



## SOLID GROUP INC.

May 30, 2012

**THE DISCLOSURE DEPARTMENT**

3/F Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati 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

**SECURITIES AND EXCHANGE COMMISSION**

SEC FORM 20

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 1231
7. Registrant's telephone number, including area code: (632) 843-1511
8. Date, time and place of the meeting of security holders: June 28, 2012 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 June 4, 2012
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):

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding</u>
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 ☒ No \_\_\_\_\_

## SOLID GROUP, INC.

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

### NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Stockholders:

Please be advised that the annual meeting of the stockholders of SOLID GROUP, INC. will be held on Thursday, June 28, 2012 at 3:00 p.m. at the Fairways Dining Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

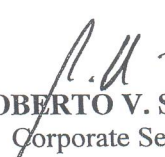
The following is the agenda of the meeting:

1. Call to Order
2. Proof of Notice and Certification of Quorum
3. Approval of Minutes of Previous Stockholders' Meeting
4. Management Report and Audited Financial Statements  
for the Year Ended December 31, 2011
5. Ratification of Previous Corporate Acts
6. Election of Directors
7. Appointment of External Auditors
8. Others Matters
9. Adjournment

For purposes of the meeting, stockholders of record as of April 30, 2012 are entitled to notice and to vote at the said meeting. Registration for the said meeting begins at 2:00 p.m. For convenience in registering your attendance, please have available some form of identification, such as, a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy from, duly signed and accomplished, to the Corporate Secretary at the Solid House Building, 2285 Pasong Tamo Ext., Makati City, no later than June 18, 2012. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required I.D., present a sub-proxy or notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting. Validation of proxies will be held on June 22, 2012 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, May 16, 2012.

  
**ROBERTO V. SAN JOSE**  
Corporate Secretary

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 **June 28, 2012** 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 **June 4, 2012**.

**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 April 30, 2012.

As of record date April 30, 2012, 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%**

The owners of more than 5% of the Company's voting securities as of record date April 30, 2012 are as follows:

(1) Title of Class	(2) Name and address of record owner and relationship with issuer	(3) Name of Beneficial Owner and Relationship with Record Owner	(4) Citizen-ship	(5) No. of Shares Held [record (r) or beneficial (b)]	(6) Percent
Common	AA Commercial, Inc. <sup>1</sup> 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r) <sup>1</sup>	32.03
Common	AV Value Holdings Corporation <u>2285 Pasong Tamo Ext.</u> <u>Makati</u> Affiliate	David S. Lim President of AV Value Holding Corp.	Filipino	499,999,999 (r) <sup>2</sup>	27.45

Common	PCD Nominee Corporation (F) <sup>2</sup> G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	357,355,609 (r) <sup>3</sup>	19.62
Common	Lim, David S c/o Solid House, 2285 Pasong Tamo Ext, Makati	Not applicable	Filipino	179,488,591 (r and b)	9.85

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

*2: AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is President of AV Value Holdings Corporation. Mr. David S. Lim is also the President and Chief Executive Officer of Solid Group Inc.*

*3. To the best knowledge of the Company, there is no beneficial owner of shares 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 record date April 30, 2012 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) % to Total Outstanding
Common	Lim, Elena S.	1,894 (direct)	Filipino	-
Common	Tan, Susan L.	78,645 (direct)	Filipino	-
Common	Lim, David S.	179,488,591 (direct) 499,999,999 (indirect) <sup>2</sup>	Filipino	9.85 27.45
Common	Lim, Vincent S.	71,887,187 (direct) 583,377,817 (indirect) <sup>1</sup> 5,517,000 (indirect) <sup>3</sup>	Filipino	3.95 32.03 0.30
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	5,000 (direct) 3,500,000 (indirect)	Australian	- 0.19
Common	Zabaljauregui, Luis-Maria	5,000 (direct)	Filipino	-
Common	Lim, Joseph	2 (direct)	Filipino	-
Common	Beda T. Manalac	1,001 (direct)	Filipino	-
Common	San Jose, Roberto V.	242,000 (direct)	Filipino	0.01
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	10,000 (direct)	Filipino	-
Common	Corpuz, Mellina T.	-	Filipino	-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,409,290,296 or 77.37% of the total issued and outstanding shares.

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

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

3. These shares were registered in the name of a member of the immediate family sharing the same household.

### **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 shown below:

Position	Name	Years Served in the Same Position	Age	Citizenship
Chairman Emeritus	Elena S. Lim	11	82	Filipino
Chairman of the Board	Susan L. Tan	11	58	Filipino
Director and President and Chief Executive Officer	David S. Lim	11	56	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	10	55	Filipino
Director and Sr. VP and Chief Financial Officer	Vincent S. Lim	2	53	Filipino
Director	Quintin Chua	9	52	Australian
Director	Luis-Maria Zabaljauregui	4	66	Filipino
Director	Joseph Lim	2	86	Filipino
Director and VP for Business Development and Investor Relations	Beda T. Manalac	2	51	Filipino

VP and Treasurer	Lita Joaquin	10	51	Filipino
Corporate Secretary	Roberto V. San Jose	16	70	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	15	43	Filipino
VP and Chief Accounting Officer	Mellina T. Corpuz	6	45	Filipino

The following is a brief write-up on the background and business experience of the Company's directors and executive officers during the last five (5) years:

**Elena S. Lim** is the Chairman Emeritus of the Company and has held such office since May 2001. Prior to that, she was President/ Chief Executive Officer from 1996 to May 2001 and has been 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. Mrs. Lim is married to Joseph Lim.

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

**David S. Lim** is the President and Chief Executive Officer and has held the position since May 2001. He has also been a Director since 1996. He was also Vice-President from 1996 until April 2001. He is currently the President and Chief Executive Officer of Solid Broadband Inc., Chairman of Zen Towers Corporation and Vice-President of Solid Corporation. He was formerly Chairman of Destiny Cable Inc. and VP/Managing Director of Solid Video Corporation. Mr. Lim is the son of Joseph and Elena Lim.

**Jason S. Lim** is the Sr. Vice President and Chief Operating Officer and has held the position since May 2002. He has been a Director since May 1998. He is also currently President of Kita Corporation and Solid Manila Finance Inc. Previously, he was the EVP and Chief Operating Officer of Destiny Cable Inc., and VP/Managing Director of Clark Plastics Manufacturing Corporation and Solid City Industrial and Commercial Corporation. Mr. Lim is the son of Joseph and Elena Lim.

**Vincent S. Lim** was elected Sr. Vice President and Chief Financial Officer on September 2010 and has been a Director since 1996. He was previously the Company's Sr. Vice President for Finance and Investments from June 2006 up to September 2010. Prior to this, he was Sr. VP and Chief Financial Officer of the Company from May 2002 up to June 2006. He simultaneously serves as VP Finance and Treasurer for Solid Laguna Corporation and Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. He has also previously served as VP Finance, Treasurer and Corporate Secretary for Solid Corporation. Mr. Lim is the son of Joseph and Elena Lim.

**Quintin Chua** is an Independent Director and has held the office 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.



**Luis-Maria L. Zabaljauregui** is an Independent Director and has held the office 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 and Vice-President for the Ethanol Project from July 2008 up to June 2011.

**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. During the past five years to the 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 was re-elected Director in June 2010.

**Beda T. Mañalac** is a Director and Vice President for Business Development and Investor Relations and has held the position since September 30, 2010. He 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.

**Lita Joaquin** is the Treasurer and has held the position since May 2002. She was elected director from 2006–2007 and 1997–1998. She also served the Corporation as Comptroller in 1996 to April 2002. She simultaneously acts as Assistant Treasurer of Solid Corporation, Solid Distributors, Inc., Solid Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Ms. Joaquin is the niece of Mr. Joseph Lim.

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

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

**Mellina T. Corpuz** is the Chief Accounting Officer and has held the position since June 2006. Prior to that, she was the Company's Senior Accounting Manager since 2002 and was the Accounting Manager since 1996.

### Nominees for Election

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

Position	Name	Age	Citizenship
Director	Elena S. Lim	82	Filipino
Director	Susan L. Tan	58	Filipino
Director	David S. Lim	56	Filipino
Director	Jason S. Lim	55	Filipino
Director	Vincent S. Lim	53	Filipino
Independent Director	Quintin Chua	52	Australian
Independent Director	Luis-Maria L. Zabaljauregui	66	Filipino
Director	Joseph Lim	86	Filipino
Director	Beda T. Mañalac	51	Filipino

### 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. 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.

### Nomination and Election of Independent Directors

The Company complies with the requirements of SRC Rule 38 on the nomination and election of independent directors. 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. Mr. Vincent S. Lim (Chairman)
2. Mr. Quintin Chua (Vice-Chairman, Independent Director)
3. Mrs. Susan L. Tan
4. Ms. Mellina T. Corpuz (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, Mr. Joseph Lim, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason Lim and Mr. Vincent S. Lim are impleaded as co-defendants.

Other than the foregoing, none of the directors and officers was involved in the past five years up to the date of this Information Statement 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**

*Certain relationships and related party-transactions were disclosed in Note 28 of 2011 annual audited consolidated financial statements as follows:*

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

Mytel Mobility Solutions, Inc. sells mobile phone inventories to Solid Trading Limited.

Solid Broadband Corporation's broadband cable infrastructure is used by Destiny Cable Inc. (DCI), a company owned by the Company's 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 the Company's majority stockholders in accordance with a management contract.

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

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.

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

Solid Electronics Corp. purchases parts and supplies from CPD, a company also owned by the Company's ultimate majority stockholders.

Mytel Mobility Solutions, Inc., My Solid Technologies & Devices Corporation (My Solid) and Solid Broadband Corporation (SBC) purchases mobile phone from Solid Company Limited (Hongkong), a related party owned by the Company's majority stockholders.

Purchases of goods are recorded as part of cost of services and the related outstanding payables are recorded as part of Trade and Other Payables.

#### *Advances to and from Related Parties*

Certain subsidiaries of the Company grants to and obtains unsecured, non-interest bearing cash advances to and from related parties companies owned by Group's ultimate majority stockholders for working capital requirements and other purposes. Outstanding balances arising from these transactions are presented as Advances to and from Related Parties accounts in the consolidated statements of financial position.

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 consolidated 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 consolidated statements of financial position.

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. In 2011, the parties agreed to increase the annual rate to 5% and extend the maturity date for another date. The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account.

In 2011, Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon) obtained loans from companies that are owned by Solid Company Limited (Hongkong). The liability is unsecured and payable on demand. The amount of loan is presented as Interest-bearing loans in the consolidated statement of financial position.

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

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

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

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

#### 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.

(a) Name and Principal Position	(b) Year	Annual Compensation		
		(c) Salary (P)	(d) Bonus (P)	(e) Other Annual Compensation Income (P)
Chairman and four most highly compensated executive officers	2012 (Est.)	16,500,000	2,500,000	1,650,000
	2011	14,680,000	2,028,788	1,450,859
	2010	13,880,000	797,500	938,314
Susan L. Tan	Chairman of the Board			
David S. Lim	Director, President and Chief Executive Officer			
Jason S. Lim	Director, Senior VP and Chief Operating Officer			
Vincent S. Lim	Director, Senior VP and Chief Financial Officer			
Lita L. Joaquin	VP and Treasurer			
All officers and directors as a group unnamed	2012 (Est.)	3,100,000	500,000	2,350,000
	2011	2,740,000	424,293	2,041,401
	2010	1,720,000	145,583	1,669,444

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.

Matters of compensation of directors and executive officers are reviewed by the Company's Compensation Committee. The members of the Compensation Committee are the following:

Chairman: Susan L. Tan  
 Vice Chairman: Vincent S. Lim  
 Members: Luis Ma. L. Zabaljauregui (Ind. Director)  
 Jason S. Lim

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

There are no employment contracts between the registrant and executive officers/ directors nor any compensatory plan or arrangement, including payments to be received from the Registrant, except that directors receive a per diem of Php 25,000 for each meeting actually attended.

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

#### **Warrants and Options Outstanding; Repricing**

The Company has no outstanding warrants and options.

#### **Independent Public Accountants**

The independent public accountant recommended for re-appointment for the current year is Punongbayan & Araullo ("P&A"). P&A was the auditor for the previous fiscal year ended 2011. 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 2011 audit of the Company by P&A is in compliance with SRC Rule 68(3)(b)(iv) which provides that the audit partner-in-charge of the external auditor should be rotated every five (5) years or earlier. Mr. Dalisay Duque was designated audit partner-in-charge for audit years 2008 to 2010. Beginning audit year 2011 and for the current audit year 2012, Ms. Mailene Sigue-Bisnar has been designated as audit partner-in-charge. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual.

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

Chairman: Luis Ma. L. Zabaljauregui (Independent Director)  
 Vice Chairman: Vincent S. Lim  
 Members: Susan L. Tan  
 Quintin Chua (Independent Director)  
 Mellina T. Corpuz (non-director)

## **D. OTHER MATTERS**

### **Action with Respect to Reports:**

The 2011 Audited Financial Statements, as set forth in the accompanying Management Report, and the Minutes of the Annual Stockholders' Meeting will be submitted for stockholder's approval. Copies of the Management Report are attached to this Information Statement.

Approval of the Minutes of the Annual Stockholders' Meeting held on August 16, 2011 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 2010 audited financial statements; (iii) ratification of management's acts; (iv) election of directors; and (v) appointment of external auditors. This does not constitute a second approval of the same matters taken up at the previous annual stockholders' meeting which had already been approved.

The acts and resolutions of the Board and Management for ratification by the stockholders include the following: election of directors and officers; approval of financial statements; opening and closure of bank accounts; merger of subsidiaries; amendment of primary purpose of subsidiary Solid Group Technologies Corp.; and approval of modular residential housing pilot project.

### **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 May 29, 2012.

Solid Group, Inc.

By:

  
Ana Maria A. Katigbak  
Asst. Corporate Secretary



**SOLID GROUP INC.**

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

**For the 2012 Annual Stockholders' Meeting**

---

***A. Audited Financial Statements for Fiscal Year Ended December 31, 2011***

Please refer to the accompanying audited financial statements for 2011 and first quarter unaudited financial report for the quarter ended March 31, 2012.

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

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

On August 16, 2011, the stockholders of the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2011.

There was no change in our existing auditor for the years 2010 and 2011. The Company is in compliance with the Code of Corporate Governance and SEC Memorandum Circular No. 2, series of 2002 requiring the rotation every five (5) years of the audit partner-in-charge of the external auditor.

***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**

**a. Full Fiscal Years**

**Key Performance Indicators**

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

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

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

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

EBITDA was determined by adding back interest expense, depreciation and amortization charges 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 2011, 2010 and 2009 are as follows:**

	<u>December 31, 2011</u>	<u>Dec. 31, 2010</u>	<u>Dec. 31, 2009</u>
Revenue growth	53%	17%	44%
Asset turnover	37%	26%	24%
Operating expense ratio	16%	19%	15%
EBITDA	P660 million	P452 million	P386million
Earnings (loss) per share	P0.24	P0.13	P0.12
Current ratio	2.47	2.81:1	3.94:1
Debt to equity ratio	0.36 : 1	0.29 :1	0.23 : 1

**2011**

The Company posted revenue growth of 53% in 2011 vs. 17% in 2010. Revenues improved by 53% in 2011 as sales of digital products of the distribution segment doubled in 2011.

Asset turnover was 37% in 2011 from 26% in 2010 driven by higher revenues of the distribution segment in 2011.

Operating expense ratio stood at 16% in 2011 and 19% in 2010. The improvement was mainly due to higher revenues for the year.

EBITDA amounted to P660 million in 2011 against P452 million in 2010. The increase was mainly due to higher operating profit from the distribution and real estate segment.

Earnings per share amounted to P0.24 in 2011 versus P0.13 in 2010 mainly from higher net income for the year.

Current ratio stood at 2.47 :1 as of December 31, 2011 and 2.81 : 1 as of December 31, 2010 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.36 : 1 as of December 31, 2011 from 0.29 : 1 as of December 31, 2010 primarily due to higher liabilities.

**2010**

Revenue improved by 17% in 2010 vs. revenue growth of 44% for the same period in 2009. Revenue improved by 17% in 2010 but not as high as in 2009 mainly due to lower real estate sales offset by higher sales of the trading and broadband segments in 2010.

Asset turnover improved to 26% in 2010 from 24% in 2009 principally from higher revenues of the trading and broadband segments.

Operating expense ratio was higher at 19% in 2010 compared with 15% in 2009 mainly due to higher operating expenses of the trading segment.

EBITDA amounted to P452 million in 2010 against P386 million in 2009. The increase was mainly due to higher operating profit during the year.

Earnings per share amounted to P0.13 in 2010 versus P0.12 in 2009 mainly from higher net income in 2010.

Current ratio stood lower at 2.81 :1 as of December 31, 2010 from 3.94 : 1 as of December 31, 2009 mainly due to higher current liabilities from loans incurred for the Golden Hill Project.

Debt to equity ratio was higher at 0.29 : 1 as of December 31, 2010 from 0.23 : 1 as of December 31, 2009 primarily due to higher liabilities.

**2009**

Revenue growth improved to 44% in 2009 vs. 13% in 2008. The improvement was mainly contributed by higher mobile sales of the trading segment, sale of industrial lots of the real estate segment and higher broadband revenues.

Asset turnover was 24% in 2009 compared with 18% 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 P414 million in 2009 against P423 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 P0.15 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 .

**Results of Operations****2011**

Revenues reached P4,149 million in 2011 from P2,709 million in 2010, improving by 53% driven by strong sale of goods of the distribution segment as discussed below.

Sale of goods amounted to P3,135 million in 2011, posting growth of 93% from P1,622 million in 2010 as digital products sales doubled in 2011.

Service revenue amounted to P682 million in 2011 from P694 million in 2010. There was no material change for this account.

Sale of real estate amounted to P 126 million in 2011, down by 39%, from P207 million in 2010. This was principally due the lower sale of industrial lots for the period.

Rental income amounted to P157 million in 2011 from P121 million in 2010, improving by 30% principally due to more space rented out.

Interest income amounted to P47 million in 2011, down by 24% from P63 million in 2010 mainly from lower investible bonds.

Cost of sales, services and rentals amounted to P3,159 million in 2011 or up by 68% from P1,875 million in 2010 as discussed below.

Cost of sales amounted to P2,524 million in 2011 went up from P1,225 million in 2010, or higher by 106% in relation to higher sales.

Cost of services amounted to P499 million in 2011 up by 8% against P460 million in 2010 from higher direct charges on broadband maintenance and depreciation.

Cost of real estate sold amounted to P95 million in 2011, lower by 37% from P151 million in 2010. The decrease was mainly in relation to lower sale of real estate.

Cost of rentals amounted to P39 million in 2011 from P38 million in 2010, up by 3%. The increase was principally due to higher taxes.

Gross profit amounted to P989 million in 2011, improving by 19% from P834 million in 2010 principally due to higher revenues.

Other operating expenses (income) amounted to P412 million in 2011 compared with P421 million in 2010 as explained below.

General and administrative expenses amounted to P366 million in 2011 versus P281 million in 2010, or higher by 30% principally due to higher personnel and warranty costs.

Selling and distribution costs amounted to P278 million in 2011, or an increase of 22% from P227 million in 2010, mainly from higher advertising costs.

Other operating income amounted to P232 million in 2011 versus P87 million in 2010, or an increase of 166%. This was primarily due to higher fair value gains on investment property.

Operating profit improved by 40% to P577 million in 2011 from P412 million in 2010 from P374 million in 2009 mainly from higher gross profit and other operating income.

Other income (charges) amounted to P3.5 million loss in 2011 or an increase of 92% from P46 million loss in 2010 mainly from the following:

Finance costs amounted to P89 million in 2011 and P88 million in 2010 There was no material variance for this account.

Finance income amounted to P61 million in 2011, up by 58% compared with P38 million in 2010 mainly due to the higher interest income from higher placements of the real estate segment,

higher impairment reversals, interest income from financing the condominium units and foreign currency gains.

Other gains amounted to P24 million in 2011 versus P2.7 million in 2010 principally due to income from common usage area.

Income before tax reached P573 million in 2011, or higher by 56% from P366 million in 2010 mainly due to higher operating profit as explained above.

Tax expense amounted to P139 million in 2011 from P122 million in 2010 principally due to higher pre-tax income of certain subsidiaries.

Profit from continuing operations amounted to P434 million in 2011 from P243 million in 2010 mainly from higher operating profit as explained above.

Loss from discontinued operations amounted to P3.8 million loss in 2011 versus P17 million in 2010 as the Company continued to dispose its remaining stocks.

Net income amounted to P430 million in 2011 against P227 million in 2010 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P439 million in 2011 against P229 million in for the same period of 2010 as discussed above.

Loss attributable to minority interest amounted to P9 million in 2011 compared with P2 million in 2010 primarily due to expenses of the Golden Hill project in Nanning, China.

## **2010**

Revenues reached P2,709 million in 2010, or higher by 17% from P2,323 million in 2009 as discussed below.

Sale of goods amounted to P1,622 million in 2010, improving by 44 % from P1,124 million in 2009 mainly due higher volume of sales of the digital products.

Service revenue amounted to P694 million in 2010, up by 10% from P630 million in 2009 principally higher broadband revenues as a result of increase in subscribers in 2010.

Sale of real estate amounted to P207 million in 2010, or lower by 43% from P360 million in 2009. This was principally due the lower sale of industrial lots for the period.

Rental income amounted to P121 million in 2010 or slightly higher by 8% from P112 million in 2009 principally due to more space rented out.

Interest income amounted to P63 million in 2010, or down by 34% from P95 million 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 P1,875 million in 2010, or higher by 15% from P1,624 million in 2009 as discussed below.

Cost of sales went up to P1,225 million in 2010, or higher by 44%, from P849 million in 2009 in relation to the increase in sales.

Cost of services amounted to P460 million in 2010 or almost the same level as last year of P458 million in 2009.

Cost of real estate sold amounted to P151 million in 2010, or a decrease of 46% from P282 million in 2009. The decrease was mainly in relation to lower sale of real estate.

Cost of rentals amounted to P38 million in 2010 from P33 million in 2009, or an increase of 15%. The increase was principally due to higher outside services

Gross profit amounted to P834 million in 2010 from P699 million in 2009, up by 19% principally due to higher revenues and higher gross margin of the broadband segment.

Other operating expenses (income) amounted to P421 million in 2010 against P325 million in 2009 as explained below.

General and administrative expenses amounted to P281 million in 2010, or up by 12% from P250 million in 2009 principally due to higher provision for warranty and others.

Selling and distribution costs amounted to P227 million in 2010, up by 134% from P97 million in 2009 mainly from higher commissions, personnel and advertising costs .

Other operating income amounted to P87 million in 2010, increasing by 283% compared with P22 million gains in 2009. This was primarily due to higher fair value gains on investment property and return on retirement plan assets in 2010

Operating profit amounted to P412 million in 2010 from P374 million in 2009, or a increase of 10%, mainly from higher gross profit.

Other income (charges) amounted to P46 million loss in 2010 against P82 million loss in 2009 mainly from the following:

Finance costs amounted to P88 million in 2010, decreasing by 26% against P118 million in 2009 mainly due to the losses on the sale of foreign currency denominated financial assets in 2009, none in 2010. Impairment losses on financial assets was however incurred in 2010.

Finance income amounted to P38 million in 2010, up by 12% compared with P34 million in 2009 mainly due to the reversal of impairment losses on trade and other receivables.

Other gains amounted to P2.7 million in 2010 versus P1.6 million in 2009 principally due to income from common usage area.

Income before tax reached P366 million in 2010, or higher by 25% from P292 million in 2009 mainly due to higher operating profit as explained above.

Tax expense amounted to P122 million in 2010 from P63 million in 2009 principally due to higher pre-tax income of certain subsidiaries.

Profit from continuing operations amounted to P243 million in 2010 from P228 million in 2009 as a result of the higher profit in 2010.

Loss from discontinued operations amounted to P17 million in 2010 vs. P2 million in 2009. In 2009, the Company started phasing out its plastic injection manufacturing business which had been incurring operating losses.

Net income amounted to P226 million in 2010 and 2009 despite higher revenues in 2010 mainly due to higher tax expense in 2010.

Net income attributable to equity holders of the parent amounted to P229 million in 2010 against P203 million in 2009 as discussed above.

Net income attributable to minority interest amounted to P2.6 million in 2010 compared with P23 million income in 2009 due to higher earnings of the industrial estate business of the Company in 2009.

## **2009**

Revenues reached P2,323 million in 2009, achieving growth of 44% from P1,608 million in 2008 as discussed below.

Sale of goods reached P1,124 million in 2009, posting growth of 49% from P754 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 P1,624 million in 2009, or an increase of 46% from P1,111 million in 2008 as discussed below.

Cost of sales amounted to P849 million in 2009, was higher by 38%, from P616 million in 2008 is 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.

Cost 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 P699 million in 2009 from P497 million in 2008, improving by 41% due to improved margins from the sale of digital products.

Other operating expenses (income) amounted to P325 million in 2009 against P229 million in 2008 as explained below.

General and administrative expenses amounted to P250 million in 2009, or slightly lower by 3% from P258 million in 2008.

Selling and distribution costs amounted to P97 million in 2009, up by 38% from P70 million in 2008 mainly from higher advertising and warranty expenses.

Other operating income –net amounted to P22 million in 2009 compared with P98 million in 2008 or lower by 77% principally from lower fair value gains on investment property.

Operating profit amounted to P374 million in 2009 from P267 million in 2008, or higher by 40%, mainly from higher gross profit as explained above.

Other income (charges) amounted to P82 million loss in 2009 against P38 million income in 2008 mainly from the following:

Finance income amounted to P34 million in 2009, down by 52% compared with P72 million in 2008 primarily due to decrease in foreign currency gains.

Finance costs amounted to P118 million in 2009, increasing by 196% against P40 million in 2008 mainly due to loss on sale of investments offset by lower interest expenses.

Income before tax was lower at P292 million in 2009 from P305 million in 2008 mainly due to the higher finance costs as explained above.

Tax expense amounted to P63 million in 2009 from P5 million in 2008 due to higher taxable income of certain subsidiaries.

Net income from continuing operations amounted to P228 million in 2009 against P300 million in 2008 due to the higher tax expense as discussed above.

Loss from discontinued operations – net of tax amounted to P2 million in 2009 from P31 million in 2008.

Net income amounted to P226 million in 2009 against P268 million in 2008 due to the higher tax expense as discussed above.

Net income attributable to equity holders of the parent amounted to P203 million in 2009 against P268 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.

## **Financial Position**

### **2011**

Cash and cash equivalents amounted to P 1,720 million as of December 31, 2011, higher by 6% from P1,620 million as of December 31, 2010. Cash was mainly provided from operating activities primarily from advances from customers for the Golden Hill project.

Trade and other receivables reached P1,137 million as of December 31, 2011 against P890 million as of December 31, 2010, or higher by 28% principally due to higher trade receivables on digital products. 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 P128 million as of December 31, 2011 from P201 million as of December 31, 2010 principally due to collections received.

Financial assets at fair value through profit or loss amounted to P70 million as of December 31, 2011 versus none in 2010 principally from purchases made during the year.

Available-for-sale financial assets amounted to P51 million as of December 31, 2011 from P138 million as of December 31, 2010 mainly due to disposals made for the period.

