he laws of Hong Kong. Under the agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month warranty period at its own costs and expenses. The Company Management believes that this Agreement continuous to be effective although no formal renewal has been made since 2007.

Need for any government approval

Solid Video Corporation, a subsidiary of the Company, declared cash and stocks dividends in 2009. This is still pending approval of the Securities and Exchange Commission.

Zen Tower Corporation is awaiting the approval of the Housing and Land Use Regulatory Board (HLURB) for its amendment to its licenses to sell.

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 560 regular employees as at December 31, 2009 as shown in the table below. It estimates to have 600 employees by the end of December 31, 2010. There is no existing union as of December 31, 2009. 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	14
Sales and Distribution	85
Production	11
Operation	52
Broadband	132
Service	147
Administration	64
Finance	55
Total	**560**

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.

3. Properties

Description of Property

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

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

J. Bocobo St., Ermita, Manila	1,724	Office building
Brgy. San Roque, San Pablo City	1,714	Service center and office building
Oliveros, Balintawak, Quezon City	1,400	Raw land (Intended for lease)
Bacoor, Cavite	1,334	Office building
Cabanatuan City, Nueva Ecija	1,212	Service center and office building
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	55,517	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. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. Solid Corporation filed for a Petition for Higher Valuation of land on November 18, 2007. The case is ongoing as of April 2010. Solid Corporation also filed for a Petition for Retention of land with Office of the Regional Director of DAR on July 19, 2007. The petition of Solid Corporation was granted. Municipal Agrarian Reform Officer of the DAR ruled that Solid Corporation is entitled to 5 hectares retention. This is pending the approval the Regional Director as of April 2010.

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 was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms and

Application for Exemption as of June 1, 2009 on its affected lots which are unoccupied as of date considering that all farmer-beneficiaries concerned have abandoned the area and showed lack of interest in pursuing their claim over the property.

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 were 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	5,610*	March and August 2019
Dr. A. Santos Ave., Paranaque	3,074	October 31, 2010
Metro Manila	27,073**	March 14, 2010
Metro Manila	22,614***	January 7, 2011
Orbital space	14,288****	December 31, 2010

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

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

*** Represents lease of internet connection.

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

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

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Bacoor, Cavite	3,955	July 31, 2012
Balintawak, Quezon City	12,226	Various up to September 30, 2012
Cagayan de Oro	1,058	Various up to August 1, 2011
Chino Roces Ave, Makati City	18,115	Various up to April 30, 2018
Clark, Pampanga	16,687	Various up to September 14, 2012
Iloilo	1,643	Various up to August 31, 2011
Laguna International Industrial Park, Biñan, Laguna	32,625	Various up to August 31, 2011

Laguna International Industrial Park, Biñan, Laguna	3,595	April 30, 2010
Ermita, Manila	7,905	Various up to November 30, 2012
San Antonio, Parañaque City	4,392	October 31, 2010

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2010 to amount P150 million for upgrade of the broadband infrastructure and real estate development. The purchase and/or construction of these capital expenditures will be financed through the funds of the Company.

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

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

Mr. Joseph Lim is the Founding Chairman of Solid Group of Companies and served as Chairman of the Board of the Company from 1996 until 2006. He is presently the Chairman of Phil-Nanning Consortium, Inc. (Phil-Nanning), a wholly owned subsidiary of the Company; and Chairman of Guangxi Fil-Dragon Real Estate Development Ltd., a company in Nanning, China, where Phil-Nanning has a 51% ownership. In the past five years to present, he has been Chairman of various manufacturing and trading companies in Hongkong and China among which are Solid Co. Ltd., Solid Trading Ltd. and Solid Industrial (Shenzhen) Co. Ltd. Mr. Lim is the incumbent Chairman of the China-Philippines Chamber of Commerce. Mr. Lim is married to the Company's Chairman Emeritus, Ms. Elena S. Lim, and is the father of Chairman Ms. Susan L. Tan and Directors Mr. David S. Lim, Mr. Jason S. Lim and Mr. Vincent S. Lim. Mr. Lim assumed position as Director in June 2010 upon approval of the SEC of the amendment of the Company's Articles of Incorporation to increase the number of Directors from seven (7) to nine (9).

Mr. Ireneo D. Tubio Jr. is the Sr. VP and Chief Financial Officer effective June 2006. He was formerly Chief Accounting Officer since 1996. Prior to that, he was also Director for Financial Management Group for more than five years of Solid Corporation, Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, ASCOP, Inc., Solid Video Corporation and Solid Manila Corporation. Mr. Tubio passed away last June 21, 2010.

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

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

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

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

	High (₱)	Low (₱)
2010		
First quarter	0.89	0.71
Second quarter	0.83	0.71
2009		
First quarter	0.45	0.29
Second quarter	0.83	0.30
Third quarter	0.75	0.60
Fourth quarter	1.08	0.64
2008		
First quarter	0.70	0.57
Second quarter	0.60	0.41
Third quarter	0.59	0.42
Fourth quarter	0.50	0.30
2007		
First quarter	0.84	0.65
Second quarter	1.06	0.64
Third quarter	0.93	0.61
Fourth quarter	0.82	0.61

The Company shares were trading at ₱0.78 as of September 3, 2010 (the latest practicable trading date).

Holders

The number of shareholders of record as of July 31, 2010 was 4,713. Common shares outstanding as of July 31, 2010 were 1,821,542,000 shares. Total issued shares as of July 31, 2010 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of July 31, 2010:

	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)	344,233,827	18.90
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)	23,995,200	1.32
8.	Chua, Willington Chua &/or Constantino	11,610,000	0.64
9.	Chua, Constantino &/or Willington &/or George	1,750,000	0.10
10.	Hottick Development Corporation	1,408,000	0.08
11.	Chua, Willington	1,110,000	0.06
12.	Paz, Venson	1,065,000	0.06
13.	Columbian Motors Corporation	1,000,000	0.05
	Lucio W. Yan &/or Clara Yan	1,000,000	0.05
14.	John Peter C. Yu &/or Juan G. Yu	830,000	0.05
15.	Uy Chun Bing	800,000	0.04
16.	Ong, Victoria	632,000	0.03
17.	Juan Go Yu &/or Grace Chu Yu	630,000	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 cash dividends were declared in 2009 and 2008.

The Company's retained earnings as of December 31, 2009 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, 2009.

Recent Sales of Unregistered Securities in the Past Three Years

There was no sale of unregistered or exempt securities in 2007 through 2009.

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. The company has reelected Mr. Quintin Chua and Mr. Luis Maria L. Zabaljauregui as Independent Directors during the Annual Stockholders' meeting on July 30, 2009. In 2008, the company created another committee, the Risk Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. During the same year, 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, 2008 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 February 1, 2010. There are no major deviations from the adopted Manual on Corporate Governance.

The Company authorized the Board of Directors during its Annual Stockholders' meeting last July 30, 2009 to select and appoint its external auditor for the year 2009. Subsequently, the Board of Directors reappointed Punongbayan and Araullo, CPAs as its independent accountant for the year 2009.

The Company, its Directors, Officers and Employees complied with all the leading practices and principles on Good Governance as embodied in the Company's Manual. All members of the Board of Directors as well as Senior Management officers completed and were duly certified to have attended a 2- day special seminar on Corporate Governance conducted by Institute of Corporate Directors and a 1-day SEC Revised Code of Corporate Governance conducted by Center for Global Best Practices.

The Company is in the process of finalizing its Revised Manual of Corporate Governance in compliance with SEC Memorandum Circular No. 6, Series of 2009 and undertakes to submit the revised manual in September 2010.

H. External Audit Fees and Services

External Audit Fees and Services

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

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

   The audit fees of our present external auditor, Punongbayan and Araullo for the examination of our annual audited financial statements, including those of our subsidiaries for the years ended December 31, 2009 and 2008 amounted to about P3.4 million and P2.80 million, respectively. The audit fee of Grant Thornton for the examination of Fil-Dragon amounted to $24,000 US dollars.

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

   None for 2009 and 2008.

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

The tax fees paid to the Tax Division of Punongbayan and Araullo for tax consultation and advisory services of our Company and those of our subsidiaries for the year ended December 31, 2009 and 2008 amounted to ₱204,000.00 and ₱212,000.00, respectively.

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

There were no other fees paid for the years 2009 and 2008 .

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

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

I. Request for Annual Report on SEC Form 17-A

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 Extension,
Makati City, Metro Manila
Attention: Ms. Meline T. Corpuz

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, 2009, 2008 and 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

SUSAN L. TAN
Chairman of the Board

DAVID S. LIM
President &
Chief Executive Officer

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

SUBSCRIBED AND SWORN to before me this 29 APR 2010 day of ____________ affiants exhibiting to me their Community Tax Certificates as follows:

Name	CTC No.	Date Issued	Place Issued
Susan L. Tan	12226541	1-13-10	Makati
David S. Lim	12226544	1-13-10	Makati
Ireneo D. Tubio Jr.	03248717	1-23-10	Makati

Doc. No. 61 ;
Page No. 14 ;
Book No. 193 ;
Series of 2010.

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until Dec. 31, 2011
PTR O.R. No. 2087649 - Makati 01/04/10
IBP O.R. No. 803499 - Pasig City 12/21/09
TIN 212-965-989
Roll No. 28757 8

Report of Independent Auditors

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

T +63 2 886-5511
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 statements of financial position as at December 31, 2009, 2008 and 2007, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the years then ended, 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 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, 2009, 2008 and 2007, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

Dalisay B. Duque

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 2087604, January 4, 2010, Makati City
Partner's SEC Accreditation No. 0012-AR-2
BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

Firm BOA/PRC Cert. of Reg. No. 0002
Firm SEC Accreditation No. 0002-FR-2

March 30, 2010

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008 (As Restated - see Note 23)	2007 (As Restated - see Note 23)
A S S E T S				
CURRENT ASSETS				
Cash and cash equivalents	5	**P 1,263,142,145**	P 1,118,462,976	P 1,206,991,793
Trade and other receivables - net	6	**501,285,288**	313,205,104	428,277,167
Available-for-sale financial assets	7	**305,804,353**	63,519,015	388,448,319
Held-to-maturity investments	8	**-**	-	53,000,000
Merchandise inventories and supplies - net	9	**83,440,928**	219,260,928	175,519,259
Real estate inventories - net	10	**1,046,881,038**	1,036,949,872	925,679,328
Advances to related parties	25	**504,328,415**	192,327,778	130,091,376
Other current assets	13	**299,085,713**	376,261,035	176,783,215
Total Current Assets		**4,003,967,880**	3,319,986,708	3,484,790,457
NON-CURRENT ASSETS				
Trade and other receivables	6	**679,762,808**	666,890,976	482,201,959
Available-for-sale financial assets - net	7	**8,001,527**	7,461,527	7,611,527
Held-to-maturity investments	8	**-**	161,289,378	-
Property, plant and equipment - net	11	**1,397,744,432**	1,438,147,224	1,455,438,969
Investment property - net	12	**3,776,756,869**	3,766,204,352	3,493,097,944
Retirement benefit asset	21	**45,935,962**	36,658,396	42,211,671
Deferred tax assets - net	22	**3,408,612**	4,309,204	13,220,460
Other non-current assets - net	13	**24,919,357**	28,148,145	30,632,386
Total Non-current Assets		**5,936,529,567**	6,109,109,202	5,524,414,916
NON-CURRENT ASSETS HELD FOR SALE	11	**12,090,324**	-	-
TOTAL ASSETS		**P 9,952,587,771**	P 9,429,095,910	P 9,009,205,373

	Notes	2009	2008 (As Restated - see Note 23)	2007 (As Restated - see Note 23)
LIABILITIES AND EQUITY				
CURRENT LIABILITIES				
Interest-bearing loans	14	**P 419,206,324**	P 458,760,609	P 409,435,521
Trade and other payables	15	**322,604,948**	352,635,622	370,193,830
Advances from related parties	25	**201,439,920**	111,704,972	179,997,931
Estimated liability for land and land development costs	10	**68,304,647**	68,304,647	36,886,345
Income tax payable		**4,764,696**	6,782,075	7,721,316
Total Current Liabilities		**1,016,320,535**	998,187,925	1,004,234,943
NON-CURRENT LIABILITIES				
Interest-bearing loans	14	**135,742,000**	-	-
Refundable deposits - net	16	**11,096,848**	9,710,038	8,445,041
Retirement benefit obligation	21	**1,484,596**	7,362,600	3,247,908
Deferred tax liabilities - net	22	**849,404,315**	830,416,148	867,938,874
Total Non-current Liabilities		**997,727,759**	847,488,786	879,631,823
Total Liabilities		**2,014,048,294**	1,845,676,711	1,883,866,766
EQUITY				
Equity attributable to the Parent Company's stockholders				
Capital stock		**2,030,975,000**	2,030,975,000	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	**(101,653,736)**	(213,026,395)	(210,977,374)
Retained earnings	23	**1,065,972,835**	845,246,684	524,460,964
Total equity attributable to the Parent Company's stockholders		**7,521,381,641**	7,189,282,831	6,870,546,132
Non-controlling interests		**417,157,836**	394,136,368	254,792,475
Total Equity		**7,938,539,477**	7,583,419,199	7,125,338,607
TOTAL LIABILITIES AND EQUITY		**P 9,952,587,771**	P 9,429,095,910	P 9,009,205,373

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008 (As Restated - see Note 23)	2007 (As Restated - see Note 23)
REVENUES				
Sale of goods	25	**P 1,287,950,795**	P 911,965,255	P 474,458,952
Rendering of services	25	**630,591,746**	589,947,707	625,188,690
Sale of real estate	2	**360,841,142**	30,625,359	102,422,478
Rentals	25	**112,880,787**	136,222,127	117,992,418
Interest income	20	**95,230,153**	97,198,817	105,768,765
		2,487,494,623	1,765,959,265	1,425,831,303
COST OF SALES, SERVICES AND RENTALS				
Cost of sales	17	**993,923,498**	771,249,414	403,217,474
Cost of services	17	**458,164,630**	435,837,110	482,833,414
Cost of real estate sold	19	**282,889,925**	22,470,496	61,997,555
Cost of rentals	17	**33,568,032**	36,134,717	35,608,260
		1,768,546,085	1,265,691,737	983,656,703
GROSS PROFIT		**718,948,538**	500,267,528	442,174,600
OTHER OPERATING EXPENSES (INCOME)				
General and administrative expenses	19	**273,006,398**	282,474,530	271,717,644
Selling and distribution costs	19	**101,346,379**	74,413,111	30,747,984
Other operating income - net	18	**(52,901,541)**	(154,811,814)	(23,283,814)
		321,451,236	202,075,827	279,181,814
OPERATING PROFIT		**397,497,302**	298,191,701	162,992,786
OTHER INCOME (CHARGES)				
Finance costs	20	**(122,478,185)**	(50,359,180)	(165,269,830)
Finance income	20	**37,278,789**	77,013,074	33,051,608
Other gains - net		**1,599,175**	5,503,312	4,738,417
		(83,600,221)	32,157,206	(127,479,805)
PROFIT BEFORE TAX		**313,897,081**	330,348,907	35,512,981
TAX EXPENSE	22	**70,149,462**	9,156,294	61,057,359
PROFIT (LOSS) FOR THE YEAR		**P 243,747,619**	P 321,192,613	(P 25,544,378)
Profit (loss) for the year attributable to:				
Parent Company's stockholders		**P 220,726,151**	P 320,785,720	(P 26,295,296)
Non-controlling interests		**23,021,468**	406,893	750,918
		P 243,747,619	P 321,192,613	(P 25,544,378)
Earnings (loss) per share attributable to the Parent Company's stockholders - Basic and Diluted	24	**P 0.12**	P 0.18	(P 0.01)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008 (As Restated - see Note 23)	2007 (As Restated - see Note 23)
PROFIT (LOSS) FOR THE YEAR		**P 243,747,619**	P 321,192,613	(P 25,544,378)
OTHER COMPREHENSIVE INCOME (LOSS)				
Reclassification adjustments for losses recognized in profit or loss		**62,432,561**	5,201,422	(2,650,000)
Fair value gains (losses) on available-for-sale financial assets, net of taxes	7	**35,128,701**	(313,038,441)	(80,000)
Fair value gain on reclassification of financial assets	8	**28,237,397**	-	-
Currency exchange differences on translating balances of foreign operations	2	**(14,426,000)**	305,787,998	(171,427,558)
		111,372,659	(2,049,021)	(174,157,558)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE YEAR		**P 355,120,278**	P 319,143,592	(P 199,701,936)
Total comprehensive income (loss) for the year attributable to:				
Parent Company's stockholders		**P 332,098,810**	P 318,736,699	(P 200,452,854)
Non-controlling interests		**23,021,468**	406,893	750,918
		P 355,120,278	P 319,143,592	(P 199,701,936)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Note	2009	2008 (As Restated - see Note 23)	2007 (As Restated - see Note 23)
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS				
CAPITAL STOCK - P1 par value				
Authorized - 5,000,000,000 shares				
Issued - 2,030,975,000 shares				
Outstanding - 1,821,542,000 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				
Acquired at P0.5520 per share - 209,433,000 shares		**(115,614,380)**	(115,614,380)	(115,614,380)
REVALUATION RESERVES	23			
Balance at beginning of year		**(213,026,395)**	(210,977,374)	(36,819,816)
Other comprehensive income (loss) for the year		**111,372,659**	(2,049,021)	(174,157,558)
Balance at end of year		**(101,653,736)**	(213,026,395)	(210,977,374)
RETAINED EARNINGS (DEFICIT)				
Balance at beginning of year				
As previously reported		**876,103,268**	(350,229,141)	(295,798,695)
Prior period adjustments, net of tax	23	**(30,856,584)**	874,690,105	846,554,955
As restated		**845,246,684**	524,460,964	550,756,260
Profit (loss) for the year attributable to the Parent Company's stockholders		**220,726,151**	320,785,720	(26,295,296)
Balance at end of year		**1,065,972,835**	845,246,684	524,460,964
Total Equity Attributable to the Parent Company's stockholders		**7,521,381,641**	7,189,282,831	6,870,546,132
NON-CONTROLLING INTERESTS				
Balance at beginning of year		**394,136,368**	254,792,475	254,041,557
Additional non-controlling interests on acquired subsidiary		**-**	138,937,000	-
Profit for the year attributable to non-controlling interests		**23,021,468**	406,893	750,918
Balance at end of year		**417,157,836**	394,136,368	254,792,475
TOTAL EQUITY		**P 7,938,539,477**	P 7,583,419,199	P 7,125,338,607
Total comprehensive income (loss) for the year attributable to:				
Parent Company's stockholders		**P 332,098,810**	P 318,736,699	(P 200,452,854)
Non-controlling interests		**23,021,468**	406,893	750,918
		P 355,120,278	P 319,143,592	(P 199,701,936)

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

	Notes	2009	2008 (As Restated - see Note 23)	2007 (As Restated - see Note 23)
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax		**P 313,897,081**	P 330,348,907	P 35,512,981
Adjustments for:				
Interest income		**(121,702,409)**	(128,389,679)	(125,241,709)
Depreciation and amortization	11	**74,998,874**	79,372,652	85,954,452
Loss (gain) on sale of foreign currency-denominated bonds	20	**59,852,713**	-	(2,595,101)
Impairment losses on trade and other receivables	6	**27,735,676**	17,603,434	11,581,155
Interest expense	20	**19,345,255**	21,161,120	28,368,954
Loss on inventory obsolescence	9	**15,765,265**	8,114,168	242,566
Unrealized foreign currency losses (gains) - net		**9,842,241**	(33,374,532)	119,446,635
Fair value gains on investment property - net	12	**(9,823,455)**	(136,409,486)	-
Reversals of impairment losses on trade and other receivables	6	**(8,488,254)**	(7,879,232)	(10,290,149)
Reversals of allowance for inventory obsolescence	9	**(1,796,955)**	(10,860,332)	(2,264,391)
Interest amortization on refundable deposits	16	**1,386,810**	1,264,997	1,095,246
Gain on sale of property and equipment		**(222,898)**	(945,857)	(174,168)
Write-off of investment property	12	**73,076**	-	-
Impairment losses on available-for-sale financial assets	7	**-**	170,000	1,400,000
Operating profit before working capital changes		**380,863,020**	140,176,160	143,036,471
Decrease (increase) in trade and other receivables		**(220,199,438)**	41,942,055	(4,347,443)
Decrease in financial assets at fair value through profit or loss		**-**	-	149,754,385
Decrease (increase) in available-for-sale financial assets		**(34,156,408)**	161,570,905	(41,813,832)
Decrease (increase) in held-to-maturity investments		**4,140,394**	53,000,000	(53,000,000)
Decrease (increase) in merchandise inventories and supplies		**121,851,690**	(40,995,505)	(114,939,773)
Increase in real estate inventories		**(9,931,166)**	(140,652,893)	(109,819,137)
Increase in advances to related parties		**(312,000,637)**	(62,236,402)	(78,165,018)
Decrease (increase) in other current assets		**81,823,216**	(191,091,967)	(23,592,020)
Decrease (increase) in retirement benefit asset		**(9,277,566)**	5,553,275	3,786,656
Decrease in other non-current assets		**3,228,788**	4,190,415	10,539,016
Increase (decrease) in trade and other payables		**(30,030,674)**	21,932,081	(15,963,801)
Increase in estimated liability for land and land development costs		**-**	31,418,302	19,636,994
Increase (decrease) in advances from related parties		**89,734,948**	(68,292,959)	81,514,265
Increase (decrease) in retirement benefit obligation		**(5,878,004)**	4,114,692	(256,087)
Cash generated from (used in) operations		**60,168,163**	(39,371,841)	(33,629,324)
Interest received		**95,230,153**	97,198,817	105,768,765
Cash paid for income taxes		**(56,925,976)**	(37,377,514)	(27,262,280)
Net Cash From Operating Activities		**98,472,340**	20,449,462	44,877,161
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	20	**26,472,256**	31,190,862	19,472,944
Acquisitions of property and equipment	11	**(46,696,633)**	(62,404,867)	(37,135,506)
Additions to investment property	12	**(802,138)**	(19,789,527)	(9,528,278)
Proceeds from sale of property and equipment		**233,125**	1,269,817	864,864
Loans granted to a related party	25	**-**	(120,783,064)	-
Net Cash Used in Investing Activities		**(P 20,793,390)**	(P 170,516,779)	(P 26,325,976)

Forward

	Notes	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (repayments) of interest-bearing loans - net	14	**P 96,187,715**	P 49,325,088	(P 37,449,990)
Interest paid	20	**(19,345,255)**	(21,161,120)	(28,368,954)
Net Cash From (Used in) Financing Activities		**76,842,460**	28,163,968	(65,818,944)
Effect of Currency Rate Changes on Cash and Cash Equivalents	`	**(9,842,241)**	33,374,532	(119,446,635)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**144,679,169**	(88,528,817)	(166,714,394)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,118,462,976**	1,206,991,793	1,373,706,187
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 1,263,142,145**	P 1,118,462,976	P 1,206,991,793

Supplement Information on Noncash Investing Activities

In 2009, the Board of Directors of Solid Laguna Corporation, a subsidiary, approved the phasing out of its plastic injection manufacturing division. As a result, certain property, plant and equipment with a total carrying amount of P12,090,324 were reclassified as Non-current Assets Held for Sale (see Note 11).

In 2008, the Group reclassified certain investments in foreign currency-denominated bonds, previously classified as Available-for-sale Financial Assets, to the Held-to-maturity Investments account, with a total fair value of P165,185,417 at the time of the reclassification. However, in 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with a total carrying amount of P125,173,911 back to Available-for-sale Financial Assets (see Note 8).

Also, in 2008, Zen Towers Corporation, another subsidiary, reclassified certain assets amounting to P116,907,395, previously classified as part of Real Estate Inventories, to Investment Property (see Note 12).

As a result of the Parent Company's acquisition of Fil-Dragon in 2008, certain transportation equipment with a carrying amount of P2,082,624 were acquired.

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2009, 2008 AND 2007
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or Parent Company) was registered with the Philippine Securities and Exchange Commission on October 16, 1933. The Parent Company currently conducts business as an investment holding company. Its shares of stock are publicly traded at the Philippine Stock Exchange.