Merchandise inventories and supplies - net amounted to P564 million as of December 31, 2011, increasing by 44% compared with P392 million as of December 31, 2010 mainly from higher merchandise and finished goods for digital products.



Real estate inventories amounted to P1,675 million as of December 31, 2011 from P1,328 million as of December 31, 2010 or higher by 26%. The increase was mainly due to additions made during the period offset by real estate sold.

Other current assets amounted to P267 million as of December 31, 2011 and P242 million as of December 31, 2010 or a increase of 10% principally from higher prepaid expenses, creditable withholding taxes and advances to suppliers and contractors.

Total current assets reached P5,616 million as of December 31, 2011 from P4,813 million as of December 31, 2010 as discussed above.

Non-current trade and other receivable amounted to P669 million as of December 31, 2011 from P640 million as of December 31, 2010 mainly from higher cash surrender value of investment in life insurance.

Non-current available-for-sale financial assets stood at P7 million as of December 31, 2011 against P12.1 million as of December 31, 2010 from decline in market value of shares.

Property, plant and equipment amounted to P1,386 million as of December 31, 2011 from P1,396 million as of December 31, 2010. There was no material variance for this account.

Investment property amounted to P3,864 million as of December 31, 2011 and P3,646 million as of December 31, 2010 mainly due to fair value gains on investment property.

Retirement benefit assets amounted to P79 million as of December 31, 2011 from P74 million as of December 31, 2010, increasing by 6% from contributions during the year.

Deferred tax assets - net amounted to P69 million as of December 31, 2011, higher by 113% from P32 million December 31, 2010 mainly on higher valuation allowance on inventories.

Other non-current assets amounted to P22 million as of December 31, 2011 or a decrease of 10% from P24 million as of December 31, 2010 from lower prepaid insurance.

Total non-current assets amounted to P6,100 million as of December 31, 2011 from P5,828 million as of December 31, 2010 as discussed above.

Total assets reached P11,716 million as of December 31, 2011 from P10,642 million as of the December 31, 2010 as discussed above.

Interest-bearing loans amounted to P779 million as of December 31, 2011 from P989 million as of December 31, 2010 due to payments made to banks as they matured in 2011 offset with loan availments from related parties.

Trade and other payables amounted to P592 million as of December 31, 2011 against P413 million as of December 31, 2010, up by 43% primarily due to higher trade payables.

Customers' deposits amounted to P686 million in 2011 principally due to deposits received for the pre-selling of the condominium units of Golden Hill Project in Nanning, China.

Advances from related parties amounted to P107 million as of December 31, 2011 from P168 million as of December 31, 2010 due to repayments of advances made during the year.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2011 and December 31, 2010. There was no movement for this account.

Income tax payable amounted to P43 million as of December 31, 2011 from P44 million as of December 31, 2010. There was no material change for this account.

Total current liabilities stood at P2,277 million as of December 31, 2011, higher by 33% from P1,713 million as of December 31, 2010 as explained above mainly due to higher trade and other payables.

Non-current refundable deposits amounted to P15.6 million as of December 31, 2011 and P15.2 million as of December 31, 2010. There was no material change for this account.

Retirement benefit obligation amounted to P6 million as of December 31, 2011 from P3 million December 31, 2010 mainly from unpaid contributions.

Deferred tax liabilities -net amounted to P861 million as of December 31, 2011 and P798 million as of December 31, 2010, higher by 8% principally arising from fair value gains on investment property for the year.

Total non-current liabilities amounted to P882 million as of December 31, 2011 from P817 million as of December 31, 2010.

Total liabilities amounted to P3,160 million as of December 31, 2011 from P2,530 million as of December 31, 2010 as discussed above.

Capital stock stood at P2,030 million as of December 31, 2011 and December 31, 2010.

Additional paid-in capital amounted to P4,641 million as of December 31, 2011 and December 31, 2010.

Treasury shares amounted to P115 million as of December 31, 2011 and December 31, 2010.

Revaluation reserves amounted to P29 million loss as of December 31, 2011 from P43 million loss as of December 31, 2010 due to other comprehensive income for the period consisting mainly reclassification adjustments for losses recognized in profit or loss for the year and translation currency adjustments, offset by fair value losses on available for sale financial assets .

Retained earnings amounted to P1,623 million as of December 31, 2011 from P1,183 million as of December 31, 2010 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P8,151 million as of December 31, 2011 from P7,697 million as of December 31, 2010 due to higher retained earnings.

Minority interest amounted to P405 million as of December 31, 2011 from P414 million in December 31, 2010 primarily from share of minority in net loss.

Total equity amounted to P8,556 million as of December 31, 2011 from P8,111 million as of December 31, 2010.

## **2010**

Cash and cash equivalents amounted to P 1,620 million as of December 31, 2010, up by 28% from P1,263 million as of December 31, 2009. Cash was provided from financing activities mainly from proceeds of loans and used for operating activities for increase in receivables and inventories. It was also used for investing activities for acquisition of property and equipment.

Trade and other receivables reached P890 million as of December 31, 2010 against P501 million as of December 31, 2009, or higher by 78% principally due to higher receivable for digital

products. 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.

Available-for-sale financial assets stood at P138 million as of December 31, 2010, lower by 55% from P305 million as of December 31, 2009, mainly from disposal of financial assets.

Merchandise inventories and supplies - net amounted to P392 million as of December 31, 2010, increasing by 371% compared with P83 million as of December 31, 2009 mainly from higher merchandise and finished goods for digital products.

Real estate inventories amounted to P1,328 million as of December 31, 2010 from P1,046 million as of December 31, 2009 or higher by 27%. The increase was mainly due to additions made during the period offset by real estate sold.

Advances to related parties amounted to P201 million as of December 31, 2010 from P504 million as of December 31, 2009 or lower by 60%. 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 2010.

Other current assets amounted to P242 million as of December 31, 2010, lower by 19% compared with P299 million as of December 31, 2009 principally from lower advances to suppliers and contractors.

Total current assets amounted to P4,813 million as of December 31, 2010 from P4,003 million as of December 31, 2009 as discussed above.

Non-current trade and other receivable amounted to P640 million as of December 31, 2010 from P679 million as of December 31, 2009 or lower by 6% mainly from lower non-current trade receivables on real estate sales and finance receivables.

Non-current available-for-sale financial assets stood at P12 million as of December 31, 2010 against P8 million as of December 31, 2009 or an increase of 51% mainly from club shares.

Property, plant and equipment amounted to P1,396 million as of December 31, 2010 from P1,397 million as of December 31, 2008 or almost the same level.

Investment property amounted to P3,646 million as of December 31, 2010 from P3,617 million as of December 31, 2009 or almost the same level.

Retirement benefit assets amounted to P74 million as of December 31, 2010 or higher by 63% from P45 million December 31, 2009 mainly from contributions made during the year and lower unrecognized actuarial gains.

Deferred tax assets - net amounted to P32 million as of December 31, 2010, higher by 20% from P27 million as of December 31, 2009 principally due to tax assets from temporary differences.

Other non-current assets amounted to P24 million as of December 31, 2010 and December 31, 2009 or almost the same level.

Total non-current assets amounted to P5,828 million as of December 31, 2010 from P5,801 million as of December 31, 2009 as discussed above.

Non-current assets held for sale stood at none as December 31, 2010 from P12 million as of end of 2009 mainly due to sale of equipment.

Total assets reached P10,642 million as of December 31, 2010 from P9,817 million as of the December 31, 2009 as discussed above.

Interest-bearing loans amounted to P989 million as of December 31, 2010, higher by 136% from P419 million as of December 31, 2009 principally due to additional loan availments for the Golden Hill Project in China offset by payment of some loans.

Trade and other payables amounted to P413 million as of December 31, 2010 against P322 million as of December 31, 2009, up by 28% primarily due to higher trade and accrued expenses, refundable deposits, advances from customers.

Advances from related parties amounted to P168 million as of December 31, 2010, down by 16% 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 December 31, 2010 and December 31, 2009. There was no movement for this account.

Income tax payable amounted to P44 million as of December 31, 2010 from P4 million as of December 31, 2009 mainly from due to higher provision for income tax.

Total current liabilities stood at P1,713 million as of December 31, 2010, higher by 69% from P1,016 million as of December 31, 2009 as explained above mainly due to higher interest bearing loans and trade and other payables.

Non-current interest bearing loans amounted to none as of year-end 2010 from P135 million as of December 31, 2009 principally due to reclassification of non-current loans to current for financial statement presentation since Fil-Dragon was not able to comply with the debt to equity ratio covenant.

Non-current refundable deposits amounted to P15 million as of December 31, 2010, higher by 37% from P11 million as of December 31, 2009 mainly from additional deposits received.

Retirement benefit obligation amounted to P3 million as of December 31, 2010, up by 110% from P1 million as of December 31, 2009 mainly from higher present value of obligation.

Deferred tax liabilities -net amounted to P798 million as of December 31, 2010 from P825 million as of December 31, 2009 from lower accumulated fair value gains as of year-end.

Total non-current liabilities amounted to P817 million as of December 31, 2010 from P973 million as of December 31, 2009.

Capital stock stood at P2,030 million as of December 31, 2010 and December 31, 2009.

Additional paid-in capital amounted to P4,641 million as of December 31, 2010 and December 31, 2009.

Treasury shares amounted to P115 million as of December 31, 2010 and December 31, 2009.

Revaluation reserves amounted to P43 million loss as of December 31, 2010 from P101 million loss as of December 31, 2009 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale financial assets and reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P1,183 million as of December 31, 2010 from P954 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 P7,697 million as of December 31, 2010 from P7,409 million as of December 31, 2009 due to higher retained earnings.

Minority interest amounted to P414 million as of December 31, 2010 from P417 million in December 31, 2009 primarily from share of minority in net income.

## **2009**

Cash and cash equivalents amounted to P 1,263 million as of December 31, 2009, up by 13% from P1,118 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 P501 million as of December 31, 2009 against P313 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 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.

Available-for-sale financial assets amounted to P305 million as of December 31, 2009 from P63 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 P83 million as of December 31, 2009, down by 62% compared with P219 million as of December 31, 2008 mainly from lower merchandise and finished goods.

Real estate inventories amounted to P1,046 million as of December 31, 2009, or an increase of 1% from P1,036 million as of December 31, 2008. There was no material variance for this account.

Advances to related parties amounted to P504 million as of December 31, 2009 from P192 million as of December 31, 2008. The increase of 162% was mainly due to additional advances.

Other current assets amounted to P299 million as of December 31, 2009, lower by 21% compared with P376 million as of December 31, 2008 principally from decrease in advances to suppliers and contractors.

Total current assets amounted to P4,003 million as of December 31, 2009 from P3,319 million as of December 31, 2008 as discussed above.

Non-current trade and other receivable amounted to P679 million as of December 31, 2009, increasing by 2% from P666 million as of December 31, 2008. There was no material variance for this account.

Non-current available-for-sale financial assets stood at P8 million as of December 31, 2009 against P7 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 P161 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 P1,397 million as of December 31, 2009 or lower by 3% from P1,438 million as of December 31, 2008. There was no material variance for this account.

Investment property amounted to P3,617 million as of December 31, 2009 from P3,631 as of December 31, 2008. There was no material variance for this account.

Retirement benefit assets amounted to P45 million as of December 31, 2009 from P36 million as of December 31, 2008. The increase was primarily due to contributions for the year.

Deferred tax assets - net amounted to P27 million as of December 31, 2009 from P26 million and December 31, 2008. There was no material variance for this account.

Other non-current assets amounted to P24 million as of December 31, 2009, down by 11% from P28 million December 31, 2008 mainly from lower prepaid expenses and refundable deposits.

Total non-current assets amounted to P5,801 million as of December 31, 2009 from P5,997 million as of December 31, 2008 as discussed above.

Non-current assets held for sale amounted to P12 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 P9,817 million as of December 31, 2009 from P9,317 million as of the December 31, 2008 as discussed above.**

Interest-bearing loans amounted to P419 million as of December 31, 2009, down by 9% from P458 million as of December 31, 2008 mainly due to payments during the period.

Trade and other payables amounted to P322 million as of December 31, 2009 against P352 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 P201 million as of December 31, 2009 from P111 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 P68 million as of December 31, 2009 and December 31, 2008. There was no movement for this account.

Income tax payable amounted to P4 million as of December 31, 2009 from P6 million as of December 31, 2008 mainly from payments made.

Total current liabilities stood at P1,016 million as of December 31, 2009, higher by 2% from P998 million as of December 31, 2008 as explained above mainly due to higher advances from related parties.

Non-current interest-bearing loans amounted to P135 million as of December 31, 2009 vs. none in 2008 mainly due to availment of loan.

Non-current refundable deposits amounted to P11 million as of December 31, 2009 from P9 million as of December 31, 2008. The increase was mainly due to additional deposits during the year.

Retirement benefit obligation amounted to P1 million as of December 31, 2009 from P7 million as of December 31, 2008 mainly due to payments made.

Deferred tax liabilities -net amounted to P825 million as of December 31, 2009 from P812 million as of December 31, 2008. The increase was principally in relation to additional fair value gains.

Total non-current liabilities amounted to P973 million as of December 31, 2009 from P829 million as of December 31, 2008.

Capital stock stood at P2,030 million as of December 31, 2009 and December 31, 2008.

Additional paid-in capital amounted to P4,641 million as of December 31, 2009 and December 31, 2008.

Treasury shares amounted to P115 million as of December 31, 2009 and December 31, 2008.

Revaluation reserves amounted to P101 million loss as of December 31, 2009 from P213 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 P954 million as of December 31, 2009 from P751 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 P7,409 million as of December 31, 2009 from P7,095 million as of December 31, 2008 due to higher retained earnings and lower revaluation reserves.

Non-controlling interest amounted to P417 million as of December 31, 2009 from P394 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 P7,827 million as of December 31, 2009 from P7,489 million as of December 31, 2008.

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

For the years ended December 31, 2011, 2010 and 2009, 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 P11.7 billion, P10.64 billion in 2010 from P9.82 billion in 2009. It increased its equity to P8.56 billion in 2011, P8.11 billion in 2010 and P7.83 billion in 2009. It has maintained a low debt to equity ratio of 0.36 in 2011, 0.29:1 in 2010 and 0.23 : 1 in 2009 and even a lower gearing percentage (computed as financial debt divided by total equity) of 9% in 2011, 12% in 2010, 7% in 2009 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 2.47 in 2011, 2.81:1 in 2010, 3.94 : 1 in 2009 (from 3.33 : 1 in 2008).

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, 2011 was a net income of P430.3 million from P226.70 million in 2010 and P226.28 Million in 2009, translating to

earnings per share of P0.24 and P0.13 in 2011 and 2010, respectively. The improved earnings was driven by strong revenue growth of the digital products of the distribution segment as it doubled sales in 2011, as well as fair value gains on investment property (P191 million in 2011 versus P27 million in 2010) of the real estate segment.

The Group expects its consolidated operations to continue to be profitable in the future as robust growth is forecasted in its distribution 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 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. The construction of Tower 2 of the condominium project started in 2011 and will contribute revenues in 2012. In May 2011, the Company launched the My|House brand and sold prefabricated modular houses, using the modular building technology of Yahgee Modular House Co., Ltd. of China. In 2012, the Company will start its pilot project of modular residential housing units in Tandang Sora, Quezon City called My|Rainbow Place using the same modular insulated steel housing technology.

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

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

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

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

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

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

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

The Company estimates capital expenditures for the year 2012 to amount to P650 million for the construction of Tower 2 of our condominium project, real estate development and upgrade of the broadband infrastructure. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

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.



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 (Kita) and Solid Laguna Corporation (SLC). SLC ceased the operations of the plastic injection manufacturing business at the end of 2009. Also, Kita ceased the operations of its injected plastics manufacturing business in December 2010. 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 was no significant income or loss that did not arise from continuing operations.

**vii. Causes for any Material Changes from Period to Period**

In 2008, the Company's board of directors approved the change in accounting policy for investment property from the cost model to the fair value model in order to present reliable and more relevant information on the carrying amounts of investment property. As a result, the carrying values of investment property increased by P888.7 million as of January 1, 2008. The retained earnings balance as of January 1, 2008 also increased by P833 million. The Company also reported fair value gains on investment property of 61 million in 2008.

**Balance Sheet Items (2011 vs. 2010)**

***Increase or decrease of 5% or more in the financial statements***

*Cash and cash equivalents – 6% increase to P1,720 million from P1,620 million*

Mainly provided by financing activities from proceeds of loans, by operating activities primarily from increase in receivables and inventories and by investing activities for acquisition of property and equipment. This account stood at 15% as a percentage of total assets for years 2011 and 2010.

*Trade and other receivables – 28% increase to P1,137 million from P890 million*

Mainly from increase in trade receivables on digital products. This account stood at 10% and 8% as a percentage of total assets in 2011 and 2010, respectively.

*Advances to related parties – 36% decrease to P128 million from P201 million*

Principally due to collections made. This account stood at 1% and 2% as a percentage of total assets in 2011 and 2010, respectively.

*Financial Assets through fair value and loss – 100% amounting to P70 million*

Financial assets at fair value through profit or loss amounted to P70 million as of December 31, 2011 versus none in 2010 principally from purchases made during the year.

*Available-for-sale financial assets – 62% decrease to P51 million from P138 million*

The decrease was principally due to disposal of financial assets. This account stood at .4% and 1% as a percentage of total assets in 2011 and 2010, respectively.

*Merchandise inventories and supplies – 43% increase to P564 million from P393 million*

Mainly from higher merchandise and finished goods for digital products. This account represented 5% and 4% as a percentage of total assets in 2011 and 2010, respectively.

*Real estate inventories – 26% increase to P1,675 million from P1,328 million*

The increase was mainly due to additions made during the period offset by real estate sold. This account stood at 14% and 12% as a percentage of total assets in 2011 and 2010, respectively.

*Other current assets – 10% increase to P267 million from P242 million*

Principally from higher prepaid expenses, creditable withholding taxes and advances to suppliers and contractors. This account stood at 2% as a percentage of total assets for years 2011 and 2010.

*Non-current trade and other receivables – amounted to P670 million as of December 31, 2011, increasing by 4% from P640 million as of December 31, 2010.*

Mainly from higher cash surrender value of investment in life insurance. This account stood at 6% as a percentage of total assets for years 2011 and 2010.

*Non-current available-for-sale financial assets – 35% decrease in 2011 to P7.8 million from 12.11 million*

Mainly from lower market value of shares. This account stood at 0.067% and 0.11% as a percentage of total assets for 2011 and 2010.

*Property, plant and equipment – P1,386 million from P1,396 million*

There was no material variance for the account. This represented 12% and 13% as a percentage of total assets in 2011 and 2010.

*Investment property – P3,864 million from P3,646 million*

Mainly from fair value gains for the year. This account stood at 33% and 34% as a percentage of total assets in 2011 and 2010, respectively.

*Retirement benefit assets -6% increase to P79 million from P75 million*

Increase was mainly from contributions made during the year. This represented .67% and 1% of total assets in 2011 and 2010, respectively.

*Deferred tax assets –net - 113% increase to P70 million from P32 million*

Mainly due to higher valuation allowance on inventories. This account stood at 0.60% and 0.30% of total assets in 2011 and 2010 respectively.

*Other non-current assets – 10% decrease in 2011 to P22 million from P24 million.*

Mainly due to lower prepaid insurance. This represented 0.19% and 0.23% as percentage to total assets in 2010 and 2009 respectively.

*Interest-bearing loans – 21% decrease in 2011 to P779 million from P989 million*

Mainly due to payments made to banks as they matured in 2011 offset with loan availments from related parties. This account stood at 7% and 9% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

*Trade and other payable –43% increase to P592 million from P413 million*

Increase was due to higher trade and accrued expenses, refundable deposits. This account stood at 5% and 4% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

*Customers' Deposit – increase to P686 million from P29 million*

Principally due to deposits received for the pre-selling of the condominium units of Golden Hill Project in Nanning, China.

*Advances from related parties – 36% decrease to P107 million from P169 million*

The decrease was due to payments made during the period. This account stood at 0.9% in 2011 and 2% in 2010 as a percentage of total liabilities and equity.

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

There was no movement during the period. This account represented .58% and 0.6% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

*Income tax payable –amounted to P43 million as of December 31, 2011 from P44 million as of December 31, 2010.*

No material change. This account was pegged at 0.37% and 0.41% of the total liabilities and equity in 2011 and 2010, respectively.

*Non-current refundable deposits – 2% increase to P15.6 million from P15.2 million*

No material change. This represented 0.13% and 0.14% of the total liabilities and equity in 2011 and 2010, respectively.

*Retirement benefit obligation – 96% increase to P6 million from P3 million*

Mainly from unpaid contributions. This account stood at 0.05% and 0.03% of the total liabilities and equity in 2011 and 2010, respectively.

*Deferred tax liabilities – 8% increase to P861 million from P798 million*

The increase was principally from higher accumulated fair value gains on investment property for the year. This account stood at 7% and 8% as a percentage of total liabilities and equity for 2011 and 2010, respectively.

*Capital stock – no change*

This account stood at 17% and 19% of total liabilities and equity for 2011 and 2010, respectively.

*Additional Paid-In-Capital – no change*

This account represented 39 and 44% of total liabilities and equity for 2011 and 2010, respectively.

*Treasury Shares – no change*

This account represented 10% and 1% of total liabilities and equity for 2011 and 2010, respectively.

*Revaluation reserves – 33% decrease to (P29 million) from (P43 million)*

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale

financial assets and reclassification adjustments for losses recognized in profit or loss. This account stood at .25%% and 0.41% total liabilities and equity in 2011 and 2010, respectively.

*Retained earnings – 37%% increase to P1.623 million from P1.183 million*

As a result of net income during the period. This account stood at 13.85% and 11% of total liabilities and equity in 2011 and 2010, respectively.

### **Balance Sheet Items (2010 vs. 2009)**

#### ***Increase or decrease of 5% or more in the financial statements***

*Cash and cash equivalents – 28% increase to P1,620 million from P1,263 million*

Mainly provided by financing activities from proceeds of loans, by operating activities primarily from increase in receivables and inventories and by investing activities for acquisition of property and equipment. This account stood at 15% and 13% as a percentage of total assets in 2010 and 2009, respectively.

*Trade and other receivables – 78% increase to P890 million from P501 million*

Mainly from increase in trade receivables on digital products. This account stood at 8% and 5% as a percentage of total assets in 2010 and 2009, respectively.

*Available-for-sale financial assets – 55% decrease to P138 million from P305 million*

The decrease was principally due to disposal of financial assets. This account stood at 1% and 3% as a percentage of total assets in 2010 and 2009, respectively.

*Merchandise inventories and supplies – 371% increase to P392 million from P83 million*

Mainly from higher merchandise and finished goods for digital products. This account represented 4% and 1% as a percentage of total assets in 2010 and 2009, respectively.

*Real estate inventories – 27% increase to P1,328 million from P1,046 million*

The increase was mainly due to additions made during the period offset by real estate sold. This account stood at 12% and 11% as a percentage of total assets in 2010 and 2009, respectively.

*Advances to related parties - 60% decrease in 2010 to P201 million from P504 million*

Mainly from additional advances. This account stood at 2% and 5% as a percentage of total assets in 2010 and 2009, respectively.

*Other current assets – 19% decrease in 2010 to P242 million from P299 million*

Principally from lower advances to suppliers and contractors. This account stood at 2% and 3% as a percentage of total assets in 2010 and 2009, respectively.

*Non-current trade and other receivables – amounted to P640 million as of December 31, 2010, decreasing by 6% from P679 million as of December 31, 2009.*

Mainly from lower non-current trade receivables on real estate sales and finance receivables. This account stood at 6% and 7% as a percentage of total assets in 2010 and 2009, respectively.

*Non-current available-for-sale financial assets – 51% increase in 2010 to P12 million from P8 million*

Mainly from higher club shares. This account stood at 0.11% and 0.08% as a percentage of total assets for 2010 and 2009.

*Property, plant and equipment – P1,396 million from P1,397 million*

There was no material variance for the account. This represented 13% and 14% as a percentage of total assets in 2010 and 2009.

*Investment property – P3,646 million from P3,617 million*

There was no material variance for this account. This account stood at 34% and 37% as a percentage of total assets in 2010 and 2009, respectively.

*Retirement benefit assets -63% increase to P74 million from P45 million*

Increase was mainly from contributions made during the year and lower unrecognized actuarial gains. This represented 1% and 0.46% of total assets in 2010 and 2009, respectively..

*Deferred tax assets –net - 20% increase to P32 million from P27 million*

Mainly due to tax assets from temporary differences. This account stood at 0.30% and 0.27% of total assets in 2010 and 2009 respectively.

*Other non-current assets – no change*

There was no material variance for this account. This represented 0.23% and 0.25% as percentage to total assets in 2010 and 2009 respectively.

*Non current assets held for sale - 100% decrease to none from P12 million*

Non-current assets held for sale stood at none in 2010 and P12 million as of December 31, 2009 mainly due to sale of equipment

*Interest-bearing loans – 136% increase to P989 million from P419 million*

Principally due to additional loan availments for the Golden Hill Project in China offset by payment of some loans. This account stood at 9% and 4% as a percentage of total liabilities and equity in 2010 and 2009, respectively.

*Trade and other payable –28% increase to P413 million from P322 million*

Increase was due to higher trade and accrued expenses, refundable deposits. This account stood at 4% and 3% as a percentage of total liabilities and equity in 2010 and 2009, respectively.

*Advances from related parties – 16% decrease to P168 million from P201 million*

The decrease was due to payments made during the period. This account stood at 2% as a percentage of total liabilities and equity for both years.

*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 P44 million as of December 31, 2010 from P4 million as of December 31, 2009*

Mainly from higher provision for income tax. This account was pegged at 0.41% and 0.05% of the total liabilities and equity in 2010 and 2009, respectively.

*Non-current interest-bearing loans – 100% decrease to none from P135 million*

The decrease was mainly due to reclassification of non-current loans to current for financial statement presentation since Fil-Dragon was not able to comply with the debt to equity ratio covenant. This accounted for the 1% of the total liabilities and equity in 2009.

*Non-current refundable deposits – 37% increase to P15 million from P11 million*

The increase was mainly due to additional deposits received during the year. This represented 0.14% and 0.10% of the total liabilities and equity in 2010 and 2009, respectively.

*Retirement benefit obligation – 110% increase to P3 million from P1 million*

Mainly from higher present value of obligation. This account stood at 0.02% and 0.01% of the total liabilities and equity in 2010 and 2009, respectively.

*Deferred tax liabilities – 3% decrease to P798 million from P825 million*

The decrease was principally from lower accumulated fair value gains. This account stood at 8% as a percentage of total liabilities and equity for both years.

*Capital stock – no change*

This account stood at 19% of total liabilities and equity in both years.

*Additional Paid-In-Capital – no change*

This account represented 44% of total liabilities and equity in both years.

*Treasury Shares – no change*

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

*Revaluation reserves – 57% increase to (P43) million from (P101) million*

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale financial assets and reclassification adjustments for losses recognized in profit or loss. This account stood at 0.41% and 1% total liabilities and equity in 2010 and 2009, respectively.

*Retained earnings – 24% increase to P1.183 million from P954 million*

As a result of net income during the period. This account stood at 11% and 9% of total liabilities and equity in 2010 and 2009, respectively.

#### **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 2% 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 P679 million as of December 31, 2009, increasing by 2% from P666 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 P161 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 – P3,617 million from P3,631 million*

There was no material variance for this account. This account stood at 37% and 39% 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 - 2% increase to P27 million from P26 million*

There is no material variance for this account.. This account stood at 0.27% and 0.28% 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 P12 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 avilment 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 P825 million from P812 million*

The increase was principally in relation to additional fair value gains. No material variance for this account. This account stood at 8% and 9% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

*Capital stock – no change*

This account stood at 21% and 22% of total liabilities and equity in 2009 and 2008, respectively.

*Additional Paid-In-Capital – no change*

This account represented 47% and 50% 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 – 27% increase to P954 million from P751 million*

As a result of net income during the period. This account stood at 10% and 8% of total liabilities and equity in 2009 and 2008, respectively.

### **Income Statement Items (2011 vs. 2010)**

#### ***Increase or decrease of 5% or more in the financial statements***

*Sale of goods – 93% increase to P3135 million from P1,622 million*

Primarily because digital products sales doubled in 2011. As a percentage of total revenues, this account represents 76% and 60% in 2011 and 2010, respectively.

*Service revenue –P682 million from P694 million*

No material change.

*Sale of real estate – 39% decrease to P126 million from P207 million*

Principally due to lower sale of industrial lots. As a percentage of total revenues, this account decreased to 16% in 2011 and 8% in 2010.

*Rental income – 30% increase to P157 million from P121 million*

Principally due to more space rented out. As a percentage of total revenues, this account represents 4% for years 2011 and 2010.

*Interest income – 24% decrease to P47 million from P63 million*

Mainly from lower investible bonds. As a percentage of total revenues, this account declined to .01% in 2011 and 2% in 2010.

*Cost of sales - 106% increase to P,2524 million from P1,225 million*

Mainly in relation to higher sales. As a percentage of total sales, this account represented 61% in 2011 and 45% in 2010.

*Cost of services - increase to P499 million from P460 million*

Principally from higher direct charges on broadband maintenance and depreciation. This account increased to 12% in 2011 and 17% in 2010 as a percentage of total revenues.

*Cost of real estate sold – 37% decrease to P95 million from P151 million*

The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account decreased to 2% in 2011 and 6% in 2010.

*Cost of rentals – 3% increase to P39 million from P38 million*

Primarily from higher taxes. This account represents 1% as a percentage of total revenues for years 2011 and 2010.

*General and administrative expenses – 30% increase to P366 million from P281 million*

Principally due to higher provision for warranty and others. As a percentage of total revenues, this account decreased to 9% in 2011 from 10% in 2010.

*Selling and distribution costs – 22% increase to P278 million from P227 million*

Mainly from higher commissions, personnel and advertising costs. This account remained at 7% and 8% of total revenues for 2011 and 2010, respectively.

*Other operating income –net - 166% increase to P232 million from P87 million*

Primarily due to higher fair value gains on investment property. This account increased to 6% in 2011 from 3% in 2010 as a percentage of total revenues.

*Finance income – 58% increase to P61 million from P38 million*

Primarily due to the higher interest income from higher placements of the real estate segment, higher impairment reversals, interest income from financing the condominium units and foreign currency gains.. This account remained at 1% of total revenues for 2011 and 2010.

*Finance costs – P89 million from P88 million*

There was no material variance for this account

*Other gains - net –P24 million to P2.7 million*

Primarily due to income from common usage area. This account increased to 0.59% in 2011 from 0.10% in 2010 as a percentage of total revenues.

### **Income Statement Items (2010 vs. 2009)**

#### ***Increase or decrease of 5% or more in the financial statements***

*Service revenue – 10% increase to P694 million from P630 million*

Mainly due to higher broadband revenues. As a percentage of total revenues, this account represents 26% and 27% in 2010 and 2009, respectively.

*Sale of goods – 44% increase to P1,622 million from P1,124 million*

Mainly due to higher volume of sales of the digital products. As a percentage of total revenues, this account represents 60% and 48% in 2010 and 2009, respectively.

*Rental income – 8% increase to P121 million from P112 million*

Primarily due to more space rented out. As a percentage of total revenues, this account represents 4% and 5% in 2010 and 2009, respectively.

*Sale of real estate – 43% decrease to P207 million from P360 million*

Primarily due to lower sale of industrial lots. As a percentage of total revenues, this account decreased to 8% in 2010 from 16% in 2009.

*Interest income – 34% decrease to P63 million from P95 million*

Mainly from lower yield of the placements. 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. As a percentage of total revenues, this account declined to 2% in 2010 from 4% in 2009.

Cost of sales, services and rentals amounted to P1,875 million in 2010, or an increase of 15% from P1,624 million in 2009 as discussed below:

*Cost of services - increase to P460 million from P458 million*

No material change for this account. This account increased to 17% in 2010 from 20% in 2009 as a percentage of total revenues.

*Cost of sales - 44% increase to P1,225 million from P849 million*

Mainly in relation to higher sales. As a percentage of total sales, this account represented 45% in 2010 from 37% in 2009.

*Cost of rentals – 15% increase to P38 million from P33 million*

Primarily from higher outside services. This account represents 1% as a percentage of total revenues for both years.

*Cost of real estate sold – 46% decrease to P151 million from P282 million*

The decrease was mainly in relation to lower sale of industrial lots. As a percentage of total revenues, this account decreased to 6% in 2010 from 12% in 2009.

*General and administrative expenses – 12% increase to P281 million from P250 million*

Principally due to higher provision for warranty and others. As a percentage of total revenues, this account decreased to 10% in 2010 from 11% in 2009.

*Selling and distribution costs – 134% increase to P227 million from P97 million*

Mainly from higher commissions, personnel and advertising costs. This account remained at 4% of total revenues for both years.

*Other operating income –net - 283% increase to P87 million from P22 million*

Primarily due to higher fair value gains on investment property and return on retirement plan assets in 2010. This account increased to 3% in 2010 from 1% in 2009 as a percentage of total revenues.

*Finance income – 12% decrease to P38 million from P34 million*

Primarily due to reversal of impairment losses on trade and other receivables. This account remained at 1% of total revenues for both years.

*Finance costs – 26% decrease to P88 million from P118 million*

Mainly due to losses on sale of foreign currency denominated financial assets. This account decreased to 3% in 2010 from 5% in 2009 as a percentage of total revenues.

*Other gains - net – 71% increase to P3 million from P2 million*

Primarily due to income from common usage area. This account increased to 0.10% in 2010 from 0.07% in 2009 as a percentage of total revenues.

**Income Statement Items (2009 vs. 2008)**

***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 27% and 37% in 2009 and 2008, respectively.

*Sale of goods – 49% increase to P1,124 million from P754 million*

Mainly due to higher volume of sales of the digital products. As a percentage of total revenues, this account represents 48% and 47% in 2009 and 2008, respectively.

*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 16% 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 P1,624 million in 2009, or an increase of 46% from P1,111 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 20% from 27% in 2009 and 2008, respectively, as a percentage of total revenues.

*Cost of sales - 38% increase to P849 million from P616 million*

Mainly in relation to higher sales. As a percentage of total sales, this account represented 37% in 2009 from 38% 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 12% in 2009 from 1% in 2008 as a percentage of total revenues.

*General and administrative expenses – 3% decrease to P250 million from P258 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 – 38% increase to P97 million from P70 million*

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

*Other operating income –net - 77% decrease to P22 million from P98 million*

Principally due to lower fair value gains on investment property. This account decreased to 1% in 2009 from 6% in 2008 as a percentage of total revenues.

*Finance income – 52% decrease to P34 million from P72 million*

Primarily due to decrease in foreign currency gains. This account decreased to 1% in 2009 from 5% in 2008 as a percentage of total revenues.

*Finance costs – 196% increase to P118 million from P40 million*

Mainly due to loss on sale of investments offset by lower interest expenses. This account increased to 5% in 2009 from 2% in 2008 as a percentage of total revenues.

Tax expense amounted to P63 million in 2009 from P5 million in 2008 due to higher taxable income of certain subsidiaries.

## **b. Interim Period**

### **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 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Revenue growth	29%	45%
Asset turnover	37%	31%
Operating expense ratio	14%	19%
EBITDA	P126 million	P89 million
EPS	P0.04	P0.03
Current ratio	2.39 : 1	2.46 : 1
Debt to equity ratio	0.38 : 1	0.35 : 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, 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 improved by 29% for the first quarter of 2012 vs. 45% for the same period in 2011 principally due to higher revenues of the distribution segment on digital product sales for the first quarter.

Asset turnover was 37% for the first quarter of 2012 from 30% for the same period in 2011 driven by higher revenues of the broadband segment for the period.

Operating expense ratio was 14% and 19% for the first quarter of 2012 and 2011, respectively. The improvement was mainly due to higher revenues of related support services and broadband segments for the period.

EBITDA amounted to P126 million for the first quarter of 2012 against P89 million for the same period in 2011. The increase was mainly due to higher operating profit during the period.

Earnings per share amounted to P.04 in 2012 versus P0.03 in 2011 mainly from higher net income for the period.

Current ratio stood at 2.39:1 as of March 31, 2012 and 2.46 : 1 as of December 31, 2011 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.38 : 1 as of March 31, 2012 from 0.35 : 1 as of December 31, 2011 primarily due to higher liabilities.

### Results of Operations

Revenues improved by 29% in the first quarter of 2012 reaching P1,087 million from P844 million for the same period in 2011 principally from growth of the distribution segment from digital product sales.

Sale of goods amounted to P840 million for the first quarter of 2012, improving by 40% from P599 million for the same period in 2011 mainly due higher volume of sales of the digital products.

Service revenue went up to P186 million for the first quarter of 2012, increasing by 10% for the same period in 2011 of P169 million principally from higher warehousing and distribution service income.

Rental income amounted to P36 million for the first quarter of 2012 from P37 million for the same period in 2011. There was no material change for this account.

Sale of real estate amounted to P12 million for the first quarter of 2012, down by 57% from P28 million for the same period in 2011. This was principally due to there was yet no reported sale of industrial lot for 2012.

Interest income amounted to P11 million for the first quarter of 2012, or higher by 11% from P10 million for the same period in 2011 mainly from higher investible funds.

Cost of sales, services and rentals amounted to P847 million for the first quarter of 2012, or an increase of 35% from P627 million for the same period in 2011 as discussed below.

Cost of sales amounted to P697 million for the first quarter of 2012, higher by 45%, from P479 million for the same period of last year in relation to the increase in sales.

Cost of services amounted to P126 million for the first quarter of 2012 from P109 million for the same period of 2011, up by 16% mainly due to increase in outside services.

Cost of rentals amounted to P15 million for the first quarter of 2012 from P16 million for the same period in 2011, declining by 6% principally due to lower rental expenses.

Cost of real estate sold amounted to P8 million for the first quarter of 2012, down by 61% from P21 million for the same period of 2011. The decline was mainly in relation to lower sale of real estate.

Gross profit amounted to P239 million for the first quarter of 2012 from P216 million for the same period in 2011. The increase was principally due to higher revenues.

Other operating expenses (income) amounted to P143 million for the first quarter of 2012 against P144 million for the same period in 2011 as explained below.

General and administrative expenses amounted to P90 million for the first quarter of 2012 from P89 million for the same period of 2011. There was no material change for this account.

Selling and distribution costs amounted to P63 million for the first quarter of 2012, down by 6% from P67 million for the same period of 2011 mainly from lower advertising costs.

Other operating income amounted to P11 million for the first quarter of 2012 from P12 million for the same period in 2011 principally due to lower other income.

Operating profit amounted to P96 million for the first quarter of 2012 from P72 million for the same period in 2011, improving by 33% from higher gross profit.

Other income (charges) amounted to P6 million gain for the first quarter of 2012 against P4 million loss for the same period in 2011 mainly from the following:

Finance income amounted to P22 million for the first quarter of 2012 compared with P13 million for the same period of last year. The increase was principally due to higher fair value gains on financial assets and interest income from placements of the real estate segment.

Finance costs amounted to P15 million for the first quarter of 2012 compared with P18 million in 2011 primarily due to lower interest expenses.

Other gains amounted to P171 for the first quarter of 2012 versus 87 thousand in 2011.

Income before tax reached P102 million for the first quarter in 2012, or increasing by 52% from P67 million for the same period in 2011 mainly due to higher operating profit as explained above.

Tax expense amounted to P37 million for the first quarter of 2012 from P22 million in 2011 due to higher pre-tax income.

Net income amounted to P65 million for the first quarter of 2012 against P45 million for the same period in 2011 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P65.8 million for the first quarter of 2012 against P47.6 million in for the same period of 2011 as discussed above.

Net income attributable to minority interest amounted to P23.5 thousand for the first quarter of 2012 compared with P2.57 million loss in 2011 primarily due to expenses of the Golden Hill project in Nanning, China in 2011.

#### Financial Position

Cash and cash equivalents amounted to P 1,942 million as of March 31, 2012, up by 13% from P1,720 million as of December 31, 2011. Cash was mainly provided from operating activities primarily from decrease in advances to related parties and increase in trade and other payables.

Financial assets at fair value through profit or loss amounted to P88 million as of March 31, 2012 versus P70 million in 2011 principally from purchases made during the year.

Trade and other receivables reached P1,240 million as of March 31, 2012 against P1,137 million as of December 31, 2011, or an increase of 9% principally due to higher trade receivables on the broadband segment. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.



Advances to related parties amounted to P60 million as of March 31, 2012 from P128 million as of December 31, 2011 principally from collections made during the year.

Available-for-sale financial assets amounted to P55 million as of March 31, 2012 from P51 million as of December 31, 2011 mainly due to fair value gains during the period.

Merchandise inventories and supplies - net amounted to P571 million as of March 31, 2012, compared with P564 million as of December 31, 2011. There was no material variance for this account.

Real estate inventories amounted to P1,657 million as of March 31, 2012 from P1,675 million as of December 31, 2011. There was no material variance for this account.

Other current assets amounted to P258 million as of March 31, 2012 compared with P267 million as of December 31, 2011. There was no material variance for this account.

Total current assets reached P5,873 million as of March 31, 2012 from P5,616 million as of December 31, 2011 as discussed above.

Non-current trade and other receivable amounted to P660 million as of March 31, 2012 from P669 million as of December 31, 2011. There was no material variance for this account.

Non-current available-for-sale financial assets stood at P8 million as of March 31, 2012 against P7 million as of December 31, 2011. There was no material variance for this account.

Property, plant and equipment amounted to P1,392 million as of March 31, 2012 from P1,386 million as of December 31, 2011. There was no material variance for this account.

Investment property amounted to P3,864 million as of March 31, 2012 and December 31, 2011.

Retirement benefit assets amounted to P79 million as of March 31, 2012 and December 31, 2011.

Deferred tax assets - net amounted to P69 million as of March 31, 2012 and December 31, 2011.

Other non-current assets amounted to P26 million as of March 31, 2012 or an increase of 20% from P22 million as of December 31, 2011 from higher refundable deposits.

Total non-current assets amounted to P6,101 million as of March 31, 2012 from P6,100 million as of December 31, 2011 as discussed above.

Total assets reached P11,975 million as of March 31, 2012 from P11,716 million as of December 31, 2011 as discussed above.

Interest-bearing loans amounted to P769 million as of March 31, 2012 from P779 million as of December 31, 2011. There was no material variance for this account.

Trade and other payables amounted to P793 million as of March 31, 2012 against P592 million as of December 31, 2011, higher by 34% primarily due to higher trade payable, advances from customers and other payables.

Customers' deposits amounted to P681 million as of March 31, 2012 versus P686 million as of December 31, 2011. There was no material variance for this account.

Advances from related parties amounted to P89 million as of March 31, 2012 from P107 million as of December 31, 2011 due to payments made.

Estimated liability for land and land development costs amounted to P 68 million as of March 31, 2012 and December 31, 2011. There was no movement for this account.

Income tax payable amounted to P59 million as of March 31, 2012 from P43 million as of December 31, 2011 mainly from due to higher tax expenses.

Total current liabilities stood at P2,461 million as of March 31, 2012, higher by 8% from P2,277 million as of December 31, 2011 as explained above mainly due to higher trade and other payables.

Non-current refundable deposits amounted to P17 million as of March 31, 2012 from P15 million as of December 31, 2011 from additional deposits.

Retirement benefit obligation amounted to P6 million as of March 31, 2012 and December 31, 2011.

Deferred tax liabilities -net amounted to P861 as of March 31, 2012 and December 31, 2011.

Total non-current liabilities amounted to P884 million as of March 31, 2012 from P882 million as of December 31, 2011.

Total liabilities amounted to P3,346 million as of March 31, 2012 from P3,160 million as of December 31, 2011.

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

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

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

Revaluation reserves amounted to P22 million loss as of March 31, 2012 from P29 million loss as of December 31, 2011 due to other comprehensive income for the period consisting of, fair value gains on available for sale financial assets, reclassification adjustments for losses recognized in profit or loss and currency differences on translating financial statements of foreign operations

Retained earnings amounted to P1,689 million as of March 31, 2012 from P1,623 million as of December 31, 2011 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P8,223 million as of March 31, 2012 from P8,151 million as of December 31, 2011 due to higher retained earnings.

Minority interest amounted to P405 million as of March 31, 2012 and December 31, 2011.

Total equity amounted to P8,628 million as of March 31, 2012 from P8,556 million as of December 31, 2011.

- 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.

- iii. 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.

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

The Company estimates capital expenditures for the year 2012 to amount to P650 million for the construction of Tower 2 of our condominium project, real estate development and upgrade of the broadband infrastructure. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

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.

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 (Kita) and Solid Laguna Corporation (SLC). SLC ceased the operations of the plastic injection manufacturing business at the end of 2009. Also, Kita ceased the operations of its injected plastics manufacturing business in December 2010. Kita and SLC were expected to reduce about 1% and 5% of revenues, respectively.

On May 11, 2012, the Company disclosed that Solid Broadband Corporation (SBC), a wholly-owned subsidiary of the Company entered into an agreement with Skycable Corporation (Skycable) for the sale and purchase of its wired and satellite assets and broadband/internet subscriber base. Under this agreement, Skycable will acquire all of SBC's assets and broadband/ internet subscribers. SBC is expected to reduce about 10% of revenues.

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

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

- vii. Causes for any Material Changes from Period to Period

Below is the discussion of the material changes for each account:

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

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

*Cash and cash equivalents – 13 % increase to P1,942 million from P1,720 million*

Mainly provided from operating activities primarily from decrease in advances to related parties and increase in trade and other payables. This account stood at 16% in the first quarter of 2012 and 15% as of December 31, 2011 as a percentage of total assets.

*Financial assets at fair value through profit or loss – 25% increase to P88 million from P70 million*

Principally from purchases made during the year. This account stood at 1% as of March 31, 2012 and December 31, 2011 as a percentage of total assets.

*Trade and other receivables – 9% increase to P1,240 million from P1,137 million*

Principally due to higher trade receivables on the broadband segment. This account remained at 10% as of March 31, 2012 and December 31, 2011 as a percentage of total assets.

*Advances to related parties – 53% decrease to P60 million from P128 million*

Principally from collections made during the year. This account remained at 1% as of March 31, 2012 and December 31, 2011 as a percentage of total assets.

*Available-for-sale financial assets – 8% increase to P55 million from P51 million*

Mainly due to fair value gains during the period. This account remained at 0.46% as of March 31, 2012 and 0.44% as of December 31, 2011 as a percentage of total assets.

*Real estate inventories – decrease to P1,657 million from P1,675 million*

There was no material variance for this account. This account remained at 14% as of March 31, 2012 and as of December 31, 2011 as a percentage of total assets.

*Other current assets – decrease to P258 million from P267 million*

*Other non-current assets – 20% increase to P26 million from P22 million*

Mainly from higher refundable deposits. This account stood at 0.22% in the first quarter of 2012 and 0.19% as of December 31, 2011 as a percentage of total assets.

*Trade and other payables – 34% increase to P793 million from P592 million*

Primarily due to higher trade payable, advances from customers and other payables. This account stood at 7% in the first quarter of 2012 and 5% as of December 31, 2011 as a percentage of total liabilities and equity

*Advances from related parties – 17% decrease to P89 million from P107 million*

Principally due to payments made. This account stood at 1% as of March 31, 2012 and December 31, 2011 as a percentage of total liabilities and equity

*Income tax payable – 37% increase to P59 million from P43 million*

Mainly from due to higher tax expenses. This account stood at 0.50% in the first quarter of 2012 and 0.37% as of December 31, 2011 as a percentage total liabilities and equity

*Non-current refundable deposits – 13% increase to P17 million from P15 million*

Principally from additional deposits. This account stood at 0.15% in the first quarter of 2012 and 0.13% as of December 31, 2011 as a percentage total liabilities and equity

*Revaluation reserves – 22 % decrease to P22 million loss from P29 million loss*

Principally due to other comprehensive income for the period consisting of, fair value gains on available for sale financial assets, reclassification adjustments for losses recognized in profit or loss and currency differences on translating financial statements of foreign operations. This account stood at 0.19% as of March 31, 2012 and 0.25% as of December 31, 2011 as a percentage of total liabilities and equity

*Retained earnings – increase to P1,689 million from P1,623 million*

Mainly as a result of net income during the period. This account stood at 14% as of March 31, 2012 and December 31, 2011 as a percentage of total liabilities and equity

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

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

*Sale of goods – 40% increase to P840 million from P599 million*

Mainly due to higher volume of sales of the digital products. As a percentage of total revenues, this account represents 77% for the first quarter of 2012 and 71% for the same period in 2011.

*Service revenue – 10 % increase to P186 million from P169 million*

Principally from higher warehousing and distribution service income. As a percentage of total revenues, this account represents 17% for the first quarter of 2012 and 20% for the same period in 2011.

*Sale of real estate – 57% decrease to P12 million from P28 million*

Principally due to there was yet no reported sale of industrial lot for 2012. As a percentage of total revenues, this account declined to 1% in the first quarter of 2012 and 3% for the same period in 2011.

*Interest income – 11% increase to P11 million from P10 million*

Mainly from higher investible funds. As a percentage of total revenues, this account stood at 1% for the same period in both years.

*Cost of sales – 45% increase to P697 million from P479 million*

Mainly in relation to higher sales. As a percentage of total revenues, this account represented 64% in the first quarter of 2012 and 57% for the same period in 2011.

*Cost of services – 16% increase to P126 million from P109 million*

Mainly due to increase in outside services. As a percentage of total revenues, this account decreased to 12% in the first quarter of 2012 and 13% for the same period in 2011.

*Cost of rentals – 6% decrease to P15 million from P16 million*

Principally due to lower rental expenses. This account represents 1% for the first quarter of 2012 and 2% for the same period in 2011 as a percentage of total revenues.

*Cost of real estate – 61% decrease to P8 million from P21 million*

Mainly in relation to lower sale of real estate. As a percentage of total revenues, this account decreased to 1% in the first quarter of 2012 and 3% for the same period in 2011.

*Selling and distribution costs – 6% decrease to P63 million from P67 million*

Mainly from lower advertising costs. This account decreased to 6% of total revenues in the first quarter of 2012 from 8% in the same period of 2011.

*Other operating income – 11% decrease to P11 million from P12 million*

Principally due to lower other income. This account remained at 1% of total revenues for the first quarter of 2012 and the same period of last year.

*Other income (charges) – 50% increase to P6 million from P4 million*

*Finance income – 61% increase to P22 million from P13 million*

Principally due to higher fair value gains on financial assets and interest income from placements of the real estate segment. This remained at 2% of total revenues for the first quarter of 2012 and the same period of last year.

*Finance costs – 15% decrease to P 15 million from P 18 million*

Primarily due to lower interest expenses. As a percentage of total revenues, this account decreased to 1% in the first quarter of 2012 from 2% in the same period of 2011.

#### **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.

### **D. Brief Description and General Nature and Scope of the 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 fifteen 15 wholly-owned subsidiaries as of December 31, 2011, 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. In 2010, My Solid Technologies & Devices Corporation assumed the importation of the mobile phones from SBC while Mytel Mobility Solutions Inc. took over the distribution of mobile phones from SBC.

Solid Electronics Corporation (SEC), which was incorporated on August 9, 1982. SEC operates the repair and service centers for SONY brands of audio and video consumer electronics equipment and mylphone products. 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. Effective January 1, 2012, SMC merged with Solid Corporation, also another wholly owned subsidiary of the Company, with the 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. OLC's customer opted to import the color television. In October 2010, OLC ceased the color TV assembly operations. OLC merged with Solid Laguna Corporation, another wholly owned subsidiary of the Company effective January 1, 2012, with the latter as the surviving company.

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. SC merged with Solid Manila Corporation, another wholly owned subsidiary of the Company effective January 1, 2012, with the latter as the surviving company.

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 merged with Clark Plastics Manufacturing Corporation (CPMC), a wholly owned subsidiary of SC, on April 2004, with Kita as the surviving company. After its merger with CPMC, Kita resumed operations to continue the business of CPMC, which is injected plastics manufacturing as well as the lease of its property. In December 2010, Kita ceased the operations of its injected plastics manufacturing business. Henceforth, Kita's revenues principally come from the lease of its properties.

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 lessor of real estate. SLC merged with Omni Logistics Corporation (OLC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SLC as the surviving company. After the merger, SLC will resume the business of OLC of providing warehousing and logistics services to third parties.

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, Inc. (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. On February 22, 2011, the Board of Directors and stockholders approved the amendment of the SGTC's articles of incorporation to change its primary purpose. This was approved by the Securities and Exchange Commission on March 22, 2011 and starting that date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units. SGTC was formerly a wholly-owned subsidiary of SC. In 2007, SGTC became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in SGTC.

My Solid Technologies & Devices Corporation (MySolid) was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. In July 2011, the respective Board of Directors of MySolid and MyTel Mobility Solutions Inc. (MyTel) approved the merger of both companies, in which MySolid will be the surviving entity. The merger will become effective on the date of the approval and issuance by the Securities and Exchange of the Certificate of Filing of the Articles of Merger under the Plan of Merger. The Board of both companies agreed that the effectivity of the merger is on June 1, 2012.

Mytel Mobility Solutions Inc. (Mytel) was incorporated on July 6, 2009 to engage in the trading and distribution of mobile phones and electronic equipment or devices. On July 30, 2009, the Company's board of directors approved the acquisition of Mytel's 100% ownership interest. The Company's acquisition of Mytel was consummated on January 10, 2010.

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

## 2. Business of Issuer

### Principal Products and Services

Solid Broadband Corp. owns and operates a broadband cable infrastructure, which provides broadband multimedia services such as data transport services, high-speed cable internet access, VSAT, broadcast uplink, leased line services and other multimedia services. The broadband multimedia business reported revenues of P374 million in 2011 or 55% of service income in 2011, P391 million in 2010 or 56 % of service income in 2010 and P307 million or 49% of service income in 2009.