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

Subsidiaries	Percentage of Ownership 2009	2008	2007	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	a	Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	c	Information and communications and technology systems
Precos, Inc. (Precos)	**100**	100	100	c	Real estate
Solid Electronics Corporation (SE Corp)	**100**	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Casa Bocobo Hotel, Inc. (CBHI) [Formerly Zen By The Park, Inc.]	**100**	100	100	e, g	Hotel operations
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	100	100	h	Real estate
My Solid Technologies & Devices Corporation	**100**	100	100	j	Sale of mobile phones
Skyworld Corporation (Skyworld)	**75**	75	75	c, e	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	b, c	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	51	-	i, c	Real estate
Starworld Corporation (Starworld)	**50**	50	50	e, f	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	-	b, d	Real estate

Notes:

- a Incorporated and domiciled in the British Virgin Islands
- b Indirectly owned through SC
- c Pre-operating or non-operating
- d LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- e Indirectly owned through SMC
- f Starworld is 20% owned by SMC and 40% owned by Skyworld
- g Incorporated in 2007 and started commercial operations in August 2008
- h Acquired in 2008; indirectly owned through Precos
- i Acquired in 2008; indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China
- j Incorporated in 2009 and has not yet started commercial operations as of December 31, 2009

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*.

On July 30, 2009, the Parent Company's Board of Directors (BOD) approved the acquisition of 100% ownership interest in Mytel Mobility Solutions, Inc. (Mytel), a domestic company engaged in trading of goods such as mobile phones and other electronic equipment and devices on a wholesale basis (see Note 27.1).

1.2 Status of Operations

(a) Revaluation of Investment Property

Prior to the revaluation of the Group's investment property in 2008, the Group incurred net losses in 2007 and prior years that resulted in significant deficits amounting to P349.0 million as of December 31, 2007. Such losses resulted mainly from the poor results of operations of SBC, Skyworld, LIIP, Interstar and SGTC. In 2008, the Group reported profit for the year of P321.2 million, which together with the effects of the change in the remeasurement of investment property (see Note 12), reduced the balance of the Deficit account by a significant amount allowing the Group to present Retained Earnings as of December 31, 2008 and 2007. In 2009, the Group showed much better results of operations reporting profit for the year of P243.7 million. Management strongly believes that the Group will continue to report positive results and better financial position in the future.

(b) Phasing Out of Manufacturing Business and Related Services of Certain Subsidiaries

On November 23, 2009, the Parent Company's management disclosed in public its plan of phasing out its unprofitable manufacturing business and related services, which include the plastic injection molding parts operations of Kita and SLC, with the expectation that this will positively impact the overall financial performance of the Group. As of December 31, 2009, SLC has ceased its plastic injection manufacturing business (see Note 11).

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
Kita	-	7175 Gil Puyat Ave. cor Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SC	-	17 A. Fernando St., Marulas, Valenzuela, Metro Manila
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
SLC	-	Solid St., LIIP, Mamplasan, Biñan, Laguna
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	Room 1913B, Oriental Manhattan, Nanning City, Guanxi Province, China

1.4 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2009 (including the comparatives for the years ended December 31, 2008 and 2007) were authorized for issue by the Company's BOD on March 30, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the consolidated financial statements (see Note 2.2).

(c) *Functional and Presentation Currency*

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

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

(d) *Reclassification of Accounts*

Certain accounts in the 2008 and 2007 consolidated financial statements have been reclassified to conform with the 2009 consolidated financial statement presentation and classification. The details of these reclassifications are as follows:

(i) Advances to suppliers and contractors amounting to P189.9 million and P22.5 million as of December 31, 2008 and 2007, respectively, previously classified under the Trade and Other Receivables account, were reclassified to the Other Current Assets account in the consolidated statement of financial position. These advances pertain to mobilization funds provided to ZTC's suppliers and contractors for use in the construction of the Tri-Towers Condominium project of the subsidiary. The advances do not represent financial assets since there is no contractual right to receive cash or another financial asset from another entity, hence, the advances were reclassified to Other Current Assets (see Note 13).

(ii) Interest-bearing loan amounting to P120.8 million as of December 31, 2007 was reclassified from Other Non-current Assets to Trade and Other Receivables, presented as part of Finance Receivables. The reclassification was made since the interest-bearing loan represents non-derivative financial instrument with a fixed determinable payments that are not quoted in an active market, hence, falls within the definition of a financial asset classified as Loans and Other Receivables (see Note 6).

(iii) Interests received amounting to P31.2 million in 2008 and P19.5 million in 2007 were reclassified from cash flows from operating activities to cash flows from investing activities in the 2008 and 2007 statements of cash flows. The reclassification was made as interests received arose from the Group's excess cash invested in short-term placements.

(iv) Decreases in advances to related parties amounting to P62.3 million in 2008 and P78.2 million in 2007 were reclassified from cash flows from investing activities to cash flows from operating activities in the 2008 and 2007 statements of cash flows. The reclassification was made since the advances, which are noninterest-bearing, were granted to related parties to meet their working capital requirements (see Note 25.5).

(v) Decrease in advances from related parties amounting to P68.3 million in 2008 and increase in advances from related parties amounting to P81.5 million in 2007 were reclassified from cash flows from financing activities to cash flows from operating activities in the 2008 and 2007 statements of cash flows. The reclassification was made since the advances were obtained by the Group for its working capital requirements (see Note 25.5).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2009 that is Relevant to the Group

In 2009, the Group adopted the following new revisions and amendments to PFRS that are relevant to the Group's consolidated financial statements that are effective for annual periods beginning on or after January 1, 2009.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
PFRS 8	:	Operating Segments
Various Standards	:	2008 Annual Improvements to PFRS

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

(i) PAS 1 (Revised 2007), *Presentation of Financial Statements*. 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 statement of income and a statement of comprehensive income. The statement of comprehensive income includes profit and loss for the period and each component of income and expense recognized outside of profit or loss or the "non-owner changes in equity," which are no longer allowed to be presented in the statements of changes in equity, classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity's financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its consolidated financial statements.

The Group's adoption of PAS 1 (Revised 2007) resulted in the presentation of consolidated statement of financial position as of December 31, 2007 as a result of the prior period adjustments as well as the reclassification of certain accounts in 2008 and 2007 to conform with the 2009 consolidated financial statement presentation and classification. The Group has elected to present the consolidated statement of comprehensive income in two statements: consolidated statement of income and consolidated statement of comprehensive income (see Note 2.1).

(ii) PAS 23 (Revised 2007), *Borrowing Costs*. Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The adoption of this new standard did not have significant effects on the consolidated financial statements for 2009, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets.

(iii) PFRS 7 (Amendment), *Financial Instruments Disclosures*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The change in accounting policy only results in additional disclosures (see Note 29.2).

(iv) PFRS 8, *Operating Segments*. 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 therefore, adoption of this new standard did not have a material impact on the Group's consolidated financial statements as it merely improved the disclosure of operating segment.

(v) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2008* which became effective in the Philippines in annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments relevant to the Group:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Group has no financial instruments classified as held for trading; hence, this amendment had no impact on the Group's 2009 consolidated financial statements.

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

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

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

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

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

  This amendment had no material effect on the Group's 2009 consolidated financial statements.

- PAS 23 (Amendment), *Borrowing Costs*. The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment had no significant effect on the 2009 consolidated financial statements.

- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right access to goods or receipt of services. This amendment had no material effect on the Group's 2009 consolidated financial statements.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it related to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Group determined that adoption of this amendment had no material effect on its 2009 consolidated financial statements.

- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The adoption had no material effect on its 2009 consolidated financial statements as the Group has no property under construction or development for future use as investment property.

(b) Effective in 2009 but not Relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Group's operations:

PAS 32 and PAS 1 (Amendments)	:	PAS 32 – Financial Instruments Presentation and PAS 1 – Presentation of Financial Statements – *Puttable Financial Instruments and Obligations Arising on Liquidation*
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First Time Adoption of PFRS and PAS 27 – Consolidated and Separate Financial Statements
PFRS 2 (Amendment)	:	Share-based Payment
Philippine Interpretations		
IFRIC 13	:	Customer Loyalty Programmes
IFRIC 16	:	Hedges on a Net Investment in a Foreign Operation

(c) Effective Subsequent to 2009

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those pronouncements, management has initially determined the following, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply this revised standard prospectively from January 1, 2010 to all transactions with non-controlling interests.

(ii) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply PFRS 3 (Revised 2008) prospectively to all business combinations from January 1, 2010.

(iii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually prepay future contributions to its retirement fund.

(iv) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in the consolidated financial statements.

(v) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Group will apply the standard prospectively starting January 1, 2010.

(vi) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis.

The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its consolidated financial statements as it does not normally extinguish financial liabilities through equity swap.

(vii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group will apply the amendment on its 2010 consolidated financial statements but expects it to have no material impact in its consolidated financial statements.
- PAS 7 (Amendment), *Statement of Cash Flows*. PAS 7 amendment states explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the consolidated financial statements since only recognized assets are classified by the Group as cash flow from investing activities.
- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have a material impact on the consolidated financial statements as the Group has not yet entered into a lease agreement that includes both land and building.
- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 consolidated financial statements.

2.3 Basis of Consolidation

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Note 1.1, after the elimination of material intercompany transactions. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. 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 Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries and non-controlling interest as follows:

(a) Investments in Subsidiaries

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

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

Acquired subsidiaries are accounted for under the purchase method. This involves the measurement 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.

Goodwill (positive) 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 Parent Company's share in the fair value of identifiable net assets of the subsidiary at date of acquisition over acquisition cost.

On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial statement at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

(b) Transactions with Non-controlling Interests

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

2.4 Segment Reporting

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

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

2.5 Financial Assets

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instrument, 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.

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.
Currently, the Group's financial assets are categorized as follows:

(a) 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 reporting period which are classified as non-current assets.

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, Advances to Related Parties and Refundable deposits, presented as part of Other Current Assets, in the statement of financial position. 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.

(b) Held-to-maturity Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are included in non-current assets in the consolidated statement of financial position, except those maturing within 12 months from the reporting period, which are presented as part of current assets.

Subsequent to initial recognition, the investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

(c) 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 under the Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All available-for-sale financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

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

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the statement of income line item Finance Income and Finance Costs, respectively.

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 reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

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

2.6 Merchandise Inventories and Supplies

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

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

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

2.7 Real Estate Inventories

(a) *Land and Land Development Costs*

Land and land development costs includes the acquisition cost of raw land intended for future development and sale, including other costs and expenses incurred to effect the transfer of property title are included in this account.

(b) *Property Development Costs*

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

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

2.8 Property, Plant and Equipment

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

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

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

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.18). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16). The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property 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 statement of income in the year the item is derecognized.

2.9 Investment Property

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs. At the end of the reporting period, investment property is accounted for at fair value as determined annually by independent appraisers (see Note 12). The carrying amounts recognized in the consolidated statement of financial position reflect the prevailing market conditions at the end of the reporting period. Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair Value Gains (Loss) on Investment Property under Other Operating Income in the consolidated statement of income.

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

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

2.10 Financial Liabilities

Financial liabilities include Interest-bearing Loans, Trade and Other Payables, Advances from Related Parties and Refundable Deposits, which are measured at amortized cost using the effective interest rate method.

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

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

Trade and Other Payables and Advances from Related Parties are initially recognized at their fair value and subsequently measured at amortized cost.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.11 Business Combination

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

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

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

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

2.12 Provisions

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

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

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

2.13 Revenue and Expense Recognition

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

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

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

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

For sales involving multiple element arrangements, customers pay the bundle amount, which includes the LCD television and the internet and/or cable subscriptions. Total selling price is allocated among and/or between the items included in the bundle based on the relative fair values of the separately identifiable components.

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

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

- *Rendering of Services from Internet Subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

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

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

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

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

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

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

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

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

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

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

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

Cost and expenses are recognized in the consolidated statement of income upon consumption of the goods and/or utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.18), on an accrual basis.

2.14 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

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

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

2.15 Foreign Currency Transactions

(a) *Transactions and Balances*

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine pesos. Foreign currency transactions during the 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 statement of income.

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

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

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

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

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

The translation of the financial statements into Philippine pesos 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 are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized for the amount by which the assets' 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 other assets in the cash-generating unit.

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

2.17 Employee Benefits

(a) Post-employment Benefit

Post-employment benefit is provided to employees through a defined benefit plan. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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

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

Actuarial gains and losses are not recognized as an income or 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 profit or loss, unless the changes to the post-employment 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 end of the reporting period 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 end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.18 Borrowing Costs

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

2.19 Income Taxes

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

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

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.20 Equity

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

Additional paid-in capital includes any premiums received on the initial issuance of capital stock and equity adjustments on mergers and acquisitions of entities under common control in previous years. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related profit tax benefits.

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

Revaluation reserves comprise the cumulative translation adjustments and fair value gains (losses) on available-for-sale financial assets.

Retained earnings include all current and prior period results of operations recognized in profit or loss as reported in the consolidated statement of income.

2.21 Earnings (Loss) per Share

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

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of December 31, 2009, 2008 and 2007, the Parent Company does not have potential dilutive shares.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Held-to-maturity Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as held-to-maturity investments the Group evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as available-for-sale financial assets. In such a case, the investments would therefore be measured at fair value, not amortized cost.

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

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's available-for-sale financial assets, management concluded that certain assets are impaired as of December 31, 2009, 2008 and 2007. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Costing of Merchandise Inventories and Supplies

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

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

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions 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. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in Notes 2.12 and 27.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 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 (P83.4 million, P219.3 million and P175.5 million as at December 31, 2009, 2008 and 2007, respectively, as presented in Note 9) is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipments and accessories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

(b) Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2009, there is no change in the estimated useful lives of property, plant and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(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 the average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables amounted to P1.2 billion, P1.0 billion and P0.9 billion as at December 31, 2009, 2008 and 2007, respectively (see Note 6). Impairment losses on trade and other receivables, as also shown in Note 6, amounted to P27.7 million in 2009, P17.6 million in 2008 and P11.6 million in 2007.

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

Fair value gains on Available-for-sale Financial Assets of P35.1 million in 2009 and fair value losses of P147.9 million in 2008 and P0.08 million in 2007 were reported in the other comprehensive income (see Note 7). The carrying values of the assets are disclosed in Note 7.

(e) Allocation of Income Among Sale of Goods, Rendering of Services and Other Income

The Group allocates the income coming from its bundled sales, which is composed of LCD television and internet and/or cable subscriptions, based on the estimated selling price of each revenue component. Management believes that the allocated selling prices represent the relative fair value of each component.

(f) Reserve for Warranty Costs

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

Provisions for warranty claims recognized amounted to P26.3 million in 2009, P11.4 million in 2008 and P6.7 million in 2007. As of December 31, 2009, 2008 and 2007, the outstanding balance of Reserve for Warranty Costs amounted to P12.8 million as of December 31, 2009 and 2008 and P9.4 million as of December 31, 2007 (see Note 15).

(g) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to three years, as of December 31, 2009, 2008 and 2007 is disclosed in Note 22.2.

(h) Impairment of Non-financial Assets

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-current assets in 2009, 2008 and 2007.

(i) Post-employment Benefit

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated present value of the retirement benefit obligation amounted to P71.6 million, P74.6 million, P96.1 million as of December 31, 2009, 2008 and 2007, respectively, while the fair value of plan assets as of those dates amounted to P210.7 million, P163.5 million and P152.5 million, respectively (see Note 21.2).

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure.

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for products of a third party (see Note 27.1).

(c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties.

(d) Trading segment is involved in the sale of plastic resins, professional audio and video equipment and peripherals, and mobile phones and LCD televisions.

(e) Investing, financing and others segment is presently engaged in the business of fund investments, automotive and consumer financing and credit extension.

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

4.1 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

4.2 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, 2009, 2008 and 2007 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	Total
2009						
SEGMENT RESULTS						
Sales to external customers	P 307,685	P 489,087	P 481,753	P 1,121,807	P 87,163	P 2,487,495
Intersegment sales	-	1,677	20,341	1,000	25,723	48,741
Total revenues	307,685	490,764	502,094	1,122,807	112,886	2,536,236
Cost of sales, services and rentals	213,082	385,354	335,398	842,746	-	1,776,580
Other operating expense (income)	54,056	105,372	56,110	125,938	23,904	365,380
Operating profit	40,547	38	110,586	154,123	88,984	394,278
Finance income	7,073	4,797	21,124	2,684	1,601	37,279
Finance costs	(20,007)	(6,024)	(4,820)	(8,435)	(82,072)	(121,358)
Other gains – net	-	-	1,599	-	-	1,599
Profit (loss) before tax	27,613	(1,189)	128,489	148,372	8,513	311,798
Tax expense	(7,982)	(3,264)	(30,380)	(31,765)	(5,400)	(78,791)
Profit (loss) for the year	**P 19,631**	**(P 4,453)**	**P 98,109**	**P 116,607**	**P 3,113**	**P 233,007**
SEGMENT ASSETS AND LIABILITIES						
Total assets	**P 777,361**	**P 822,899**	**P 6,861,492**	**P 540,242**	**P 12,505,255**	**P 21,507,249**
Total liabilities	**P 221,409**	**P 237,776**	**P 1,968,163**	**P 137,107**	**P 783,963**	**P 3,348,418**
OTHER SEGMENT INFORMATION						
Capital expenditures	P 36,946	P 5,942	P 5,353	P 1,538	P 100,585	P 150,364
Depreciation and amortization	44,080	7,375	8,504	3,263	133	63,355
Impairment losses	18,955	3,637	-	14,079	-	36,671
Other non-cash expenses	-	15,836	13,869	3,290	167,566	200,561
2008						
SEGMENT RESULTS						
Sales to external customers	P 281,742	P 474,889	P 142,359	P 759,589	P 107,380	P 1,765,959
Intersegment sales	-	3,201	32,329	178	154,879	190,587
Total revenues	281,742	478,090	174,688	759,767	262,259	1,956,546
Cost of sales, services and rentals	224,769	399,979	76,004	621,488	-	1,322,240
Other operating expense (income)	47,824	(28,554)	54,402	85,954	37,743	197,369
Operating profit	9,149	106,665	44,282	52,325	224,516	436,937
Finance income	1,844	7,675	14,207	2,206	33,224	59,156
Finance costs	(4,973)	(14,189)	(4,516)	(2,131)	(26,473)	(52,282)
Other gains – net	-	-	44,137	-	110	44,247
Profit before tax	6,020	100,151	98,110	52,400	231,377	488,058
Tax expense (income)	(3,408)	(40,060)	47,316	(6,626)	(8,699)	(11,477)
Profit for the year	P 2,612	P 60,091	P 145,426	P 45,774	P 222,678	P 476,581
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 866,884	P 878,561	P 6,669,941	P 355,497	P 7,313,655	P 16,084,538
Total liabilities	P 308,993	P 240,861	P 2,071,142	P 178,238	P 735,392	P 3,534,626
OTHER SEGMENT INFORMATION						
Capital expenditures	P 33,930	P 11,073	P 177,759	P 1,867	P 40	P 224,669
Depreciation and amortization	48,457	18,293	6,640	1,884	149	75,423
Impairment losses	4,038	15,748	-	8,090	-	27,876
Other non-cash expenses	-	319	1,502	1,728	19,757	23,306

	Broadband Services	Manufacturing and Related Support Services	Real Estate	Trading	Investing, Financing and Others	Total
2007						
SEGMENT RESULTS						
Sales to external customers	P 286,512	P 485,132	P 172,197	P 355,148	P 126,842	P 1,425,831
Intersegment sales	-	3,603	66,841	1,200	197,624	269,268
Total revenues	286,512	488,735	239,038	356,348	324,466	1,695,099
Cost of sales, services and rentals	248,660	390,324	116,657	294,305	-	1,049,946
Other operating expense (income)	31,000	84,775	57,537	58,115	41,853	273,280
Operating profit	6,852	13,636	64,844	3,928	282,613	371,873
Finance income	2,248	5,869	9,545	4,931	3,839	26,432
Finance costs	(13,023)	(8,976)	(12,276)	(301)	(156,630)	(191,206)
Other losses – net	-	-	(9,173)	-	(347)	(9,520)
Profit (loss) before tax	(3,923)	10,529	52,940	8,558	129,475	197,579
Tax expense	(1,597)	(10,475)	(21,530)	(2,818)	(22,876)	(59,296)
Profit (loss) for the year	(P 5,520)	P 54	P 31,410	P 5,740	P 106,599	P 138,283
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 816,085	P 852,353	P 5,787,464	P 343,887	P 7,227,844	P 15,027,633
Total liabilities	P 193,947	P 217,725	P 1,673,910	P 52,277	P 743,826	P 2,881,685
OTHER SEGMENT INFORMATION						
Capital expenditures	P 21,741	P 8,817	P 13,617	P 1,872	P 312	P 46,359
Depreciation and amortization	55,263	18,111	2,296	2,205	131	78,006
Impairment losses	11,104	2,209	1,489	15	472	15,289
Other non-cash expenses	1,973	1,884	19,301	977	20,045	44,180

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

	Segment Totals	Intercompany Accounts	Consolidated Balances
2009			
Revenues	P 2,536,236	(P 48,741)	P 2,487,495
Profit for the year	233,007	10,741	243,748
Total assets	21,507,249	(11,554,661)	9,952,588
Total liabilities	3,348,418	(1,334,370)	2,014,048
Other segment information:			
Capital expenditures	150,364	(102,865)	47,499
Depreciation and amortization	63,355	11,644	74,999
Impairment losses	36,671	6,830	43,501
Other non-cash expenses	200,561	(110,061)	90,500
2008			
Revenues	P 1,956,546	(P 190,587)	P 1,765,959
Profit for the year	476,581	(155,388)	321,193
Total assets	16,084,538	(6,655,442)	9,429,096
Total liabilities	3,534,626	(1,688,949)	1,845,677
Other segment information:			
Capital expenditures	224,669	(142,475)	82,194
Depreciation and amortization	75,423	3,950	79,373
Impairment losses	27,876	(1,988)	25,888
Other non-cash expenses	23,306	(880)	22,426

	Segment Totals	Intercompany Accounts	Consolidated Balances
2007			
Revenues	P 1,695,099	(P 269,268)	P 1,425,831
Profit (loss) for the year	138,283	(163,827)	(25,544)
Total assets	15,027,633	(6,018,428)	9,009,205
Total liabilities	2,881,685	(997,818)	1,883,867
Other segment information:			
Capital expenditures	46,359	305	46,664
Depreciation and amortization	78,006	7,948	85,954
Impairment losses	15,289	(2,065)	13,224
Other non-cash expenses	44,180	104,731	148,911

5. CASH AND CASH EQUIVALENTS

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

	2009	2008	2007
Cash on hand and in banks	**P 318,176,809**	P 259,919,934	P 315,167,358
Short-term placements	**944,965,336**	858,543,042	891,824,435
	P 1,263,142,145	P 1,118,462,976	P 1,206,991,793

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 96 days and earn effective interest ranging from 0.5% to 8.0% per annum in 2009 and 3.0% to 9.0% per annum in 2008 and 2007.

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**2009**	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Current:				
Trade receivables	25.1, 25.3	**P 492,346,538**	P 282,072,386	P 372,219,526
Finance receivables	25.4	**70,966,344**	67,509,623	75,903,392
Other receivables		**69,467,339**	78,691,599	100,686,819
		632,780,221	428,273,608	548,809,737
Allowance for impairment		**(131,494,933)**	(115,068,504)	(120,532,570)
		P 501,285,288	P 313,205,104	P 428,277,167
Non-current:				
Trade receivables		**P 40,460,934**	P 11,915,023	P -
Finance receivables	25.4, 25.7	**181,693,263**	202,291,234	100,524,443
Cash surrender value of investment in life insurance		**457,608,611**	452,684,719	381,677,516
		P 679,762,808	P 666,890,976	P 482,201,959

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

A reconciliation of the allowance for impairment at beginning and end of 2009, 2008 and 2007 is shown below.

	Note	**2009**	2008	2007
Balance at beginning of year		**P 115,068,504**	P 120,532,570	P 119,241,564
Impairment losses during the year	20.2	**27,735,676**	17,603,434	11,581,155
Write-off of receivables		**(2,820,993)**	(15,188,268)	-
Reversals of impairment losses	20.1	**(8,488,254)**	(7,879,232)	(10,290,149)
Balance at end of year		**P 131,494,933**	P 115,068,504	P 120,532,570

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

Interest rates on finance receivables range from 7.5% to 18.0% in 2009 and 2008 and 9.0% to 18.0% in 2007. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 25.4).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 18). The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 13).