Market estimates of regular Internet users in the Philippines have surpassed the 20,000,000 mark and continue to rise steadily. Concentrated in the Metro Manila area, the heavy or high end users

comprise at least 30% of this total and provide a largely underserved premium market that is willing to pay for unlimited access to broadband level services. 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. However, in August 2007, Solid Broadband Corporation Mobile Division introduced mobile phones in the Philippine market under the MyPhone brand. As a result, the Company's consumer electronic sales had made significant progress in the market. In 2010, My Solid Technologies & Devices Corporation and MyTel Mobility Solutions Inc. assumed the business of mobile phones from Solid Broadband Corporation.

The consumer electronics business of the Company as of December 31, 2011 are:

- (1) sale of mobile phones and LCD televisions which generated sales of P2,907 million (for 2,022,142 units) or 93% of sales in 2011, P1,495 million in 2010 (for 739,721 units) or 92% of sales in 2010 and P1,005 million in 2009 (for 200,362 units), or 89% of sales in 2009;
- (2) after-sales service for principally SONY brands of consumer electronic products with its 34 company-owned service centers throughout the Philippines and 125 independent authorized service centers as of end of 2011 which generated service income of P204 million or 30% of service revenues in 2011, P203 million or 29% of service revenues in 2010 and P 210 million or 33% of service revenues in 2009;
- (3) warehousing and distribution of consumer electronic products with service revenue of P84 million or 12% of service revenues in 2011, P51 million or 7% of service revenues in 2010 and P60 million or 10 % of service revenues in 2009
- (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of nil in 2011, P10 million in 2010 (for 47,959 units) or 2% of service revenues and P20 million in 2009 (for 121,347 units produced) or 3% of service revenues in 2009; and
- (5) other service income of P20 million or 3% of service revenues in 2011, P39 million or 6% of service revenues in 2010 and P33 million or 5% of service revenues in 2009.

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, sale of prefabricated modular houses, and sale of broadcast/professional equipment and accessories.

The Company's products are sold in the Philippines. Revenues for the last 3 years, are as follows: broadcast/professional equipment and accessories of P182 million or 93% of sales in 2011, P112 million or 7 % of sales in 2010 and P88 million or 8% of sales in 2009; prefabricated modular houses of P13 million in 2011 (nil in 2010 and 2009) and other products of P32 million or 1% of sales in 2011, P15 million or 1% of sales in 2010 and P31 million or 3% of sales in 2009. Real estate sales amounted to P126 million or 3% of revenues in 2011, P207 million or 8% of revenues in 2010 and P361 million or 16% of revenues in 2009.

#### Distribution

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

The Company distributes through its subsidiaries consumer electronic products and devices in the Philippines. The MyPhone brand is distributed by MyTel Mobility Solutions Inc. (MyTel) through an independent dealer network. As of December 31, 2011, MyTel supplied approximately 260 dealer accounts.

#### 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 Cablelink 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 Cablelink.

The MyDestiny Internet service is providing Internet users a higher service level through its broadband technology versus the prevailing dial-up system of the some of ISP's operating in Metro Manila. Unlike some 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 broadcast/professional equipment and accessories that the Company sells competes with other brands like Panasonic, JVC and Sharp.

The Company has 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 5 hubs in key locations. The various video and data services riding on this network are delivered to customers in the 17 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 cellphones distributed by SBC competed with other brands in the Philippine market mainly Nokia, Samsung, Sony Ericsson, Motorola, Cherry Mobile 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. It has an existing contract through its subsidiary SolidGroup Technologies Corporation, with a foreign supplier, for the supply of prefabricated modular houses (See Agreements).

#### Broadband 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 5 hubs in key locations. The various video and data services riding on this network are delivered to customers in the 17 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).

#### Dependency of the business upon a single or few customers

The Company is not dependent on any single or few customers. There are no major existing sales contracts.

#### Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2011, it has 34 service centers throughout the Philippines and 125 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 owned by the majority stockholders 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 14, 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 to lower the network support fees to be 0.45%. Effective April 2009, SEC and Sony agreed that the network support fees shall be at a fixed rate of P1.25 million per month. The Agreement is effective unless revoked by any of the parties.

- *Distributorship Agreement with Sony Corporation*

*Solid Video Corporation has a non-exclusive Distributor Agreement with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under the laws of Hong Kong. Under the agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month warranty period at its own costs and expenses.*

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

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

#### *Need for any government approval*

Zen Tower Corporation is awaiting the approval of the Housing and Land Use Regulatory Board (HLURB) its license to sell for the Tower 2.

#### *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 564 regular employees as at December 31, 2011 as shown in the table below. It estimates to have 600 employees by the end of December 31, 2012. There is no existing union as of December 31, 2011. 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.*

	<b><u>Number of employees</u></b>
Management	17
Sales and Distribution	91
Operation	84
Broadband	98
Service	127
Administration	83
Finance	64
Total	<u>564</u>

#### *Major Risks involved in the Businesses of the Company*

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

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

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

#### Item 2. Properties

##### *Description of Properties*

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

Location	Land Area (in sq. m.)	Current and Intended Use
Laguna International Industrial Park, Binan, Laguna	73,532	Building for lease
La Huerta, Bicutan, Paranaque	18,490	Office building & warehouses
San Dionisio, Paranaque	6,690	Warehouses for lease
San Antonio, Paranaque	4,056	Warehouses for lease
Valenzuela	10,493	Warehouses
Laguna International Industrial Park, Binan, Laguna	5,141	Building for lease
Pasong Tamo, Makati City	5,000	Office building
Natividad St., Ermita, Manila	4,506	Condominium tower under construction (for sale)
Osmena Blvd., Cebu City	3,859	Service center & office building for lease
Outlook Drive, Baguio City	3,846	Land 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 for lease
J. Bocobo St., Ermita, Manila	1,724	Office building and Hotel
Brgy. San Roque, San Pablo City	1,714	Service center and office building
Oliveros, Balintawak, Quezon City	1,400	Raw land (Intended for sale)
Bacoar, Cavite	1,334	Office building
Cabanatuan City, Nueva Ecija	1,212	Service center and building for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	9,852	Industrial/ Commercial lots for sale
Araneta, Quezon City	1,000	Land for lease
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

\* In 2012, the Tandang Sora, Quezon City property is intended to be the site of the pilot project of modular residential housing units.

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. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher

Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City as of 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 2012.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of

210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267 , 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 which is pending resolution as of April 2012. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. The Pillilia lot covered by TCT No. 26578, subject to an on-going Application for Exemption as of June 1, 2009, is still pending approval by the Dept. Of Agrarian Reforms as of April 2012.

There are two other cases involving certain properties of Solid Manila Corporation. Its titles to the Balintawak, Quezon City property with land area of 31,423 square meters, currently used as a service center and office building, are sought to be annulled in a civil action filed on 25th September, 1990, with the Regional Trial Court Branch 120 on the ground that another title covers the same area claimed by Lilia Sevilla et.al. On July 14, 1995, the in-house counsel assumed the case. On January 20, 2003, the RTC Branch 120 rendered a decision in favor of Lilia Sevilla annulling seven titles of Solid Manila Corporation to wit-- TCT Nos. 12729 up to 12736. SMC filed an appeal with the Court of Appeals. The Company's legal counsel believes that the titles of Solid Manila Corporation will prevail over those of the claimants on the grounds that the titles of the claimants are being sought to be nullified and voided by the government itself. The government's case filed by the Land Registration Authority (which is represented by the Office of the Solicitor General) before the Regional Trial Court (RTC) Branch 122 was for the annulment of claimant's title. Solid Manila Corporation filed an intervention in the government's case despite opposition by Lilia Sevilla et.al. The Court allowed Solid Manila Corporation to intervene in the government's case. Pending the incident of other third party intervenors, the Department of Justice recommended the dismissal of the Register of Deeds (ROD) and Deputy ROD of Caloocan based on inquiry of the antecedent facts of the case. In November 2000, the



RTC Branch 122 rendered a decision in favor of the government, thus nullifying the land titles of Lilia Sevilla et. al., who subsequently appealed the decision of RTC Branch 122 to the Court of Appeals. SMC consolidated these cases as of February 2004. Lilia Sevilla et. al. filed a motion for reconsideration to the Court of Appeals' order consolidating these cases.

#### *Plant and equipment*

The Company through its subsidiary owns plant and equipment for its broadband operations (See Broadband Facilities). The plant and equipment for broadband operations are located in Makati City and in the various hub sites in Metro Manila and have been written down after recognizing value impairment.

#### *Franchise*

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

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

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

#### *Lease agreements*

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	6,816*	March and August 2019
Dr. A. Santos Ave., Paranaque	3,241	October 31, 2011
Metro Manila	27,602**	December 31, 2012
Metro Manila	28,547***	April 15, 2012
Orbital space	12,636****	December 31, 2013

\* 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	4,005	July 31, 2012
Balintawak, Quezon City	18,289	Various up to April 15, 2015
Cagayan de Oro	1,452	Various up to January 31, 2016
Chino Roces Ave, Makati City	22,524	Various up to July 6, 2019
Clark, Pampanga	24,103	Various up to June 15, 2013
Iloilo	1,225	Various up to September 14, 2012
Laguna International Industrial Park, Binan, Laguna	45,626	Various up to March 31, 2015
Laguna International Industrial Park, Binan, Laguna	3,321	April 30, 2012
La Huerta, Bicutan, Paranaque	5,853	Various up to March 31, 2014
Ermita, Manila	10,349	Various up to February 2016
Ermita, Manila	4,584	Various up to June 30, 2016
San Antonio, Paranaque City	4,631	October 31, 2011
San Dionisio, Paranaque City	1,632	January 31, 2012

*Properties the Company intends to acquire in the next twelve months*

The Company estimates capital expenditures for the year 2012 to amount to P650 million for the construction of Tower 2 of our condominium project, real estate development and upgrade of the broadband infrastructure. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

#### ***E. Directors and Executive Officers***

Please see the accompanying Information Statement for a brief summary of the business experience of each director and officer in the last five years.

#### ***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 high and low trading price of the shares for each quarter within the last two years are as follows:

	High (₱)	Low (₱)
2012		
First quarter	1.37	1.10
2011		
First quarter	1.46	0.82
Second quarter	1.36	1.00
Third quarter	1.78	1.11
Fourth quarter	1.34	1.08
2010		
First quarter	0.89	0.71
Second quarter	0.83	0.71
Third quarter	1.04	0.68
Fourth quarter	1.04	0.79

The trading price of Company shares closed at P1.39 as of May 16, 2012 (the latest practicable trading date).

### **Holders**

The number of shareholders of April 30, 2012 was 4,546. Common shares outstanding as of April 30, 2012 were 1,821,542,000 shares. Total issued shares as of April 30, 2012 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of April 30, 2012:

	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)	357,355,609	19.62
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)	15,009,800	0.82
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.	Juan Go Yu &/or Grace Chu Yu	760,000	0.04
15.	Ong, Victoria	632,000	0.03

16.	Union Properties, Inc.	625,000	0.03
17.	Lim Florencio I.	600,000	0.03
18.	Lim, Julia	590,000	0.03
19.	Castillo Laman Tan Pantaleon & San Jose Law Offices	536,000	0.03
20.	GMA Farms Inc.	500,000	0.03
	Jacinto, Ray Sy	500,000	0.03

### **Dividends**

No dividends were declared in years 2010 and 2011.

The Company's retained earnings as of December 31, 2011 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, 2011.

### **Recent Sales of Unregistered Securities in the Past Three Years**

There was no sale of unregistered or exempt securities in 2009, 2010 and 2011.

<b><i>G. Compliance with Corporate Governance Practices</i></b>
---

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

Pursuant to the Manual, three Board Committees – Audit, Nomination and Compensation and Remuneration Committees were created in 2003 to aid in complying with principles of good corporate governance. In 2003, the Company increased the number of independent directors from one (1) to two (2). In 2004, in compliance with SEC Memorandum Circular No. 6, the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee. The company has reelected Mr. Quintin Chua and Mr. Luis Maria L. Zabaljauregui as Independent Directors during the Annual Stockholders' meeting on August 16, 2011. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. In 2011, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2011 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier.

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

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

The Company complied with the appropriate self-rating assessment and performance evaluation system to determine and measure compliance with the Manual and submitted a certification of its compliance on January 26, 2012. There are no major deviations from the adopted Revised Manual on Corporate Governance.

The Company reappointed Punongbayan and Araullo, CPA's as its independent accountant for the year 2011 during the Annual Stockholders' meeting on August 16, 2011.

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.

<b>H. External Audit Fees and Services</b>
--

(1) External Audit Fees and Services

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

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

The audit fees of our present external auditor, Punongbayan and Araullo for the examination of our annual audited financial statements, including those of our subsidiaries for the years ended December 31, 2011 and 2010 amounted to about P4.66 million and P4.24 million, respectively. Also, audit fees for the short period reports as well as long form reports in 2011 as required for the filing of merger of the various subsidiaries of the Company amounted to P1.21 million (none in 2010). The audit fee of Grant Thornton for the examination of Fil-Dragon for the years ended December 31, 2011 and 2010 amounted to 245,000 HK dollars and 195,000 HK dollars, respectively.

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

None for 2011 and 2010.

(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, 2011 and 2010 amounted to P276 thousand and P204 thousand, respectively. Also, fees paid to the Tax and Compliance Division for the assistance on the merger of the Companies' subsidiaries, Solid Manila Corporation and Solid Corporation in 2011 amounted to P689 thousand ( none in 2010).

(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 2011 and 2010 .

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

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

Upon the favorable endorsement by the Audit Committee, the proposed terms of engagement of services are submitted for approval to the Board of Directors. All of the above services were approved by the Board of Directors.

<b><i>I. Request for Annual Report on SEC Form 17-A</i></b>
---

***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***



# SOLID GROUP INC.

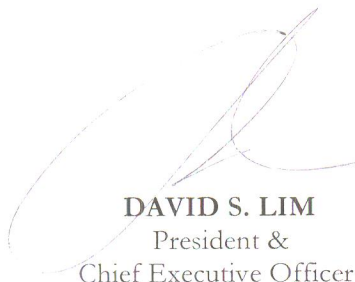
## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc.**, is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011, 2010 and 2009 in accordance with Philippine Financial Reporting Standards. This responsibility includes designing and implementing internal controls 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.

The Board of Directors reviews and approves the financial statements and submits the same to the stockholders.

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

Signed under oath by the following:

  
**DAVID S. LIM**  
President &  
Chief Executive Officer

  
**SUSAN L. TAN**  
Chairman

  
**VINCENT S. LIM**  
SVP & Chief Financial Officer

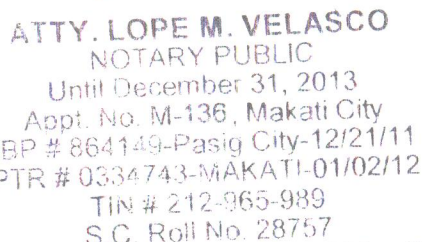
Signed this 27th day of March 2012.

30 APR 2012

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

Name	Passport No.	Date/Place Issued
Susan L. Tan	EB0123180	April 20, 2010, Manila
David S. Lim	XX2698447	December 15, 2008, Manila
Vincent S. Lim	XX0711071	March 10, 2008, Manila

Doc. No. 468 ;  
Page No. 95 ;  
Book No. 299 ;  
Series of 2012

  
**ATTY. LOPE M. VELASCO**  
NOTARY PUBLIC  
Until December 31, 2013  
Appt. No. M-136, Makati City  
IBP # 864149-Pasig City-12/21/11  
PTR # 0334743-MAKATI-01/02/12  
TIN # 212-965-989  
S.C. Roll No. 28757

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



**Punongbayan & Araullo**

*An instinct for growth™*

Consolidated Financial Statements and  
Independent Auditors' Report

**Solid Group Inc. and Subsidiaries**

December 31, 2011, 2010 and 2009





# Punongbayan & Araullo

## 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](http://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 (the Group), which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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



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

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

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and Subsidiaries as at December 31, 2011 and 2010, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**



**By: Mailene Sigue-Bisnar**  
Partner

CPA Reg. No. 0090230

TIN 120-319-128

PTR No. 3174902, January 2, 2012, Makati City

SEC Group A Accreditation

Partner - No. 0396-AR-1 (until Oct. 19, 2012)

Firm - No. 0002-FR-3 (until Jan. 18, 2015)

BIR AN 08-002511-20-2009 (until Sept. 15, 2012)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

March 27, 2012

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	<b>P 1,720,748,062</b>	P 1,620,114,468
Trade and other receivables - net	7	<b>1,137,152,304</b>	890,983,646
Advances to related parties	28	<b>128,543,399</b>	201,193,407
Financial assets at fair value			
through profit or loss	8	<b>70,272,991</b>	-
Available-for-sale financial assets - net	9	<b>51,994,367</b>	138,606,153
Merchandise inventories and supplies - net	11	<b>564,543,065</b>	392,709,244
Real estate inventories - net	12	<b>1,675,780,772</b>	1,328,002,830
Other current assets	15	<b>267,196,925</b>	242,126,879
		<b>5,616,231,885</b>	4,813,736,627
Total Current Assets		<b>5,616,231,885</b>	4,813,736,627
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	<b>669,885,531</b>	640,911,201
Available-for-sale financial assets - net	9	<b>7,881,527</b>	12,106,527
Property, plant and equipment - net	13	<b>1,386,934,809</b>	1,396,868,972
Investment property - net	14	<b>3,864,333,786</b>	3,646,518,637
Retirement benefit asset	23	<b>79,281,451</b>	74,917,955
Deferred tax assets - net	24	<b>69,982,489</b>	32,807,044
Other non-current assets - net	15	<b>22,151,072</b>	24,578,668
		<b>6,100,450,665</b>	5,828,709,004
Total Non-current Assets		<b>6,100,450,665</b>	5,828,709,004
<b>TOTAL ASSETS</b>		<b>P 11,716,682,550</b>	P 10,642,445,631

	Notes	2011	2010
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	16	P 779,398,755	P 989,502,559
Trade and other payables	17	592,432,973	413,628,456
Customers' deposits	12	686,313,646	29,035,094
Advances from related parties	28	107,495,231	168,911,611
Estimated liability for land and land development costs	12	68,304,647	68,304,647
Income tax payable		<u>43,387,647</u>	<u>44,020,603</u>
Total Current Liabilities		<u>2,277,332,899</u>	<u>1,713,402,970</u>
<b>NON-CURRENT LIABILITIES</b>			
Refundable deposits - net	18	15,611,010	15,252,534
Retirement benefit obligation	23	6,111,141	3,121,593
Deferred tax liabilities - net	24	<u>861,145,243</u>	<u>798,720,443</u>
Total Non-current Liabilities		<u>882,867,394</u>	<u>817,094,570</u>
Total Liabilities		<u>3,160,200,293</u>	<u>2,530,497,540</u>
<b>EQUITY</b>			
Equity attributable to the Parent Company's stockholders			
Capital stock	25	2,030,975,000	2,030,975,000
Additional paid-in capital		4,641,701,922	4,641,701,922
Treasury shares - at cost	25	( 115,614,380 )	( 115,614,380 )
Revaluation reserves	25	( 29,242,370 )	( 43,480,551 )
Retained earnings	25	<u>1,623,289,267</u>	<u>1,183,851,839</u>
Total equity attributable to the Parent Company's stockholders		8,151,109,439	7,697,433,830
Non-controlling interests		<u>405,372,818</u>	<u>414,514,261</u>
Total Equity		<u>8,556,482,257</u>	<u>8,111,948,091</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P <u>11,716,682,550</u></b>	<b>P <u>10,642,445,631</u></b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**  
*(Amounts in Philippine Pesos)*

	Notes	2011	2010	2009
<b>REVENUES</b>	2			
Sale of goods		P 3,135,018,332	P 1,622,862,107	P 1,124,432,782
Rendering of services		682,884,837	694,808,001	630,591,746
Sale of real estate		126,087,655	207,355,479	360,841,142
Rentals		157,741,960	121,663,078	112,880,787
Interests		47,757,624	63,089,091	95,230,153
		<u>4,149,490,408</u>	<u>2,709,777,756</u>	<u>2,323,976,610</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>				
Cost of sales	19	2,524,843,718	1,225,420,110	849,411,001
Cost of services	19	499,294,869	460,191,618	458,164,630
Cost of real estate sold	21	95,886,118	151,396,685	282,889,925
Cost of rentals	19	39,880,748	38,569,193	33,568,032
		<u>3,159,905,453</u>	<u>1,875,577,606</u>	<u>1,624,033,588</u>
<b>GROSS PROFIT</b>		<u>989,584,955</u>	<u>834,200,150</u>	<u>699,943,022</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>				
General and administrative expenses	21	366,950,584	281,046,941	250,979,458
Selling and distribution costs	21	278,372,598	227,552,333	97,041,397
Other operating income - net	20	( 232,773,017 )	( 87,379,618 )	( 22,809,568 )
		<u>412,550,165</u>	<u>421,219,656</u>	<u>325,211,287</u>
<b>OPERATING PROFIT</b>		<u>577,034,790</u>	<u>412,980,494</u>	<u>374,731,735</u>
<b>OTHER INCOME (CHARGES)</b>				
Finance costs	22	( 89,426,503 )	( 88,223,148 )	( 118,599,858 )
Finance income	22	61,524,698	38,921,553	34,748,630
Other gains - net		24,391,137	2,736,192	1,599,175
		<u>( 3,510,668 )</u>	<u>( 46,565,403 )</u>	<u>( 82,252,053 )</u>
<b>PROFIT BEFORE TAX</b>		<u>573,524,122</u>	<u>366,415,091</u>	<u>292,479,682</u>
<b>TAX EXPENSE</b>	24	<u>139,364,314</u>	<u>122,651,703</u>	<u>63,514,404</u>
<b>PROFIT FROM CONTINUING OPERATIONS</b>		<u>434,159,808</u>	<u>243,763,388</u>	<u>228,965,278</u>
<b>LOSS FROM DISCONTINUED OPERATIONS - Net of Tax</b>	5	<u>( 3,863,823 )</u>	<u>( 17,060,653 )</u>	<u>( 2,689,659 )</u>
<b>NET PROFIT FOR THE YEAR</b>		<u>P 430,295,985</u>	<u>P 226,702,735</u>	<u>P 226,275,619</u>
<b>Profit for the year attributable to the</b>				
Parent Company's stockholders		P 439,437,428	P 229,346,310	P 203,254,151
Non-controlling interests		( 9,141,443 )	( 2,643,575 )	23,021,468
		<u>P 430,295,985</u>	<u>P 226,702,735</u>	<u>P 226,275,619</u>
<b>Earnings per share attributable to the</b>				
Parent Company's stockholders - basic and diluted	26	<u>P 0.24</u>	<u>P 0.13</u>	<u>P 0.11</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
<b>NET PROFIT FOR THE YEAR</b>		<b>P 430,295,985</b>	<b>P 226,702,735</b>	<b>P 226,275,619</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
Reclassification adjustments for losses recognized in profit or loss		12,804,822	49,498,034	62,432,561
Fair value gains (losses) on available-for-sale financial assets, net of taxes	9	( P 11,064,606 )	14,474,181	35,128,701
Currency exchange differences on translating balances of foreign operations	2	12,497,965	( 5,799,030 )	( 14,426,000 )
Fair value gain on reclassification of financial assets	10	-	-	28,237,397
		<u>14,238,181</u>	<u>58,173,185</u>	<u>111,372,659</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>P 444,534,166</b>	<b>P 284,875,920</b>	<b>P 337,648,278</b>
<b>Total comprehensive income (loss) for the year attributable to:</b>				
Parent Company's stockholders		P 453,675,609	P 287,519,495	P 314,626,810
Non-controlling interests		( 9,141,443 )	( 2,643,575 )	23,021,468
		<u>P 444,534,166</u>	<u>P 284,875,920</u>	<u>P 337,648,278</u>

*See Notes to Consolidated Financial Statements.*

SOLID GROUP INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009  
(Amounts in Philippine Pesos)

Notes	Attributable to the Parent Company's Stockholders						Non-controlling Interests	Total Equity
	Capital Stock	Additional Paid-in Capital	Treasury Shares - at Cost	Revaluation Reserves	Retained Earnings	Total		
Balance at January 1, 2011	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>( P 115,614,380 )</u>	<u>( P 43,480,551 )</u>	<u>P 1,183,851,839</u>	<u>P 7,697,433,830</u>	<u>P 414,514,261</u>	<u>P 8,111,948,091</u>
Transaction between owners - Net loss for the year attributable to non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 9,141,443 )</u>	<u>( 9,141,443 )</u>
Total comprehensive income attributable to the Parent Company's stockholders:								
Net profit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>439,437,428</u>	<u>439,437,428</u>	<u>-</u>	<u>439,437,428</u>
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,238,181</u>	<u>-</u>	<u>14,238,181</u>	<u>-</u>	<u>14,238,181</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,238,181</u>	<u>439,437,428</u>	<u>453,675,609</u>	<u>-</u>	<u>453,675,609</u>
Balance at December 31, 2011	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>( P 115,614,380 )</u>	<u>( P 29,242,370 )</u>	<u>P 1,623,289,267</u>	<u>P 8,151,109,439</u>	<u>P 405,372,818</u>	<u>P 8,556,482,257</u>
Balance at January 1, 2010	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>( P 115,614,380 )</u>	<u>( P 101,653,736 )</u>	<u>P 954,505,529</u>	<u>P 7,409,914,335</u>	<u>P 417,157,836</u>	<u>P 7,827,072,171</u>
Transaction between owners - Net loss for the year attributable to non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>( 2,643,575 )</u>	<u>( 2,643,575 )</u>
Total comprehensive income attributable to the Parent Company's stockholders:								
Net profit	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>229,346,310</u>	<u>229,346,310</u>	<u>-</u>	<u>229,346,310</u>
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,173,185</u>	<u>-</u>	<u>58,173,185</u>	<u>-</u>	<u>58,173,185</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>58,173,185</u>	<u>229,346,310</u>	<u>287,519,495</u>	<u>-</u>	<u>287,519,495</u>
Balance at December 31, 2010	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>( P 115,614,380 )</u>	<u>( P 43,480,551 )</u>	<u>P 1,183,851,839</u>	<u>P 7,697,433,830</u>	<u>P 414,514,261</u>	<u>P 8,111,948,091</u>
Balance at January 1, 2009	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>( P 115,614,380 )</u>	<u>( P 213,026,395 )</u>	<u>P 751,251,378</u>	<u>P 7,095,287,525</u>	<u>P 394,136,368</u>	<u>P 7,489,423,893</u>
Transaction between owners - Net profit for the year attributable to non-controlling interests	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,021,468</u>	<u>23,021,468</u>
Total comprehensive income attributable to the Parent Company's stockholders:								
Net profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>203,254,151</u>	<u>203,254,151</u>	<u>-</u>	<u>203,254,151</u>
Other comprehensive income	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,372,659</u>	<u>-</u>	<u>111,372,659</u>	<u>-</u>	<u>111,372,659</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>111,372,659</u>	<u>203,254,151</u>	<u>314,626,810</u>	<u>-</u>	<u>314,626,810</u>
Balance at December 31, 2009	<u>P 2,030,975,000</u>	<u>P 4,641,701,922</u>	<u>( P 115,614,380 )</u>	<u>( P 101,653,736 )</u>	<u>P 954,505,529</u>	<u>P 7,409,914,335</u>	<u>P 417,157,836</u>	<u>P 7,827,072,171</u>

See Notes to Consolidated Financial Statements.

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 AND 2009**  
*(Amounts in Philippine Pesos)*

	Notes	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Profit before tax from continuing operations		P 573,524,122	P 366,415,091	P 292,479,682
Loss before tax from discontinued operations	5	( 3,514,984 )	( 16,445,538 )	( 3,542,601 )
Profit before tax		<u>570,009,138</u>	<u>349,969,553</u>	<u>288,937,081</u>
Adjustments for:				
Fair value gains on investment property - net	14	( 191,644,597 )	( 27,648,081 )	( 15,136,545 )
Depreciation and amortization	13	78,173,250	75,588,976	74,998,874
Interest income		( 84,885,381 )	( 86,478,277 )	( 121,702,409 )
Loss on inventory obsolescence	11	34,790,640	59,288,554	15,765,265
Impairment losses on trade and other receivables	7	21,145,641	9,266,502	27,735,676
Impairment losses on available-for-sale financial assets	9	18,995,887	33,657,338	-
Gain on sale of investment property		( 17,802,607 )	-	-
Reversals of impairment losses on trade and other receivables	7	( 17,014,146 )	( 11,104,219 )	( 8,488,254 )
Reversals of allowance for inventory obsolescence	11	( 8,962,396 )	( 19,184,724 )	( 1,796,955 )
Interest expense	22	8,203,376	10,530,521	19,345,255
Fair value loss on financial assets at fair value through profit or loss	22	5,909,803	-	-
Unrealized foreign currency losses (gains) - net		1,723,603	1,119,803	9,842,241
Gain on sale of property, plant and equipment		( 1,721,437 )	( 6,646,929 )	( 222,898 )
Interest amortization on refundable deposits	22	614,019	864,519	1,386,810
Gain on disposal of non-current assets held-for-sale	5	-	( 452,503 )	-
Loss on sale of foreign currency-denominated bonds	22	-	-	59,852,713
Write-off of investment property	14	-	-	73,076
Operating profit before working capital changes		<u>417,534,793</u>	<u>388,771,033</u>	<u>350,589,930</u>
Increase in trade and other receivables		( 279,274,483 )	( 349,009,034 )	( 220,199,438 )
Decrease (increase) in advances to related parties		72,650,008	303,135,008	( 312,000,637 )
Increase in financial assets at fair value through profit or loss		( 76,182,794 )	-	-
Decrease (increase) in available-for-sale financial assets		86,079,080	187,609,047	( 34,156,408 )
Decrease in held-to-maturity investments		-	-	4,140,394
Decrease (increase) in merchandise inventories and supplies		( 197,662,065 )	( 349,372,147 )	121,851,690
Increase in real estate inventories		( 347,777,942 )	( 281,121,792 )	( 9,931,166 )
Decrease (increase) in other current assets		( 96,146,197 )	( 47,045,684 )	81,823,216
Increase in retirement benefit asset		( 4,363,496 )	( 28,981,993 )	( 9,277,566 )
Decrease (increase) in other non-current assets		2,427,596	( 9,494,057 )	33,501,878
Increase (decrease) in trade and other payables		178,804,517	120,058,602	( 30,030,674 )
Increase in customers' deposits		657,278,552	-	-
Increase (decrease) in advances from related parties		( 61,416,380 )	( 32,528,309 )	89,734,948
Increase (decrease) in refundable deposits		( 255,543 )	3,291,167	-
Increase (decrease) in retirement benefit obligation		<u>2,989,548</u>	<u>1,636,997</u>	<u>( 5,878,004 )</u>
Cash generated from (used in) operations		<u>354,685,194</u>	( 93,051,163 )	60,168,163
Interest received		47,757,624	63,089,091	95,230,153
Cash paid for income taxes		( 44,020,603 )	( 12,316,993 )	( 56,925,976 )
Net Cash From (Used in) Operating Activities		<u>358,422,215</u>	<u>( 42,279,065 )</u>	<u>98,472,340</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of property, plant and equipment	13	( 99,184,296 )	( 56,800,567 )	( 46,696,633 )
Proceeds from disposal of investment property	14	26,873,607	-	-
Additions to investment property	14	( 6,927,455 )	( 1,352,695 )	( 802,138 )
Interest received	22	37,127,757	23,389,186	26,472,256
Proceeds from sale of property and equipment		4,352,549	1,421,223	233,125
Proceeds from disposal of non-current assets held-for-sale		-	9,690,330	-
Net Cash Used in Investing Activities		( 37,757,838 )	( 23,652,523 )	( 20,793,390 )
Balance forwarded		P 320,664,377	( P 65,931,588 )	P 77,678,950



	Notes	2011	2010	2009
<i>Balance brought forward</i>		<b>P 320,664,377</b>	( P 65,931,588 )	P 77,678,950
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Net repayments for interest-bearing loans	16	( 210,103,804 )	-	-
Interest paid		( 8,203,376 )	( 10,530,521 )	( 19,345,255 )
Net proceeds from interest-bearing loans	16	-	434,554,235	96,187,715
Net Cash From (Used in) Financing Activities		( 218,307,180 )	424,023,714	76,842,460
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>		( 1,723,603 )	( 1,119,803 )	( 9,842,241 )
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>		<b>100,633,594</b>	<b>356,972,323</b>	<b>144,679,169</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<b>1,620,114,468</b>	<b>1,263,142,145</b>	<b>1,118,462,976</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<b>P 1,720,748,062</b>	<b>P 1,620,114,468</b>	<b>P 1,263,142,145</b>

**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 P12.1 million were reclassified as Non-current Assets Held for Sale (see Note 5). In 2010, the assets were subsequently sold to third parties.

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31, 2011, 2010 AND 2009**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Company Background**

Solid Group Inc. (SGI or the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) 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 (PSE).

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			Notes	Nature of Business
	2011	2010	2009		
Brilliant Reach Limited (BRL)	100	100	100	(a)	Investment company
Kita Corporation (Kita)	100	100	100		Real estate and manufacturing of injected plastics
Omni Logistics Corporation (OLC)	100	100	100	(l)	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	(k)	Real estate
Solid Group Technologies Corporation (SGTC)	100	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	100	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	100	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	100	100	100	(l)	Real estate
Solid Manila Corporation (SMC)	100	100	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)					
[formerly Zen By The Park, Inc.]	100	100	100	(e), (g)	Real estate
Solid Manila Finance, Inc. (SMFI)	100	100	100		Financing
Solid Video Corporation (SVC)	100	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	100	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	100	100	100	(c), (h)	Real estate
My Solid Technologies & Devices Corporation (My Solid)	100	100	-	(i)	Sale of mobile phones
Mytel Mobility Solutions, Inc. (Mytel)	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	51	(h)	Real estate
Starworld Corporation (Starworld)	50	50	50	(e), (f)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	50	50	50	(b), (d)	Real estate

Notes:

- (a) Incorporated and domiciled in the British Virgin Islands
- (b) Indirectly owned through SC
- (c) Pre-operating or non-operating
- (d) LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- (e) Indirectly owned through SMC
- (f) Starworld is 20% owned by SMC and 40% owned by Skyworld
- (g) Indirectly owned through Precos
- (h) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC)
- (i) Incorporated in 2009 and started commercial operations in January 2010
- (j) Acquired in 2010
- (k) Merged as one company, with SMC as the surviving company, effective January 1, 2012
- (l) Merged as one company, with SLC as the surviving company, effective January 1, 2012

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*.

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

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

### **(a) Phasing-out of Manufacturing Business and Related Services of Certain Subsidiaries**

On November 23, 2009, the Parent Company's management disclosed to the 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. Kita and SLC have ceased their plastic injection manufacturing business as of December 31, 2011 (see Note 5).

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

During the year, to attain efficiency in the operations and management of certain entities, the respective BODs of SC and SMC; OLC and SLC; and Mytel and My Solid approved respective entities' plans of mergers of such subsidiaries whereby SMC, SLC and My Solid will be the surviving entities, respectively. The mergers will become effective upon the approval and issuance by the SEC of the Certificates of Filing of the Articles and Plans of Merger (see Note 27).

### **1.3 Other Corporate Information**

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

BRL	-	2 <sup>nd</sup> Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	-	Ganado Street, Laguna International Industrial Park, Mamlasan, 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, Mamlasan, 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

Starting March 3, 2011, My Solid's and Mytel's new principal places of business are located at 2000 East Service Road, Bicutan, Parañaque City; Omni's new principal place of business, starting January 5, 2011, is located at 17 A. Fernando St., Marulas, Valenzuela, Metro Manila; SGTIC's new principal place of business starting July 29, 2011 is located at Solid City Center, KM 16, 2000 East Service Road, Bicutan, Paranaque City.

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

The consolidated financial statements of the Group for the year ended December 31, 2011 (including the comparatives for the years ended December 31, 2010 and 2009) were authorized for issue by the Parent Company's BOD on March 27, 2012.

## **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 (IASB).

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

(b) *Presentation of Consolidated Financial Statements*

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

In 2011, as there were no retrospective application of accounting policy, retrospective restatement and reclassification in the financial statements, only one comparative period was presented in the consolidated statement of financial position.

(c) *Functional and Presentation Currency*

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

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

## **2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2011 that are Relevant to the Group*

In 2011, the Group adopted the following amendments, interpretations and annual improvements to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after February 1, 2010, July 1, 2010 or January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issue
Philippine Interpretations		
International		
Financial Reporting		
Interpretations		
Committee (IFRIC) 14		
(Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

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

- (i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any change on the Group's disclosures of related parties in its consolidated financial statements.
- (ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayment of a Minimum Funding Requirement* (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 surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements, hence, the adoption of the revised standard has no material effect on its consolidated financial statements.
- (iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. 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, *Financial Instruments: Recognition and Measurement*;
  - 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.

The adoption of the interpretation did not have a material effect on the Group's consolidated financial statements as it did not extinguish financial liabilities through equity swap during the year.

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has elected to continue presenting each item of other comprehensive income in the notes to the financial statements.
- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* (effective from July 1, 2010). These amendments clarify that the consequential amendments made to PAS 21, PAS 28 and PAS 31 arising from the amendment to PAS 27 (2008), *Consolidated and Separate Financial Statements* apply prospectively, to be consistent with the related PAS 27 transition requirements. These amendments have no impact on the Group's consolidated financial statements since there is no disposal of foreign operations, loss of significant influence over an associate and loss of control over a jointly controlled entity at the time of the adoption of the amendment on PAS 27.
- PAS 34 (Amendment), *Interim Financial Reporting – Significant Events and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report.

- PFRS 3 (Amendments), *Business Combinations* (effective from July 1, 2010). The amendment clarifies that contingent consideration arrangement and balances arising from business combinations with acquisition dates prior to the entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances. It further clarifies that the choice of measuring non-controlling interest at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, applies only to instruments that represent ownership present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of non-controlling interests (NCI) are measured at fair value unless PFRS requires another measurement basis. This amendment also clarifies accounting for all share-based payment transactions that are part of a business combination, including unreplaced and voluntary replaced share-based payment awards. Specifically, this provides guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the acquisition, thus resulting to the accounting for these awards being the same as for the awards that the acquirer is obliged to replace.
- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. The Group already provides adequate information in its consolidated financial statements in compliance with the disclosure requirements.

(b) *Effective in 2011 that are not Relevant to the Group*

The following amendments and improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2010 or January 1, 2011 but are not relevant to the Group's consolidated financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Limited Exemption from PFRS 7 Comparative Disclosures
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
2010 Annual Improvements to PFRS		
PFRS 1 (Amendment)	:	First-time Adoption of PFRS
Philippine Interpretation IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value Awards Credits



(c) *Effective Subsequent to 2011 but not Adopted Early*

There are new and amended PFRS that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.
- (ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standing Interpretations Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn. The Group is currently evaluating the impact of this amendment on its consolidated financial statements as its investment property includes buildings and improvements.
- (iii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (i) will not be reclassified subsequently to profit or loss and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since most of the Group's other comprehensive income, which includes unrealized fair value gains and losses on available-for-sale (AFS) financial assets, can be reclassified to profit or loss when specified conditions are met.
- (iv) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
  - eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Group is using the corridor approach and its unrecognized actuarial gain as of December 31, 2011 and 2010 amounted to P25.2 million and P66.4 million, respectively, which will be retrospectively recognized as gain in other comprehensive income in 2013.

- (v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and plans to conduct a comprehensive study in early 2012 of the potential impact of this standard to assess the impact of all changes.

- (vi) PFRS 13, *Fair Value Measurements* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

(vii) Consolidation Standards (effective from January 1, 2013)

The Group is currently reviewing the impact of the following consolidation standards on its consolidated financial statements in time for their adoption in 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 11, *Joint Arrangements*. This standard provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. This standard replaces the three categories under PAS 31, mainly, jointly controlled entities, jointly controlled operations and jointly controlled assets, with two new categories – joint operations and joint ventures. Moreover, this also eliminates the option of using proportionate consolidation for joint ventures.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Revised), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Revised), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11.

(viii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. 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 completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines but does not expect it to have an impact on the Group's consolidated financial statements as it currently accounts for its real estate transactions using the full accrual method.

### **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. 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 NCI 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 more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at 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.

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

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

## **2.4 Segment Reporting**

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. In addition, corporate assets which are not directly attributable to any business segment are not allocated to a segment.

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

## **2.5 Financial Assets**

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and 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 end of 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. 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, discounted at the effective interest rate.

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

(b) *Financial Asset at FVTPL*

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

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

(c) *AFS Financial Assets*

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

All AFS financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserve account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

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 consolidated 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 end of 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.

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

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

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition is determined as follows:

- (a) *Raw materials and 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) *Merchandise and 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 the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials, service parts, supplies and others is the current replacement cost.

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

Real estate inventories consist of the following:

- (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.

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	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

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

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the 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.

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, plant and equipment, including the related accumulated depreciation and impairment, 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, accounted for under the fair value model, is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property, 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 14).

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 (losses) on investment property under Other Operating Income in the consolidated statement of income.

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

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the profit or loss in the year of retirement or 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, which include Interest-bearing Loans, Trade and Other Payables [excluding Output Value-Added Tax (VAT), withholding taxes, and Unearned Subscription Income], Advances from Related Parties, Customers' Deposits and Refundable Deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and Other Payables, Advances from Related Parties and Refundable Deposits with maturities beyond one year are initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

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

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

### ***2.11 Business Combination***

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

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

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

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

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

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

## **2.12 Provisions and Contingencies**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive 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. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

## **2.13 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 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 and other income 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 upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective in April 2009, network support fees is recorded at a fixed amount of P1.25 million per month.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

- (f) *Interest income on loans receivables* – Revenue is recognized when earned using effective interest method.

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

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

- (g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.
- (h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.
- (i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.
- (j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon 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 peso. 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 United States (U.S.) dollar and Chinese yuan renminbi (RMB), respectively, their respective functional currencies, are translated to Philippine peso, 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 investments 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 peso should not be construed as a representation that the U.S. dollar and Chinese yuan renminbi 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 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 Related Party Transactions***

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

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

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

## ***2.21 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 AFS financial assets.

Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income.

## **2.22 Earnings per Share**

Basic earnings per share (EPS) 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 EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of December 31, 2011 and 2010, the Parent Company does not have potential dilutive shares.

## **2.23 Events After the End of Reporting Period**

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

# **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The 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) Determining Net Realizable Value of Real Estate Inventories**

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

The carrying amounts of the real estate inventories is disclosed in Note 12.

(b) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are impaired as of December 31, 2011 and 2010. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Impairment losses recognized on AFS financial assets are disclosed in Note 9.

(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 Property 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 properties 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. Based on management judgment, such leases were determined to be operating leases.

(f) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of provisions and contingencies are discussed in Note 2.12 and the relevant disclosures are presented in Note 30.

(g) *Principal Assumptions for Estimation of Fair Value of Investment Property*

The Group's investment property composed of parcels of land and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The 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. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Note 14.

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

Adequate amount of 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 and the analysis of allowance for impairment on such financial assets are shown in Note 7.

(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/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 13. Based on management's assessment as at December 31, 2011, and 2010, no change in the estimated useful lives of property, plant and equipment during those years occurred. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 11). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

(d) *Fair Value of Financial Instruments*

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 8 and 9, respectively.

(e) *Estimated Liability for Land and Land Development Costs*

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2011 and 2010 is disclosed in Note 12.

(f) *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 appropriate value of each component of revenue.

(g) *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.

Provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are discussed on Note 17.

(h) *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 five years, as of December 31, 2011 and 2010 is disclosed in Note 24.2.

(i) *Fair Value of Investment Property*

The Group's investment property composed of land and improvements and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The 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. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties. A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on certain investment property are disclosed in Notes 14.

(j) *Impairment of Non-financial Assets*

The Group'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-financial assets in 2011, 2010 and 2009.

(k) *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 23.2 and include, among others, discount rates, expected return on plan assets, salary increase rate and employee turnover. 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 amounts of estimated present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation are presented in Note 23.2.

## 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) Related support services segment is engaged in the business of rendering after sales service operations as the recognized authorized Service Network for products of a third party and in manufacturing plastic injection molding parts (see Note 5);
- (c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties;
- (d) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones and LCD televisions, and prefabricated modular houses; and,
- (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.

### 4.2 *Segment Assets and Liabilities*

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.



### 4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of December 31, 2011, 2010 and 2009 and the related revenue and profit information for the years then ended (in thousands).

	<u>Broadband Services</u>		<u>Related Support Services</u>		<u>Real Estate</u>	<u>Distribution</u>	<u>Investing, Financing and Others</u>	<u>Total</u>				
<b>2011</b>												
<b>SEGMENT RESULTS</b>												
Sales to external customers	P	375,330	P	340,653	P	261,951	P	48,717	P	4,149,490		
Intersegment sales		<u>2,047</u>		<u>32,977</u>		<u>33,148</u>		<u>7,657</u>		<u>97,261</u>		
Total revenues		377,377		373,630		295,099		3,130,496		70,149	4,246,751	
Cost of sales, services and rentals		258,234		247,843		162,802		2,530,457		-	3,199,336	
Other operating expense		<u>59,380</u>		<u>98,721</u>		<u>113,664</u>		<u>421,751</u>		<u>44,538</u>	<u>738,054</u>	
Operating profit		59,763		27,066		18,633		178,288		25,611	309,361	
Finance income		2,387		19,612		43,300		17,449		-	82,748	
Finance costs	(	17,033)	(	4,625)	(	761)	(	8,622)	(	34,568)	(	65,609)
Other gains – net		<u>4,649</u>		<u>14,902</u>		<u>226,519</u>		<u>3,462</u>		<u>22,688</u>	<u>272,220</u>	
Profit before tax		49,766		56,955		287,691		190,577		13,731	598,720	
Tax expense	(	<u>8,168</u>	(	<u>6,256</u>	(	<u>88,903</u>	(	<u>31,142</u>	(	<u>4,895</u>	(	<u>139,364</u>
Profit – continuing operation		41,598		50,699		198,788		159,435		8,863	459,356	
Loss – discontinued operation		-		<u>(3,864)</u>		-		-		-	<u>(3,864)</u>	
Net profit for the year	<b>P</b>	<b><u>41,598</u></b>	<b>P</b>	<b><u>46,835</u></b>	<b>P</b>	<b><u>198,788</u></b>	<b>P</b>	<b><u>159,435</u></b>	<b>P</b>	<b><u>8,863</u></b>	<b>P</b>	<b><u>455,492</u></b>
<b>SEGMENT ASSETS AND LIABILITIES</b>												
Total assets	<b>P</b>	<b><u>667,320</u></b>	<b>P</b>	<b><u>815,191</u></b>	<b>P</b>	<b><u>6,959,481</u></b>	<b>P</b>	<b><u>2,140,921</u></b>	<b>P</b>	<b><u>8,683,126</u></b>	<b>P</b>	<b><u>19,327,543</u></b>
Total liabilities	<b>P</b>	<b><u>567,828</u></b>	<b>P</b>	<b><u>680,818</u></b>	<b>P</b>	<b><u>3,392,086</u></b>	<b>P</b>	<b><u>1,814,943</u></b>	<b>P</b>	<b><u>606,576</u></b>	<b>P</b>	<b><u>7,046,634</u></b>
<b>OTHER SEGMENT INFORMATION</b>												
Capital expenditures	P	65,999	P	12,704	P	17,787	P	7,559	P	1,400	P	105,449
Depreciation and amortization		54,854		9,873		9,515		2,688		397		77,327
Impairment losses		16,168		-		-		3,430		-		19,598
Other non-cash expenses		-		28,255		1,238		48,582		735		78,810

	Broadband Services	Related Support Services	Real Estate	Distribution	Investing, Financing and Others	Total
<b>2010</b>						
<b>SEGMENT RESULTS</b>						
Sales to external customers	P 390,869	P 305,540	P 332,299	P 1,616,784	P 64,286	P 2,709,778
Intersegment sales	-	5,471	34,133	28,321	15,386	83,311
Total revenues	390,869	311,011	366,432	1,645,105	79,672	2,793,089
Cost of sales, services and rentals	260,188	226,555	211,763	1,219,577	-	1,918,083
Other operating expense	38,697	20,929	92,545	316,101	23,046	491,318
Operating profit	91,984	63,527	62,124	109,427	56,626	383,688
Finance income	4,333	7,924	22,858	2,713	9,057	46,885
Finance costs	( 2,625)	( 1,194)	( 10,138)	( 13,984)	( 57,458)	( 85,399)
Other gains (losses) – net	-	-	18,292	21	( 2,330)	15,983
Profit before tax	93,692	70,257	93,136	98,177	5,895	361,157
Tax expense	( 21,457)	( 12,842)	( 27,112)	( 52,142)	( 9,098)	( 122,651)
Profit – continuing operation	72,235	57,415	66,024	46,035	( 3,203)	238,506
Loss – discontinued operation	-	( 17,061)	-	-	-	( 17,061)
Net profit (loss) for the year	<b>P 72,235</b>	<b>P 40,354</b>	<b>P 66,024</b>	<b>P 46,035</b>	<b>(P 3,203)</b>	<b>P 221,445</b>
<b>SEGMENT ASSETS AND LIABILITIES</b>						
Total assets	<b>P 762,404</b>	<b>P 830,225</b>	<b>P 6,345,462</b>	<b>P 1,787,307</b>	<b>P 8,145,375</b>	<b>P 17,870,770</b>
Total liabilities	<b>P 211,242</b>	<b>P 215,015</b>	<b>P 2,340,528</b>	<b>P 1,562,209</b>	<b>P 642,037</b>	<b>P 4,971,031</b>
<b>OTHER SEGMENT INFORMATION</b>						
Capital expenditures	P 42,427	P 7,701	P 4,053	P 2,037	P 393	P 56,611
Depreciation and amortization	49,307	11,553	5,351	9,826	155	76,372
Impairment losses	32,015	-	-	10,909	-	42,924
Other non-cash expenses	-	-	( 5,631)	-	-	( 5,631)
<b>2009</b>						
<b>SEGMENT RESULTS</b>						
Sales to external customers	P 307,685	P 325,567	P 481,754	P 1,121,807	P 87,164	P 2,323,977
Intersegment sales	-	1,679	20,341	1,000	25,723	48,743
Total revenues	307,685	327,246	502,095	1,122,807	112,887	2,372,720
Cost of sales, services and rentals	213,082	240,842	331,584	842,746	-	1,628,254
Other operating expense (income)	54,056	84,172	84,884	125,938	23,905	372,955
Operating profit	40,547	2,232	85,627	154,123	88,982	371,511
Finance income	7,073	2,267	21,124	2,684	1,602	34,750
Finance costs	( 20,007)	( 2,146)	( 4,820)	( 8,435)	( 82,072)	( 117,480)
Other gains – net	-	-	1,599	-	-	1,599
Profit (loss) before tax	27,613	( 2,353)	103,530	148,372	8,512	290,380
Tax expense	( 7,982)	( 4,117)	( 22,892)	( 31,765)	( 5,401)	( 72,157)
Profit – continuing operation	19,631	( 1,764)	80,638	116,607	3,111	218,223
Loss – discontinued operation	-	( 2,690)	-	-	-	( 2,690)
Net profit (loss) for the year	<b>P 19,631</b>	<b>(P 4,454)</b>	<b>P 80,638</b>	<b>P 116,607</b>	<b>P 3,111</b>	<b>P 215,533</b>
<b>SEGMENT ASSETS AND LIABILITIES</b>						
Total assets	<b>P 777,361</b>	<b>P 822,899</b>	<b>P 6,861,492</b>	<b>P 540,242</b>	<b>P 12,505,255</b>	<b>P 21,507,249</b>
Total liabilities	<b>P 221,409</b>	<b>P 237,776</b>	<b>P 1,968,163</b>	<b>P 137,107</b>	<b>P 783,963</b>	<b>P 3,348,418</b>
<b>OTHER SEGMENT INFORMATION</b>						
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

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):

		<b>Segment Totals</b>		<b>Intercompany Accounts</b>		<b>Consolidated Balances</b>
<u>2011</u>						
Revenues	P	4,246,751	(P	97,261)	P	4,149,490
Net profit for the year		455,492	(	25,196)		430,296
Total assets		19,327,543	(	7,610,860)		11,716,683
Total liabilities		7,046,634	(	3,886,434)		3,160,200
Other segment information:						
Capital expenditures		105,449		663		106,112
Depreciation and amortization		77,327		846		78,173
Impairment losses		19,598		20,544		40,142
Other non-cash expenses		78,810	(	35,852)		42,958
<u>2010</u>						
Revenues	P	2,793,089	(P	83,311)	P	2,709,778
Net profit for the year		221,445		5,258		226,703
Total assets		17,870,770	(	7,228,324)		10,642,446
Total liabilities		4,971,031	(	2,440,533)		2,530,498
Other segment information:						
Capital expenditures		56,611		190		56,801
Depreciation and amortization		76,372	(	783)		75,589
Impairment losses		42,924		-		42,924
Other non-cash expenses	(	5,631)		-	(	5,631)
<u>2009</u>						
Revenues	P	2,372,720	(P	48,743)	P	2,323,977
Net profit for the year		215,533		10,743		226,276
Total assets		21,507,249	(	11,690,069)		9,817,180
Total liabilities		3,348,418	(	1,358,310)		1,990,108
Other segment information:						
Capital expenditures		150,364	(	103,667)		46,697
Depreciation and amortization		63,355		11,644		74,999
Impairment losses		36,671	(	8,936)		27,735
Other non-cash expenses		200,561	(	176,677)		23,884

## 5. DISCONTINUED OPERATIONS

As mentioned in Note 1.2, Kita and SLC ceased the operations of their plastic injection manufacturing business as of December 31, 2010. Termination benefits paid to employees who accepted voluntary redundancy amounted to P0.7 million in 2011, P1.1 million in 2010 and P9.7 million in 2009 (see Note 23.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented in the consolidated statements of income under the Loss from Discontinued Operations account.

Machinery and equipment related to the discontinued operations of Kita are still presented as part of Property, Plant and Equipment account as of December 31, 2010 as the assets' carrying values as of that date are not material (see Note 13). Machinery and equipment relating to the discontinued operations of Kita with total cost amounting to P25.2 million and a total carrying value of P0.2 were sold in 2011 at P1.5 million and fully-depreciated machinery and equipment with total cost of P25.1 million was sold in 2010. In 2010, fully depreciated machinery and equipment with a total cost amounting to P25.1 million were sold. The resulting gains from the disposals are presented as part of Miscellaneous under Other Operating Income in the consolidated statements of income (see Note 20).