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

The balance of Other receivables as of December 31, 2009, 2008 and 2007 includes interest-bearing cash advances granted by Starworld in 2004 amounting to P23.5 million to a third party which is secured by the third party's stockholdings in a certain company. The proceeds were used to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). In 2008, an agreement with the third party was executed specifying the payment terms for both principal and interest.

Other receivables as at the end of 2008 and 2007 also included unsecured, noninterest-bearing cash advances granted by Starworld to LARES, amounting to P6.0 million, to finance the latter's operations and expenses pertaining to the arbitration proceedings with the Land Registration Authority (LRA). The P6.0 million advances to LARES were collected in full in 2009 (see Note 27.1).

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 29.1).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following available-for-sale financial assets:

	2009	2008	2007
Current:			
Investments in foreign currency-denominated bonds	**P 305,804,353**	P 63,519,015	P 388,448,319
Non-current:			
Club shares	**P 9,030,000**	P 8,670,000	P 8,650,000
Equity securities	**8,580,000**	8,580,000	8,580,000
Others	**1,396,518**	1,216,518	1,216,518
	19,006,518	18,466,518	18,446,518
Allowance for impairment	**(11,004,991)**	(11,004,991)	(10,834,991)
	P 8,001,527	P 7,461,527	P 7,611,527

The movements in the allowance for impairment as of December 31, 2009, 2008 and 2007 are as follows:

	Note	2009	2008	2007
Balance at beginning of year		**P 11,004,991**	P 10,834,991	P 9,434,991
Impairment loss during the year	20.2	**-**	170,000	1,400,000
Balance at end of year		**P 11,004,991**	P 11,004,991	P 10,834,991

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

	Notes	2009	2008	2007
Balance at beginning of year		**P 70,980,542**	P 396,059,846	P 529,414,765
Reclassification from (to) held-to-maturity investments	8	**153,411,308**	(165,185,417)	-
Additions		**75,230,109**	-	-
Fair value gains (losses) – net		**35,128,701**	(147,853,024)	(80,000)
Disposals		**(20,944,780)**	(11,870,863)	(131,874,919)
Impairment losses during the year	20.2	**-**	(170,000)	(1,400,000)
Balance at end of year		**P 313,805,880**	P 70,980,542	P 396,059,846

Investments in foreign currency-denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 14).

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 in which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent Company reclassified its remaining investment in shares of stock of SPI with total cost of P8,580,000 to Available-for-sale Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2009, 2008 and 2007.

Impairment losses recognized on the Group's Available-for-sale Financial Assets are presented as part of Finance Costs in the 2008 and 2007 consolidated statements of income (see Note 20.2).

The fair values of the Group's Investments in Club Shares, which represents proprietary membership club shares, as of December 31, 2009, 2008 and 2007 have been determined directly by reference to published prices in active markets.

8. HELD-TO-MATURITY INVESTMENTS

In 2008, the Group reclassified its investments in foreign currency-denominated bonds (previously classified as available-for-sale financial assets in the 2007 consolidated statement of financial position) as held-to-maturity investments (see Note 7) as allowed under the amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments Disclosures*, which was effective from July 1, 2008. These investments in bonds had a total fair value of P165,185,417 when the reclassification was made on October 31, 2008; maturities range from 6 to 493 months and interest rates range from 8.00% to 11.75%. As of December 31, 2008, these investments had a total carrying amount of P161,289,378 and are presented under the non-current assets section of the 2008 consolidated statement of financial position.

In 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with total carrying amount of P125,173,911 back to Available-for-sale Financial Assets. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153,411,308. The reclassification resulted in a gain of P28,237,397, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

The amount of held-to-maturity investments amounting to P53,000,000, presented under the current assets section of the 2007 consolidated statement of financial position represented various short-term placements which the Group intended to hold until maturity. As of December 31, 2007, these investments, which were terminated in 2008, had maturity periods of 185 days and earn interest at 8.00% per annum.

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 17.1).

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Merchandise and finished goods	**P 62,462,687**	P 174,848,218	P 134,863,612
Work-in process	**1,665,047**	6,023,600	3,168,275
Raw materials	**20,252,525**	26,812,225	16,327,723
Service parts, supplies and others	**48,866,353**	49,504,835	61,833,763
	133,246,612	257,188,878	216,193,373
Allowance for inventory obsolescence	**(49,805,684)**	(37,927,950)	(40,674,114)
	P 83,440,928	P 219,260,928	P 175,519,259

The movements in allowance for inventory obsolescence are as follows:

	Note	2009	2008	2007
Balance at beginning of year		**P 37,927,950**	P 40,674,114	P 42,695,939
Loss on inventory obsolescence	17.1	**15,765,265**	8,114,168	242,566
Write-off of inventory previously provided with allowance		**(2,090,576)**	-	-
Reversals of allowance for inventory obsolescence	17.1	**(1,796,955)**	(10,860,332)	(2,264,391)
Balance at end of year		**P 49,805,684**	P 37,927,950	P 40,674,114

10. REAL ESTATE INVENTORIES

This account is composed of:

	2009	2008	2007
Land and land development costs:			
Land	**P 60,940,229**	P 152,664,544	P 152,664,544
Land development costs	**104,735,932**	259,366,856	222,041,937
	165,676,161	412,031,400	374,706,481
Allowance for impairment	**(2,022,800)**	(2,022,800)	(2,022,800)
	163,653,361	410,008,600	372,683,681
Property development costs:			
Construction in progress and development costs	**883,227,677**	626,941,272	552,995,647
	P 1,046,881,038	P 1,036,949,872	P 925,679,328

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

The allowance for impairment recognized in 2005 pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2009, 2008 and 2007.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba, Laguna. As of December 31, 2009, lot areas totalling 83 hectares were acquired, 65 hectares of which are located in Phase 1 (already fully-developed as of end of 2008) and 18 hectares are located in Phase 2 (under development as of end of 2008 but were fully-developed in 2009).

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. As of December 31, 2009 and 2008, the construction of Tower 1 which started in 2007, is fully completed. The construction of Towers 2 and 3 has not yet started as of December 31, 2009.

In October 2007, ZTC obtained its permit to sell that would allow pre-selling of 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 the Other Current Assets account in the consolidated statements of financial position (see Note 13).

In addition, the balances of Property Development Costs as of December 31, 2009 and 2008 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The purpose of the Golden Hill Project is to develop multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, People's Republic of China. Management plans to obtain its permit to sell from the local government of the People's Republic of China by the third quarter of 2010.

Fil-Dragon's land use right, included as part of the Property Development Costs account, with a carrying amount of RMB 15,215,025 (P103.3 million) as of December 31, 2009 is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009 (see Note 14).

Presented below are the movements in the Estimated Liability for Land and Land Development Costs, which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP.

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Balance at beginning of year	**P 68,304,647**	P 27,886,345	P 17,249,351
Additions	**-**	60,000,000	20,808,188
Payments made	**-**	(19,581,696)	-
Reversals	**-**	-	(1,171,194)
Balance at end of year	**P 68,304,647**	P 68,304,647	P 36,886,345

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2009, 2008 and 2007 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2009												
Cost	P 897,854,682	P 241,450,890	P 71,660,520	P 125,625,714	P 78,682,842	P 1,246,598,385	P 121,166,643	P 65,101,920	P 43,145,046	P 16,551,005	P 521,261	P 2,908,358,908
Accumulated depreciation and amortization	-	(143,965,176)	(71,434,898)	(108,671,988)	(65,651,485)	(537,711,107)	(82,068,142)	(61,590,859)	(39,275,825)	(15,244,996)	-	(1,125,614,476)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 62,485,714**	**P 225,622**	**P 16,953,726**	**P 13,031,357**	**P 358,887,278**	**P 39,098,501**	**P 3,511,061**	**P 3,869,221**	**P 1,306,009**	**P 521,261**	**P 1,397,744,432**
December 31, 2008 (As restated – see Note 23)												
Cost	P 897,854,682	P 241,233,694	P 143,244,219	P 121,627,714	P 76,863,644	P 1,220,733,104	P 113,525,125	P 63,735,966	P 39,841,558	P 15,945,039	P 2,627	P 2,934,607,372
Accumulated depreciation and amortization	-	(133,384,040)	(130,585,662)	(102,273,939)	(57,521,708)	(499,677,089)	(77,504,658)	(59,431,327)	(36,523,222)	(14,558,503)	-	(1,111,460,148)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 72,849,654	P 12,658,557	P 19,353,775	P 19,341,936	P 371,056,015	P 36,020,467	P 4,304,639	P 3,318,336	P 1,386,536	P 2,627	P 1,438,147,224
December 31, 2007 (As restated – see Note 23)												
Cost	P 897,854,682	P 240,161,515	P 142,173,590	P 110,701,600	P 70,243,765	P 1,187,347,152	P 111,482,648	P 61,929,213	P 38,221,392	P 14,759,461	P 2,627	P 2,874,877,645
Accumulated depreciation and amortization	-	(120,631,439)	(128,831,970)	(95,666,773)	(53,349,960)	(458,643,067)	(72,319,021)	(56,730,284)	(34,648,817)	(13,617,345)	-	(1,034,438,676)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 84,530,076	P 13,341,620	P 15,034,827	P 16,893,805	P 378,704,085	P 39,163,627	P 5,198,929	P 3,572,575	P 1,142,116	P 2,627	P 1,455,438,969
January 1, 2007 (As restated – see Note 23)												
Cost	P 897,854,682	P 220,140,212	P 141,353,583	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 14,005,075	P 18,630,474	P 2,827,191,390
Accumulated depreciation and amortization	-	(108,908,439)	(126,302,925)	(89,575,041)	(49,105,061)	(397,272,864)	(67,009,709)	(54,123,749)	(32,685,205)	(12,259,786)	-	(937,242,779)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 76,231,773	P 15,050,658	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,745,289	P 18,630,474	P 1,504,948,611

A reconciliation of the carrying amounts at the beginning and end of 2009, 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, 2009, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 72,849,654	P 12,658,557	P 19,353,775	P 19,341,936	P 371,056,015	P 36,020,467	P 4,304,639	P 3,318,336	P 1,386,536	P 2,627	P 1,438,147,224
Additions	-	203,108	394,120	4,626,568	2,045,531	25,865,281	7,641,518	1,365,953	3,303,488	732,432	518,634	46,696,633
Reclassification	-	-	(12,090,324)	-	-	-	-	-	-	-	-	(12,090,324)
Disposals	-	-		(9,227)	(1,000)	-	-	-	-	-	-	(10,227)
Depreciation and amortization charges for the year	-	(10,567,048)	(736,731)	(7,017,390)	(8,355,110)	(38,034,018)	(4,563,484)	(2,159,531)	(2,752,603)	(812,959)	-	(74,998,874)
Balance at December 31, 2009 net of accumulated depreciation, amortization and impairment loss	**P 897,854,682**	**P 62,485,714**	**P 225,622**	**P 16,953,726**	**P 13,031,357**	**P 358,887,278**	**P 39,098,501**	**P 3,511,061**	**P 3,869,221**	**P 1,306,009**	**P 521,261**	**P 1,397,744,432**
(As restated – see Note 23) Balance at January 1, 2008, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 84,530,076	P 13,341,620	P 15,034,827	P 16,893,805	P 378,704,085	P 39,163,627	P 5,198,929	P 3,572,575	P 1,142,116	P 2,627	P 1,455,438,969
Additions		1,072,179	1,070,629	10,926,114	9,295,019	33,385,952	2,042,477	1,806,753	1,620,166	1,185,578	-	62,404,867
Disposals	-	-	-		(323,960)	-	-	-	-	-	-	(323,960)
Depreciation and amortization charges for the year	-	(12,752,601)	(1,753,692)	(6,607,166)	(6,522,928)	(41,034,022)	(5,185,637)	(2,701,043)	(1,874,405)	(941,158)	-	(79,372,652)
Balance at December 31, 2008 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 72,849,654	P 12,658,557	P 19,353,775	P 19,341,936,	P 371,056,015	P 36,020,467	P 4,304,639	P 3,318,336	P 1,386,536	P 2,627	P 1,438,147,224
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 76,231,773	P 15,050,658	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,745,289	P 18,630,474	P 1,504,948,611
Additions		1,390,829	820,007	3,665,961	8,616,226	16,976,051	2,196,621	2,640,133	72,665	754,386	2,627	37,135,506
Reclassification		18,630,474									(18,630,474)	-
Disposals	-	-	-	(31,668)	(659,028)	-	-	-	-	-	-	(690,696)
Depreciation and amortization charges for the year	-	(11,723,000)	(2,529,045)	(6,123,380)	(7,620,379)	(46,721,630)	(5,309,312)	(2,606,535)	(1,963,612)	(1,357,559)	-	(85,954,452)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 84,530,076	P 13,341,620	P 15,034,827	P 16,893,805	P 378,704,085	P 39,163,627	P 5,198,929	P 3,572,575	P 1,142,116	P 2,627	P 1,455,438,969

No additional impairment losses were recognized in 2009, 2008 and 2007 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2009, the fair values of the Group's land and building and improvements amounted to P1.1 billion and P352.6 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.

In 2009, the BOD of SLC approved the phasing out of its plastic injection manufacturing division due to continued unfavorable results of operations. As a result, certain property, plant and equipment with total carrying amounts of P12,090,324 were reclassified as Non-current Assets Held for Sale in the 2009 consolidated statement of financial position. The fair values of these assets amount to P16.0 million. The fair value was determined as the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction.

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

	Notes	**2009**	2008	2007
Cost of services	17.2	**P 58,325,498**	P 52,499,225	P 60,489,097
Cost of sales	17.1	**5,110,155**	5,037,009	2,390,987
General and administrative expenses		**11,563,221**	18,394,317	21,227,471
Selling and distribution costs		**-**	3,442,101	1,846,897
	19	**P 74,998,874**	P 79,372,652	P 85,954,452

12. INVESTMENT PROPERTY

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

Prior to 2008, the Group measured its investment property at cost, less accumulated depreciation, amortization and any impairment loss. In 2008, the Parent Company's BOD approved the change in accounting policy for investment property from the cost model to the fair value model in order to present a more reliable and relevant information on the carrying amounts of investment property. The change in accounting policy was applied retrospectively to January 1, 2007, which resulted in an increase in the carrying amounts of investment property as of January 1, 2008 and 2007 by P1.8 billion and P1.7 billion, respectively, and a decrease in the Deficit balance as of January 1, 2008 and 2007 by P888.7 million and P862.9 million, respectively (see Note 23.2). The 2007 consolidated financial statements were accordingly restated as a result of the accounting change.

Prior to 2008, ZTC's investment property was presented as part of Real Estate Inventories, which is stated at net realizable value as of December 31, 2007. In 2008, ZTC's BOD approved the reclassification of those assets as investment property measured using the fair value model. The remeasurement of the assets at fair value resulted in a gain of P15.1 million shown as part of Fair Value Gains on Investment Property under Other Operating Income in the 2008 consolidated statement of income (see Note 18).

The fair values of the Group's investment property as of January 1, 2007 were determined based on the appraisal report obtained by the Group covering the year ended December 31, 2006. The fair values of the Group's investment property as of December 31, 2009 and 2008 were determined based on appraisal reports dated January 11, 2010 and January 22, 2009, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property (after the retrospective application of the change in measurement from the cost model to the fair value model) as presented in the consolidated statements of financial position can be summarized as follows as of December 31:

	Land and Improvements	Buildings and Improvements	Total
2009:			
Balance at beginning of year	P 2,833,548,651	P 932,655,701	P 3,766,204,352
Fair value gains (losses) on investment property	46,850,000	(37,026,545)	9,823,455
Additions	-	802,138	802,138
Write-off during the year	(73,076)		(73,076)
Balance at end of year	**P 2,880,325,575**	**P 896,431,294**	**P 3,776,756,869**
2008 – As restated (see Note 23.2):			
Balance at beginning of year	P 2,809,659,380	P 683,438,564	P 3,493,097,944
Additions	6,371,249	130,325,673	136,696,922
Fair value gains on investment property	17,518,022	118,891,464	136,409,486
Balance at end of year	P 2,833,548,651	P 932,655,701	P 3,766,204,352
2007 – As restated (see Note 23.2):			
Balance at beginning of year	P 2,809,580,204	P 673,989,462	P 3,483,569,666
Additions	79,176	9,449,102	9,528,278
Balance at end of year	P 2,809,659,380	P 683,438,564	P 3,493,097,944

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 27.4).

13. OTHER ASSETS

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

	Note	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Current:				
Advances to suppliers and contractors	10	**P 118,645,531**	P 189,879,840	P 22,512,690
Input VAT		**94,981,851**	101,273,524	93,679,325
Creditable withholding taxes		**65,526,967**	76,631,574	38,401,058
Refundable deposits		**3,368,991**	3,368,991	-
Prepaid expenses		**2,636,231**	2,412,969	19,024,776
Others		**13,926,142**	2,694,137	3,165,366
		P 299,085,713	P 376,261,035	P 176,783,215

	Note	2009	2008	2007
Non-current:				
Prepaid insurance	6	**P 11,040,916**	P 12,742,696	P 13,580,149
Refundable deposits - net		**9,706,912**	12,147,733	12,602,393
Others		**4,171,529**	3,257,716	4,449,844
		P 24,919,357	P 28,148,145	P 30,632,386

14. INTEREST-BEARING LOANS

The details of the Group's short-term and long-term interest-bearing loans are as follows as of December 31:

	2009	2008	2007
Current	**P 419,206,324**	P 458,760,609	P 409,435,521
Non-current	**P 135,742,000**	P -	P -

The current portion of the Group's interest-bearing loans pertains to U.S. dollar denominated loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 6, 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.75% to 4.62% in 2009, 3.60% to 5.99% in 2008 and 1.90% to 6.56% in 2007. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2).

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the People's Republic of China amounting to RMB 20.0 million. These loans are secured by Fil-Dragon's property development cost amounting to RMB 15.2 million (P103.3 million). Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 25.8).

Certain real estate properties of the Group are used as collaterals for the secured interest-bearing loans (see Note 10). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5.0:1. As of December 31, 2009, Fil-Dragon has complied with such loan covenant.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 29.1).

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Trade payables	25.2	**P 99,972,038**	P 98,424,639	P 130,982,514
Accrued expenses		**79,681,728**	52,994,927	87,981,559
Refundable deposits	16	**22,532,420**	65,597,071	7,804,080
Reserve for warranty costs		**12,828,936**	12,828,388	9,367,443
Others		**107,589,826**	122,790,597	134,058,234
		P 322,604,948	P 352,635,622	P 370,193,830

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

The changes in the Reserve for Warranty Costs account are as follows:

	Note	2009	2008	2007
Balance at beginning of year		**P 12,828,388**	P 9,367,443	P 6,374,558
Provisions for warranty claims during the year		**26,344,466**	11,405,645	6,733,724
Actual warranty claims during the year	19	**(22,056,293)**	(3,744,676)	(3,523,946)
Reversals during the year		**(4,287,625)**	(4,200,024)	(216,893)
Balance at end of year		**P 12,828,936**	P 12,828,388	P 9,367,443

Other payables primarily consist of output taxes payable, payroll-related liabilities, and unearned subscription income and other revenues resulting from advances received from customers for various services provided by the Group.

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered to be a reasonable approximation of their fair values (see Note 29.1).

16. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P12,990,096 as at December 31, 2009 that pertain to leases with terms ending in 2010 to 2012. The refundable deposits are remeasured at amortized cost using the effective interest rates ranging from 7.22% to 15.77% at the inception of the lease terms. Interest expense recognized amounted to P1,386,810 in 2009, P1,264,997 in 2008 and P1,095,246 in 2007 is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2). The amortized cost of the refundable deposits amounting to P11,096,848, P9,710,038 and P8,445,041 as of December 31, 2009, 2008 and 2007, respectively, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

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 Sales

The details of this account are shown below.

	Notes	**2009**	2008	2007
Merchandise and finished goods at beginning of year	9	**P 174,848,218**	P 134,863,612	P 30,409,716
Net purchases of merchandise during the year	19, 25.2	**709,840,593**	669,532,022	355,957,936
Cost of goods manufactured:				
Raw materials at beginning of year		**26,812,225**	16,327,723	13,193,852
Work- in-process at beginning of year		**6,023,600**	3,168,275	2,459,891
Net purchases of raw materials during the year		**83,467,501**	90,124,352	101,264,530
Direct labor		**30,155,527**	27,375,112	18,890,315
Manufacturing overhead	11	**33,187,783**	39,845,604	37,422,669
Raw materials at end of year	9	**(20,252,525)**	(26,812,225)	(16,327,723)
Work-in-process at end of year	9	**(1,665,047)**	(6,023,600)	(3,168,275)
		157,729,064	144,005,241	153,735,259
Goods available for sale		**1,042,417,875**	948,400,875	540,102,911
Merchandise and finished goods at end of year	9	**(62,462,687)**	(174,848,218)	(134,863,612)
Net provision (reversal) on inventory obsolescence	9	**13,968,310**	(2,746,164)	(2,021,825)
Cost of disposed inventories		**-**	442,921	-
	19	**P 993,923,498**	P 771,249,414	P 403,217,474

17.2 Cost of Services

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

	Notes	**2009**	2008	2007
Salaries and employee benefits		**P 95,675,316**	P 92,915,737	P 94,001,287
Materials and other consumables		**85,940,616**	79,959,938	87,631,420
Depreciation and amortization	11	**58,325,498**	52,499,225	60,489,097
Communication, light and water		**44,302,675**	43,057,252	43,447,018
Rentals	27.3	**42,401,829**	31,401,566	26,692,873
Transponder rental and leased line		**38,348,825**	36,221,655	35,872,080
Outside services		**33,432,046**	32,707,889	62,269,844
Transportation and travel		**12,404,886**	18,912,913	18,782,539
Repairs and maintenance		**9,694,408**	16,898,043	14,975,052
Cable services		**6,696,429**	7,232,143	7,500,000
Others		**30,942,102**	24,030,749	31,172,204
	19	**P 458,164,630**	P 435,837,110	P 482,833,414

17.3 Cost of Rentals

The details of this account are as follows:

	Note	2009	2008	2007
Taxes and licenses		**P 9,623,392**	P 10,134,002	P 11,580,592
Rentals		**9,370,903**	10,572,725	9,230,693
Outside services		**4,338,332**	4,641,417	4,306,696
Utilities and communication		**3,813,399**	5,872,358	6,664,736
Repairs and maintenance		**2,690,672**	2,683,965	1,569,342
Salaries and employee benefits		**787,500**	857,946	717,497
Others		**2,943,834**	1,372,304	1,538,704
	19	**P 33,568,032**	P 36,134,717	P 35,608,260

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	2009	2008	2007
Increase in cash surrender value of investment in life insurance	6	**P 16,172,147**	P 13,558,294	P 12,493,503
Fair value gains on investment property	12	**9,823,455**	136,409,486	-
Miscellaneous		**26,905,939**	4,844,034	10,790,311
		P 52,901,541	P 154,811,814	P 23,283,814

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2009	2008	2007
Net purchases of merchandise inventories	17.1	**P 709,840,593**	P 669,532,022	P 355,957,936
Salaries and employee benefits	21.1	**248,692,436**	245,167,537	215,531,162
Cost of real estate sold		**282,889,925**	22,470,496	61,997,555
Materials, supplies and other consumables		**226,885,785**	175,357,667	188,169,656
Outside services		**78,622,318**	73,680,066	111,560,549
Utilities and communication		**77,035,717**	76,133,320	81,899,585
Depreciation and amortization	11	**74,998,874**	79,372,652	85,954,452
Rentals	25.3, 27.3	**42,401,829**	46,995,595	40,327,073
Transponder rental and leased line		**38,348,825**	36,850,372	35,872,080
Taxes and licenses		**30,521,377**	26,742,657	31,216,226
Transportation and travel		**28,338,500**	38,813,898	32,261,048
Repairs and maintenance		**26,788,502**	37,446,499	28,603,447
Net provision (reversal) on inventory obsolescence	9	**13,968,310**	(2,746,164)	(2,021,825)
Change in merchandise, finished goods and work-in-process inventories		**116,744,084**	(46,145,858)	(99,401,238)
Miscellaneous	15	**146,821,787**	142,908,619	118,184,625
		P 2,142,898,862	P 1,622,579,378	P 1,286,122,331

Items classified under the miscellaneous account primarily consist of advertising and promotions, subcontracting services, taxes and licenses, cable services and insurance expenses incurred by the Group.

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

	Note	2009	2008	2007
Cost of sales	17.1	**P 993,923,498**	P 771,249,414	P 403,217,474
Cost of services	17.2	**458,164,630**	435,837,110	482,833,414
Cost of real estate sold		**282,889,925**	22,470,496	61,997,555
Cost of rentals	17.3	**33,568,032**	36,134,717	35,608,260
General and administrative expenses		**273,006,398**	282,474,530	271,717,644
Selling and distribution costs		**101,346,379**	74,413,111	30,747,984
		P 2,142,898,862	P 1,622,579,378	P 1,286,122,331

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2009	2008	2007
Interest income from banks	5	**P 26,472,256**	P 31,190,862	P 19,472,944
Reversal of impairment losses on trade and other receivables	6	**8,488,254**	7,879,232	10,290,149
Foreign currency gains		**1,851,732**	37,942,980	-
Gain on sale of investments in foreign currency-denominated bonds		**-**	-	2,595,101
Others		**466,547**	-	693,414
		P 37,278,789	P 77,013,074	P 33,051,608

In 2007, the Group recognized a gain from the disposal of its financial assets designated as at fair value through profit or loss amounting to P2.6 million. The gain from disposal was presented as part of Finance Income account in the 2007 consolidated statement of income.

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P95.2 million in 2009, P97.2 million in 2008 and P105.8 million in 2007 are presented as Interest Income under Revenues in the consolidated statements of income, as these were generated from the entities' primary business operations.

20.2 Finance Costs

This account consists of the following:

	Notes	2009	2008	2007
Loss on sale of investments in foreign currency-denominated bonds		**P 59,852,713**	P -	P -
Impairment losses on trade and other receivables	6	**27,735,676**	17,603,434	11,581,155
Interest expense arising from loans	14	**19,345,255**	21,161,120	28,368,954
Foreign currency losses		**11,693,973**	4,568,448	119,446,635
Interest amortization on refundable deposits	16	**1,386,810**	1,264,997	1,095,246
Impairment losses on available-for-sale financial assets	7	**-**	170,000	1,400,000
Others		**2,463,758**	5,591,181	3,377,840
		P 122,478,185	P 50,359,180	P 165,269,830

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 19 and 25.9).

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Short-term benefits	**P 235,925,071**	P 219,621,396	P 206,010,002
Post-employment benefit	**11,895,740**	21,890,429	9,447,660
Termination benefits	**871,625**	3,655,712	73,500
	P 248,692,436	P 245,167,537	P 215,531,162

21.2 Post-Employment Benefit

The Group maintains a tax-qualified, fully-funded and noncontributory post-employment defined benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of total retirement benefit asset of subsidiaries that have retirement benefit asset recognized in the consolidated statements of financial position are determined as follows:

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Fair value of plan assets	**P 165,590,060**	P 95,963,976	P 115,047,327
Present value of the obligation	**46,764,337**	36,020,848	73,028,736
Excess of plan assets	**118,825,723**	59,943,128	42,018,591
Unrecognized actuarial losses (gains)	**(72,889,761)**	(23,284,732)	193,080
	P 45,935,962	P 36,658,396	P 42,211,671

The amounts of retirement benefit obligation of SGI, SBC, ZTC and CBHI that are recognized in the consolidated statements of financial position are determined as follows:

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Fair value of plan assets	**P 45,104,609**	P 67,553,115	P 37,420,112
Present value of the obligation	**24,860,158**	38,583,434	23,114,304
Excess of plan assets	**20,244,451**	28,969,681	14,305,808
Unrecognized actuarial losses (gains)	**(21,729,047)**	(36,332,281)	(17,553,716)
Retirement benefit obligation	**P 1,484,596**	P 7,362,600	P 3,247,908

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

	2009	2008	2007	2006	2005
Fair value of plan assets	**P 210,694,669**	P 163,517,091	P 152,467,439	P 151,042,443	P 113,584,009
Present value of the obligation	**71,624,495**	74,604,282	96,143,040	78,556,734	66,872,164
Excess in the plan	**P 139,070,174**	P 88,912,809	P 56,324,399	P 72,485,709	P 46,711,845

Experience adjustments arising on plan assets amounted to P8.9 million in 2009, P2.4 million in 2008, P2.5 million in 2007 and P23.4 million in 2006. Experience adjustments on plan liabilities amounted to P9.1 million in 2009 and P14.8 million in 2008. Management has determined that the experience adjustments on plan liabilities in 2007 and 2006 are not significant.

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Balance at beginning of year	**P 74,604,282**	P 96,143,040	P 78,556,734
Current service and interest costs	**15,235,629**	21,574,350	19,355,460
Benefits paid	**(1,355,624)**	(409,282)	(11,051,415)
Actuarial gains (losses)	**(16,859,792)**	(42,703,826)	9,282,261
Balance at end of year	**P 71,624,495**	P 74,604,282	P 96,143,040

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Balance at beginning of year	**P 163,517,091**	P 152,467,439	P 151,042,443
Contributions paid into the plan	**27,235,347**	12,222,463	5,917,091
Benefits paid by the plan	**(1,355,624)**	(409,282)	(11,051,415)
Expected return on plan assets	**8,576,874**	9,148,046	9,062,547
Actuarial gains (losses)	**12,720,981**	(9,911,575)	(2,503,227)
Balance at end of year	**P 210,694,669**	P 163,517,091	P 152,467,439

Actual returns on plan assets amounted to P13.3 million, P8.8 million and P6.3 million in 2009, 2008 and 2007, respectively. The Group expects to contribute a total of P9.7 million to the post-employment defined benefit plan in 2010.

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

	2009	2008	2007
Government securities	**P 191,732,149**	P 148,360,863	P 146,834,608
Mutual and trust funds	**18,962,520**	15,156,228	5,059,044
Others	**-**	-	573,787
	P 210,694,669	P 163,517,091	P 152,467,439

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Current service cost	**P 7,494,912**	P 13,787,182	P 13,187,011
Interest cost	**7,740,717**	7,787,168	6,168,449
Expected return on plan assets	**(8,576,874)**	(9,148,046)	(9,062,547)
Net actuarial gains recognized during the year	**(9,807,179)**	(606,878)	(845,253)
Effect of asset limit	**15,044,164**	10,071,003	-
	P 11,895,740	P 21,890,429	P 9,447,660

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

	2009	2008	2007
Discount rates	**8% - 9%**	8% - 11%	7% - 8%
Expected rate of return on plan assets	**6%**	5%	6%
Expected rate of salary increases	**9%**	9%	10%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 21 years for both males and females.

The overall expected long-term rate of return on assets is 6%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

22. TAXES

22.1 Registration with Economic Zone Authorities

(a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.* As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% in 2009 and 35% in 2008 and 2007 RCIT rate is applied to income coming from sources other than Kita's registered activities.

(b) Registration with Philippine Economic Zone Authority (PEZA)

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

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

22.2 Current and Deferred Tax

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Consolidated statements of income:			
Current tax expense:			
Regular corporate income tax (RCIT) at 30% in 2009 and 35% in 2008	**P 41,898,822**	P 23,249,270	P 22,709,880
Final taxes at 20% and 7.5%	**7,710,318**	8,151,437	3,161,000
Preferential taxes at 5%	**4,336,892**	863,011	2,305,208
Minimum corporate income tax (MCIT) at 2%	**865,972**	4,174,555	1,579,012
	54,812,004	36,438,273	29,755,100
Deferred tax expense (income) relating to:			
Origination and reversal of temporary differences	**15,337,458**	53,439,166	16,007,114
Reduction in deferred tax rate in 2009	**-**	(80,721,145)	-
Derecognition of deferred tax assets	**-**	-	16,227,675
Benefit from previously unrecognized MCIT and net operating loss carryover (NOLCO)	**-**	-	(258,513)
Increase in RCIT rate	**-**	-	(674,017)
	15,337,458	(27,281,979)	31,302,259
	P 70,149,462	P 9,156,294	P 61,057,359
Consolidated statements of comprehensive income –			
Deferred tax income on changes in fair value of available-for-sale financial assets (see Note 23.1)	**(P 150,000)**	(P 15,000)	(P 7,000)

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Tax on pretax profit at 30% in 2009 and 35% in 2008 and 2007	**P 100,389,917**	P 101,415,428	P 12,429,543
Adjustment for income subject to lower tax rates	**(26,930,042)**	14,225,778	(24,265,101)
Tax effects of:			
Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets	**(32,929,923)**	(16,727,970)	(3,493,915)
Derecognized and unrecognized deductible temporary differences	**15,170,833**	(6,667,229)	71,227,354
Unrecognized deferred taxes from NOLCO and MCIT	**7,018,190**	5,993,055	1,884,180
Nondeductible expenses and losses	**7,010,443**	8,085,502	8,183,925
Nontaxable income	**(707,241)**	(1,674,514)	(6,098,478)
Income (loss) of foreign subsidiary not subject to taxes	**596,279**	(16,199,869)	(10,607,463)
Loss on non-recoverable foreign currency losses	**486,363**	525,632	4,687,071
Decrease in deferred tax assets due to decrease in applicable tax rates	**-**	(83,877,334)	630,758
Unrecognized benefit from write-off of receivables	**-**	4,057,815	-
Amortization of goodwill attributable to property, plant and equipment	**-**	-	7,105,351
Fair value gains of financial assets at fair value through profit or loss	**-**	-	(908,285)
Deferred tax assets recognized	**-**	-	156,073
Others	**44,643**	-	126,346
	P 70,149,462	P 9,156,294	P 61,057,359

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Deferred tax assets:			
Retirement benefit obligation	**P 1,259,470**	P 787,225	P 1,167,900
Allowance for impairment on trade and other receivables	**1,018,217**	1,307,643	1,875,056
Reserve for warranty costs	**956,903**	463,111	-
Unamortized past service costs	**340,650**	1,200,000	10,081,768
Unamortized pre-operating expenses	**217,082**	-	-
NOLCO	**107,765**	445,827	12,170
Accrued rentals – PAS 17	**4,965**	95,735	249,634
Allowance for inventory obsolescence	**-**	-	36,033
Balance carried forward	**P 3,905,052**	P 4,299,541	P 13,422,561

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Balance brought forward	**P 3,905,052**	P 4,299,541	P 13,422,561
Deferred tax liabilities:			
Retirement benefit asset	**(496,440)**	9,663	-
Deferred rent income – PAS 17	**-**	-	(202,101)
Retirement benefit asset	**(496,440)**	9,663	(202,101)
Deferred Tax Assets – net	**P 3,408,612**	P 4,309,204	P 13,220,460

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Deferred tax assets:			
Allowance for impairment on trade and other receivables	**P 7,818,450**	P 8,238,807	P 6,898,681
Unamortized past service costs	**804,481**	752,982	886,126
Deferred rent expense – PAS 17	**532,188**	508,115	94,837
Reserve for warranty costs	**459,875**	518,648	1,204,889
Allowance for inventory obsolescence	**228,443**	162,199	355,220
NOLCO	**-**	385,711	-
Deferred tax liabilities:			
Fair value gains on investment property	**(730,957,917)**	(726,340,965)	(758,946,718)
Accumulated depreciation on investment property	**(112,331,376)**	(106,147,291)	(106,970,616)
Retirement benefit asset	**(9,021,525)**	(1,249,573)	(4,214,392)
Deferred rent income – PAS 17	**(6,280,044)**	(5,370,461)	(6,025,056)
Unrealized foreign currency gains	**(566,890)**	(1,874,320)	(1,221,845)
Changes in fair value of AFS	**(90,000)**	-	-
Deferred Tax Liabilities – net	**(P 849,404,315)**	(P 830,416,148)	(P 867,938,874)

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

	2009	2008 (As restated – see Note 23)	2007 (As restated – see Note 23)
Accumulated depreciation on investment property	**P 6,184,084**	(P 823,325)	P 4,719,303
Fair value gains on investment property	**5,109,437**	(34,791,369)	(12,299,813)
Retirement benefit obligation	**2,795,573**	(147,384)	(60,713)
Deferred rent income – PAS 17	**887,629**	(4,544,031)	(1,339,842)
Allowance for impairment on trade and other receivables	**602,140**	7,541,642	(3,818,756)
Reserve for warranty costs	**(415,140)**	223,130	99,571
NOLCO	**338,063**	(819,368)	12,170
Unamortized preoperating expenses	**(217,082)**	-	-
Unamortized past service costs	**114,254**	700,554	24,349
Unrealized foreign currency losses	**(76,027)**	(608,925)	44,447,017
Allowance for inventory obsolescence	**29,492**	133,319	(219,036)
Deferred rent expense – PAS 17	**(14,965)**	5,853,778	(261,991)
	P 15,337,458	(P 27,281,979)	P 31,302,259

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of Available-for-sale Financial Assets.

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:						
2009	P 19,952,531	P -	P -	P -	P 19,952,531	2012
2008	20,437,740	-	6,012,245	-	14,425,495	2011
2007	176,380,777	-	23,700	-	176,357,077	2010
2006	136,073,628	-	88,010,244	48,063,384	-	2009
	P 352,844,676	P -	P 94,046,189	P 48,063,384	P 210,735,103	
MCIT:						
2009	P 716,890	P -	P -	P -	P 716,890	2012
2008	4,174,555	-	3,397,278	-	777,277	2011
2007	1,875,456	-	1,513,791	-	361,665	2010
2006	10,929	-	-	10,929	-	2009
	P 6,777,830	P -	P 4,911,069	P 10,929	P 1,855,832	

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

	2009		2008		2007	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
Accumulated impairment losses on property, plant, and equipment	**P 350,000,000**	**P 105,000,000**	P 350,000,000	P 105,000,000	P 350,000,00	P 122,500,000
NOLCO	**251,122,331**	**75,336,699**	338,611,024	101,583,309	427,656,047	149,679,617
Allowance for impairment of financial assets classified as loans and receivables	**105,528,652**	**30,158,596**	98,284,975	29,485,492	96,360,678	33,726,237
Allowance for inventory obsolescence	**47,404,857**	**14,221,457**	35,322,425	10,596,728	37,804,064	13,231,422
Unrealized foreign currency loss (gain)	**9,943,291**	**2,982,987**	(6,427,131)	(1,928,289)	55,234,775	19,332,171
Fair value loss in investment properties	**5,676,000**	**1,702,800**	-	-	347,373	121,581
Allowance for impairment loss on available-for-sale financial assets	**5,460,000**	**1,638,000**	5,320,000	1,596,000	5,220,000	1,827,000
Unamortized past service cost	**2,077,689**	**623,307**	2,760,646	828,194	3,443,603	1,205,261
Retirement benefit obligation	**1,974,541**	**592,362**	7,558,321	2,267,496	4,480,376	1,568,133
MCIT	**2,015,843**	**1,877,237**	6,054,878	6,054,878	1,616,652	1,616,652
	P 781,203,204	**P 234,133,445**	P 837,485,138	P 255,483,808	P 982,163,568	P 344,808,074

22.3 Optional Standard Deductions

In July 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross sales. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. In 2009 and 2008, the Group opted to claim itemized deductions.

22.4 Change in Applicable Tax Rates

Effective January 1, 2009, in accordance with RA 9337, RCIT rate was reduced from 35% to 30% and nonallowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

23. EQUITY

23.1 Revaluation Reserves

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

	Note	2009	2008	2007
Cumulative translation adjustments:				
Balance at beginning of year		**P 85,204,455**	(P 220,583,543)	(P 49,155,985)
Currency differences on translating financial statements of foreign operations	2	**(14,426,000)**	305,787,998	(171,427,558)
Balance carried forward		**P 70,778,455**	P 85,204,455	(P 220,583,543)

	Notes	2009	2008	2007
Balance brought forward		**P 70,778,455**	P 85,204,455	(P 220,583,543)
Fair value gains (losses) on available-for-sale financial assets:				
Balance at beginning of year		**(298,230,850)**	9,606,169	12,336,169
Reclassification adjustments for losses recognized in profit or loss		**62,432,561**	5,201,422	(2,650,000)
Fair value gains (losses) – net	7	**35,278,701**	(313,023,441)	(73,000)
Gain on reclassification of financial assets	8	**28,237,397**	-	-
Deferred tax income on changes in fair value of available-for-sale financial assets	22	**(150,000)**	(15,000)	(7,000)
Balance at end of year		**(172,432,191)**	(298,230,850)	9,606,169
		(P 101,653,736)	(P 213,026,395)	(P 210,977,374)

23.2 Prior Period Adjustments

The Deficit balances as of January 1, 2009, 2008 and 2007 were restated to reflect the retrospective effects of a change in the Group's accounting policy on investment property and to correct certain misstatements in the consolidated financial statements.

The details of the Group's prior period adjustments are discussed in the succeeding pages.

(a) *Retrospective Effects of Change in Accounting Policy*

The balances of retained earnings (deficit) as of January 1, 2009, 2008 and 2007 were restated to reflect the effects of the change in accounting policy for investment property (see Note 12) made in 2008, as well as the adjustment made in 2009 to reduce the effect of such change as initially reported as fair value gains in 2008 by certain subsidiaries, as summarized below.

	January 1, 2009	January 1, 2008	January 1, 2007
Fair value gains – as restated	**P -**	P 1,285,553,921	P 1,285,553,921
Adjustment to previously recognized fair value gains	**(22,120,000)**	-	-
Deferred tax effect on fair value gains/adjustment	**6,636,000**	(760,208,118)	(760,208,118)
Reversal of accumulated depreciation based on cost	**-**	403,322,840	369,448,081
Reversal of accumulated impairment losses	**-**	69,321,594	69,321,594
Deferred tax effect on accumulated depreciation based on cost	**-**	(109,284,234)	(101,231,007)
Total adjustment to equity arising from change in accounting policy	**(P 15,484,000)**	P 888,706,003	P 862,884,471

The accounting change also resulted in an increase in the Investment Property account by P888.7 million and P862.9 million as of January 1, 2008 and 2007, respectively, and a decrease in the previously reported loss for the year 2007 by P28.1 million, net of tax, representing decrease in depreciation expense. On the other hand, the adjustment made in 2009 resulted in an increase of P22.1 million in the Investment Property account as of December 31, 2008 (see Note 12).

(b) *Correction of Misstatements*

In 2009, the Group recognized prior period adjustments to restate the beginning balance of Retained Earnings as of January 1, 2009 as follows:

- SE Corp. recognized retirement benefit asset at its full amount in its 2008 financial statements. To comply with the provisions of PAS 19, *Employee Benefits*, SE Corp. recognized the limit on the retirement benefit asset previously recognized. A prior period adjustment was also made to recognize the related deferred tax liability on the retirement benefit asset. The prior period adjustment resulted in a decrease in the Retirement Benefit Asset account by P8.0 million and an increase in Deferred Tax Liabilities by P3.4 million.

- Starworld restated the beginning balance of the Retained Earnings account as of January 1, 2009 to record unrecognized management fees amounting to P4.0 million relating to 2008 operations.

In 2008, the Group restated the balance of the Retained Earnings account as of January 1, 2008 and 2007 to correct certain misstatements as follows:

- The balances of Kita's Deficit as of January 1, 2008 and 2007 were restated to reflect the effects of the prior period adjustments to correct certain misstatements in its financial statements as summarized below.

  (a) Rental income in prior years was overstated by P3.4 million, P0.2 million, and P3.2 million in 2007, 2006, and 2005, respectively. This overstatement resulted from the changes in the terms of the lease agreements which were not considered in the application of PAS 17, *Leases*, and from improper accounting for rental deposits received.

  (b) Depreciation expense and related accumulated depreciation for certain properties in prior years were understated by P6.6 million in 2007 and P1.5 million in 2006 and prior years.

- As a result of SBC's change in accounting policy in 2008 relative to the treatment of cable modems as part of the Property and Equipment account, which assets were initially recorded as part of Inventories in the consolidated statements of financial position, SBC recorded a restatement of the Deficit account as of January 1, 2007 to reflect the depreciation expense on the cable modems previously not provided when these assets were still part of Inventories. The restatement resulted in an increase in the Deficit and a decrease in the Inventories accounts as of January 1, 2008 and 2007 by P14.6 million and an increase in Property and Equipment and the related accumulated depreciation account on January 1, 2008 and 2007 by the same amount.

- As a result of the Starworld's availment of the tax amnesty under RA 9480, *Tax Amnesty Law*, which covers 2005 and prior taxable years, Starworld recorded a prior period adjustment to the balance of Retained Earnings as of January 1, 2008 and 2007 to reverse long-outstanding liabilities amounting to P9.0 million. The prior period adjustment resulted in an increase in Starworld's Retained Earnings as of January 1, 2008 and 2007 and a decrease in Estimated Liability for Land and Property Development Costs by the same amount. Also, as a result of this adjustment, additional tax expense recorded as part of Taxes and Licenses presented in 2008 consolidated statement of income, relating to the tax amnesty availment amounting to P500,000, was paid on March 5, 2008

(c) Summary of Prior Period Adjustments from Change in Accounting Policy and Correction of Misstatements

The restatements of certain line items in the consolidated statement of financial position as of January 1, 2009 are summarized below.

	Notes	As previously reported	Prior period adjustments	As restated
Changes in assets:				
Investment property	12	P 3,788,324,352	(P 22,120,000)	P 3,766,204,352
Retirement benefit asset	21	44,678,755	(8,020,359)	36,658,396
		3,833,003,107	(30,140,359)	3,802,862,748
Changes in liabilities:				
Trade and other payables	15	348,652,898	3,982,724	352,635,622
Deferred tax liabilities	22	833,682,647	(3,266,499)	830,416,148
		1,182,335,545	716,225	1,183,051,770
		P 2,650,667,562		P 2,619,810,978
Total adjustment to equity as at January 1, 2009			(P 30,856,584)	

The restatements of certain line items in the consolidated statement of financial position as of January 1, 2008 are summarized as follows:

	Notes	As previously reported	Prior period adjustments	As restated
Changes in assets:				
Trade and other receivables – current	6	P 435,164,654	(P 6,887,487)	P 428,277,167
Merchandise inventories and supplies – net	9	190,167,830	(14,648,571)	175,519,259
Investment property	12	1,734,899,589	1,758,198,355	3,493,097,944
Property, plant and equipment – net	11	1,456,897,277	(1,458,308)	1,455,438,969
Balance carried forward		P 3,817,129,350	P 1,735,203,989	P 5,552,333,339

	Note	As previously reported	Prior period adjustments	As restated
Balance brought forward		P 3,817,129,350	P 1,735,203,989	P 5,552,333,339
Change in liabilities:				
Estimated liability for land and land development costs		45,886,345	(9,000,000)	36,886,345
Income tax payable		7,699,784	21,532	7,721,316
Deferred tax liabilities – net	22	(1,553,478)	869,492,352	867,938,874
		52,032,651	860,513,884	912,546,535
		P 3,765,096,699		P 4,639,786,804
Total adjustment to equity as at January 1, 2008			P 874,690,105	

24. EARNINGS (LOSS) PER SHARE

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

	2009	2008	2007
Profit (loss) for the year attributable to the Parent Company's stockholders	**P 220,726,151**	P 320,785,720	(P 26,295,296)
Divided by weighted average shares outstanding:			
Number of shares issued	**2,030,975,000**	2,030,975,000	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
Earnings (loss) per share – Basic and diluted	**P 0.12**	P 0.18	(P 0.01)

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2009, 2008 and 2007, hence, diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Rendering Services

	Amount of Transactions			Outstanding Balances		
	2009	2008	2007	**2009**	2008	2007
Sales of goods -						
Sale of mobile phones	**P 540,219,872**	P -	P -	**P 209,161,769**	P -	P -
Rendering of services:						
Use of cable infrastructure	**145,891,071**	116,785,714	85,392,857	**73,234,838**	69,724,998	59,967,007
Commissions	**2,546,771**	1,455,268	1,591,100	**25,037,739**	39,057,253	31,371,160
Management services	**1,200,000**	1,200,000	1,200,000	**-**	-	97,000
	P 689,857,714	P 119,440,982	P 88,183,957	**P 307,434,346**	P 108,782,251	P 91,435,167

In 2009, the SBC sold majority of its mobile phone inventories to Mytel. The outstanding receivable related to this transaction is shown as part of Trade Receivables under the Trade and Other Receivables account in the 2009 consolidated statement of financial position (see Note 6).