Certain machinery and equipment of SLC with total carrying amounts of P12.1 million as of December 31, 2009 and classified as Non-current Assets Held for Sale were subsequently sold to third parties for P9.7 million in June 2010. At the time of sale, the assets had a carrying value of P9.2 million. The resulting gain related to the sale of these assets is presented as part of Miscellaneous under Other Operating Income in the 2010 consolidated statement of income (see Note 20).

The analysis of the revenue, expenses and tax expense of the discontinued operations for the years ended December 31, 2011, 2010 and 2009 are shown below.

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Sale of goods		<b>P 4,047,684</b>	P 19,912,861	P 163,518,013
Cost of sales	19.1	<b>( 14,307,547)</b>	( 31,736,150)	( 144,512,497)
Gross profit (loss)		<b>( 10,259,863)</b>	11,823,289	19,005,516
Other operating income (expenses):				
General and administrative expenses	21	<b>( 385,540)</b>	( 9,271,158)	( 22,026,940)
Selling and distribution costs	21	<b>( 671,435)</b>	( 413,308)	( 4,304,982)
Other operating income	20	<b>8,353,416</b>	2,823,829	5,131,973
		<b>( 7,296,441)</b>	( 6,860,637)	( 21,199,949)
Other income (charges):				
Finance income	22.1	<b>84,448</b>	2,891,714	2,530,159
Finance costs	22.2	<b>( 636,010)</b>	( 653,326)	( 3,878,327)
		<b>551,562</b>	( 2,238,388)	( 1,348,168)
Loss before tax		<b>( 3,514,984)</b>	( 16,445,538)	( 3,542,601)
Tax income (expense)	24	<b>( 348,839)</b>	( 615,115)	852,942
Loss from discontinued operations		<b>(P 3,863,823)</b>	(P 17,060,653)	(P 2,689,659)

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the years ended December 31, 2011, 2010 and 2009 are shown below.

	2011		
	Continuing	Discontinued	Total
Net Cash From Operating Activities	P 354,066,628	P 4,355,587	P 358,422,215
Net Cash From (Used in) Investing Activities	( 38,042,351)	284,513	( 37,757,838)
Net Cash Used in Financing Activities	( 211,230,466)	( 7,076,714)	( 218,307,180)
Effect of Foreign Exchange Rate			
Changes on Cash and Cash Equivalents	( 1,723,719)	116	( 1,723,603)
Net increase (decrease) in Cash and			
Cash Equivalents	103,070,092	( 2,436,498)	100,633,594
Cash and cash equivalents at beginning of year	<u>1,618,111,420</u>	<u>2,003,048</u>	<u>1,620,114,468</u>
Cash and cash equivalents at end of year	<b><u>P 1,721,181,512</u></b>	<b><u>(P 433,450)</u></b>	<b><u>P 1,720,748,062</u></b>

	2010		
	Continuing	Discontinued	Total
Net Cash From (Used in) Operating Activities	(P 64,190,106)	P 21,911,041	(P 42,279,065)
Net Cash From (Used in) Investing Activities	( 26,686,111)	3,033,588	( 23,652,523)
Net Cash From (Used in) Financing Activities	444,169,750	( 20,146,036)	424,023,714
Effect of Foreign Exchange Rate			
Changes on Cash and Cash Equivalents	( 1,119,803)	-	( 1,119,803)
Net increase in Cash and Cash equivalents	352,173,730	4,798,593	356,972,323
Cash and cash equivalents at beginning of year	<u>1,248,783,034</u>	<u>14,359,111</u>	<u>1,263,142,145</u>
Cash and cash equivalents at end of year	<b><u>P 1,600,956,764</u></b>	<b><u>P 19,157,704</u></b>	<b><u>P 1,620,114,468</u></b>

	2009		
	Continuing	Discontinued	Total
Net Cash From Operating Activities	P 70,577,320	P 27,895,020	P 98,472,340
Net Cash From (Used in) Investing Activities	( 21,143,514)	350,124	( 20,793,390)
Net Cash From (Used in) Financing Activities	113,798,516	( 36,956,056)	76,842,460
Effect of Foreign Exchange Rate			
Changes on Cash and Cash Equivalents	( 10,044,847)	202,606	( 9,842,241)
Net increase (decrease) in Cash and			
Cash equivalents	153,187,475	( 8,508,306)	144,679,169
Cash and cash equivalents at beginning of year	<u>1,074,392,727</u>	<u>44,070,249</u>	<u>1,118,462,976</u>
Cash and cash equivalents at end of year	<b><u>P 1,227,580,202</u></b>	<b><u>P 35,561,943</u></b>	<b><u>P 1,263,142,145</u></b>

## 6. CASH AND CASH EQUIVALENTS

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

	<u>2011</u>	<u>2010</u>
Cash on hand and in bank	<b>P 396,965,149</b>	P 509,181,468
Short-term placements	<u><b>1,323,782,913</b></u>	<u>1,110,933,000</u>
	<u><b>P1,720,748,062</b></u>	<u>P 1,620,114,468</u>

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 6.0% per annum in 2011 and 0.5% to 8.0% per annum in 2010.

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Current:			
Trade receivables		<b>P 759,929,905</b>	P 520,785,092
Due from related parties	28.1	<b>75,770,473</b>	138,002,019
Advances to suppliers		<b>277,211,254</b>	216,493,690
Finance receivables	28.4	<b>64,831,149</b>	67,984,157
Other receivables		<u><b>76,425,196</b></u>	<u>77,375,904</u>
		<b>1,254,167,977</b>	1,020,640,862
Allowance for impairment		<u><b>( 117,015,673)</b></u>	<u>( 129,657,216)</u>
		<u><b>1,137,152,304</b></u>	<u>890,983,646</u>
Non-current:			
Trade receivables		<b>47,852,284</b>	26,579,435
Finance receivables		<b>151,801,578</b>	163,937,334
Cash surrender value of investment in life insurance	16	<u><b>470,231,669</b></u>	<u>450,394,432</u>
		<u><b>669,885,531</b></u>	<u>640,911,201</u>
		<u><b>P 1,807,037,835</b></u>	<u>P 1,531,894,847</u>

Advances to suppliers mainly pertain to the advance payments received by Solid Company Limited (Hong Kong) for Mytel's future purchase of inventories (see Note 28.8), various contractors for the construction of ZTC's Tri Towers (see Note 12) and various suppliers for CBHI's acquisition of supplies.

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 small business customers, were found to be impaired, hence, adequate amount of allowance for impairment has been recognized.

A reconciliation of the allowance for impairment at beginning and end of 2011 and 2010 is shown below.

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year		<b>P 129,657,216</b>	P 131,494,933
Impairment losses during the year	22.2	<b>21,145,641</b>	9,266,502
Reversals of impairment losses	22.1	<b>( 17,014,146)</b>	( 11,104,219)
Write-off of receivables previously provided with allowance		<b>( 16,773,038)</b>	-
Balance at end of year		<b><u>P 117,015,673</u></b>	<u>P 129,657,216</u>

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

Interest rates on finance receivables range from 7.5% to 30.0% in 2011 and 2010. 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 28.4).

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 20). 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 15).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 16).

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 32.1).

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2011, BRL acquired additional investments which are classified as financial assets at FVTPL upon initial recognition, while Fil-Dragon's investments are primarily held for trading. The carrying amounts of financial assets at FVTPL are presented as follows:

Designated as at fair value through profit or loss	P 63,846,668
Held-for-trading	<u>6,426,323</u>
	<u>P 70,272,991</u>

This account consists of the following financial assets as of December 31, 2011:

Debt securities	P 60,382,332
Equity securities	<u>9,890,659</u>
	<u>P 70,272,991</u>

Debt securities pertain to investments in corporate bonds with interest rates ranging from 5.3% to 12.0% in 2011. On the other hand, equity securities pertain to shares of entities listed in China, Hong Kong and the United States. The fair values of financial assets presented above have been determined directly by reference to published prices quoted in active markets.

In 2011, the Group recognized the loss in value of financial assets designated at fair value through profit or loss of P5.9 million as part of Finance Costs in the 2011 consolidated statement of income (see Note 22).

The Group's foreign debt securities are used as collateral for interest-bearing loans obtained by BRL (see Note 16).

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	<u>2011</u>	<u>2010</u>
Current:		
Investments in foreign		
currency-denominated bonds	P 104,647,592	P 172,263,491
Allowance for impairment	<u>( 52,653,225)</u>	<u>( 33,657,338)</u>
	<u>51,994,367</u>	<u>138,606,153</u>
Non-current:		
Club shares	8,832,400	13,095,000
Equity securities	8,580,000	8,580,000
Others	<u>1,474,118</u>	<u>1,436,518</u>
	18,886,518	23,111,518
Allowance for impairment	<u>( 11,004,991)</u>	<u>( 11,004,991)</u>
	<u>7,881,527</u>	<u>12,106,527</u>
	<u>P 59,875,894</u>	<u>P 150,712,680</u>



A reconciliation of the allowance for impairment at the beginning and end of 2011 and 2010 is show below.

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year		<b>P 44,662,329</b>	P 11,004,991
Impairment losses during the year	22.2	<u><b>18,995,887</b></u>	<u>33,657,338</u>
Balance at end of year		<u><b>P 63,658,216</b></u>	<u>P 44,662,329</u>

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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year		<b>P 150,712,680</b>	P 313,805,880
Disposals		<b>( 60,776,293)</b>	( 145,624,597)
Impairment losses during the year	22.2	<b>( 18,995,887)</b>	( 33,657,338)
Fair value gains (losses) – net	25.2	<b>( 11,064,606)</b>	14,474,181
Additions		<u>-</u>	<u>1,714,554</u>
Balance at end of year		<u><b>P 59,875,894</b></u>	<u>P 150,712,680</u>

Investments in foreign currency-denominated bonds were used as collateral for the interest-bearing loans of BRL (see Note 16).

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 on 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 P8.6 million to AFS Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2011 and 2010.

Impairment losses recognized on the Group's AFS Financial Assets are presented as part of Finance Costs in the 2011 and 2010 consolidated statement of income (see Note 22.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2011, 2010 and 2009 have been determined directly by reference to published prices in active markets (see Note 32).

## 10. HELD-TO-MATURITY INVESTMENTS

In 2009, the Group disposed of a significant portion of its HTM investments which consisted of investments in foreign currency-denominated bonds. Accordingly, management reclassified the remaining HTM investments with total carrying amount of P125.2 million to AFS Financial Assets to comply with PFRS. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153.4 million. The reclassification resulted in a gain of P28.2 million, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

# 11. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 19.1).

	<u>2011</u>	<u>2010</u>
Merchandise and finished goods	<b>P 621,292,896</b>	P 412,507,056
Work-in-process	-	2,256,191
Raw materials	<b>362,856</b>	10,757,863
Service parts, supplies and others	<u><b>46,719,660</b></u>	<u>57,097,648</u>
	<b>668,375,412</b>	482,618,758
Allowance for inventory obsolescence	<u><b>( 103,832,347)</b></u>	<u>( 89,909,514)</u>
Balance at end of year	<u><b>P 564,543,065</b></u>	<u>P 392,709,244</u>

The movements in allowance for inventory obsolescence are as follows:

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year		<b>P 89,909,514</b>	P 49,805,684
Allowance for inventory obsolescence carried from a subsidiary acquired in 2010		-	51,343,691
Reversals of allowance for inventory obsolescence	19.1	<b>( 8,962,396)</b>	( 19,184,724)
Loss on inventory obsolescence	19.1	<b>34,790,640</b>	7,944,863
Write-off of inventory previously provided with allowance		<u><b>( 11,905,411)</b></u>	<u>-</u>
		<u><b>P 103,832,347</b></u>	<u>P 89,909,514</u>

The allowance for inventory obsolescence carried from newly acquired subsidiary in 2010 pertains to the beginning balance of the allowance for inventory obsolescence of Mytel, a subsidiary acquired in 2010.

In 2010, Mytel reversed a portion of the inventory write-down it recognized in 2009 amounting to P8.1 million following the sale of the inventory items. The reversal is credited to Cost of Sales in the 2010 consolidated statement of income (see Note 19.1).

SLC and Kita's inventory write-down with no previous allowance for inventory obsolescence amounted to P1.7 million and P7.6 million, respectively, in 2011 and P2.0 million and P5.9 million, respectively, in 2010 and is presented as Loss on inventory obsolescence on discontinued operations under Cost of Sales in the consolidated statements of income (see Note 19.1).

The Group has not entered into any purchase commitment in the acquisition of its merchandise inventories and supplies.

## 12. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2011</u>	<u>2010</u>
Land and land development costs:		
Land	<b>P 36,112,467</b>	P 46,985,838
Land development costs	<u>17,883,041</u>	<u>36,046,751</u>
	<b>53,995,508</b>	83,032,589
Allowance for impairment	<u>( 2,022,800)</u>	<u>( 2,022,800)</u>
	<b>51,972,708</b>	81,009,789
Property development costs -		
Construction in progress		
and development costs	<u>1,623,808,064</u>	<u>1,246,993,041</u>
	<b><u>P1,675,780,772</u></b>	<b><u>P 1,328,002,830</u></b>

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to 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 was the amount recognized in 2005 pertaining 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 2011, 2010 and 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 City, Laguna. As of December 31, 2011, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. 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, 2011, 2010 and 2009, the construction of Tower 1, which started in 2007, is fully completed. The construction of Tower 2 started in 2011 while the construction of Tower 3 has not yet started as of December 31, 2011.

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 (see Note 30.5). Advances made to contractors are shown as part of the Other Current Assets account in the consolidated statements of financial position (see Note 15).

In addition, the balances of Property Development Costs as of December 31, 2011 and 2010 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Pre-sale of the condominium units has been commenced for two of the residential towers in December 2010. Customer deposits received relating to the pre-selling activities in 2011 and 2010 amounting to P686.3 million and P29.0 million, respectively, are shown as Customers' Deposits in the consolidated statement of financial position.

Fil-Dragon's right to use the land, included as part of the Property Development Costs account, with a carrying amount of RMB15.2 million (P103.3 million) as of December 31, 2010, is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009. The interest-bearing loans were paid in full in 2011 (see Note 16).

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2011 and 2010 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 30.4).

### 13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of 2011 and 2010 are shown below.

A reconciliation of the carrying amounts at the beginning and end of 2011 and 2010 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, 2011, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 39,879,660	P 5,989,637	P 16,811,547	P 16,292,522	P 352,586,774	P 57,506,857	P 2,837,719	P 3,774,491	P 2,244,404	P 1,090,679	P 1,396,868,972
Additions	-	-	608,599	9,247,361	10,489,416	56,168,670	2,042,477	8,343,400	8,818,446	3,481,703	-	99,184,296
Reclassification	-	( 30,319,357)	-	-	-	-	-	-	1,043,912	1,039,567	( 1,090,679)	( 29,326,557)
Disposals	-	-	( 152,380)	( 17,678)	( 1,448,595)	-	-	-	-	-	-	( 1,618,653)
Depreciation and amortization charges for the year	-	( 1,949,096)	( 1,084,523)	( 9,410,794)	( 7,381,269)	( 43,396,705)	( 5,185,637)	( 1,787,608)	( 2,550,513)	( 1,579,028)	-	( 78,173,250)
Balance at December 31, 2011 net of accumulated depreciation, amortization and impairment loss	<u>P 897,854,682</u>	<u>P 7,611,207</u>	<u>P 5,361,333</u>	<u>P 16,630,436</u>	<u>P 17,952,075</u>	<u>P 365,358,739</u>	<u>P 56,816,543</u>	<u>P 3,076,812</u>	<u>P 11,086,336</u>	<u>P 5,186,646</u>	<u>P -</u>	<u>P 1,386,934,809</u>
Balance at January 1, 2010, 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
Additions	-	981,174	3,481,384	7,958,815	7,590,358	34,503,392	24,534,937	1,343,937	3,550,618	2,034,923	569,418	86,548,956
Reclassification	-	-	2,852,497	-	-	-	-	-	-	-	-	2,852,497
Disposals	-	( 14,556,893)	-	( 120,003)	( 11,041)	-	-	-	-	-	-	( 14,687,937)
Depreciation and amortization charges for the year	-	( 9,030,335)	( 569,866)	( 7,980,991)	( 4,318,152)	( 40,803,896)	( 6,126,581)	( 2,017,279)	( 3,645,348)	( 1,096,528)	-	( 75,588,976)
Balance at December 31, 2010 net of accumulated depreciation, amortization and impairment loss	<u>P 897,854,682</u>	<u>P 39,879,660</u>	<u>P 5,989,637</u>	<u>P 16,811,547</u>	<u>P 16,292,522</u>	<u>P 352,586,774</u>	<u>P 57,506,857</u>	<u>P 2,837,719</u>	<u>P 3,774,491</u>	<u>P 2,244,404</u>	<u>P 1,090,679</u>	<u>P 1,396,868,972</u>

No additional impairment losses were recognized in 2011, 2010 and 2009 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2011, the fair values of the Group's land and building and improvements amounted to P203.1 million. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

The amount of depreciation and amortization computed on property, plant and equipment is presented as follows:

	Notes	2011	2010	2009
Cost of services	19.2	<b>P 63,913,859</b>	P 61,817,018	P 58,325,498
Cost of rentals		<b>4,119,796</b>	-	-
Cost of sales	19.1	-	-	5,110,155
General and administrative expenses		<b>9,439,774</b>	10,438,234	11,563,221
Discontinued operations		<b><u>699,821</u></b>	<b><u>3,333,724</u></b>	<b><u>-</u></b>
	21	<b><u>P 78,173,250</u></b>	<b><u>P 75,588,976</u></b>	<b><u>P 74,998,874</u></b>

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of December 31, 2011 and 2010.

#### 14. INVESTMENT PROPERTY

The Group's investment property, which assets are accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income, and 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 19.3).

The fair values of the Group's investment property as of December 31, 2011, 2010 and 2009 were determined based on appraisal reports dated February 29, 2012, January 4, 2011 and January 11, 2010, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers.

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

		<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
2011:				
Balance at beginning of year	P	2,885,328,774	P 761,189,863	P 3,646,518,637
Fair value gains on investment property		171,420,000	20,224,597	191,644,597
Additions		-	6,927,455	6,927,455
Disposals	(	9,071,000)	-	( 9,071,000)
Reclassification		-	28,314,097	28,314,097
Balance at end of year		<u><b>P 3,047,677,774</b></u>	<u><b>P 816,656,012</b></u>	<u><b>P 3,864,333,786</b></u>
2010:				
Balance at beginning of year	P	2,831,596,567	P 785,921,294	P 3,617,517,861
Fair value gains (losses) on investment property		53,175,228	( 25,527,147)	27,648,081
Additions		<u>556,979</u>	<u>795,716</u>	<u>1,352,695</u>
Balance at end of year		<u><b>P 2,885,328,774</b></u>	<u><b>P 761,189,863</b></u>	<u><b>P 3,646,518,637</b></u>

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 30.3).

In 2010, SMC entered to a contract to sell three parcels of land to a customer under an installment sales scheme. The contract price of the land amounting to P30.0 million, inclusive of VAT, is payable within 29 months. SMC recorded the collections from customer in 2010 as Advances from customers as part of Trade and Other Payables in the 2010 consolidated statement of financial position (see Note 17). In 2011, the land was transferred and the corresponding gain was recognized. The carrying value of the land on the date of disposal is P9.1 million. Consequently, the Group recognized gain amounting to P17.8 million which is presented as part of Other Gains in the 2011 consolidated statement of income.

## 15. OTHER ASSETS

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

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Current:			
Input VAT - net		<b>P 92,707,110</b>	P 108,582,573
Creditable withholding taxes		<b>71,855,887</b>	66,263,869
Prepaid expenses		<b>63,998,425</b>	28,770,446
Advances to suppliers and contractors	12	<b>27,879,694</b>	3,815,376
Refundable deposits		<b>3,368,991</b>	2,650,877
Others		<u><b>7,386,818</b></u>	<u>32,043,738</u>
		<u><b>P 267,196,925</b></u>	<u>P 242,126,879</u>



	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Non-current:			
Refundable deposits - net		<b>P 9,836,045</b>	P 9,735,153
Prepaid insurance	7	<b>5,294,251</b>	7,907,839
Land under litigation	30.3	<b>3,258,220</b>	3,258,220
Investment in shares		<b>1,303,591</b>	1,303,591
Cash bond		<b>568,234</b>	568,234
Others		<b><u>1,890,731</u></b>	<u>1,805,631</u>
		<b><u>P 22,151,072</u></b>	<u>P 24,578,668</u>

## 16. INTEREST-BEARING LOANS

The Group's short-term interest-bearing loans as of December 31, 2011 and 2010 amounting to P779.4 million and P989.5 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, are currently due within 12 months after the end of reporting period and are classified as part of the Group's current liabilities in the consolidated statements of financial position. This is composed of US\$8.3 million and RMB58.1 million as of December 31, 2011 and US\$8.3 million and RMB92.9 million as of December 31, 2010.

In 2011, BRL extended the terms of various loans it obtained from Bank of Singapore in prior years totaling US\$8.3 million. The loans are extended for one year up to June 30, 2012.

The loans of BRL are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 7, 8 and 9). The loans bear interest at prevailing market rates per annum ranging from and 2.0% to 2.3% in 2011 and 2010. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 22.2).

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited, a shareholder owning 19% of the total shares of Fil-Dragon, amounting to RMB58.1 million (P404.1 million). The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2011 (see Note 28.8).

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the PRC amounting to RMB92.9 million (P615.7 million). These loans are secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million) as of December 31, 2010. Certain real estate properties of Fil-Dragon are used as collaterals for the secured interest-bearing loans (see Note 12). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5:1. As of December 31, 2010, Fil-Dragon has complied with such loan covenant.

As of December 31, 2010, the Group's interest-bearing loans pertains to the RMB92.9 million loan by Fil-Dragon from China Construction Bank Corporation Shenzhen Shang Zhi Branch and Nanning Yuan Hu Branch. The loan was paid in full in 2011.

Total borrowing costs incurred from these interest-bearing loans amounting to RMB6.4 million (P43.2 million) in 2011 and RMB4.6 million (P31.1 million) in 2010 are capitalized as part of Real Estate Inventories at capitalization rates ranging from 6% to 10%.

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 28.9). None of the companies under the Group, including the Parent Company, are included in the guarantee contract.

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 32.1).

## 17. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2011	2010
Trade payables	28.7	P 304,917,931	P 125,426,944
Accrued expenses		109,325,527	100,379,580
Output VAT		37,328,219	44,661,218
Refundable deposits	18	24,769,241	56,544,740
Advances from customers	12	22,623,706	18,883,152
Reserve for warranty costs		18,354,383	23,359,511
Rental payable		17,354,928	16,743,690
Unearned subscription income		9,167,511	7,884,337
Retention payable		4,872,185	5,490,237
Deferred Input VAT		3,032,367	-
Other payables		40,686,975	14,255,047
		<b>P 592,432,973</b>	<b>P 413,628,456</b>

Reserve for warranty costs pertains to amounts recognized by Mytel, 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.

Starting October 2011, the obligation to provide warranties was transferred by My Solid to Mytel when the latter was handed over the ownership of the brand and consequently became importer of the inventories from Mytel's supplier. As a result, Mytel derecognized the outstanding balance of provision for warranty claims from previous year amounting to P10.8 million. The income arising from the derecognition of this liability is presented as Reversal of provision of warranty under Other Operating Income in the 2011 consolidated statement of income (see Note 20).

The changes in the Reserve for Warranty Costs account are as follows:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Balance at beginning of year		<b>P 23,359,511</b>	P 12,828,936
Additional provision for warranty claims during the year	21	<b>45,072,286</b>	35,696,455
Actual warranty claims during the year		<b>( 38,173,009)</b>	( 20,576,375)
Reversals during the year	20	<b>( 11,904,405)</b>	( 4,589,505)
		<b><u>P 18,354,383</u></b>	<b><u>P 23,359,511</u></b>

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 32.1).

## 18. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P9.8 million and P13.0 million as at December 31, 2011 and 2010, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception of the lease terms. Interest expense recognized amounted to P0.6 million in 2011, P0.9 million in 2010 and P1.4 million in 2009 is presented as part of Finance Costs in the consolidated statements of income (see Note 22.2). The fair value of the non-current refundable deposits amounting to P15.6 million and P15.3 million as of December 31, 2011 and 2010, respectively, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

## 19. COST OF SALES, SERVICES AND RENTALS

### 19.1 Cost of Sales

The details of this account are shown below.

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Merchandise and finished goods at beginning of year	11	<b>P 412,507,056</b>	P 62,462,687	P 174,848,218
Net purchases of merchandise during the year	21, 28.7	<b>2,700,622,823</b>	1,582,453,911	709,840,593
Cost of goods manufactured:				
Raw materials at beginning of year	11	<b>10,757,863</b>	20,252,525	26,812,225
Work- in-process at beginning of year	11	<b>2,256,191</b>	1,665,047	6,023,600
Net purchases of raw materials during the year		<b>3,811,972</b>	6,759,772	83,467,501
Direct labor		<b>1,715,564</b>	3,709,810	30,155,527
Manufacturing overhead	13	<b>1,831,269</b>	16,613,479	33,187,783
Raw materials at end of year	11	( <b>362,856</b> )	( 10,757,863)	( 20,252,525)
Work-in-process at end of year	11	<u>-</u>	( <u>2,256,191</u> )	( <u>1,665,047</u> )
		<b>20,010,003</b>	35,986,579	157,729,064
Goods available for sale		<b>3,133,139,882</b>	1,680,903,177	1,042,417,875
Merchandise and finished goods at end of year	11	( <b>621,292,896</b> )	( 412,507,056)	( 62,462,687)
Net provision (reversal) on inventory obsolescence	11	<u><b>27,304,279</b></u>	( <u>11,239,861</u> )	<u>13,968,310</u>
	21	<b>P 2,539,151,265</b>	P 1,257,156,260	P 993,923,498

The allocation of cost of sales between continuing and discontinued operations is shown below.