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 51% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivables arising from these transactions are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position.

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Parent Company's majority stockholders. SVC also earns commissions from the sales of Solid Trading Limited (STL), a company also owned by the Parent Company's majority stockholders, to customers in the Philippines (see Note 25.6).

The Parent Company provides general management advisory services to CPD Access Corporation (CPD), a company owned by SGI's majority stockholders. In consideration for such services, the Parent Company receives management fees on a monthly basis as determined based on a management contract mutually agreed upon by both parties. The outstanding balance of as of December 31, 2007 is presented as part of Trade Receivables under the Trade and Other Receivables account in the 2007 consolidated statement of financial position.

25.2 Purchase of Goods and Services

	Amount of Transactions			Outstanding Balances		
	2009	2008	2007	**2009**	2008	2007
Purchase of goods	**P 86,676,721**	P 80,119,087	P 79,097,937	**P -**	P 2,963,292	P 15,738
Availment of management services	**-**	-	2,318,182	**-**	-	-
	P 86,676,721	P 80,119,087	P 81,416,119	**P -**	P 2,963,292	P 15,738

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

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note 17.2) and General and Administrative Expenses (see Note 19), respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions			Outstanding Balances		
	2009	2008	2007	**2009**	2008	2007
Group as lessor	**P 584,242**	P 545,296	P 571,973	**P -**	P -	P 53,384
Group as lessee	**P 600,000**	P 190,269	P 190,269	**P -**	P -	P -

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

SLC rents portion of a building of a company owned by the Parent Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated statements of income (see Note 19). There are no outstanding liabilities related to this lease in 2009, 2008 and 2007.

25.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 8.0% in 2009 and 2008 and 9.0% in 2007. Total interests earned from these loans amounted to P10.2 million in 2009, P13.3 million in 2008 and P14.1 million in 2007, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The outstanding receivables as of December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
Business loans:			
AA Export & Import Corporation	**P 77,061,004**	P 90,191,405	P 105,415,204
Avid Sales Corporation	**46,000,000**	46,000,000	46,000,000
	123,061,004	136,191,405	151,415,204
Car loans:			
TCL Sun, Inc.	**-**	-	168,902
	P 123,061,004	P 136,191,405	P 151,548,106

The business loan to AA Export & Import Corporation is originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. These business loans are secured by shares of stock of the borrowing companies which are owned by a related party (see Note 6). Total principal repayments received on the loans amounted to P13,130,401 in 2009 and P15,223,799 in 2008 P5,824,784 in 2007.

SMFI also granted unsecured business loan to Avid Sales Corporation amounting to P80.0 million. There were no principal repayments made in 2009, 2008 and 2007 related to the business loan.

25.5 Advances to and from Related Parties

Certain subsidiaries of the Group grants to and obtains unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances arising from these transactions are presented as Advances to Related Parties and Advances from Related Parties in the consolidated statements of financial position.

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P2.5 million in 2009, P1.5 million in 2008 and P1.6 million in 2007 is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding balances arising from these transactions amounted to P25.0 million, P39.1 million and P31.4 million as of December 31, 2009, 2008 and 2007, respectively, and are included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 25.1).

25.7 Transactions with Solid Company Limited (Hongkong)

SBC purchases mobile phones from Solid Company Limited (Hongkong), a related party owned by the Parent Company's majority stockholders. Total purchases amounted to P547.6 million in 2009, P405.1 million in 2008 and P169.7 million in 2007 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 17.1). There are no outstanding liabilities relating to these purchases as of December 31, 2009, 2008 and 2007.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hongkong) amounting to P120.8 million which will mature on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollars.

The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account in the 2009 and 2008 consolidated statements of financial position (see Note 6).

25.8 Financial Guarantees

In 2009, Fil-Dragon obtained a secured interest-bearing loan amounting to RMB 20.0 million (P135.7 million) from a local bank in the People's Republic of China to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract will continue in effect until the end of two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon.

25.9 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2009, 2008 and 2007 are as follows (see Note 21.1):

	2009	2008	2007
Short-term benefits	**P 23,959,255**	P 23,147,052	P 25,890,580
Post-employment benefit	**1,447,878**	1,530,758	1,613,830
	P 25,407,133	P 24,677,810	P 27,504,410

26. SIGNIFICANT CONTRACTS AND AGREEMENTS

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

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony and Aiwa products. Under the MOU, Sony authorized the SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of 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 SE Corp. network support fees equal to 1% of net sales for Sony products and 1% or P50,000 per month whichever is higher for Aiwa products. In the first quarter of 2009, SE Corp. and Sony agreed to lower the network support fees to 0.45% of Sony's net sales. Subsequently, SE Corp. and Sony agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

The breakdown of network support fees and in-warranty service fees are shown below.

	Amount of Transactions			Outstanding Balances		
	2009	2008	2007	**2009**	2008	2007
SONY Products	**P 37,536,329**	P 27,933,816	P 32,030,215	**P 3,180,606**	P 22,207,796	P 13,409,249
AIWA Products	**601,080**	600,000	600,000	**-**	280,000	-
	P 38,137,409	P 28,533,816	P 32,630,215	**P 3,180,606**	P 22,487,796	P 13,409,249

Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. The outstanding receivables arising from these transactions are included as part of Trade and Other Receivables in the consolidated statements of financial position.

26.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 15). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

27. COMMITMENTS AND CONTINGENCIES

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

27.1 Planned Acquisition of Investments

(a) Mytel Mobility Solutions, Inc.

In 2009, the Parent Company's BOD approved the acquisition of 100% ownership interest in Mytel for a total acquisition price of P500,000 (see Note 1). The acquisition was approved since Mytel's primary purpose is related to the primary businesses of certain subsidiaries. The Company's acquisition of Mytel was consummated on January 10, 2010. The aggregate amount of assets, liabilities as of December 31, 2009 and aggregate amounts of revenues and loss of Mytel for the period July 6, 2009 to December 31, 2009 are as follows:

Assets	P	497,075,396
Liabilities		544,879,192
Revenues		168,220,640
Loss for the period		48,303,796

(b) Land Registration Authority Systems, Inc.

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 was paid in full by LARES in 2008. 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:

(i) P3.0 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(ii) The balance of P3.0 million shall be used for working capital and operating expenses of LARES.

In September 2008, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements. As of December 31, 2009, the amount of P6.0 million was fully collected (see Note 6).

27.2 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:

	2009	2008	2007
Within one year	**P 53,682,958**	P 75,120,679	P 12,041,244
After one year but not more than five years	**91,966,581**	132,001,097	9,556,733
More than five years	**1,810,700**	5,467,962	3,613,297
	P 147,460,239	P 212,589,738	P 25,211,274

27.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2008, these leases have a remaining term of 11 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2009	2008	2007
Within one year	**P 6,664,895**	P 5,884,690	P 5,196,035
After one year but not more than five years	**29,065,715**	28,876,660	27,054,655
More than five years	**52,122,286**	55,692,029	63,387,324
	P 87,852,896	P 90,453,379	P 95,638,014

Total rental expense from these operating leases amounted to P7,415,493 each in 2009, 2008 and 2007, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Note 17.2 and 19).

27.4 Legal Claims

Certain subsidiaries are involved in various litigations, which arose in the normal course of business, described as follows:

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

   (i) A portion of land in Pililla, Rizal, with a carrying value of P55.7 million, subject to expropriation coverage under the Agrarian Reform Act; and,

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

(b) SC is involved in litigation and is subject to certain claims by third parties. Also, a portion of SC's land located in Pamaldan, Cabanatuan City, with a carrying amount of P7.6 million, is subject to expropriation coverage under the Agrarian Reform Act.

(c) SLC is charged for alleged infringement of copyrights and sound recording by a third party.

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

27.5 Estimated Liability for Land and Property Development

As of December 31, 2009, 2008 and 2007, the Group has commitment of about P68.3 million and P27.9 million, respectively, for the fulfilment of projects in the development and marketing of CPIP (see Note 10).

27.6 Purchase Commitments

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 10). The construction of Tower 1 was fully completed in 2008 while the construction of Towers 2 and 3 has not yet started as of December 31, 2009.

27.7 Possible Impact of Government Project

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

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

27.8 Others

There are commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

28.1 Foreign Currency Sensitivity

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

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

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

	2009		2008		2007	
	US Dollar	**Chinese Yuan Renminbi**	US Dollar	Chinese Yuan Renminbi	US Dollar	Chinese Yuan Renminbi
Financial assets	**P 637,642,672**	**P 106,121,412**	P 326,998,187	P 154,746,371	P 173,959,891	P -
Financial liabilities	**(430,290,137)**	**(215,074,453)**	(464,333,436)	(110,922)	(414,235,521)	-
Total net exposure	**P 207,352,535**	**(P 108,953,041)**	(P 137,335,249)	P 154,635,449	(P 240,275,630)	P -

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

	2009		2008		2007	
	Reasonably possible change in rate	**Effect in profit before tax**	Reasonably Reasonably Dollar	Effect in Effect in Renminbi	Reasonably Reasonably Dollar	Effect in Effect in Renminbi
Php – USD	**20.17%**	**P 41,823,006**	26.18%	(P 35,954,368)	20.72%	P 49,785,088
Php – RMB	**19.97%**	**(21,757,922)**	25.71%	39,756,774	-	-
		P 20,065,084		P 3,802,406		P 49,785,088

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

28.2 Interest Rate Sensitivity

At December 31, 2009, 2008 and 2007, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5). All other financial assets and liabilities have fixed rates.

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-7.21% in 2009, +/-7.25% in 2008 and +/-4.46% in 2007. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 7.21%, 7.25% and 4.46% profit before tax in 2009, 2008 and 2007 would have increased by P68.1 million, P62.2 million and P39.8 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

28.3 Credit Risk

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

	Notes	**2009**	2008	2007
Cash and cash equivalents	5	**P 1,263,142,145**	P 1,118,462,976	P 1,206,991,793
Trade and other receivables - net	6	**1,181,048,096**	980,096,080	910,479,126
Available-for-sale financial assets	7	**305,804,353**	63,519,015	388,448,319
Held-to-maturity investments	8	**-**	161,289,378	53,000,000
Advances to related parties	25	**504,328,415**	192,327,778	130,091,376
		P 3,254,323,009	P 2,515,695,227	P 2,689,010,614

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

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

(a) Cash and Cash Equivalents, Held-to-maturity Investments and Available-for-sale Financial Assets

The credit risk for cash and cash equivalents and investments in foreign currency denominated bonds, classified as held-to-maturity investments and available-for-sale financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) Trade and Other Receivables

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

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

	2009	2008	2007
Not more than 3 months	**P 296,399,509**	P 89,878,519	P 87,670,744
More than 3 months but not more than one year	**33,817,343**	37,143,280	17,321,570
More than one year	**96,345**	33,917,007	34,952,334
	P 330,313,197	P 160,938,806	P 139,944,648

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

28.4 Liquidity Risk

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is 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, 2009, 2008 and 2007, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans and 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 is equal to the carrying values of the liabilities at the end of the reporting period.

29. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

29.1 Comparison of Carrying Values and Fair Values

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

		2009		2008		2007	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets							
Loans and receivables:							
Cash and cash equivalents	5	**P 1,263,142,145**	**P 1,263,142,145**	P 1,118,462,976	P 1,118,462,976	P 1,206,991,793	P 1,206,991,793
Trade and other receivables - net	6	**1,181,048,096**	**1,181,048,096**	980,096,080	980,096,080	910,479,126	910,479,126
Advances to related parties	25	**504,328,415**	**504,328,415**	192,327,778	192,327,778	130,091,376	130,091,376
Held-to-maturity investments:	8						
Short-term placements		**-**	**-**	-	-	53,000,000	53,000,000
Investments in bonds		**-**	**-**	161,289,378	59,500,000	-	-
Available-for-sale financial assets –	7						
Investments in bonds		**305,804,353**	**305,804,353**	63,519,015	63,519,015	388,448,319	388,448,319
Golf club shares – net		**6,605,009**	**6,605,009**	6,245,009	6,245,009	6,395,009	6,395,009
Others		**1,396,518**	**1,396,518**	1,216,518	1,216,518	1,216,518	1,216,518
		P 3,262,324,536	**P 3,262,324,536**	P 2,523,156,754	P 2,421,367,376	P 2,696,622,141	P 2,696,622,141
Financial liabilities							
At amortized cost:							
Interest-bearing loans	14	**P 554,948,324**	**P 554,948,324**	P 458,760,609	P 458,760,609	P 409,435,521	P 409,435,521
Trade and other payables	15	**322,604,948**	**322,604,948**	352,635,622	352,635,622	370,193,830	370,193,830
Advances from related parties	25	**201,439,920**	**201,439,920**	111,704,972	111,704,972	179,997,931	179,997,931
Refundable deposits	16	**11,096,848**	**11,096,848**	9,710,038	9,710,038	8,445,041	8,445,041
		P 1,090,090,040	**P 1,090,090,040**	P 932,811,241	P 932,811,241	P 968,072,323	P 968,072,323

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

29.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of December 31, 2009, 2008 and 2007.

	Level 1	Level 2	Level 3	Total
December 31, 2009:				
Available-for-sale financial assets	**P 312,409,362**	**P -**	**P 1,396,518**	**P 313,805,880**
December 31, 2008:				
Available-for-sale financial assets	P 69,764,024	P -	P 1,216,518	P 70,980,542
December 31, 2007:				
Available-for-sale financial assets	P 394,843,328	P -	P 1,216,518	P 396,059,846

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

30. 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 consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

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

	2009	2008	2007
Total liabilities (excluding advances from related parties)	**P 1,812,608,374**	P 1,733,971,739	P 1,703,868,835
Total equity	**7,938,539,477**	7,583,419,199	7,125,338,607
Debt-to-equity ratio	**P 0.23 : 1**	0.23 : 1	0.24 : 1

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

COVER SHEET

			8	4	5				

S.E.C. Registration Number

SOLID GROUP INC.
AND
SUBSIDIARIES

(Company's Full Name)

2285 SOLID HOUSE BLDG.
DON CHINO ROCES.AVE MAKATI CIT

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

MELLINA T. CORPUZ	843-1511
Contact person	Company Telephone Number

Quarterly Report

0 6	3 0	SEC Form 17 Q	0 9	2 3
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Not Applicable

Secondary License Type, if applicable

	Articles I, II, VI & VII
Dept. requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

4,934	0	Php 630 million
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

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Cashier

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Remark : Pls. Use black ink for scanning purposes

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, 2010

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 six (6) months period ended June 30, 2010 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: revenue growth, asset turnover, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share (EPS), current ratio and debt to equity ratio.

Key performance indicators for 2010 and 2009 are as follows:

	2010	2009
Revenue growth	(7%)	39%
Asset turnover	22%	22%
Operating expense ratio	20%	18%
EBITDA	P148 million	P180 million
EPS	P0.03	P0.05
Current ratio	3.84 : 1	3.94 : 1
Debt to equity ratio	0.26 : 1	0.23 :1

Revenue growth is determined as follows: revenues for the current period less revenues for last period divided by the revenues of the previous period.

Asset turnover is computed based on the revenues (annualized) earned during the period divided by the average total assets.

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

EBITDA is determined by adding back interest expense, depreciation and amortization charges, impairment losses to income from operations before income tax for the period.

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.

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.

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.

Revenue declined by 7% for the first semester of 2010 vs. revenue growth of 39% for the same period in 2009. The decline was mainly due to lower real estate sales offset by higher sales of the trading segment during the first semester of the year.

Asset turnover was 22% for the first semester in 2010 and 2009.

Operating expense ratio was higher at 20% in 2010 compared with 18% in 2009 mainly due to higher operating expenses.

EBITDA amounted to P148 million for the first semester of 2010 against P180 million for the same period in 2009. The decrease was mainly due to lower operating profit during the period.

Earnings per share amounted to P0.03 in 2010 versus P0.05 in 2009 mainly from lower net income for the period.

Current ratio was lower at 3.84 : 1 as of June 30, 2010 and 3.94 : 1 as of December 31, 2009 mainly due to higher current liabilities.

Debt to equity ratio was slightly higher at 0.26 : 1 as of June 30, 2010 from 0.23 : 1 as of December 31, 2009 primarily due to higher liabilities.

Results of Operations

Revenues reached P1,121 million for the first semester of 2010, or higher by 7% from P1,047 million for the same period in 2009 as discussed below.

Service revenue amounted to P313 million for the first semester of 2010 or almost the same level as in 2009 of P310 million for the same period in 2009.

Sale of goods reached P580 million for the first semester of 2010, improving by 34% from P432 million for the same period in 2009 mainly due higher volume of sales of the digital products.

Rental income amounted to P61 million for the first semester of 2010 or slightly higher by 2% from P59 million for the same period in 2009.

Sale of land amounted to P135 million for the first semester of 2010, or lower by 29% from P192 million for the same period in 2009. This was principally due the lower sale of industrial lots for the period.

Interest income amounted to P30 million for the first semester of 2010, or down by 42% from P52 million for the same period in 2009 mainly from lower yield of the placements and also in 2009, the Company earned interest income from the amortization of discounts on held to maturity financial assets versus none in 2010 as a result of the reclassification of these financial assets to available for sale.

Cost of sales, services and rentals amounted to P810 million for the first semester of 2010, or higher by 11% from P731 million for the first semester of 2009 as discussed below.

Cost of services amounted to P215 million for the first semester of 2010 from P221 million for the same period of 2009 or lower by 3%. There was no material variance for this account.

Cost of sales went up to P469 million for the first semester of 2010, or higher by 40%, from P334 million for the same period of last year in relation to the increase in sales.

Cost of rentals amounted to P24 million for the first semester of 2010 and 2009.

Cost of land amounted to P100 million for the first semester of 2010, or a decrease of 33% from P150 million for the same period of 2009. The decrease was mainly in relation to lower sale of real estate.

Gross profit amounted to P311 million for the first semester of 2010 from P316 million for the same period in 2009. There was no material variance for this account.

Other operating expenses (income) amounted to P201 million for the first semester of 2010 against P173 million for the same period in 2009 as explained below.

General and administrative expenses amounted to P146 million for the first semester of 2010, or up by 2% from P143 million for the same period of 2009. There was no material variance for this account.

Selling and distribution costs amounted to P80 million for the first semester of 2010, up by 81% from P44 million for the same period of 2009 mainly from higher commissions, personnel and advertising costs .

Other operating income amounted to P24 million for the first semester of 2010 compared with P14 million for the same period in 2009 principally from miscellaneous income.

Operating profit amounted to P109 million for the first semester of 2010 from P142 million for the same period in 2009, or a decrease of 23%, mainly from lower gross profit rate and higher selling and distribution costs.

Other income (charges) amounted to P2.7 million for the first semester of 2010 against P12 million loss for the same period in 2009 mainly from the following:

Finance income amounted to P14 million for the first semester of 2010, down by 4% compared with P13 million for the same period of last year primarily due to lower interest income.

Finance costs amounted to P14 million for the first semester in 2010, decreasing by 44% against P26 million for the same period in 2009 mainly due lower interest rates on loans.

Other gains amounted to none for the first semester of 2010 versus P62 thousand for the same period in 2009 due to gain on sale of property in 2009.

Income before tax reached P108 million for the first semester in 2010, or down from P129 million for the same period in 2009 mainly due to lower operating profit as explained above.

Tax expense amounted to P42 million for the first semester of 2010 from P18 million in 2009 due to higher pre-tax income of certain subsidiaries.

Net income amounted to P65 million for the first semester of 2010 against P111 million for the same period in 2009 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P58 million for the first semester of 2010 against P97 million in for the same period of 2009 as discussed above.

Net income attributable to minority interest amounted to P7 million for the first semester of 2010 compared with P13 million income in 2009 due to higher earnings of the industrial estate business of the Company in 2009 .

Financial Position

Cash and cash equivalents amounted to P 1,624 million as of June 30, 2010, up by 29% from P1,263 million as of December 31, 2009. Cash was mainly provided by operating activities primarily from decrease in advances to related parties and increase in payables and by financing activities mainly from proceeds of loans.

Trade and other receivables reached P500 million as of June 30, 2010 against P501 million as of December 31, 2009, or almost the same level as last 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 P136 million as of June 30, 2010 from P504 million as of December 31, 2009. Certain advances as at December 31, 2009 were mainly provided to MyTel Mobility Solutions Inc. (MyTel) for working capital purposes. The acquisition of MyTel was consummated in January 2010. The said advances were included and eliminated in the consolidated financial statements in June 2010.

Available-for-sale financial assets amounted to P322 million as of June 30, 2010 from P305 million as of December 31, 2009, or higher by 5%. The increase was principally due to additions during the period.

Merchandise inventories and supplies - net amounted to P313 million as of June 30, 2010, increasing by 275% compared with P83 million as of December 31, 2009 mainly from higher merchandise and finished goods for digital products.

Real estate inventories amounted to P1,100 million as of June 30, 2010 from P1,046 million as of December 31, 2009 or higher by 5%. The increase was mainly due to additions made during the period offset by real estate sold.

Other current assets amounted to P358 million as of June 30, 2010, higher by 20% compared with P299 million as of December 31, 2009 principally from higher advances to suppliers and input taxes.

Total current assets amounted to P4,354 million as of June 30, 2010 from P4,003 million as of December 31, 2009 as discussed above.

Non-current trade and other receivable amounted to P706 million as of June 30, 2010 from P679 million as of December 31, 2009 mainly from higher non-current finance receivables.

Non-current available-for-sale financial assets stood at P11 million as of June 30, 2010 against P8 million as of December 31, 2009 or an increase of 40% mainly from other investments.

Property, plant and equipment amounted to P1,402 million as of June 30, 2010 down by 1% from P1,397 million as of December 31, 2008. There was no material variance for this account.

Investment property amounted to P3,774 million as of June 30, 2010 from P3,776 million December 31, 2009. There was no material variance for this account.

Retirement benefit assets amounted to P45 million as of June 30, 2010 and December 31, 2009.

Deferred tax assets - net amounted to P3 million as of June 30, 2010 and December 31, 2009.

Other non-current assets amounted to P18 million as of June 30, 2010 or a decline of 27% from P24 million as of December 31, 2009 mainly from lower prepaid insurance and refundable deposits.

Total non-current assets amounted to P5,961 million as of June 30, 2010 from P5,936 million as of December 31, 2009 as discussed above.

Non-current assets held for sale stood at P12 million as June 30, 2010 and end of 2009.

Total assets reached P10,328 million as of June 30, 2010 from P9,952 million as of the December 31, 2009 as discussed above.

Interest-bearing loans amounted to P412 million as of June 30, 2010, up by 2% from P419 million as of December 31, 2009. There was no material variance for this account.

Trade and other payables amounted to P466 million as of June 30, 2010 against P322 million as of December 31, 2009, up by 45% primarily due to higher accrued expenses and other payables.

Advances from related parties amounted to P161 million as of June 30, 2010 from P201 million as of December 31, 2009 due to payments made.

Estimated liability for land and land development costs amounted to P68 million as of June 30, 2010 and December 31, 2009. There was no movement for this account.

Income tax payable amounted to P25 million as of June 30, 2010 from P4 million as of December 31, 2009 mainly from due to higher provision for income tax of certain subsidiaries.

Total current liabilities stood at P1,134 million as of June 30, 2010, higher by 12% from P1,016 million as of December 31, 2009 as explained above mainly due to higher trade and other payables.

Non-current interest bearing loans amounted to P272 million from P135 million principally due to additional availments.

Non-current refundable deposits amounted to P11 million as of June 30, 2010 and December 31, 2009.

Retirement benefit obligation amounted to P1 million as of June 30, 2010 and December 31, 2009.

Deferred tax liabilities -net amounted to P849 million as of June 30, 2010 and December 31, 2009.

Total non-current liabilities amounted to P1,134 million as of June 30, 2010 from P997 million as of December 31, 2009.

Capital stock stood at P2,030 million as of June 30, 2010 and December 31, 2009.

Additional paid-in capital amounted to P4,641 million as of June 30, 2010 and December 31, 2009.

Treasury shares amounted to P115 million as of June 30, 2010 and December 31, 2009.

Revaluation reserves amounted to P46 million loss as of June 30, 2010 from P101 million loss as of December 31, 2009 principally due to currency differences on translating financial statements of foreign operations and fair value gains on available for sale financial assets.

Retained earnings amounted to P1,124 million as of June 30, 2010 from P1,065 million as of December 31, 2009 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P7,635 million as of June 30, 2010 from P7,521 million as of December 31, 2009 due to higher retained earnings.

Minority interest amounted to P424 million as of June 30, 2010 from P417 million in December 31, 2009 primarily from share of minority in net income.

Total equity amounted to P8,059 million as of June 30, 2010 from P7,938 million as of December 31, 2009.

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 for these contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

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

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

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

The Company estimates capital expenditures for the year 2010 to amount P150 million for upgrade of the broadband infrastructure and real estate development. The purchase and/or construction of these capital expenditures will be financed through the funds of the Company.

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

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

Solid Electronics Corporation, a wholly-owned subsidiary of the Company, provides in-warranty and out-of-warranty services for Sony products sold in the Philippines under the After-Sales Service and Network Support Agreements, which was effective until September 30, 2004. In May 2005, the Company entered into an informal agreement with Sony wherein these agreements was renewed annually until revoked. This contributed 2% of total revenues in 2009 .

On November 23, 2009, the Company's management disclosed in public its plan of phasing out its unprofitable plastic injection manufacturing business which includes Kita Corporation and Solid Laguna Corporation. Kita and SLC are expected to reduce about 1% and 5% of revenues, respectively.

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

There is 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 Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOLID GROUP INC.

DAVID S. LIM
President & Chief Executive Officer

VINCENT S. LIM
Senior Vice President for Finance & Investment

August 20, 2010

Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

June 30, 2010 and December 31, 2009

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 and DECEMBER 31, 2009
(Amounts in Philippine Pesos)

	Notes		2010		2009
A S S E T S					
CURRENT ASSETS					
Cash and cash equivalents	5	**P**	**1,624,437,053**	P	1,263,142,145
Trade and other receivables - net	6		**500,228,541**		501,285,288
Available-for-sale financial assets	7		**322,203,820**		305,804,353
Merchandise inventories and supplies - net	9		**313,029,900**		83,440,928
Real estate inventories - net	10		**1,100,604,914**		1,046,881,038
Advances to related parties	25		**136,183,248**		504,328,415
Other current assets	13		**358,091,842**		299,085,713
Total Current Assets			**4,354,779,318**		4,003,967,880
NON-CURRENT ASSETS					
Trade and other receivables	6		**706,215,326**		679,762,808
Available-for-sale financial assets - net	7		**11,168,807**		8,001,527
Property, plant and equipment - net	11		**1,402,155,835**		1,397,744,432
Investment property - net	12		**3,774,734,499**		3,776,756,869
Retirement benefit asset	21		**45,935,962**		45,935,962
Deferred tax assets - net	22		**3,408,612**		3,408,612
Other non-current assets - net	13		**18,223,063**		24,919,357
Total Non-current Assets			**5,961,842,104**		5,936,529,567
NON-CURRENT ASSETS HELD FOR SALE	11		**12,090,324**		12,090,324
TOTAL ASSETS		**P**	**10,328,711,746**	P	9,952,587,771

	Notes	2010	2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 412,459,814**	P 419,206,324
Trade and other payables	15	**466,912,987**	322,604,948
Advances from related parties	25	**161,328,863**	201,439,920
Estimated liability for land and land development costs	10	**68,304,647**	68,304,647
Income tax payable		**25,770,284**	4,764,696
Total Current Liabilities		**1,134,776,595**	1,016,320,535
NON-CURRENT LIABILITIES			
Interest-bearing loans	14	**272,544,000**	135,742,000
Refundable deposits - net	16	**11,096,848**	11,096,848
Retirement benefit obligation	21	**1,484,596**	1,484,596
Deferred tax liabilities - net	22	**849,404,316**	849,404,315
Total Non-current Liabilities		**1,134,529,760**	997,727,759
Total Liabilities		**2,269,306,355**	2,014,048,294
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock		2,030,975,000	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	**(46,647,579)**	(101,653,736)
Retained earnings	23	**1,124,812,309**	1,065,972,835
Total equity attributable to the Parent Company's stockholders		**7,635,227,272**	7,521,381,641
Non-controlling interests		**424,178,119**	417,157,836
Total Equity		**8,059,405,391**	7,938,539,477
TOTAL LIABILITIES AND EQUITY		**P 10,328,711,746**	P 9,952,587,771

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010 2nd Quarter	2010 1st Semester	2009 2nd Quarter	2009 1st Semester
REVENUES					
Rendering of services	25	**150,379,394**	**P 313,591,925**	148,214,423	P 310,172,963
Sale of goods	25	**266,529,920**	**580,691,586**	165,822,835	432,561,292
Rentals	25	**30,366,159**	**61,187,444**	27,732,814	59,698,946
Sale of real estate	2	**76,751,152**	**135,683,759**	19,583,140	192,321,760
Interest income	20	**15,504,932**	**30,427,140**	30,955,064	52,340,455
		539,531,557	**1,121,581,854**	392,308,276	1,047,095,416
COST OF SALES, SERVICES AND RENTALS					
Cost of services	17	**108,937,377**	**215,970,159**	111,049,734	221,659,513
Cost of sales	17	**195,835,869**	**469,595,557**	124,410,506	334,456,432
Cost of rentals	17	**7,330,466**	**24,476,393**	12,718,216	24,253,263
Cost of real estate sold	19	**54,927,086**	**100,461,283**	15,473,849	150,657,950
		367,030,798	**810,503,392**	263,652,305	731,027,158
GROSS PROFIT		**172,500,759**	**311,078,462**	128,655,971	316,068,258
OTHER OPERATING EXPENSES (INCOME)					
General and administrative expenses	19	**69,462,783**	**146,472,895**	54,131,516	143,466,920
Selling and distribution costs	19	**47,254,245**	**80,029,078**	22,723,506	44,261,539
Other operating income - net	18	**(12,177,817)**	**(24,832,085)**	(15,663,627)	(14,067,789)
		104,539,211	**201,669,888**	61,191,395	173,660,670
OPERATING PROFIT		**67,961,548**	**109,408,574**	67,464,576	142,407,588
OTHER INCOME (CHARGES)					
Finance income	20	**7,254,353**	**14,201,099**	6,515,948	13,695,542
Finance costs	20	**(5,827,515)**	**(14,780,053)**	(20,190,540)	(26,191,723)
Other gains - net		**-**	**-**	0	62,500
		1,426,838	**(578,954)**	(13,674,592)	(12,433,681)
PROFIT BEFORE TAX		**69,388,386**	**108,829,620**	53,789,984	129,973,907
TAX EXPENSE	22	**1**	**42,969,863**	8,154,087	18,692,110
PROFIT (LOSS) FOR THE PERIOD		**P 69,388,385**	**P 65,859,757**	P 45,635,897	P 111,281,797
Profit (loss) for the year attributable to:					
Parent Company's stockholders		**(1)**	**P 58,839,474**	45,366,093	P 97,910,713
Non-controlling interests		**-**	**7,020,283**	269,804	13,371,084
		(P 1)	**P 65,859,757**	P 45,635,897	P 111,281,797
Earnings (loss) per share attributable to the Parent Company's stockholders - Basic and Dilut	24	**(P 0.00)**	**P 0.03**	P 0.02	P 0.05

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
PROFIT (LOSS) FOR THE PERIOD		**P 65,859,757**	P 111,281,797
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value gains (losses) on available-for-sale financial assets, net of taxes	7	**6,057,827**	7,255,966
Reclassification adjustments for losses recognized in profit or loss		**3,621,231**	7,203,714
Currency exchange differences on translating balances of foreign operations	2	**45,327,099**	(25,807,330)
		55,006,157	(11,347,650)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**P 120,865,914**	P 99,934,147
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**P 113,845,631**	P 86,563,063
Non-controlling interests		**7,020,283**	13,371,084
		P 120,865,914	P 99,934,147

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Note	2010	2009
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS			
CAPITAL STOCK - P1 par value			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 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			
Acquired at P0.5520 per share - 209,433,000 shares		**(115,614,380)**	(115,614,380)
REVALUATION RESERVES	23		
Balance at beginning of year		**(101,653,736)**	**(213,026,395)**
Other comprehensive income (loss) for the year		**55,006,157**	(11,347,650)
Balance at end of year		**(46,647,579)**	(224,374,045)
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year			
As previously reported		**1,065,972,835**	876,103,268
Prior period adjustments, net of tax	23	**-**	(30,856,584)
As restated		**1,065,972,835**	845,246,684
Profit (loss) for the year attributable to the Parent Company's stockholders		**58,839,474**	97,910,713
Balance at end of year		**1,124,812,309**	943,157,397
Total Equity Attributable to the Parent Company's stockholders		**7,580,221,115**	7,287,193,544
NON-CONTROLLING INTERESTS			
Balance at beginning of year		**417,157,836**	394,136,368
Additional non-controlling interests on acquired subsidiary		**-**	
Profit for the year attributable to non-controlling interests		**7,020,283**	13,371,084
Balance at end of year		**424,178,119**	407,507,452
TOTAL EQUITY		**P 8,004,399,234**	P 7,694,700,996
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**P 113,845,631**	P 86,563,063
Non-controlling interests		**7,020,283**	13,371,084
		P 120,865,914	P 99,934,147

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 108,829,620	P 129,973,907
Adjustments for:			
Interest income		(42,559,194)	(66,035,997)
Depreciation and amortization	11	33,864,207	40,393,257
Realized loss on sale of financial assets			7,203,714
Loss (gain) on sale of financial assets	20	(2,069,045)	8,733,396
Impairment losses on trade and other receivables	6		
Interest expense	20	5,359,363	10,206,656
Loss on inventory obsolescence	9		
Unrealized foreign currency losses (gains) - net		5,799,459	47,957
Gain on sale of property and equipment			(62,500)
Impairment losses on available-for-sale financial assets	7	-	
Operating profit before working capital changes		109,224,410	130,460,390
Decrease (increase) in trade and other receivables		(27,474,049)	(119,613,435)
Decrease (increase) in available-for-sale financial assets		37,508,457	8,804,291
Decrease (increase) in held-to-maturity investments			(31,008,681)
Decrease (increase) in merchandise inventories and supplies		(229,588,972)	(262,919,213)
Increase in real estate inventories		(53,723,876)	63,588,803
Decrease (increase) in advances to related parties		368,145,167	37,768,845
Decrease (increase) in other current assets		(59,006,129)	(17,462,148)
Decrease (increase) in retirement benefit asset		-	
Decrease in other non-current assets		6,696,294	327,627
Increase (decrease) in trade and other payables		139,693,755	266,380,914
Increase in estimated liability for land and land development costs		-	
Increase (decrease) in advances from related parties		(40,111,057)	51,360,741
Increase (decrease) in retirement benefit obligation		-	
Increase in deferred tax liabilities			2,752,422
Cash generated from (used in) operations		251,364,000	130,440,556
Interest received		44,637,472	71,837,874
Cash paid for income taxes		(21,964,276)	(21,062,838)
Net Cash From Operating Activities		274,037,196	181,215,592
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (Acquisitions) of property and equipment	11	(38,275,610)	(18,981,168)
Decrease (Additions) to investment property	12	2,022,370	
Net Cash Used in Investing Activities		(P 36,253,240)	(P 18,981,168)

Forward

	Notes	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments) of interest-bearing loans - net	14	**P 130,055,490**	(P 43,504,723)
Interest paid	20	**(745,079)**	(915,026)
Net Cash From (Used in) Financing Activities		**129,310,411**	(44,419,749)
Effect of Currency Rate Changes on Cash and Cash Equivalents		**(5,799,459)**	(47,957)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**361,294,908**	117,766,718
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,263,142,145**	1,118,462,976
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 1,624,437,053**	P 1,236,229,694

Supplement Information on Noncash Investing Activities

In 2009, the Board of Directors of Solid Laguna Corporation, a subsidiary, approved the phasing out of its plastic injection manufacturing division. As a result, certain property, plant and equipment with a total carrying amount of P12,090,324 were reclassified as Non-current Assets Held for Sale (see Note 11).

In 2008, the Group reclassified certain investments in foreign currency-denominated bonds, previously classified as Available-for-sale Financial Assets, to the Held-to-maturity Investments account, with a total fair value of P165,185,417 at the time of the reclassification. However, in 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with a total carrying amount of P125,173,911 back to Available-for-sale Financial Assets (see Note 8).

Also, in 2008, Zen Towers Corporation, another subsidiary, reclassified certain assets amounting to P116,907,395, previously classified as part of Real Estate Inventories, to Investment Property (see Note 12).

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See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND DECEMBER 31, 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or Parent Company) was registered with the Philippine Securities and Exchange Commission on October 16, 1933. The Parent Company currently conducts business as an investment holding company. Its shares of stock are publicly traded at the Philippine Stock Exchange.

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

	Percentage of Ownership				
Subsidiaries	**2010**	2009	2008	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	a	Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	c	Information and communications and technology systems
Precos, Inc. (Precos)	**100**	100	100	c	Real estate
Solid Electronics Corporation (SE Corp)	**100**	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Casa Bocobo Hotel, Inc. (CBHI) [Formerly Zen By The Park, Inc.]	**100**	100	100	e, g	Hotel operations
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	100	100	h	Real estate
My Solid Technologies and Devices Corporation	**100**	100	100	j	Sale of mobile phones
Skyworld Corporation (Skyworld)	**75**	75	75	c, e	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	b, c	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	51	-	i, c	Real estate
Starworld Corporation (Starworld)	**50**	50	50	e, f	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	-	b, d	Real estate

Notes:

- a Incorporated and domiciled in the British Virgin Islands
- b Indirectly owned through SC
- c Pre-operating or non-operating
- d LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- e Indirectly owned through SMC
- f Starworld is 20% owned by SMC and 40% owned by Skyworld
- g Incorporated in 2007 and started commercial operations in August 2008
- h Acquired in 2008; indirectly owned through Precos
- i Acquired in 2008; indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China
- j Incorporated in 2009 and has not yet started commercial operations as of December 31, 2009

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*.

On July 30, 2009, the Parent Company's Board of Directors (BOD) approved the acquisition of 100% ownership interest in Mytel Mobility Solutions, Inc. (Mytel), a domestic company engaged in trading of goods such as mobile phones and other electronic equipment and devices on a wholesale basis (see Note 27.1).

1.2 Status of Operations

(a) Revaluation of Investment Property

Prior to the revaluation of the Group's investment property in 2008, the Group incurred net losses in 2007 and prior years that resulted in significant deficits amounting to P349.0 million as of December 31, 2007. Such losses resulted mainly from the poor results of operations of SBC, Skyworld, LIIP, Interstar and SGTC. In 2008, the Group reported profit for the year of P321.2 million, which together with the effects of the change in the remeasurement of investment property (see Note 12), reduced the balance of the Deficit account by a significant amount allowing the Group to present Retained Earnings as of December 31, 2008 and 2007. In 2009, the Group showed much better results of operations reporting profit for the year of P243.7 million. Management strongly believes that the Group will continue to report positive results and better financial position in the future.

(b) Phasing Out of Manufacturing Business and Related Services of Certain Subsidiaries

On November 23, 2009, the Parent Company's management disclosed in public its plan of phasing out its unprofitable manufacturing business and related services, which include the plastic injection molding parts operations of Kita and SLC, with the expectation that this will positively impact the overall financial performance of the Group. As of December 31, 2009, SLC has ceased its plastic injection manufacturing business (see Note 11).

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
Kita	-	7175 Gil Puyat Ave. cor Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SC	-	17 A. Fernando St., Marulas, Valenzuela, Metro Manila
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
SLC	-	Solid St., LIIP, Mamplasan, Biñan, Laguna
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	Room 1913B, Oriental Manhattan, Nanning City, Guanxi Province, China

1.4 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2009 (including the comparatives for the years ended December 31, 2008 and 2007) were authorized for issue by the Company's BOD on March 30, 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its financial statements, or reclassifies items in the consolidated financial statements (see Note 2.2).

(c) Functional and Presentation Currency

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

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

(d) Reclassification of Accounts

Certain accounts in the 2008 and 2007 consolidated financial statements have been reclassified to conform with the 2009 consolidated financial statement presentation and classification. The details of these reclassifications are as follows:

(i) Advances to suppliers and contractors amounting to P189.9 million and P22.5 million as of December 31, 2008 and 2007, respectively, previously classified under the Trade and Other Receivables account, were reclassified to the Other Current Assets account in the consolidated statement of financial position. These advances pertain to mobilization funds provided to ZTC's suppliers and contractors for use in the construction of the Tri-Towers Condominium project of the subsidiary. The advances do not represent financial assets since there is no contractual right to receive cash or another financial asset from another entity, hence, the advances were reclassified to Other Current Assets (see Note 13).

(ii) Interest-bearing loan amounting to P120.8 million as of December 31, 2007 was reclassified from Other Non-current Assets to Trade and Other Receivables, presented as part of Finance Receivables. The reclassification was made since the interest-bearing loan represents non-derivative financial instrument with a fixed determinable payments that are not quoted in an active market, hence, falls within the definition of a financial asset classified as Loans and Other Receivables (see Note 6).

(iii) Interests received amounting to P31.2 million in 2008 and P19.5 million in 2007 were reclassified from cash flows from operating activities to cash flows from investing activities in the 2008 and 2007 statements of cash flows. The reclassification was made as interests received arose from the Group's excess cash invested in short-term placements.

(iv) Decreases in advances to related parties amounting to P62.3 million in 2008 and P78.2 million in 2007 were reclassified from cash flows from investing activities to cash flows from operating activities in the 2008 and 2007 statements of cash flows. The reclassification was made since the advances, which are noninterest-bearing, were granted to related parties to meet their working capital requirements (see Note 25.5).

(v) Decrease in advances from related parties amounting to P68.3 million in 2008 and increase in advances from related parties amounting to P81.5 million in 2007 were reclassified from cash flows from financing activities to cash flows from operating activities in the 2008 and 2007 statements of cash flows. The reclassification was made since the advances were obtained by the Group for its working capital requirements (see Note 25.5).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) Effective in 2009 that is Relevant to the Group

In 2009, the Group adopted the following new revisions and amendments to PFRS that are relevant to the Group's consolidated financial statements that are effective for annual periods beginning on or after January 1, 2009.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures
PFRS 8	:	Operating Segments
Various Standards	:	2008 Annual Improvements to PFRS

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

(i) PAS 1 (Revised 2007), *Presentation of Financial Statements*. 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 statement of income and a statement of comprehensive income. The statement of comprehensive income includes profit and loss for the period and each component of income and expense recognized outside of profit or loss or the "non-owner changes in equity," which are no longer allowed to be presented in the statements of changes in equity, classified by nature
(e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). A statement showing an entity's financial position at the beginning of the previous period is also required when the entity retrospectively applies an accounting policy or makes a retrospective restatement, or when it reclassifies items in its consolidated financial statements.

The Group's adoption of PAS 1 (Revised 2007) resulted in the presentation of consolidated statement of financial position as of December 31, 2007 as a result of the prior period adjustments as well as the reclassification of certain accounts in 2008 and 2007 to conform with the 2009 consolidated financial statement presentation and classification. The Group has elected to present the consolidated statement of comprehensive income in two statements: consolidated statement of income and consolidated statement of comprehensive income (see Note 2.1).

(ii) PAS 23 (Revised 2007), *Borrowing Costs*. Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The adoption of this new standard did not have significant effects on the consolidated financial statements for 2009, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets.

(iii) PFRS 7 (Amendment), *Financial Instruments Disclosures*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statement of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. The change in accounting policy only results in additional disclosures (see Note 29.2).

(iv) PFRS 8, *Operating Segments*. 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 therefore, adoption of this new standard did not have a material impact on the Group's consolidated financial statements as it merely improved the disclosure of operating segment.

(v) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2008* which became effective in the Philippines in annual periods beginning on or after January 1, 2009. Among those improvements, the following are the amendments relevant to the Group:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39, *Financial Instruments: Recognition and Measurement,* are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Presently, the Group has no financial instruments classified as held for trading; hence, this amendment had no impact on the Group's 2009 consolidated financial statements.

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

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

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

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

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

  This amendment had no material effect on the Group's 2009 consolidated financial statements.

- PAS 23 (Amendment), *Borrowing Costs*. The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment had no significant effect on the 2009 consolidated financial statements.

- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right access to goods or receipt of services. This amendment had no material effect on the Group's 2009 consolidated financial statements.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it related to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Group determined that adoption of this amendment had no material effect on its 2009 consolidated financial statements.

- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value. The adoption had no material effect on its 2009 consolidated financial statements as the Group has no property under construction or development for future use as investment property.

(b) Effective in 2009 but not Relevant to the Group

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to the Group's operations:

PAS 32 and PAS 1 (Amendments)	:	PAS 32 – Financial Instruments Presentation and PAS 1 – Presentation of Financial Statements – *Puttable Financial Instruments and Obligations Arising on Liquidation*
PFRS 1 and PAS 27 (Amendments)	:	PFRS 1 – First Time Adoption of PFRS and PAS 27 – Consolidated and Separate Financial Statements
PFRS 2 (Amendment)	:	Share-based Payment
Philippine Interpretations		
IFRIC 13	:	Customer Loyalty Programmes
IFRIC 16	:	Hedges on a Net Investment in a Foreign Operation

(c) Effective Subsequent to 2009

There are new PFRS, revisions, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2009. Among those pronouncements, management has initially determined the following, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

(i) PAS 27 (Revised), *Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the equity is re-measured to fair value, and a gain or loss is recognized in profit or loss. The Group will apply this revised standard prospectively from January 1, 2010 to all transactions with non-controlling interests.

(ii) PFRS 3 (Revised 2008), *Business Combinations* (effective from July 1, 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply PFRS 3 (Revised 2008) prospectively to all business combinations from January 1, 2010.

(iii) Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a PAS 19 surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually prepay future contributions to its retirement fund.

(iv) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in the consolidated financial statements.

(v) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners* (effective from July 1, 2009). IFRIC 17 clarifies that a dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed in profit or loss. The Group will apply the standard prospectively starting January 1, 2010.

(vi) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its consolidated financial statements as it does not normally extinguish financial liabilities through equity swap.

(vii) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009, or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group will apply the amendment on its 2010 consolidated financial statements but expects it to have no material impact in its consolidated financial statements.

- PAS 7 (Amendment), *Statement of Cash Flows*. PAS 7 amendment states explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the consolidated financial statements since only recognized assets are classified by the Group as cash flow from investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have a material impact on the consolidated financial statements as the Group has not yet entered into a lease agreement that includes both land and building.

- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 consolidated financial statements.

2.3 Basis of Consolidation

The Parent Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the Parent Company, and its subsidiaries as enumerated in Note 1.1, after the elimination of material intercompany transactions. Subsidiaries are all entities over which the Group has the power to control the financial and operating policies. 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 Parent Company, using consistent accounting principles.

The Parent Company accounts for its investments in subsidiaries and non-controlling interest as follows:

(a) Investments in Subsidiaries

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

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

Acquired subsidiaries are accounted for under the purchase method. This involves the measurement 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.

Goodwill (positive) 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 Parent Company's share in the fair value of identifiable net assets of the subsidiary at date of acquisition over acquisition cost.

On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of financial statement at their fair values, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

(b) Transactions with Non-controlling Interests

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

2.4 Segment Reporting

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

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices.

2.5 Financial Assets

Financial assets, which are recognized when the Group becomes a party to the contractual terms of the financial instrument, 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.

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

Currently, the Group's financial assets are categorized as follows:

(a) *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 reporting period which are classified as non-current assets.

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

The Group's financial assets categorized as loans and receivables are presented as Cash and Cash Equivalents, Trade and Other Receivables, Advances to Related Parties and Refundable deposits, presented as part of Other Current Assets, in the statement of financial position. 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.

(b) *Held-to-maturity Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are included in non-current assets in the consolidated statement of financial position, except those maturing within 12 months from the reporting period, which are presented as part of current assets.

Subsequent to initial recognition, the investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

(c) *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 under the Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

All available-for-sale financial assets are measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. When the asset is disposed of or is determined to be impaired the cumulative gain or loss recognized in other comprehensive income is reclassified from revaluation reserve to profit or loss and presented as a reclassification adjustment within other comprehensive income.

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

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the statement of income line item Finance Income and Finance Costs, respectively.

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 reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

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

2.6 Merchandise Inventories and Supplies

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

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

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

2.7 Real Estate Inventories

(a) Land and Land Development Costs

Land and land development costs includes the acquisition cost of raw land intended for future development and sale, including other costs and expenses incurred to effect the transfer of property title are included in this account.