	<u>Note</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Continuing operations		<b>P 2,524,843,718</b>	P 1,225,420,110	P 849,411,001
Discontinued operations	5	<u><b>14,307,547</b></u>	<u>31,736,150</u>	<u>144,512,497</u>
		<b>P 2,539,151,265</b>	P 1,257,156,260	P 993,923,498

### 19.2 Cost of Services

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

	Notes	2011	2010	2009
Salaries and employee benefits		<b>P 92,304,067</b>	P 91,449,097	P 95,675,316
Materials and other consumables		<b>90,295,728</b>	73,058,882	85,940,616
Depreciation and amortization	13	<b>63,913,859</b>	61,817,018	58,325,498
Communication, light and water		<b>50,503,338</b>	47,309,256	44,302,675
Transponder rental and leased line		<b>46,122,992</b>	49,380,862	38,348,825
Outside services		<b>37,481,054</b>	33,384,542	33,432,046
Subcontracting services		<b>30,841,268</b>	18,674,615	18,877,400
Rentals	30.2	<b>29,463,835</b>	42,954,302	42,401,829
Repairs and maintenance		<b>19,949,027</b>	4,567,611	9,694,408
Transportation and travel		<b>18,442,548</b>	12,640,691	12,404,886
Cable services		<b>6,696,429</b>	6,696,429	6,696,429
Others		<b>13,280,724</b>	18,258,313	12,064,702
	21	<b><u>P 499,294,869</u></b>	<b><u>P 460,191,618</u></b>	<b><u>P 458,164,630</u></b>

### 19.3 Cost of Rentals

The details of this account are as follows:

	Notes	2011	2010	2009
Rentals		<b>P 10,040,302</b>	P 10,990,367	P 9,370,903
Taxes and licenses	14	<b>9,571,471</b>	7,706,287	9,623,392
Outside services		<b>5,856,501</b>	9,728,407	4,338,332
Repairs and maintenance	14	<b>3,487,349</b>	3,488,634	2,690,672
Utilities and communication	14	<b>3,324,709</b>	4,565,515	3,813,399
Salaries and employee benefits		<b>1,144,438</b>	1,011,864	787,500
Others		<b>6,455,978</b>	1,078,119	2,943,834
	21	<b><u>P 39,880,748</u></b>	<b><u>P 38,569,193</u></b>	<b><u>P 33,568,032</u></b>

## 20. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Fair value gains (losses) on investment property	12	<b>P 191,644,597</b>	P 27,648,081	(P 15,136,545)
Increase in cash surrender value of investment in life insurance	7	<b>19,110,728</b>	17,678,362	16,172,147
Reversal of provision warranty		<b>11,904,405</b>	3,126,950	-
Gain on insurance settlement		<b>55,000</b>	4,694,715	-
Return on retirement plan assets		<b>-</b>	33,041,153	-
Miscellaneous	5	<b>18,411,703</b>	<b>4,014,186</b>	<b>26,905,939</b>
		<b><u>P 241,126,433</u></b>	<b><u>P 90,203,447</u></b>	<b><u>P 27,941,541</u></b>

The allocation of other operating income between continuing and discontinued operations is shown below.

	<u>Note</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Continuing operations		<b>P 232,773,017</b>	P 87,379,618	P 22,809,568
Discontinued operations	5	<b>8,353,416</b>	<b>2,823,829</b>	<b>5,131,973</b>
		<b><u>P 241,126,433</u></b>	<b><u>P 90,203,447</u></b>	<b><u>P 27,941,541</u></b>

## 21. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Net purchases of merchandise inventories	19.1	<b>P 2,700,622,823</b>	P 1,582,453,911	P 709,840,593
Salaries and employee benefits	23.1	<b>254,151,282</b>	231,327,047	248,692,436
Outside services		<b>149,697,511</b>	97,545,658	78,622,318
Materials, supplies and other consumables		<b>110,419,752</b>	109,721,847	226,885,785
Cost of real estate sold		<b>95,886,118</b>	151,396,685	282,889,925
Depreciation and amortization	13	<b>78,173,250</b>	75,588,976	74,998,874
Utilities and communication		<b>72,208,053</b>	72,260,992	77,035,717
Taxes and licenses		<b>46,839,422</b>	55,402,878	30,521,377
Repairs and maintenance		<b>45,966,836</b>	28,229,042	26,788,502
Provision for warranty	17	<b>45,072,289</b>	35,696,455	26,344,466
Transponder rental and leased line		<b>44,719,890</b>	48,257,021	38,348,825
Transportation and travel		<b>43,880,536</b>	29,924,036	28,338,500
Rentals	28.3, 30.2	<b>42,785,957</b>	44,419,377	42,401,829
Net provision (reversal) on inventory obsolescence	19.1	<b>27,304,279</b>	( 11,239,861)	13,968,310
Change in merchandise, finished goods and work-in-process inventories		<b>( 206,529,649)</b>	( 338,484,611)	116,744,084
Miscellaneous		<b>269,394,808</b>	<b>213,098,043</b>	<b>120,477,321</b>
		<b><u>P 3,820,593,157</u></b>	<b><u>P 2,425,597,496</u></b>	<b><u>P 2,142,898,862</u></b>

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:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Continuing operations:				
Cost of sales	19.1	<b>P 2,524,843,718</b>	P 1,225,420,110	P 849,411,001
Cost of services	19.2	<b>499,294,869</b>	460,191,618	458,164,630
Cost of real estate sold		<b>95,886,118</b>	151,396,685	282,889,925
Cost of rentals	19.3	<b>39,880,748</b>	38,569,193	33,568,032
General and administrative expenses		<b>366,950,584</b>	281,046,941	250,979,458
Selling and distribution costs		<b>278,372,598</b>	227,552,333	97,041,397
		<b><u>3,805,228,635</u></b>	<u>2,384,176,880</u>	<u>1,972,054,443</u>
Discontinued operations:				
Cost of sales	19.1	<b>14,307,547</b>	31,736,150	144,512,497
General and administrative expenses	5	<b>385,540</b>	9,271,158	22,026,940
Selling and distribution costs	5	<b>671,435</b>	413,308	4,304,982
		<b><u>15,364,522</u></b>	<u>41,420,616</u>	<u>170,844,419</u>
		<b><u>P 3,820,593,157</u></b>	<u>P 2,425,597,496</u>	<u>P 2,142,898,862</u>

## 22. OTHER INCOME (CHARGES)

### 22.1 Finance Income

This account consists of the following:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Interest income from banks	6	<b>P 28,088,868</b>	P 23,389,186	P 24,249,043
Reversal of impairment losses on trade and other receivables	7	<b>17,014,146</b>	11,104,219	8,488,254
Interest income from financing		<b>9,038,889</b>	5,041,854	2,223,213
Foreign currency gains		<b>5,624,590</b>	1,372,689	1,851,732
Others		<b>1,842,653</b>	905,319	466,547
		<b><u>P 61,609,146</u></b>	<u>P 41,813,267</u>	<u>P 37,278,789</u>

The allocation of finance income between continuing and discontinued operations is shown below.

	<u>Note</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Continuing operations		<b>P 61,524,698</b>	P 38,921,553	P 34,748,630
Discontinued operations	5	<b>84,448</b>	2,891,714	2,530,159
		<b><u>P 61,609,146</u></b>	<u>P 41,813,267</u>	<u>P 37,278,789</u>

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P47.8 million in 2011, P63.1 million in 2010 and P95.2 million in 2009 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

## 22.2 Finance Costs

This account consists of the following:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Foreign currency losses		<b>P 33,124,222</b>	P 28,649,430	P 11,693,973
Impairment losses on trade and other receivables	7	<b>21,145,641</b>	9,266,502	27,735,676
Impairment losses on AFS financial assets	9	<b>18,995,887</b>	33,657,338	-
Interest expense arising from interest-bearing loans	16	<b>8,203,376</b>	10,530,521	19,345,255
Fair value loss on FVTPL	8	<b>5,909,803</b>	-	-
Interest amortization on refundable deposits	18	<b>614,109</b>	864,519	1,386,810
Loss on sale of investments in foreign currency-denominated bonds		-	-	59,852,713
Others		<u><b>2,069,475</b></u>	<u>5,908,164</u>	<u>2,463,758</u>
		<u><b>P 90,062,513</b></u>	<u>P 88,876,474</u>	<u>P 122,478,185</u>

The allocation of finance costs between continuing and discontinued operations is shown below.

	<u>Notes</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Continuing operations		<b>P 89,426,503</b>	P 88,223,148	P 118,599,858
Discontinued operations	5	<u><b>636,010</b></u>	<u>653,326</u>	<u>3,878,327</u>
	21	<u><b>P 90,062,513</b></u>	<u>P 88,876,474</u>	<u>P 122,478,185</u>

## 23. EMPLOYEE BENEFITS

### 23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 21 and 28.10).

	<u>Note</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Short-term benefits		<b>P 249,752,464</b>	P 225,608,349	P 226,961,685
Post-employment benefit	23.2	<b>3,634,033</b>	4,594,191	11,895,740
Termination benefits		<u><b>764,785</b></u>	<u>1,124,507</u>	<u>9,745,011</u>
		<u><b>P 254,151,282</b></u>	<u>P 231,327,047</u>	<u>P 248,692,436</u>



### 23.2 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 post-employment 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:

	<u>2011</u>	<u>2010</u>
Fair value of plan assets	<b>P 198,950,272</b>	P 191,634,637
Present value of the obligation	<u><b>104,569,041</b></u>	<u>55,578,427</u>
Excess of plan assets	<b>94,381,231</b>	136,056,210
Withdrawal of fund*	-	( 10,015,049)
Unrecognized actuarial gains (losses)	<u><b>( 15,099,780)</b></u>	<u>( 51,123,206)</u>
	<u><b>P 79,281,451</b></u>	<u>P 74,917,955</u>

*\*Withdrawal represents the amount pulled out by Kita and SLC from the plan assets.*

In 2010, Kita and SLC withdrew a portion of the plan assets amounting to P10.0 million out of the total excess retirement fund representing the benefits paid by Kita and SLC for terminated employees (see Note 5). Management assessed that the remaining value of plan assets is more than enough to cover the current and future current cost of Kita and SLC's remaining employees.

The amounts of retirement benefit obligation of SGI, My Solid, Mytel, SBC, ZTC and CBHI that are recognized in the consolidated statements of financial position are determined as follows:

	<u>2011</u>	<u>2010</u>
Fair value of plan assets	<b>P 52,742,927</b>	P 47,775,051
Present value of the obligation	<u><b>48,704,204</b></u>	<u>35,630,324</u>
Excess of plan assets	<b>4,038,723</b>	12,144,727
Unrecognized actuarial gains	<u><b>( 10,149,864)</b></u>	<u>( 15,266,320)</u>
Retirement benefit obligation	<u><b>P 6,111,141</b></u>	<u>P 3,121,593</u>

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.

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Fair value of plan assets	<b>P 251,693,199</b>	P 239,409,688	P 210,694,669	P 163,517,091	P 152,467,439
Present value of the obligation	<u><b>153,273,245</b></u>	<u>91,208,751</u>	<u>71,624,495</u>	<u>74,604,282</u>	<u>96,143,040</u>
Excess in the plan	<u><b>P 98,419,954</b></u>	<u>P 148,200,937</u>	<u>P 139,070,174</u>	<u>P 88,912,809</u>	<u>P 56,324,399</u>

Experience adjustments arising on plan assets amounted to P5.3 in 2011, P6.2 million in 2010 and P8.9 million in 2009. Experience adjustments on plan liabilities amounted to P7.2 million in 2011, P5.9 million in 2010 and P9.1 million in 2009.

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

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<b>P 91,208,751</b>	P 71,624,495
Transfers	<b>1,267,732</b>	-
Current service and interest costs	<b>20,067,558</b>	9,397,601
Benefits paid	<b>( 1,840,988)</b>	( 3,700,345)
Actuarial gains	<u><b>42,570,192</b></u>	<u>13,887,000</u>
Balance at end of year	<u><b>P 153,273,245</b></u>	<u>P 91,208,751</u>

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

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<b>P 239,409,688</b>	P 210,694,669
Contributions paid into the plan	<b>4,976,389</b>	6,703,890
Benefits paid by the plan	<b>( 1,840,988)</b>	( 3,700,345)
Expected return on plan assets	<b>12,604,518</b>	12,689,130
Actuarial gains (losses)	<u><b>( 3,456,408)</b></u>	<u>13,022,344</u>
Balance at end of year	<u><b>P 251,693,199</b></u>	<u>P 239,409,688</u>

Actual returns on plan assets amounted to P9.15 million, P25.7 million and P13.3 million in 2011, 2010 and 2009, respectively. The Group expects to contribute a total of P8.9 million to the post-employment defined benefit plan in 2011.

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

	<u>2011</u>	<u>2010</u>
Government securities	<b>P 234,845,476</b>	P 229,286,632
Mutual and trust funds	<u><b>16,847,723</b></u>	<u>10,123,056</u>
	<u><b>P 251,693,199</b></u>	<u>P 239,409,688</u>

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	<u>2011</u>	<u>2010</u>
Current service cost	<b>P 13,004,057</b>	P 6,120,469
Interest cost	<b>7,063,501</b>	3,277,132
Expected return on plan assets	<b>( 12,604,518)</b>	( 12,689,130)
Net actuarial gains (loss) recognized during the year	<b>( 3,829,007)</b>	<u>7,885,720</u>
	<b><u>P 3,634,033</u></b>	<b><u>P 4,594,191</u></b>

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Discount rates	<b>6% - 7%</b>	8% - 9%	8% - 11%
Expected rate of return on plan assets	<b>8%</b>	6%	5%
Expected rate of salary increases	<b>10%</b>	9%	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.

## 24. TAXES

### ***24.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation***

#### ***(a) Registration with Clark Development Corporation (CDC)***

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes*. As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% Regular Corporate Income Tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

(b) *Registration with Philippine Economic Zone Authority (PEZA)*

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International *Industrial Park* – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

(c) *Fil-Dragon Taxation*

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

## 24.2 *Current and Deferred Taxes*

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

	<u>2011</u>	<u>2010</u>	<u>2009</u>
<i>Consolidated statements of income</i>			
Current tax expense:			
RCIT at 30%	P 105,566,741	P 91,903,929	P 41,898,822
Final taxes at 20% and 7.5%	9,686,979	8,917,838	7,710,318
Preferential taxes at 5%	1,165,853	2,718,628	4,336,892
Minimum corporate income tax (MCIT) at 2%	<u>784,751</u>	<u>4,269,350</u>	<u>865,972</u>
	117,204,324	107,809,744	54,812,004
Deferred tax expense relating to origination and reversal of temporary differences	<u>22,508,829</u>	<u>15,457,073</u>	<u>7,849,458</u>
	<u>P 139,713,153</u>	<u>P 123,266,818</u>	<u>P 62,661,462</u>
<i>Consolidated statements of comprehensive income –</i>			
Deferred tax income on changes in fair value of AFS financial assets (see Note 25.2)	<u>(P 1,458,000)</u>	<u>(P 1,110,000)</u>	<u>(P 150,000)</u>

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.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Tax on pretax profit at 30%	<b>P 171,602,741</b>	P 109,924,527	P 87,743,905
Adjustment for income subject to lower tax rates	( 6,615,150)	( 17,302,712)	( 34,418,042)
Tax effects of:			
Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets	( 26,314,832)	( 47,588,087)	( 32,929,923)
Reversal of previously recognized DTL	( 11,409,417)	-	-
Nontaxable income	( 11,209,655)	( 5,563,691)	( 19,275,138)
Income (loss) of foreign subsidiary not subject to taxes	9,739,812	62,238,190	31,810,188
Derecognized and unrecognized deductible temporary differences	7,975,800	4,004,029	15,170,833
Nondeductible expenses and losses	5,437,096	9,597,237	7,009,726
Unrecognized deferred taxes from NOLCO and MCIT	1,430,215	4,060,303	7,018,190
Loss on non-recoverable foreign currency losses	-	958,240	486,363
Unrecognized benefit from write-off of receivables	-	3,735	-
Decrease in deferred tax assets due to decrease in applicable tax rates	-	-	717
Others	( 923,457)	2,935,047	44,643
	<b><u>P 139,713,153</u></b>	<b><u>P 123,266,818</u></b>	<b><u>P 62,661,462</u></b>

The allocation of the tax expense relating to profit or loss from continuing and discontinued operations in 2011 is shown below:

	<u>Note</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Continuing operations		<b>P 139,364,314</b>	P 122,651,703	P 63,514,404
Discontinued operations	5	<b><u>348,839</u></b>	<u>615,115</u>	( <u>852,942</u> )
		<b><u>P 139,713,153</u></b>	<b><u>P 123,266,818</u></b>	<b><u>P 62,661,462</u></b>

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:

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Fair value adjustments on investment property	P 23,831,400	P 23,831,400
Allowance for inventory obsolescence	20,630,203	376,648
Accrued municipal taxes	9,026,376	2,324,032
Provision for warranty	7,288,866	6,074,444
Retirement benefit obligation	6,094,079	1,370,393
Allowance for impairment on trade and other receivables	3,776,335	1,826,984
Unamortized past service costs	1,156,422	264,916
Unamortized pre-operating expenses	112,648	162,812
Unrealized foreign currency loss – net	165,867	-
Deferred tax liabilities:		
Retirement benefit asset	( 2,099,707)	( 2,886,905)
Unrealized foreign currency gain	<u>-</u>	<u>( 537,680)</u>
Deferred tax assets – net	<u>P 69,982,489</u>	<u>P 32,807,044</u>

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

	<u>2011</u>	<u>2010</u>
Deferred tax assets:		
Allowance for impairment on trade and other receivables	P 7,500,210	P 6,770,160
Unamortized past service costs	675,055	742,179
Deferred rent expense – PAS 17	609,324	577,137
Allowance for inventory obsolescence	-	297,069
NOLCO	-	-
Deferred tax liabilities:		
Fair value gains on investment property	( 722,756,790)	( 667,813,336)
Accumulated depreciation on investment property	( 129,743,498)	( 119,456,850)
Retirement benefit asset	( 14,115,622)	( 13,265,423)
Deferred rent income – PAS 17	( 3,523,866)	( 5,348,917)
Changes in fair value of AFS	246,000	( 1,212,000)
Unrealized foreign currency gains	<u>( 36,056)</u>	<u>( 10,462)</u>
Deferred tax liabilities – net	<u>(P 861,145,243)</u>	<u>(P 798,720,443)</u>

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

	2011	2010	2009
Fair value gains on investment property	P 54,506,870	P 8,472,450	(P 2,378,563)
Allowance for inventory obsolescence	( 19,956,486)	( 445,274)	29,492
Accrued municipal taxes	( 6,702,344)	( 2,324,032)	-
Accumulated depreciation on investment property	6,651,556	7,125,475	6,184,084
Retirement benefit obligation	( 5,830,938)	1,971,288	2,795,573
Allowance for impairment on trade and other receivables	( 2,896,526)	239,523	602,140
Deferred rent income – PAS 17	( 1,752,527)	376,861	887,629
Reserve for warranty costs	( 1,214,422)	( 4,657,666)	( 415,140)
Unamortized past service costs	344,910	138,036	114,254
Unamortized preoperating expenses	50,164	54,271	( 217,082)
Benefits from previously unrecognized MCIT	( 47,888)	-	-
Deferred rent expense – PAS 17	34,412	( 1,352,937)	( 14,965)
Change in fair value of AFS	-	1,122,000	-
NOLCO	-	107,764	338,063
Unrealized foreign currency losses	( 677,951)	( 18,750)	( 76,027)
	<u>P 22,508,829</u>	<u>P 15,457,073</u>	<u>P 7,849,458</u>

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS Financial Assets.

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
<b>NOLCO:</b>						
2011	P 25,849,966	P -	P -	P -	P 25,849,966	2014
2010	3,120,173	1,991,003	17,323	-	1,111,847	2013
2009	29,179,579	11,884,333	3,122,231	-	14,173,015	2012
2008	<u>26,442,985</u>	<u>6,184,682</u>	<u>10,709,470</u>	<u>9,555,833</u>	<u>-</u>	2011
	<u>P 84,599,703</u>	<u>P 20,060,018</u>	<u>P 13,849,024</u>	<u>P 9,555,833</u>	<u>P 41,134,828</u>	
<b>MCIT:</b>						
2011	P 1,125,824	P -	P -	P -	P 1,125,824	2014
2010	4,301,987	-	-	-	4,301,987	2013
2009	868,871	18,000	-	-	850,871	2012
2008	<u>4,174,555</u>	<u>71,162</u>	<u>3,326,116</u>	<u>777,277</u>	<u>-</u>	2011
	<u>P 10,471,237</u>	<u>P 89,162</u>	<u>P 3,326,116</u>	<u>P 777,277</u>	<u>P 6,278,592</u>	

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.

	2011		2010		2009	
	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 350,000,000	P 105,000,000
Allowance for impairment of financial assets classified as loans and receivables	113,897,224	34,169,167	120,021,728	36,006,518	105,528,652	30,158,596
NOLCO	41,027,061	12,308,119	44,866,357	14,239,113	251,122,331	75,336,699
Allowance for inventory obsolescence	15,504,733	4,651,420	29,729,592	8,918,877	47,404,857	14,221,457
Fair value loss in investment property	10,167,900	3,050,370	6,586,000	1,975,800	5,676,000	1,702,800
MCIT	5,545,272	5,545,272	5,911,763	5,911,763	-	-
Allowance for impairment loss on AFS financial assets	5,420,000	1,626,000	5,420,000	1,626,000	5,460,000	1,638,000
Unearned income	4,920,000	1,476,000	-	-	-	-
Unrealized foreign currency loss	1,606,837	506,431	22,322,126	6,696,638	9,943,291	2,982,987
Unamortized past service cost	976,947	293,084	1,496,952	449,086	2,077,689	623,307
Retirement benefit obligation	875,601	262,680	( 10,207,044)	( 3,062,114)	1,974,541	592,362
Other accrued expenses	-	-	7,119,287	2,135,786	-	-
Accrued municipal taxes	-	-	10,607,331	3,182,199	-	-
Day-one gain	-	-	( 372,906)	( 111,872)	-	-
Amortization of pre-operating expenses	-	-	( 5,135)	( 1,541)	-	-
	<u>P 549,941,575</u>	<u>P 168,888,543</u>	<u>P 593,496,051</u>	<u>P 182,966,253</u>	<u>P 779,187,361</u>	<u>P 232,256,208</u>

In 2011, 2010 and 2009, the Group opted to claim itemized deductions.

### 24.3 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.

## 25. EQUITY

### 25.1 Capital Stock

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

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

As of December 31, 2011, the Parent Company has issued capital stock of P2,030,975,000, of which, 1,821,542,000 shares, are outstanding and are listed in the PSE. There are 4,583 holders of the listed shares which closed at P1.16 per share on December 31, 2011.

Retained earnings is restricted in the amount of P115.6 million in 2011 and 2010, equivalent to the 209,433,000 shares held in treasury.



## 25.2 Revaluation Reserves

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

	Notes	2011	2010	2009
Cumulative translation adjustments:				
Balance at beginning of year		P 64,979,425	P 70,778,455	P 85,204,455
Currency differences on translating financial statements of foreign operations	2	<u>12,497,965</u>	<u>(5,799,030)</u>	<u>(14,426,000)</u>
		<u>77,477,390</u>	<u>64,979,425</u>	<u>70,778,455</u>
Fair value losses on AFS financial assets:				
Balance at beginning of year		( 108,459,976)	( 172,432,191)	( 298,230,850)
Reclassification adjustments for losses recognized in profit or loss		12,804,822	49,498,034	62,432,561
Fair value gains (losses) – net	9	( 12,522,606)	14,474,181	35,278,701
Gain on reclassification of financial assets	10	-	-	28,237,397
Deferred tax income on changes in fair value of AFS financial assets	24	<u>(1,458,000)</u>	<u>(1,110,000)</u>	<u>(150,000)</u>
		<u>(106,719,760)</u>	<u>(108,459,976)</u>	<u>(172,432,191)</u>
Balance at end of the year		<u>(P 29,242,370)</u>	<u>(P 43,480,551)</u>	<u>(P 101,653,736)</u>

## 26. EARNINGS PER SHARE

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

	2011	2010	2009
Net profit for the year attributable to the Parent Company's stockholders	P <u>439,437,428</u>	P <u>229,346,310</u>	P <u>203,254,151</u>
Divided by weighted average shares outstanding:			
Number of shares issued	2,030,975,000	2,030,975,000	2,030,975,000
Treasury shares	<u>(209,433,000)</u>	<u>(209,433,000)</u>	<u>(209,433,000)</u>
	<u>1,821,542,000</u>	<u>1,821,542,000</u>	<u>1,821,542,000</u>
EPS – basic and diluted	<u>P 0.24</u>	<u>P 0.13</u>	<u>P 0.11</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2011, 2010 and 2009, hence, diluted EPS is equal to the basic EPS.

## 27. EVENTS AFTER THE REPORTING PERIOD

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; and OLC and SLC, respectively, whereby SMC and SLC will be the surviving entities. Consequently on the same dates, SEC issued the Certificates of Filing of the Articles and Plans of Merger. Both mergers became effective on January 1, 2012; hence, starting that date, SC started to operate under the corporate name of SMC; and OLC under the corporate name of SLC.

The merger documents related to the planned merger between Mytel and My Solid are yet to be submitted to SEC for its approval as of March 27, 2012, the date the consolidated financial statements were authorized for issue (see Note 1.2).

The Group expects that these mergers will result in efficiency in operations and management of the surviving entities, which will ultimately result positively in the overall financial performance of the Group.

## 28. 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.

### 28.1 Sale of Goods and Rendering Services

	Amounts of Transactions			Outstanding Balances	
	2011	2010	2009	2011	2010
Rendering of services:					
Use of cable infrastructure	P 228,608,036	P 231,489,895	P 145,891,071	P 71,595,493	P 88,205,454
Commissions	2,498,762	5,589,940	2,546,771	1,132,958	48,017,957
Management services	1,200,000	1,200,000	1,200,000	-	-
	<u>232,306,798</u>	<u>238,279,835</u>	<u>149,637,842</u>	<u>72,728,451</u>	<u>136,223,411</u>
Sales of goods -					
Sale of mobile phones	<u>3,042,022</u>	<u>1,778,608</u>	<u>540,219,872</u>	<u>3,042,022</u>	<u>1,778,608</u>
	<u>P 235,348,820</u>	<u>P 240,058,443</u>	<u>P 689,857,714</u>	<u>P 75,770,473</u>	<u>P 138,002,019</u>

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 49% 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 Due from related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

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 28.6).

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.

In 2011 and 2010, Mytel sold mobile phone inventories to STL. The outstanding receivables arising from these sales transactions are shown as part of Due from related parties under the Trade and Other Receivables account in the statements of financial position (see Note 7).

## 28.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P105.5 million in 2011, P85.9 million in 2010 and P86.7 million in 2009 are recorded as part of Cost of Services (see Note 19.1). There were no outstanding payables arising from the transactions as of December 31, 2011 and 2010.

## 28.3 Lease of Real Property

	Amount of Transactions			Outstanding Balances	
	2011	2010	2009	2011	2010
Group as lessor	<u>P 993,192</u>	<u>P 785,842</u>	<u>P 584,242</u>	<u>P -</u>	<u>P -</u>
Group as lessee	<u>P -</u>	<u>P -</u>	<u>P 600,000</u>	<u>P -</u>	<u>P -</u>

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

In 2009, 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 2009 consolidated statement of income (see Note 21). There are no outstanding liabilities related to this lease in 2011 and 2010.

## 28.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 30.0% in 2011 and 2010 and 7.5% to 18.0% in 2009. Total interests earned from these loans amounted to P7.6 million in 2011, P8.8 million in 2010 and P10.2 million in 2009, 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 7).

The outstanding receivables from business loans as of December 31, 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
AA Export & Import Corporation	<u>P 51,979,709</u>	<u>P 63,695,301</u>
Avid Sales Corporation	<u>37,121,075</u>	<u>40,000,000</u>
	<u>P 89,100,784</u>	<u>P 103,695,301</u>

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 7). Total principal repayments received on the loans amounted to P3.3 million in 2011, P10.4 million in 2010 and P13.1 million in 2009.