(b) Property Development Costs

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

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

2.8 Property, Plant and Equipment

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

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

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

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

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost and other direct costs (see Note 2.18). The account is not depreciated until such time that the assets are completed and available for use.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.16). The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property 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 statement of income in the year the item is derecognized.

2.9 Investment Property

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs. At the end of the reporting period, investment property is accounted for at fair value as determined annually by independent appraisers (see Note 12). The carrying amounts recognized in the consolidated statement of financial position reflect the prevailing market conditions at the end of the reporting period. Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair Value Gains (Loss) on Investment Property under Other Operating Income in the consolidated statement of income.

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

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

2.10 Financial Liabilities

Financial liabilities include Interest-bearing Loans, Trade and Other Payables, Advances from Related Parties and Refundable Deposits, which are measured at amortized cost using the effective interest rate method.

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

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

Trade and Other Payables and Advances from Related Parties are initially recognized at their fair value and subsequently measured at amortized cost.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.11 Business Combination

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

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

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

2.12 Provisions

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

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

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

2.13 Revenue and Expense Recognition

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

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

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

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

For sales involving multiple element arrangements, customers pay the bundle amount, which includes the LCD television and the internet and/or cable subscriptions. Total selling price is allocated among and/or between the items included in the bundle based on the relative fair values of the separately identifiable components.

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

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

- *Rendering of Services from Internet Subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

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

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

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

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

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

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

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

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

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

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

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

Cost and expenses are recognized in the consolidated statement of income upon consumption of the goods and/or utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.18), on an accrual basis.

2.14 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

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

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

2.15 Foreign Currency Transactions

(a) *Transactions and Balances*

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine pesos. Foreign currency transactions during the 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 statement of income.

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

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

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

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

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

The translation of the financial statements into Philippine pesos 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 are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized for the amount by which the assets' 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 other assets in the cash-generating unit.

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

2.17 Employee Benefits

(a) Post-employment Benefit

Post-employment benefit is provided to employees through a defined benefit plan. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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

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

Actuarial gains and losses are not recognized as an income or 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 profit or loss, unless the changes to the post-employment 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 end of the reporting period 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 end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.18 Borrowing Costs

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

2.19 Income Taxes

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

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

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

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

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

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.20 Equity

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

Additional paid-in capital includes any premiums received on the initial issuance of capital stock and equity adjustments on mergers and acquisitions of entities under common control in previous years. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related profit tax benefits.

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

Revaluation reserves comprise the cumulative translation adjustments and fair value gains (losses) on available-for-sale financial assets.

Retained earnings include all current and prior period results of operations recognized in profit or loss as reported in the consolidated statement of income.

2.21 Earnings (Loss) per Share

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

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of June 30, 2010 and December 31, 2009, the Parent Company does not have potential dilutive shares.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Held-to-maturity Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as held-to-maturity investments the Group evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as available-for-sale financial assets. In such a case, the investments would therefore be measured at fair value, not amortized cost.

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

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's available-for-sale financial assets, management concluded that certain assets are impaired as of December 31, 2009. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Costing of Merchandise Inventories and Supplies

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

(d) *Distinction Between Investment Properties and Owner-managed Properties*

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions 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. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(f) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in Notes 2.12 and 27.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next 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 (P313 million and P83.4 million as at June 30, 2010 and December 31, 2009, respectively, as presented in Note 9) is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipments and accessories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

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

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2009, there is no change in the estimated useful lives of property, plant and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(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 the average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables amounted to P1.2 billion as at June 30, 2010 and December 31, 2009 alike (see Note 6). Impairment losses on trade and other receivables, as also shown in Note 6.

(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. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

(e) *Allocation of Income Among Sale of Goods, Rendering of Services and Other Income*

The Group allocates the income coming from its bundled sales, which is composed of LCD television and internet and/or cable subscriptions, based on the estimated selling price of each revenue component. Management believes that the allocated selling prices represent the relative fair value of each component.

(f) *Reserve for Warranty Costs*

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

(g) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to three years, as of June 30, 2010 and December 31, 2009, is disclosed in Note 22.2.

(h) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-current assets in 2010 and 2009.

(i) *Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates, 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.

As of December 31, 2009, the estimated present value of the retirement benefit obligation amounted to P71.6 million while the fair value of plan assets amounted to P210.7 million (see Note 21.2).

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure.

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for products of a third party (see Note 27.1).

(c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties.

(d) Trading segment is involved in the sale of plastic resins, professional audio and video equipment and peripherals, and mobile phones and LCD televisions.

(e) Investing, financing and others segment is presently engaged in the business of fund investments, automotive and consumer financing and credit extension.

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

4.1 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

4.2 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, 2010 and December 31, 2009 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	Elimination	Total
2010							
SEGMENT RESULTS							
Total revenues	**163,359**	**171,574**	**211,883**	**563,761**	**39,176**	**(28.171)**	**1,121,582**
Profit (loss) for the year	**P 10,069**	**P 6,263**	**P 34,423**	**(P 3,963)**	**P 20,012**	**(P 944)**	**P 65,860**
SEGMENT ASSETS AND LIABILITIES							
Total assets	**P 697,909**	**P 792,041**	**P 6,086,808**	**P 1,042,718**	**P 7,514,145**	**(P 5,804,909)**	**P 10,328,712**
Total liabilities	**P 840,991**	**P 780,149**	**P 2,631,958**	**P 741,745**	**P 692,323**	**(P 3,417,860)**	**P 2,269,306**
2009							
SEGMENT RESULTS							
Total revenues	150,679	245,937	260,655	351,363	60,975	(22,514)	1,047,095
Profit for the year	P 15,623	P 9,989	P 32,286	P 36,927	P 20,214	(P 3,757)	P 111,282
SEGMENT ASSETS AND LIABILITIES							
Total assets	P 777,361	P 822,899	P 6,861,492	P 540,242	P 12,505,255	(P 11,554,661)	P 21,507,249
Total liabilities	P 221,409	P 237,776	P 1,968,163	P 137,107	P 783,963	(P 1,334,370)	P 3,348,418

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of June 30, 2010 and December 31, 2009:

	2010	2009
Cash on hand and in banks	P **377,460,789**	P 318,176,809
Short-term placements	**1,246,976,264**	944,965,336
	P 1,624,437,053	P 1,263,142,145

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 96 days and earn effective interest ranging from 0.5% to 8.0% per annum in 2010 and 2009.

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**2010**	2009
Current:			
Trade receivables	25.1, 25.3	**P 546,720,021**	P 492,346,538
Finance receivables	25.4	**15,733,166**	70,966,344
Other receivables		**95,401,376**	69,467,339
		657,854,563	632,780,221
Allowance for impairment		**(157,626,022)**	(131,494,933)
		P 500,228,541	P 501,285,288

Non-current:			
Trade receivables		**P -**	P 40,460,934
Finance receivables	25.4, 25.7	**232,310,848**	181,693,263
Receivable from sale of land		**7,175,992**	
Cash surrender value of investment in life insurance		**466,728,486**	457,608,611
		P 706,215,326	P 679,762,808

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

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

Interest rates on finance receivables range from 7.5% to 18.0% in 2010 and 2009. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party
(see Note 25.4).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 18). The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 13).

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

The balance of Other receivables as of June 30, 2010 and December 31, 2009 includes interest-bearing cash advances granted by Starworld in 2004 amounting to P23.5 million to a third party which is secured by the third party's stockholdings in a certain company. The proceeds were used to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). In 2008, an agreement with the third party was executed specifying the payment terms for both principal and interest.

Other receivables as at the end of 2008 also included unsecured, noninterest-bearing cash advances granted by Starworld to LARES, amounting to P6.0 million, to finance the latter's operations and expenses pertaining to the arbitration proceedings with the Land Registration Authority (LRA). The P6.0 million advances to LARES were collected in full in 2009 (see Note 27.1).

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 29.1).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following available-for-sale financial assets:

	2010	2009
Current:		
Investments in foreign currency-denominated bonds	**P 322,203,820**	P 305,804,353
Non-current:		
Club shares	**P 8,010,000**	P 9,030,000
Equity securities	**8,580,000**	8,580,000
Others	**5,583,798**	1,396,518
	22,173,798	19,006,518
Allowance for impairment	**(11,004,991)**	(11,004,991)
	P 11,168,807	P 8,001,527

The movements in the allowance for impairment as of June 30, 2010 and December 31, 2009 are as follows:

	Note	**2010**	2009
Balance at beginning of year		**P 11,004,991**	P 11,004,991
Impairment loss during the year	20.2	**-**	-
Balance at end of year		**P 11,004,991**	P 11,004,991

Investments in foreign currency-denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 14).

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 in which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent

Company reclassified its remaining investment in shares of stock of SPI with total cost of P8,580,000 to Available-for-sale Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of June 30, 2010 and December 31, 2009.

Impairment losses recognized on the Group's Available-for-sale Financial Assets are presented as part of Finance Costs in the consolidated statements of income (see Note 20.2).

The fair values of the Group's Investments in Club Shares, which represents proprietary membership club shares, as of December 31, 2009 have been determined directly by reference to published prices in active markets.

8. HELD-TO-MATURITY INVESTMENTS

In 2008, the Group reclassified its investments in foreign currency-denominated bonds (previously classified as available-for-sale financial assets in the 2007 consolidated statement of financial position) as held-to-maturity investments (see Note 7) as allowed under the amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments Disclosures*, which was effective from July 1, 2008. These investments in bonds had a total fair value of P165,185,417 when the reclassification was made on October 31, 2008; maturities range from 6 to 493 months and interest rates range from 8.00% to 11.75%. As of December 31, 2008, these investments had a total carrying amount of P161,289,378 and are presented under the non-current assets section of the 2008 consolidated statement of financial position.

In 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with total carrying amount of P125,173,911 back to Available-for-sale Financial Assets. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153,411,308. The reclassification resulted in a gain of P28,237,397, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 17.1).

	2010	2009
Merchandise and finished goods	**P 338,881,092**	P 62,462,687
Work-in process	**1,366,561**	1,665,047
Raw materials	**15,167,271**	20,252,525
Service parts, supplies and others	**58,636,422**	48,866,353
	414,051,346	133,246,612
Allowance for inventory obsolescence	**(101,021,446)**	(49,805,684)
	P 313,029,900	P 83,440,928

10. REAL ESTATE INVENTORIES

This account is composed of:

	2010	2009
Land and land development costs:		
Land	**P -**	P 60,940,229
Land development costs	**120,628,635**	104,735,932
	120,628,635	165,676,161
Allowance for impairment	**-**	(2,022,800)
	120,628,635	163,653,361
Property development costs:		
Construction in progress and development costs	**979,976,279**	883,227,677
	P 1,100,604,914	P 1,046,881,038

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

The allowance for impairment recognized in 2005 pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2009.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba, Laguna. As of December 31, 2009, lot areas totalling 83 hectares were acquired, 65 hectares of which are located in Phase 1 (already fully-developed as of end of 2008) and 18 hectares are located in Phase 2 (under development as of end of 2008 but were fully-developed in 2009).

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. As of December 31, 2009 and 2008, the construction of Tower 1 which started in 2007, is fully completed. The construction of Towers 2 and 3 has not yet started as of December 31, 2009.

In October 2007, ZTC obtained its permit to sell that would allow pre-selling of 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 the Other Current Assets account in the consolidated statements of financial position (see Note 13).

In addition, the balances of Property Development Costs as of June 30, 2010 and December 31, 2009 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The purpose of the Golden Hill Project is to develop multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, People's Republic of China. Management plans to obtain its permit to sell from the local government of the People's Republic of China by the 2010.

Fil-Dragon's land use right, included as part of the Property Development Costs account, with a carrying amount of RMB 15,215,025 (P416.2 million) as of December 31, 2009 is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009 (see Note 14).

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2010 and 2009 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, 2010												
Cost	P 897,854,682	P 192,509,576	P 63,818,207	P 107,794,580	P 77,458,492	P 1,267,201,085	P 126,504,952	P 67,715,346	P 44,624,488	P 7,656,073	P -	P 2,853,137,481
Accumulated depreciation and amortization	-	(130,492,675)	(57,286,469)	(96,303,836)	(67,111,830)	(551,878,714)	(82,170,386)	(67,715,346)	(40,697,329)	(7,325,061)	-	(1,100,981,646)
Accumulated impairment loss	-		-	-	-	(350,000,000)	-	-	-	-	-	(350,000,000)
Net carrying amount	**P 897,854,682**	**P 62,016,901**	**P 6,531,738**	**P 11,490,744**	**P 10,346,662**	**P 365,322,371**	**P 44,334,566**	**(P 0)**	**P 3,927,159**	**P 331,012**	**P -**	**P 1,402,155,835**
December 31, 2009												
Cost	P 897,854,682	P 241,450,890	P 71,660,520	P 125,625,714	P 78,682,842	P 1,246,598,385	P 121,166,643	P 65,101,920	P 43,145,046	P 16,551,005	P 521,261	P 2,908,358,908
Accumulated depreciation and amortization	-	(143,965,176)	(71,434,898)	(108,671,988)	(65,651,485)	(537,711,107)	(82,068,142)	(61,590,859)	(39,275,825)	(15,244,996)	-	(1,125,614,476)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 62,485,714**	**P 225,622**	**P 16,953,726**	**P 13,031,357**	**P 358,887,278**	**P 39,098,501**	**P 3,511,061**	**P 3,869,221**	**P 1,306,009**	**P 521,261**	**P 1,397,744,432**

No additional impairment losses were recognized in 2010 and 2009 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2009, the fair values of the Group's land and building and improvements amounted to P1.1 billion and P352.6 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.

In 2009, the BOD of SLC approved the phasing out of its plastic injection manufacturing division due to continued unfavorable results of operations. As a result, certain property, plant and equipment with total carrying amounts of P12,090,324 were reclassified as Non-current Assets Held for Sale in the 2009 consolidated statement of financial position. The fair values of these assets amount to P16.0 million. The fair value was determined as the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction.

12. INVESTMENT PROPERTY

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

Prior to 2008, the Group measured its investment property at cost, less accumulated depreciation, amortization and any impairment loss. In 2008, the Parent Company's BOD approved the change in accounting policy for investment property from the cost model to the fair value model in order to present a more reliable and relevant information on the carrying amounts of investment property. The change in accounting policy was applied retrospectively to January 1, 2007, which resulted in an increase in the carrying amounts of investment property as of January 1, 2008 and 2007 by P1.8 billion and P1.7 billion, respectively, and a decrease in the Deficit balance as of January 1, 2008 and 2007 by P885.1 million and P859.3 million, respectively (see Note 23.2). The 2007 consolidated financial statements were accordingly restated as a result of the accounting change.

Prior to 2008, ZTC's investment property was presented as part of Real Estate Inventories, which is stated at net realizable value as of December 31, 2007. In 2008, ZTC's BOD approved the reclassification of those assets as investment property measured using the fair value model. The remeasurement of the assets at fair value resulted in a gain of P15.1 million shown as part of Fair Value Gains on Investment Property under Other Operating Income in the 2008 consolidated statement of income (see Note 18).

The fair values of the Group's investment property as of January 1, 2007 were determined based on the appraisal report obtained by the Group covering the year ended December 31, 2006. The fair values of the Group's investment property as of December 31, 2009 and 2008 were determined based on appraisal reports dated January 11, 2010 and January 22, 2009, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property (after the retrospective application of the change in measurement from the cost model to the fair value model) as presented in the consolidated statements of financial position can be summarized as follows as of June 30, 2010 and December 31 2009:

	Land and Improvements	Buildings and Improvements	Total
2010:			
Balance at beginning of year	P 2,913,748,754	P 860,985,745	P 3,774,734,499
Balance at end of year	**P 2,913,748,754**	**P 860,985,745**	**P 3,774,734,499**
2009:			
Balance at beginning of year	P 2,833,548,651	P 932,655,701	P 3,766,204,352
Fair value gains (losses) on investment property	46,850,000	(37,026,545)	9,823,455
Additions	-	802,138	802,138
Write-off during the year	(73,076)		(73,076)
Balance at end of year	**P 2,880,325,575**	**P 896,431,294**	**P 3,776,756,869**

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 27.4).

13. OTHER ASSETS

The composition of these accounts as of June 30, 2010 and December 31, 2009 is shown below.

	Note	2010	2009
Current:			
Advances to suppliers and contractors	10	**P 137,009,036**	P 118,645,531
Input VAT		**126,758,487**	94,981,851
Creditable withholding taxes		**75,310,421**	65,526,967
Refundable deposits		**6,978,667**	3,368,991
Prepaid expenses		**221,789**	2,636,231
Others		**11,813,442**	13,926,142
		P 358,091,842	P 299,085,713

	Note	2010	2009
Non-current:			
Prepaid insurance	6	**P 8,283,379**	P 11,040,916
Refundable deposits - net		**4,570,383**	9,706,912
Others		**5,369,301**	4,171,529
		P 18,223,063	P 24,919,357

14. INTEREST-BEARING LOANS

The details of the Group's short-term and long-term interest-bearing loans are as follows as of December 31:

	2010	2009
Current	**P 412,459,814**	P 419,206,324
Non-current	**P 272,544,000**	P 135,742,000

The current portion of the Group's interest-bearing loans pertains to U.S. dollar denominated loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 6, 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.75% to 4.62% in 2010 and 2009. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2).

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the People's Republic of China amounting to RMB 20.0 million. These loans are secured by Fil-Dragon's property development cost amounting to RMB 15.2 million (P103.3 million). Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 25.8).

Certain real estate properties of the Group are used as collaterals for the secured interest-bearing loans (see Note 10). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5.0:1. As of December 31, 2009, Fil-Dragon has complied with such loan covenant.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 29.1).

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2010	2009
Trade payables	25.2	**P 71,112,541**	P 99,972,038
Accrued expenses		**123,259,363**	79,681,728
Output tax		**39,831,129**	-
Refundable deposits	16	-	22,532,420
Reserve for warranty costs	27.2	**6,804,990**	12,828,936
Others		**225,904,964**	107,589,826
		P 466,912,987	P 322,604,948

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

Other payables primarily consist of output taxes payable, payroll-related liabilities, and unearned subscription income and other revenues resulting from advances received from customers for various services provided by the Group.

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered to be a reasonable approximation of their fair values (see Note 29.1).

16. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P12,990,096 as at December 31, 2009 that pertain to leases with terms ending in 2010 to 2012. The refundable deposits are remeasured at amortized cost using the effective interest rates ranging from 7.22% to 15.77% at the inception of the lease terms. Interest expense recognized amounted to P1,386,810 in 2009 is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2). The amortized cost of the refundable deposits amounting to P11,096,848 as of December 31, 2009, respectively, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

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 Sales

The details of this account are shown below.

	Notes	**2010**	2009
Merchandise and finished goods at beginning of year	9	**P 458,644,314**	P 174,848,218
Net purchases of merchandise during the year	19, 25.2	**331,829,882**	489,491,602
Cost of goods manufactured:			
Raw materials at beginning of year		**20,252,525**	26,812,225
Work- in-process at beginning of year		**1,665,047**	6,023,600
Net purchases of raw materials during the year		**2,070,571**	54,105,704
Direct labor		**297,330**	4,561,509

Manufacturing overhead	11	**10,250,812**	25,529,474
Raw materials at end of year		**(15,167,271)**	(30,564,393)
Work-in-process at end of year	9	**(1,366,561)**	(5,500,773)
		18,002,453	80,967,346
Goods available for sale		**808,476,649**	745,307,166
Merchandise and finished goods at end of year	9	**(338,881,092)**	(410,850,734)
	19	**P 469,595,557**	P 334,456,432

17.2 Cost of Services

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

	Notes	**2010**	2009
Salaries and employee benefits		**P 24,176,162**	P 23,545,065
Materials and other consumables		**39,674,628**	49,197,942
Outside services	11	**42,139,298**	42,476,678
Depreciation and amortization		**20,526,052**	22,857,062
Communication, light and water	27.3	**20,246,511**	19,162,516
Transponder rental and leased line		**6,652,854**	7,008,174
Rentals		**14,835,461**	13,407,806
Transportation and travel		**17,649,841**	1,551,837
Repairs and maintenance		**7,945,344**	7,885,693
Cable services		**3,348,214**	3,348,214
Others		**18,775,794**	31,218,526
	19	**P 215,970,159**	P 221,659,513

17.3 Cost of Rentals

The details of this account are as follows:

	Note	**2010**	2009
Rentals		**P 4,737,146**	P 4,724,896
Taxes and licenses		**10,526,613**	9,326,993
Security and janitorial services		**2,531,545**	2,411,009
Light and water		**-**	1,893,870
Depreciation and amortization		**1,594,246**	2,152,167
Repairs and maintenance		**2,533,119**	1,297,815
Salaries and employee benefits		**558,561**	553,758
Others		**1,995,163**	1,892,755
	19	**P 24,476,393**	P 24,253,263

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	2010	2009
Increase in cash surrender value of investment in life insurance	6	**P 9,371,693**	P 9,503,498
Others		**15,460,392**	4,564,291
		P 24,832,085	P 14,067,789

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2010	2009
Net purchases of merchandise inventories	17.1	**P 331,829,882**	P 489,491,602
Salaries and employee benefits	21.1	**100,263,481**	96,901,285
Materials, supplies and other consumables		**44,144,318**	107,435,245
Depreciation and amortization		**33,864,207**	40,731,648
Communication, light and water		**30,528,167**	34,577,477
Manpower and other outside services		**60,348,779**	69,082,114
Cost of real estate		**100,461,283**	150,657,950
Rentals	25.3, 27.3	**24,894,388**	22,449,921
Transportation and travel		**25,542,127**	9,564,559
Repairs and maintenance		**18,017,587**	14,317,771
Transponder rental and leased line		**6,652,854**	7,008,174
Taxes and licenses		**29,974,007**	23,926,681
Change in merchandise, finished goods and work-in-process inventories		**125,146,962**	(239,231,857)
Others	15	**105,337,322**	91,843,047
		P 1,037,005,364	**P** 918,755,617

Items classified under the miscellaneous account primarily consist of advertising and promotions, subcontracting services, taxes and licenses, cable services and insurance expenses incurred by the Group.

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

	Note	2010	2009
Cost of services	17.1	**P 215,970,159**	P 221,659,513
Cost of sales	17.2	**469,595,557**	334,456,432
Cost of rentals		**24,476,393**	24,253,263
Cost of real estate sold	17.3	**100,461,283**	150,657,950
General and administrative expenses		**146,472,895**	143,466,920
Selling and distribution costs		**80,029,078**	44,261,539
		P 1,037,005,364	P 918,755,617

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2010	2009
Interest income from banks	4	P 12,132,054	P 13,695,542
Gain on sale of financial assets		2,069,045	
	-		
Others			-
		P 14,201,099	P 13,695,542

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P30.4 million in 2010 and P52.3 million in 2009 are presented as Interest Income under Revenues in the consolidated statements of income, as these were generated from the entities' primary business operations.

20.2 Finance Costs

This account consists of the following:

	Notes	2010	2009
Interest expense arising from loans	14	P 5,359,363	10,206,656
Loss on sale of financial assets		-	8,733,396
Reclassification adjustment – realized loss on sale of financial assets		3,621,231	7,203,714
Foreign currency losses		5,799,459	47,957
		P 14,780,053	P 26,191,723

20.3 Other Gains (Losses)

This account consists of the following:

	Notes	2010	2009
Gain on sale of property and equipment	11	-	62,500
		P -	P 62,500

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 19 and 25.9).

	2010	2009
Short-term benefits	P 96,106,901	P 90,014,129
Retirement benefits	2,867,525	6,002,232
Termination benefits	1,289,055	884,924
	P 100,263,481	P 96,901,285

21.2 Post-Employment Benefit

The Group maintains a tax-qualified, fully-funded and noncontributory post-employment defined benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions.

The amounts of total retirement benefit asset of subsidiaries that have retirement benefit asset recognized in the consolidated statements of financial position are determined as follows:

	2009
Fair value of plan assets	P 165,590,060
Present value of the obligation	46,764,337
Excess of plan assets	118,825,723
Unrecognized actuarial losses (gains)	(72,889,761)
	P 45,935,962

The amounts of retirement benefit obligation of SGI, SBC, ZTC and CBHI that are recognized in the consolidated statements of financial position are determined as follows:

	2009
Fair value of plan assets	P 45,104,609
Present value of the obligation	24,860,158
Excess of plan assets	20,244,451
Unrecognized actuarial losses (gains)	(21,729,047)
Retirement benefit obligation	P 1,484,596

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

	2009
Fair value of plan assets	P 210,694,669
Present value of the obligation	71,624,495
Excess in the plan	P 139,070,174

Experience adjustments arising on plan assets amounted to P8.9 million in 2009, P2.4 million in 2008, P2.5 million in 2007 and P23.4 million in 2006. Experience adjustments on plan liabilities amounted to P9.1 million in 2009 and P14.8 million in 2008. Management has determined that the experience adjustments on plan liabilities in 2007 and 2006 are not significant.

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

	2009
Balance at beginning of year	P 74,604,282
Current service and interest costs	15,235,629
Benefits paid	(1,355,624)
Actuarial gains (losses)	(16,859,792)
Balance at end of year	P 71,624,495

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

	2009
Balance at beginning of year	P 163,517,091
Contributions paid into the plan	27,235,347
Benefits paid by the plan	(1,355,624)
Expected return on plan assets	8,576,874
Actuarial gains (losses)	12,720,981
Balance at end of year	P 210,694,669

Actual returns on plan assets amounted to P13.3 million in 2009. The Group expects to contribute a total of P9.7 million to the post-employment defined benefit plan in 2010.

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

	2009
Government securities	P 191,732,149
Mutual and trust funds	18,962,520
Others	-
	P 210,694,669

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	2009
Current service cost	P 7,494,912
Interest cost	7,740,717
Expected return on plan assets	(8,576,874)
Net actuarial gains recognized during the year	(9,807,179)
Effect of asset limit	15,044,164
	P 11,895,740

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

	2009
Discount rates	**8% - 9%**
Expected rate of return on plan assets	**6%**
Expected rate of salary increases	**9%**

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 21 years for both males and females.

The overall expected long-term rate of return on assets is 6%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

22. TAXES

22.1 Registration with Economic Zone Authorities

(a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.* As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% in 2009 and 35% in 2008 and 2007 RCIT rate is applied to income coming from sources other than Kita's registered activities.

(b) Registration with Philippine Economic Zone Authority (PEZA)

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

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

22.2 Current and Deferred Tax

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

	2009
Consolidated statements of income:	
Current tax expense:	
Regular corporate income tax (RCIT) at 30% in 2009 and 35% in 2008	**P 41,898,822**
Final taxes at 20% and 7.5%	**7,710,318**
Preferential taxes at 5%	**4,336,892**
Minimum corporate income tax (MCIT) at 2%	**865,972**
	54,812,004
Deferred tax expense (income) relating to:	
Origination and reversal of temporary differences	**15,337,458**
Reduction in deferred tax rate in 2009	**-**
Derecognition of deferred tax assets	**-**
Benefit from previously unrecognized MCIT and net operating loss carryover (NOLCO)	**-**
Increase in RCIT rate	**-**
	15,337,458
	P 70,149,462
Consolidated statements of comprehensive income –	
Deferred tax income on changes in fair value of available-for-sale financial assets (see Note 23.1)	**(P 150,000)**

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

	2009
Tax on pretax profit at 30% in 2009 and 35% in 2008 and 2007	**P 100,389,917**
Adjustment for income subject to lower tax rates	**(26,930,042)**
Tax effects of:	
Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets	**(32,929,923)**
Derecognized and unrecognized deductible temporary differences	**15,170,833**

Unrecognized deferred taxes from NOLCO and MCIT	**7,018,190**
Nondeductible expenses and losses	**7,010,443**
Nontaxable income	**(707,241)**
Income (loss) of foreign subsidiary not subject to taxes	**596,279**
Loss on non-recoverable foreign currency losses	**486,363**
Decrease in deferred tax assets due to decrease in applicable tax rates	**-**
Unrecognized benefit from write-off of receivables	**-**
Amortization of goodwill attributable to property, plant and equipment	**-**
Fair value gains of financial assets at fair value through profit or loss	**-**
Deferred tax assets recognized	**-**
Others	**44,643**
	P 70,149,462

The net deferred tax assets of the Parent Company and subsidiaries having a net deferred tax asset position as of June 30, 2010 and December 31, 20009 relate to the following:

	2010	2009
Deferred tax assets:		
Retirement benefit obligation	**P 1,259,470**	P 1,259,470
Allowance for impairment on trade and other receivables	**1,018,217**	1,018,217
Reserve for warranty costs	**956,903**	956,903
Unamortized past service costs	**340,650**	340,650
Unamortized pre-operating expenses	**217,082**	217,082
NOLCO	**107,765**	107,765
Accrued rentals – PAS 17	**4,965**	4,965
Allowance for inventory obsolescence	**-**	-
	P 3,905,052	P 3,905,052
Deferred tax liabilities:		
Retirement benefit asset	**(496,440)**	(496,440)
Deferred rent income – PAS 17	**-**	-
Retirement benefit asset	**(496,440)**	(496,440)
Deferred Tax Assets – net	**P 3,408,612**	P 3,408,612

The net deferred tax liabilities of the subsidiaries which have a net deferred tax liability position as of June 30, 2010 and December 31, 2009 relate to the following:

	2010	2009
Deferred tax assets:		
Allowance for impairment on trade and other receivables	**P 7,818,450**	P 7,818,450

Unamortized past service costs	**804,481**	804,481
Deferred rent expense – PAS 17	**532,188**	532,188
Reserve for warranty costs	**459,875**	459,875
Allowance for inventory obsolescence	**228,443**	228,443
NOLCO	**-**	-
Deferred tax liabilities:		
Fair value gains on investment property	**(730,957,917)**	(730,957,917)
Accumulated depreciation on investment property	**(112,331,376)**	(112,331,376)
Retirement benefit asset	**(9,021,525)**	(9,021,525)
Deferred rent income – PAS 17	**(6,280,044)**	(6,280,044)
Unrealized foreign currency gains	**(566,890)**	(566,890)
Changes in fair value of AFS	**(90,000)**	(90,000)
Deferred Tax Liabilities – net	**(P 849,404,315)**	(P 830,416,148)

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

	2009
Accumulated depreciation on investment property	**P 6,184,084**
Fair value gains on investment property	**5,109,437**
Retirement benefit obligation	**2,795,573**
Deferred rent income – PAS 17	**887,629**
Allowance for impairment on trade and other receivables	**602,140**
Reserve for warranty costs	**(415,140)**
NOLCO	**338,063**
Unamortized preoperating expenses	**(217,082)**
Unamortized past service costs	**114,254**
Unrealized foreign currency losses	**(76,027)**
Allowance for inventory obsolescence	**29,492**
Deferred rent expense – PAS 17	**(14,965)**
	P 15,337,458

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of Available-for-sale Financial Assets.

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:						
2009	P 19,952,531	P -	P -	P -	P 19,952,531	2012
2008	20,437,740	-	6,012,245	-	14,425,495	2011
2007	176,380,777	-	23,700	-	176,357,077	2010
2006	136,073,628	-	88,010,244	48,063,384	-	2009
	P 352,844,676	P -	P 94,046,189	P 48,063,384	P 210,735,103	

MCIT:						
2009	P 716,890	P -	P -	P -	P 716,890	2012
2008	4,174,555	-	3,397,278	-	777,277	2011
2007	1,875,456	-	1,513,791	-	361,665	2010
2006	10,929	-	-	10,929	-	2009
	P 6,777,830	P -	P 4,911,069	P 10,929	P 1,855,832	

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

	2009		2008		2007	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
Accumulated impairment losses on property, plant, and equipment	**P 350,000,000**	**P 105,000,000**	P 350,000,000	P 105,000,000	P 350,000,00	P 122,500,000
NOLCO	**251,122,331**	**75,336,699**	338,611,024	101,583,309	427,656,047	149,679,617
Allowance for impairment of financial assets classified as loans and receivables	**105,528,652**	**30,158,596**	98,284,975	29,485,492	96,360,678	33,726,237
Allowance for inventory obsolescence	**47,404,857**	**14,221,457**	35,322,425	10,596,728	37,804,064	13,231,422
Unrealized foreign currency loss (gain)	**9,943,291**	**2,982,987**	(6,427,131)	(1,928,289)	55,234,775	19,332,171
Fair value loss in investment properties	**5,676,000**	**1,702,800**	-	-	347,373	121,581
Allowance for impairment loss on available-for-sale financial assets	**5,460,000**	**1,638,000**	5,320,000	1,596,000	5,220,000	1,827,000
Unamortized past service cost	**2,077,689**	**623,307**	2,760,646	828,194	3,443,603	1,205,261
Retirement benefit obligation	**1,974,541**	**592,362**	7,558,321	2,267,496	4,480,376	1,568,133
MCIT	**2,015,843**	**1,877,237**	6,054,878	6,054,878	1,616,652	1,616,652
	P 781,203,204	**P 234,133,445**	P 837,485,138	P 255,483,808	P 982,163,568	P 344,808,074

22.3 Optional Standard Deductions

In July 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross sales. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. In 2009 and 2008, the Group opted to claim itemized deductions.

22.4 Change in Applicable Tax Rates

Effective January 1, 2009, in accordance with RA 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

23. EQUITY

23.1 Revaluation Reserves

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

	Note	**2010**	2009
Cumulative translation adjustments:			
Balance at beginning of year		**P 70,778,455**	**P 85,204,455**
Currency differences on translating financial statements of foreign operations	2	**45,327,099**	**(14,426,000)**

	Notes		
		P 116,105,554	P 70,778,455
Fair value gains (losses) on available-for-sale financial assets:			
Balance at beginning of year		(172,432,191)	(298,230,850)
Fair value gains (losses) – net		6,057,827	35,278,701
Gain on reclassification of financial assets	8		28,237,397
Reclassification adjustments for losses recognized in profit or loss		3,621,231	62,432,561
Deferred tax income on changes in fair value of available-for-sale financial assets	22	(-)	(150,000)
Balance at end of year		(162,753,133)	(172,432,191)
		(P 46,647,579)	(P 101,653,736)

23.2 Prior Period Adjustments

The Deficit balances as of January 1, 2009, 2008 and 2007 were restated to reflect the retrospective effects of a change in the Group's accounting policy on investment property and to correct certain misstatements in the consolidated financial statements.

The details of the Group's prior period adjustments are discussed in the succeeding pages.

(a) *Retrospective Effects of Change in Accounting Policy*

The balances of retained earnings (deficit) as of January 1, 2009 were restated to reflect the effects of the change in accounting policy for investment property (see Note 12) made in 2008, as well as the adjustment made in 2009 to reduce the effect of such change as initially reported as fair value gains in 2008 by certain subsidiaries, as summarized below.

	January 1, 2009
Fair value gains – as restated	P -
Adjustment to previously recognized fair value gains	(22,120,000)
Deferred tax effect on fair value gains/adjustment	6,636,000
Reversal of accumulated depreciation based on cost	-
Reversal of accumulated impairment losses	-
Deferred tax effect on accumulated depreciation based on cost	-
Total adjustment to equity arising from change in accounting policy	(P 15,484,000)

(b) Correction of Misstatements

In 2009, the Group recognized prior period adjustments to restate the beginning balance of Retained Earnings as of January 1, 2009 as follows:

- SE Corp. recognized retirement benefit asset at its full amount in its 2008 financial statements. To comply with the provisions of PAS 19, *Employee Benefits*, SE Corp. recognized the limit on the retirement benefit asset previously recognized. A prior period adjustment was also made to recognize the related deferred tax liability on the retirement benefit asset. The prior period adjustment resulted in a decrease in the Retirement Benefit Asset account by P8.0 million and an increase in Deferred Tax Liabilities by P3.4 million.

- Starworld restated the beginning balance of the Retained Earnings account as of January 1, 2009 to record unrecognized management fees amounting to P4.0 million relating to 2008 operations.

- As a result of the Starworld's availment of the tax amnesty under RA 9480, *Tax Amnesty Law*, which covers 2005 and prior taxable years, Starworld recorded a prior period adjustment to the balance of Retained Earnings as of January 1, 2008 and 2007 to reverse long-outstanding liabilities amounting to P9.0 million. The prior period adjustment resulted in an increase in Starworld's Retained Earnings as of January 1, 2008 and 2007 and a decrease in Estimated Liability for Land and Property Development Costs by the same amount. Also, as a result of this adjustment, additional tax expense recorded as part of Taxes and Licenses presented in 2008 consolidated statement of income, relating to the tax amnesty availment amounting to P500,000, was paid on March 5, 2008

24. EARNINGS (LOSS) PER SHARE

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

	2010	2009
Net income (loss) attributable to Equity holders of the parent company	**P 113,845,631**	P 86,563,063
Divided by weighted average shares outstanding:		
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 (loss) per share	**P 0.06**	P 0.05

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of June 30, 2010 and December 31, 2009, hence, diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Rendering Services

	Amount of Transactions	Outstanding Balances
	2009	2009
Sales of goods -		
Sale of mobile phones	P 540,219,872	P 209,161,769
Rendering of services:		
Use of cable infrastructure	145,891,071	73,234,838
Commissions	2,546,771	25,037,739
Management services	1,200,000	-
	P 689,857,714	P 307,434,346

In 2009, the SBC sold majority of its mobile phone inventories to Mytel. The outstanding receivable related to this transaction is shown as part of Trade Receivables under the Trade and Other Receivables account in the 2009 consolidated statement of financial position (see Note 6).

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 51% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivables arising from these transactions are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position.

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Parent Company's majority stockholders. SVC also earns commissions from the sales of Solid Trading Limited (STL), a company also owned by the Parent Company's majority stockholders, to customers in the Philippines (see Note 25.6).

The Parent Company provides general management advisory services to CPD Access Corporation (CPD), a company owned by SGI's majority stockholders. In consideration for such services, the Parent Company receives management fees on a monthly basis as determined based on a management contract mutually agreed upon by both parties. The outstanding balance of as of December 31, 2007 is presented as part of Trade Receivables under the Trade and Other Receivables account in the 2007 consolidated statement of financial position.

25.2 Purchase of Goods and Services

	Amount of Transactions
	2009
Purchase of goods	P 86,676,721
Availment of management services	-
	P 86,676,721

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

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note 17.2) and General and Administrative Expenses (see Note 19), respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions
	2009
Group as lessor	P 584,242
Group as lessee	P 600,000

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

SLC rents portion of a building of a company owned by the Parent Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated statements of income (see Note 19). There are no outstanding liabilities related to this lease in 2009, 2008 and 2007.

25.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 8.0% in 2009 and 2008 and 9.0% in 2007. Total interests earned from these loans amounted to P10.2 million in 2009, P13.3 million in 2008 and P14.1 million in 2007, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The outstanding receivables as of December 31, 2009 are as follows:

	2009
Business loans:	
AA Export and Import Corporation	P 77,061,004
Avid Sales Corporation	46,000,000
	123,061,004
Car loans:	
TCL Sun, Inc.	-
	P 123,061,004

The business loan to AA Export and Import Corporation is originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. These business loans are secured by shares of stock of the borrowing companies which are owned by a related party (see Note 6). Total principal repayments received on the loans amounted to P13,130,401 in 2009 and P15,223,799 in 2008 P5,824,784 in 2007.

SMFI also granted unsecured business loan to Avid Sales Corporation amounting to P80.0 million. There were no principal repayments made in 2009 related to the business loan.

25.5 Advances to and from Related Parties

Certain subsidiaries of the Group grants to and obtains unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances arising from these transactions are presented as Advances to Related Parties and Advances from Related Parties in the consolidated statements of financial position.

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P2.5 million in 2009, P1.5 million in 2008 and P1.6 million in 2007 is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding balances arising from these transactions amounted to P25.0 million, P37.8 million and P31.3 million as of December 31, 2009, 2008 and 2007, respectively, and are included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 25.1).

25.7 Transactions with Solid Company Limited (Hongkong)

SBC purchases mobile phones from Solid Company Limited (Hongkong), a related party owned by the Parent Company's majority stockholders. Total purchases amounted to P547.6 million in 2009 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 17.1). There are no outstanding liabilities relating to these purchases as of December 31, 2009

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hongkong) amounting to P120.8 million which will mature on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollars.

The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account in the 2009 and 2008 consolidated statements of financial position (see Note 6).

25.8 Financial Guarantees

In 2009, Fil-Dragon obtained a secured interest-bearing loan amounting to RMB 20.0 million (P135.7 million) from a local bank in the People's Republic of China to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract will continue in effect until the end of two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon.

25.9 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2009 are as follows (see Note 21.1):

	2009
Short-term benefits	P 23,959,255
Post-employment benefit	1,447,878
	P 25,407,133

26. SIGNIFICANT CONTRACTS AND AGREEMENTS

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

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony and Aiwa products. Under the MOU, Sony authorized the SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of 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 SE Corp. network support fees equal to 1% of net sales for Sony products and 1% or P50,000 per month whichever is higher for Aiwa products. In the first quarter of 2009, SE Corp. and Sony agreed to lower the network support fees to 0.45% of Sony's net sales. Subsequently, SE Corp. and Sony agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

The breakdown of network support fees and in-warranty service fees are shown below.

	Amount of Transactions	Outstanding Balances
	2009	2009
SONY Products	P 37,536,329	P 3,180,606
AIWA Products	601,080	-
	P 38,137,409	P 3,180,606

Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. The outstanding receivables arising from these transactions are included as part of Trade and Other Receivables in the consolidated statements of financial position.

26.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 15). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

27. COMMITMENTS AND CONTINGENCIES

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

27.1 Planned Acquisition of Investments

(a) Mytel Mobility Solutions, Inc.

In 2009, the Parent Company's BOD approved the acquisition of 100% ownership interest in Mytel for a total acquisition price of P500,000 (see Note 1). The acquisition was approved since Mytel's primary purpose is related to the primary businesses of certain subsidiaries. The Company's acquisition of Mytel was consummated on January 10, 2010. The aggregate amount of assets, liabilities as of December 31, 2009 and aggregate amounts of revenues and loss of Mytel for the period July 6, 2009 to December 31, 2009 are as follows:

Assets	P	497,075,396
Liabilities		544,879,192
Revenues		168,220,640
Loss for the period		48,303,796

(b) Land Registration Authority Systems, Inc.

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 was paid in full by LARES in

2008. 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:

(i) P3.0 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(ii) The balance of P3.0 million shall be used for working capital and operating expenses of LARES.

In September 2008, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements. As of December 31, 2009, the amount of P6.0 million was fully collected (see Note 6).

27.2 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:

	2009
Within one year	P 53,682,958
After one year but not more than five years	91,966,581
More than five years	1,810,700
	P 147,460,239

27.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2008, these leases have a remaining term of 11 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2009
Within one year	P 6,664,895
After one year but not more than five years	29,065,715
More than five years	52,122,286
	P 87,852,896

Total rental expense from these operating leases amounted to P7,415,493 each in 2009, are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Note 17.2 and 19).

27.4 Legal Claims

Certain subsidiaries are involved in various litigations, which arose in the normal course of business, described as follows:

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

  (i) A portion of land in Pililla, Rizal, with a carrying value of P55.7 million, subject to expropriation coverage under the Agrarian Reform Act; and,

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

(b) SC is involved in litigation and is subject to certain claims by third parties. Also, a portion of SC's land located in Pamaldan, Cabanatuan City, with a carrying amount of P7.6 million, is subject to expropriation coverage under the Agrarian Reform Act.

(c) SLC is charged for alleged infringement of copyrights and sound recording by a third party.

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

27.5 Estimated Liability for Land and Property Development

As of June 30, 2010 and December 31, 2009, the Group has commitment of about P68.3 million for the fulfillment of projects in the development and marketing of CPIP (see Note 10).

27.6 Purchase Commitments

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 10). The construction of Tower 1 was fully completed in 2008 while the construction of Towers 2 and 3 has not yet started as of December 31, 2009.

27.7 Possible Impact of Government Project

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

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

27.8 Others

There are commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

28.1 Foreign Currency Sensitivity

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

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

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

	2010		2009	
	US Dollar	**Chinese Yuan Renminbi**	US Dollar	Chinese Yuan Renminbi
Financial assets	**P 649,288,116**	**P 89,774,666**	P 637,642,672	P 106,121,412
Financial liabilities	**(423,908,280)**	**(331,104,161)**	(430,290,137)	(215,074,453)
Total net exposure	**P 225,379,836**	**(P 241,329,495)**	P 207,352,535	(P108,953,041)

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in the Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined on the average market volatility in exchange rates, using standard deviation, in the previous 6 months and 12 months at a 99% confidence level.

	2010		2009	
	Reasonably possible change in rate	**Effect in profit before tax**	Reasonably possible change in rates	Effect in profit before tax
Php - USD	**14.89%**	**P 33.5 million**	20.17%	P 41.8 million
Php - RMB	**14.86%**	**(35.8 million)**	19.97%	(21.7 million)
		(P 2.3 million)		P 20.1 million

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

28.2 Interest Rate Sensitivity

At June 30, 2010 and December 31, 2009, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5). All other financial assets and liabilities have fixed rates.

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of and +/+-0.6% in 2010 and -7.21% in 2009. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 6 months and 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 0.6% and 7.21%, profit before tax in 2010 and 2009 would have increased by P8 million and P68.1 million, , respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

28.3 Credit Risk

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

	Notes	**2010**	2009
Cash and cash equivalents	5	**P 1,624,437,053**	P 1,263,142,145
Trade and other receivables - net	6	**1,206,443,867**	1,181,048,096
Available-for-sale financial assets	7	**333,372,627**	313,805,880
Advances to related parties	25	**136,183,248**	504,328,415
		P 3,164,253,547	P 3,262,324,536

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

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

(a) Cash and Cash Equivalents, Held-to-maturity Investments and Available-for-sale Financial Assets

The credit risk for cash and cash equivalents and investments in foreign currency denominated bonds, classified as held-to-maturity investments and available-for-sale financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) Trade and Other Receivables

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

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

	2009
Not more than 3 months	P 296,399,509
More than 3 months but not more than one year	33,817,343
More than one year	96,345
	P 330,313,197

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

28.4 Liquidity Risk

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is 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 June 30, 2010 and December 31, 2009, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans and 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 is equal to the carrying values of the liabilities at the end of the reporting period.

29. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

29.1 Comparison of Carrying Values and Fair Values

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

	Notes	2010 Carrying Values	2010 Fair Values	2009 Carrying Values	2009 Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**P 1,624,437,053**	**P 1,624,437,053**	P 1,263,142,145	P 1,263,142,145
Trade and other receivables - net	6	**1,206,443,867**	**1,206,443,867**	1,181,048,096	1,181,048,096
Advances to related parties	25	**136,183,248**	**136,183,248**	504,328,415	504,328,415
Available-for-sale financial assets –	7				
Investments in bonds		**322,203,820**	**322,203,820**	305,804,353	305,804,353
Golf club shares – net		**2,994,921**	**2,994,921**	6,605,009	6,785,009
Others		**5,583,798**	**5,583,798**	1,396,518	1,396,518
		P 3,297,846,707	**P 3,297,846,707**	P 3,262,324,536	P 3,262,324,536
Financial liabilities					
At amortized cost:					
Interest-bearing loans	14	**P 685,003,814**	**P 685,003,814**	P 554,948,324	P 554,948,324
Trade and other payables	15	**466,912,987**	**466,912,987**	322,604,948	322,604,948
Advances from related parties	25	**161,328,863**	**161,328,863**	201,439,920	201,439,920
Refundable deposits	16	**11,096,849**	**11,096,849**	11,096,848	11,096,848
		P 1,324,342,513	**P 1324,342,513**	P 1,090,090,040	P 1,090,090,040

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

29.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of June 30, 2010 and December 31, 2009.

	Level 1	Level 2	Level 3	Total
June 30, 2010:				
Available-for-sale financial assets	**P 333,372,627**	**P -**	**P -**	**P 333,362,637**
December 31, 2009:				
Available-for-sale financial assets	P 312,409,362	P -	P 1,396,518	P 313,805,880

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

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

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

30. 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 consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

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

	2010	2009
Total liabilities (excluding amounts due to related parties)	**P 2,107,977,492**	P 1,989,675,552
Total equity	**7,936,437,319**	7,663,821,949
Debt-to-equity ratio	**P 0.27 : 1**	P 0.26 : 1

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