SMFI also granted unsecured business loan to Avid amounting to P80.0 million. Principal repayments in the amount of P2.9 million and P6.0 million were made in 2011 and 2010, respectively, related to the business loan. There were no principal repayments made in 2009 related to the business loan.

Section 9 (d) of RA No. 8556 states that the total credit that a financing Company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of SMFI decreased in 2011, the balance of business loan extended to Avid Sales as of December 31, 2011 exceeds thirty percent (30%) of SMFI's net worth which is not in accordance with Section 9 (d) of RA No. 8556.

#### ***28.5 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 amounting to P128.5 million and P107.5 million in 2011 and P201.2 million and P168.9 million in 2010, are presented as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position.

In 2011, the Advances to Related Parties had net repayments of P72.7 million while Advances from Related Parties had net repayments of P61.4 million.

No impairment losses were recognized on the Advances to Related Parties as management has assessed that the total amounts is fully collectible.

#### ***28.6 Transactions with 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 2011, P5.6 million in 2010 and P2.5 million in 2009 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 P48.0 million and P25.0 million as of December 31, 2011 and 2010, respectively, and are included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 28.5).

### ***28.7 Transactions with Solid Company Limited (Hong Kong)***

Mytel, My Solid and SBC purchases mobile phones from Solid Company Limited (Hong Kong), a related party owned by the Parent Company's majority stockholders in 2011 and 2010. Total purchases amounted to P2.5 billion in 2011, P898.3 million in 2010 and P547.6 million in 2009 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 19.1). Outstanding liabilities relating to these purchases amounted to P372.3 million as of December 31, 2011 and P1.0 million as of December 31, 2010.

In 2011, My Solid made advances to Solid Company Limited (Hong Kong) for its future purchase of mobile phones. The advances were later assigned to Mytel after it was issued by the Bureau of Customs (BOC) with a Certificate of Accreditation as Importer in July 2011. The outstanding advances amount to P219.4 million as of December 31, 2011 and is presented as part of Advances to supplier under Trade and Other Receivables account in the 2011 consolidated statement of financial position.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hong Kong) amounting to P120.8 million which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year.

The amount of loan amounting to P111.3 million as of December 31, 2011 and 2010 is presented as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

### ***28.8 Loan Availments***

In 2011, Fil-Dragon obtained loans from companies that are owned by Solid Company Limited (Hong Kong) amounting to RMB58.1 million (P404.1 million). These bear interest at prevailing market rates per annum ranging from and 6.0% to 10.0% in 2011. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2011 consolidated statement of financial position. Borrowing cost incurred in 2011 relating to these loans amounted to RMB1.5 million (P9.7 million) and are capitalized as part of Real Estate Inventories (see Note 16).

### ***28.9 Financial Guarantees***

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC 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 was terminated during the year as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 16).

## 28.10 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2011, 2010 and 2009 are as follows (see Note 23.1):

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Short-term benefits	<b>P 33,992,630</b>	P 34,456,347	P 23,959,255
Post-employment benefit	<u>-</u>	<u>884,848</u>	<u>1,447,878</u>
	<b><u>P 33,992,630</u></b>	<b><u>P 35,341,195</u></b>	<b><u>P 25,407,133</u></b>

## 29. SIGNIFICANT CONTRACTS AND AGREEMENTS

### 29.1 Memorandum of Understanding with SPI

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support for SPI and Aiwa products. Under the MOU, SPI 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 SPI's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPI. Also, SPI agrees to pay the SE Corp. network support fees equal to 1% of net sales for SPI products and 1% or P50,000 per month whichever is higher for Aiwa products. In the first quarter of 2009, SE Corp. and SPI agreed to lower the network support fees to 0.45% of SPI's net sales. Subsequently, SE Corp. and SPI agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

The breakdown of network support fees and in-warranty service fees are shown below.

	<u>Amounts of Transactions</u>			<u>Outstanding Balances</u>	
	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2011</u>	<u>2010</u>
SPI Products	<b>P 56,652,858</b>	P 43,665,418	P 37,536,329	<b>P 3,027,479</b>	P 3,196,959
AIWA Products	<u>-</u>	<u>-</u>	<u>601,080</u>	<u>-</u>	<u>-</u>
	<b><u>P 56,652,858</u></b>	<b><u>P 43,665,418</u></b>	<b><u>P 38,137,409</u></b>	<b><u>P 3,027,479</u></b>	<b><u>P 3,196,959</u></b>

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 (see Note 7).

## **29.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)**

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 17). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

## **30. COMMITMENTS AND CONTINGENCIES**

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

### **30.1 Operating Lease Commitments – Group as Lessor**

Certain subsidiaries lease various properties for a period of one to ten 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:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Within one year	<b>P 85,906,404</b>	P 84,506,562	P 53,682,958
After one year but not more than five years	<b>137,864,538</b>	159,674,701	91,966,581
More than five years	<u><b>806,905</b></u>	<u>865,866</u>	<u>1,810,700</u>
	<u><b>P 224,577,847</b></u>	<u>P 245,047,129</u>	<u>P 147,460,239</u>

### **30.2 Operating Lease Commitments – Group as Lessee**

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2009, these leases have a remaining term of 10 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Within one year	<b>P 11,131,271</b>	P 6,984,946	P 6,664,895
After one year but not more than five years	<b>40,612,597</b>	33,500,497	29,065,715
More than five years	<u><b>25,977,359</b></u>	<u>36,195,820</u>	<u>52,122,286</u>
	<u><b>P 77,721,227</b></u>	<u>P 76,681,263</u>	<u>P 87,852,896</u>

Total rental expense from these operating leases amounted to P7.4 million each in 2011, 2010 and 2009, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 19.2 and 21).

### ***30.3 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 P3.3 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.

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

### ***30.4 Estimated Liability for Land and Land Development Cost***

The Group has commitment of about P68.3 million as of December 31, 2011, 2010 and 2009, for the fulfillment of projects in the development and marketing of CPIP (see Note 12).

### ***30.5 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 12). The construction of Tower 1 was fully completed in 2009; the construction of Tower 2 started in 2011 while the construction of Tower 3 has not yet started as of December 31, 2011.

### ***30.6 Possible Impact of Government Project***

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2<sup>nd</sup> Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri Towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.



### 30.7 Others

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements 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.

## 31. 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 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.

### 31.1 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, AFS financial assets, 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:

	2011		2010		2009	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	P 476,601,716	P 75,339,059	P 429,590,753	P 129,100,783	P 637,642,672	P 106,121,412
Financial liabilities	( 379,197,829)	( 404,053,192)	( 386,804,826)	( 706,843,136)	( 430,290,137)	( 215,074,453)
Total net exposure	<u>P 97,403,887</u>	<u>(P 328,714,133)</u>	<u>P 42,785,927</u>	<u>(P 577,742,353)</u>	<u>(P 207,352,535)</u>	<u>P 108,953,041</u>

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.

	2011		2010		2009	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	16.13%	P 6,939,858	20.63%	P 8,826,737	20.17%	(P 41,823,006)
Php – RMB	13.18%	( 43,337,150)	12.21%	( 70,542,341)	19.97%	21,757,922
		<u>(P 36,397,292)</u>		<u>P 61,715,604</u>		<u>P 20,065,084</u>

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.

### 31.2 Interest Rate Sensitivity

At December 31, 2011, 2010 and 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 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-1.17% in 2011, +/-1.19% 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 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 1.17%, 1.19% and 7.21%, profit before tax in 2011, 2010 and 2009 would have increased by P14.1 million, P13.2 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.

### 31.3 Credit Risk

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

	Notes	2011	2010	2009
Cash and cash equivalents	6	<b>P 1,720,748,062</b>	P 1,620,114,468	P 1,263,142,145
Trade and other receivables - net	7	<b>1,807,037,835</b>	1,531,894,847	1,181,048,096
Financial assets at FVTPL	8	<b>70,272,991</b>	-	-
AFS financial assets - net	9	<b>51,994,367</b>	150,712,680	313,805,880
Advances to related parties	28	<b>128,543,399</b>	201,193,407	504,328,415
Refundable deposits - net	15	<b>13,205,036</b>	12,386,030	13,075,903
		<b><u>P 3,791,801,690</u></b>	<u>P 3,516,301,432</u>	<u>P 3,275,400,439</u>

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, FVTPL and AFS Financial Assets

The credit risk for cash and cash equivalents, FVTPL and AFS 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 and advances to related parties are past due at the end of the reporting period. Trade receivables and advances to related parties past due but not impaired can be shown as follows:

	<u>2011</u>	<u>2010</u>	<u>2009</u>
Not more than 3 months	<b>P 69,088,088</b>	P 162,017,197	P 296,399,509
More than 3 months but not more than one year	<b>9,400,170</b>	68,330,159	33,817,343
More than one year	<u><b>66,597,236</b></u>	<u>294,468,345</u>	<u>96,345</u>
	<u><b>P 145,085,494</b></u>	<u>P 524,815,701</u>	<u>P 330,313,197</u>

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.

### ***31.4 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 of December 31, 2011, the Group's financial liabilities have contractual maturities which are presented below.

	<u>Current</u>	
	<u>1 to 6 months</u>	<u>6 to 12 months</u>
Interest-bearing loans	P 404,053,192	P 375,345,563
Trade and other payables	552,072,387	-
Advances from related parties	<u>-</u>	<u>107,495,231</u>
	<u><b>P 956,125,579</b></u>	<u><b>P 482,840,794</b></u>

This compares to the maturity of the Group's financial liabilities as of December 31, 2010 as follows:

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 993,779,229	P -
Trade and other payables	442,663,550	-
Advances from related parties	-	168,911,611
	<u>P1,436,442,779</u>	<u>P 168,911,611</u>

This compares to the maturity of the Group's financial liabilities as of December 31, 2009 as follows:

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 419,206,324	P -
Trade and other payables	322,604,948	-
Advances from related parties	-	201,439,920
	<u>P 741,811,272</u>	<u>P 201,439,920</u>

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

## 32. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

### 32.1 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	2011		2010		2009	
	Carrying Values	Fair Values	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>						
Loans and receivables:						
Cash and cash equivalents	6	P 1,720,748,062	P 1,720,748,062	P 1,620,114,468	P 1,620,114,468	P 1,263,142,145
Trade and other receivables - net	7	1,807,037,835	1,807,037,835	1,531,894,847	1,531,894,847	1,181,048,096
Advances to related parties	28	128,543,399	128,543,399	201,193,407	201,193,407	504,328,415
Financial assets at FVTPL						
Investments in bonds	8	70,272,991	70,272,991	-	-	-
Available-for-sale financial assets:	9					
Investments in bonds		51,994,367	51,994,367	138,606,153	138,606,153	305,804,353
Golf club shares - net		6,407,409	6,407,409	10,670,009	10,670,009	6,605,009
Others		1,474,118	1,474,118	1,436,518	1,436,518	1,396,518
Refundable deposits	15	13,651,421	13,651,421	12,386,030	12,386,030	13,075,903
		<u>P 3,800,129,602</u>	<u>P 3,800,129,602</u>	<u>P 3,516,301,432</u>	<u>P 3,516,301,432</u>	<u>P 3,275,400,439</u>
<b>Financial liabilities</b>						
At amortized cost:						
Interest-bearing loans - net	16	P 779,398,755	P 779,398,755	P 989,502,559	P 989,502,559	P 554,948,324
Trade and other payables	17	592,432,973	592,432,973	442,663,550	442,663,550	322,604,948
Advances from related parties	28	115,790,251	115,790,251	168,911,611	168,911,611	201,439,920
Refundable deposits - net	18	15,611,010	15,611,010	15,252,534	15,252,534	11,096,848
		<u>P 1,503,232,989</u>	<u>P 1,503,232,989</u>	<u>P 1,616,330,254</u>	<u>P 1,616,330,254</u>	<u>P 1,090,090,040</u>

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 31.

### 32.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of December 31, 2011, 2010 and 2009.

	Level 1	Level 2	Level 3	Total
December 31, 2011				
Financial assets at FVTPL	P 70,272,991	P -	P -	P 70,272,991
AFS financial assets	<u>58,938,767</u>	<u>-</u>	<u>937,127</u>	<u>59,875,894</u>
	<b><u>P 129,211,758</u></b>	<b><u>P -</u></b>	<b><u>P 937,127</u></b>	<b><u>P 130,148,885</u></b>
December 31, 2010				
AFS financial assets	<u>P 149,276,174</u>	<u>P -</u>	<u>P 1,436,518</u>	<u>P 150,712,692</u>
December 31, 2009				
AFS financial assets	<u>P 312,409,362</u>	<u>P -</u>	<u>P 1,396,518</u>	<u>P 313,805,880</u>

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).

### 33. 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:

	2011	2010
Total liabilities (excluding advances from related parties)	<b>P 3,052,705,062</b>	P 2,361,585,929
Total equity	<b>8,556,482,257</b>	8,111,948,091
Debt-to-equity ratio	<b><u>0.36 : 1</u></b>	<u>0.29 : 1</u>

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.



# Punongbayan & Araullo

## **Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements**

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](http://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 in accordance with Philippine Standards on Auditing, the consolidated financial statements of Solid Group, Inc. and Subsidiaries (the Group) for the year ended December 31, 2011, on which we have rendered our report dated March 27, 2012. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

### **PUNONGBAYAN & ARAULLO**

**By: Mailene Sigue-Bisnar**  
Partner

CPA Reg. No. 0090230  
TIN 120-319-128  
PTR No. 3174902, January 2, 2012, Makati City  
SEC Group A Accreditation  
Partner - No. 0396-AR-1 (until Oct. 19, 2012)  
Firm - No. 0002-FR-3 (until Jan. 18, 2015)  
BIR AN 08-002511-20-2009 (until Sept. 15, 2012)  
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)

March 27, 2012

Solid Group Inc. and Subsidiaries  
Schedule A - Financial Assets  
December 31, 2011

Name of Issuing entity and association of each issue	Number of shares of principal amount of bonds and notes	Amount shown in financial position	Income received and accrued
<b>Financial Assets at Fair Value Through Profit or Loss</b>			
BANK OF SINGAPORE - EQUITY	20,000	3,464,336	
BANK OF SINGAPORE - BONDS	1,650,000	60,382,342	4,105,333
AGRICULTURAL BANK OF CHINA	1,000,000	6,426,313	
		<u>70,272,991</u>	<u>4,105,333</u>
<b>Available-for-Sale Financial Assets - Current</b>		<b>44,550,542</b>	
BANK OF SINGAPORE - EQUITY	160,091	7,443,824	7,443,824.00
BANK OF SINGAPORE - BONDS	2,456,560	44,550,542	6,771,060
		<u>51,994,366</u>	<u>14,214,884</u>
<b>Available-for-Sale Financial Assets - Non-Current</b>			
The Tagaytay Country Club	2	2,400,000	
Tagaytay Midlands Golf Club	4	2,180,000	
Alabang Country Club	152,740	1,902,400	
Philippine Long Distance Telephone Co.	46,700	467,000	700.00
Philam Properties Corporation	1	272,127	
The Manila Southwoods and Country Club	1	660,000	
		<u>7,881,527</u>	<u>700</u>



Solid Group Inc. and Subsidiaries  
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)  
December 31, 2011

<i>Name and Designation of Debtor</i>	<i>Balance at the beginning of period</i>	<i>Additions</i>	<i>Deductions</i>		<i>Ending Balance</i>		<i>Balance at the end of period</i>
			<i>Amounts collected</i>	<i>Amounts written off</i>	<i>Current</i>	<i>Not current</i>	
Advances to Officers and Employees:		-		P -	-	P -	-
Amount Due from a Director		-		-	-	-	-
May So	-	P 6,949,300		-	6,949,300	-	-
		-		-	-	-	-
		P 6,949,300		-	P 6,949,300	-	-
Loans to Directors:	P -	P -	P -	P -	P -	P -	P -



Solid Group Inc. and Subsidiaries  
Schedule C - Amounts Receivable from Related Parties which are Eliminated During the Consolidation of Financial Statements  
December 31,2011

			Deductions		Ending Balance		
Name and designation of debtor	Balance at beginning of period	Additions	Amounts collected	Amounts written off	Current	Not current	Balance at end of period
Due from Related Parties:							
Kita Corporation	575,759,173.00		54,000,000.00	-	521,759,173.00	-	521,759,173.00
Solid Broadband Corporation	514,609,147.00	13,500,000.00	88,100,000.00	-	440,009,147.00	-	440,009,147.00
Zen Towers Corporation	520,407,157.00	33,000,000.00		-	553,407,157.00	-	553,407,157.00
Solid Manila Corporation	189,866,651.41		19,823,463.41	-	170,043,188.00	-	170,043,188.00
Precos, Inc.	149,511,000.00	400,000.00	400,000.00	-	149,511,000.00	-	149,511,000.00
Solid Video Corporation	75,429,308.00		68,500,000.00		6,929,308.00	-	6,929,308.00
Casa Bocobo Hotel, Inc.	3,000,000.00				3,000,000.00	-	3,000,000.00
Brilliant Reach Limited	142,082,595.00		(139,208.00)		142,221,803.00	-	142,221,803.00
Mytel Mobility Solutions Inc.	321,500,000.00	458,000,000.00			779,500,000.00	-	779,500,000.00
My Solid Devices & Technologies Corporation	586,700,000.00	126,000,000.00	487,700,000.00		225,000,000.00	-	225,000,000.00
Loan Receivable							
Solid Manila Finance Corporation	7,000,000.00		7000000		-	-	-
	3,085,865,031.41	630,900,000.00	725,384,255.41	-	2,991,380,776.00	-	2,991,380,776.00

Solid Group Inc. and Subsidiaries  
Schedule H - Capital Stock  
December 31, 2011

				<i>Number of shares held by</i>		
<i>Title of Issue</i>	<i>Number of shares authorized</i>	<i>Number of shares issued and outstanding as shown under the related balance sheet caption (A)</i>	<i>Number of shares reserved for options, warrants, conversion and other rights</i>	<i>Related parties (B)</i>	<i>Directors, officers and employees</i>	<i>Others</i>
Common shares - P1 par value						
Authorized - P5,000,000,000 shares	5,000,000,000					
Issued		1,821,542,000	-			
Outstanding				1,083,377,816	320,395,480	417,768,704

A: Number of shares issued and outstanding = 2,030,975,000 issued shares less 209,433,000 treasury shares

B: This represents shares held by AA Commercial and AV Value Holdings Corp., related parties which are ultimately owned by the Lim Family.

**SOLID GROUP INC.**  
**Schedule I**

*Reconciliation of Retained Earnings Available for Dividend Declaration*  
**December 31, 2011**

**UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION AT BEGINNING OF YEAR,  
(Figure as presented in the Reconciliation of Retained Earnings  
as of December 31, 2010)**

**P** 57,168,218

**Net Profit Realized during the Year**

Net profit per audited financial statements 182,096,753

Less recognized actuarial gains on defined benefit plans, net of tax ( 590,425 )

181,506,328

Less treasury shares ( 115,614,380 )

65,891,948

**UNAPPROPRIATED RETAINED EARNINGS AVAILABLE FOR  
DIVIDEND DECLARATION AT END OF YEAR**

**P** 123,060,166

**SOLIDGROUP INC. AND SUBSIDIARIES**  
**Schedule J - Financial Soundness Indicators**

	FORMULA	DECEMBER 31, 2011	DECEMBER 31, 2010
<b>Liquidity Ratios</b>			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.47:1	2.81:1
Acid Test ratio	$\frac{\text{Cash + Marketable Securities + Accounts Receivable + Other Liquid Assets}}{\text{Current Liabilities}}$	1.29:1	1.55:1
<b>Solvency Ratios</b>			
Debt to Equity ratio	$\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$	0.36:1	0.29:1
Gearing Ratio	$\frac{\text{Financial Debt}}{\text{Total Equity + Financial Debt}}$	0.09:1	0.12:1
Asset-to-Equity Ratios	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.37:1	1.31:1
Interest Rate Coverage Ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	70.93:1	35.80:1
<b>Profitability Ratios</b>			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total Revenues}}$	14%	15%
Net Profit Margin	$\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$	10%	8%
Return on Total Assets	$\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$	4%	2%
Return on Equity	$\frac{\text{Net Income after Tax}}{\text{Total Equity}}$	5%	3%

Solid Group Inc. and Subsidiaries  
Schedule K  
List of Effective Standards and Interpretations under  
Philippine Financial Reporting Standards as of December 31, 2011

Standards and Interpretations	Adoption	Remarks
-------------------------------	----------	---------

*Philippine Financial Reporting Standards (PFRS)*

PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	Adopted	
PFRS 2	Share-based Payment	Not Applicable	
PFRS 3	Business Combinations	Adopted	
PFRS 4	Insurance Contracts	Not Applicable	
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	Adopted	
PFRS 6	Exploration for and Evaluation of Mineral Resources	Not Applicable	
PFRS 7	Financial Instruments: Disclosures	Adopted	
PFRS 8	Operating Segments	Adopted	

*Philippine Accounting Standards (PAS)*

PAS 1	Presentation of Financial Statements	Adopted	
PAS 2	Inventories	Adopted	
PAS 7	Statement of Cash Flows	Adopted	
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	Adopted	
PAS 10	Events after the Reporting Period	Adopted	
PAS 11	Construction Contracts	Not Applicable	
PAS 12	Income Taxes	Adopted	
PAS 16	Property, Plant and Equipment	Adopted	
PAS 17	Leases	Adopted	
PAS 18	Revenue	Adopted	
PAS 19	Employee Benefits	Adopted	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance	Not Applicable	
PAS 21	The Effects of Changes in Foreign Exchange Rates	Adopted	
PAS 23	Borrowing Costs	Adopted	
PAS 24	Related Party Disclosures	Adopted	
PAS 26	Accounting and Reporting by Retirement Benefit Plans	Not Applicable	
PAS 27	Consolidated and Separate Financial Statements	Adopted	
PAS 28	Investments in Associates	Adopted	
PAS 29	Financial Reporting in Hyperinflationary Economies	Not Applicable	
PAS 31	Interests in Joint Ventures	Not Applicable	
PAS 32	Financial Instruments: Presentation	Adopted	
PAS 33	Earnings per Share	Adopted	
PAS 34	Interim Financial Reporting	Adopted	
PAS 36	Impairment of Assets	Adopted	
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	Adopted	
PAS 38	Intangible Assets	Adopted	
PAS 39	Financial Instruments: Recognition and Measurement	Adopted	
PAS 40	Investment Property	Adopted	
PAS 41	Agriculture	Not Applicable	

**Solid Group Inc. and Subsidiaries**  
**Schedule K**  
**List of Effective Standards and Interpretations under**  
**Philippine Financial Reporting Standards as of December 31, 2011**

Standards and Interpretations	Adoption	Remarks
-------------------------------	----------	---------

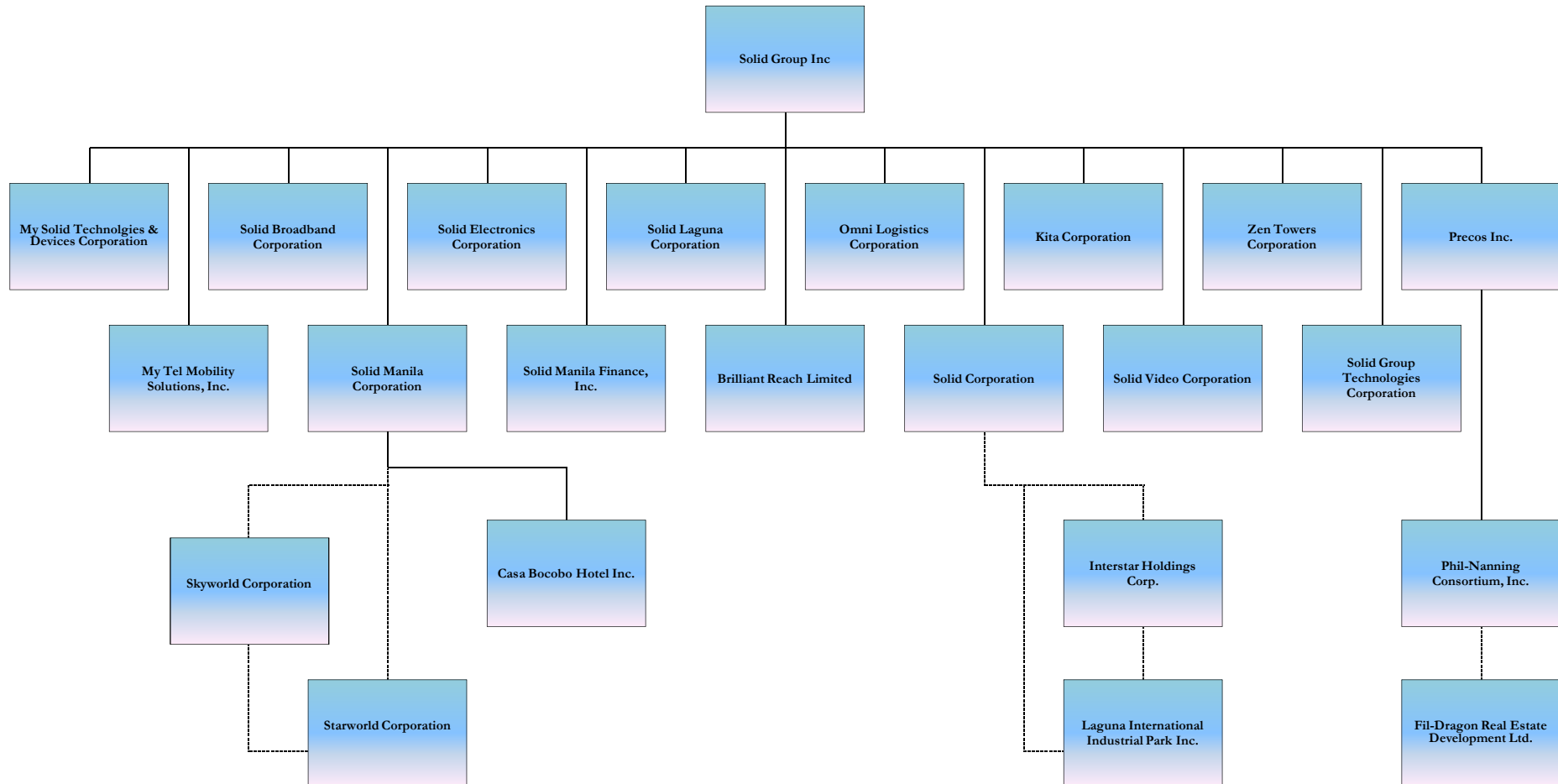
***Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)***

Philippine Interpretation IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	Not Applicable	
Philippine Interpretation IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments	Not Applicable	
Philippine Interpretation IFRIC 4	Determining Whether an Arrangement Contains a Lease	Adopted	
Philippine Interpretation IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not Applicable	
Philippine Interpretation IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	Not Applicable	
Philippine Interpretation IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies	Not Applicable	
Philippine Interpretation IFRIC 9	Reassessment of Embedded Derivatives	Not Applicable	
Philippine Interpretation IFRIC 10	Interim Financial Reporting and Impairment	Adopted	
Philippine Interpretation IFRIC 12	Service Concession Arrangements	Not Applicable	
Philippine Interpretation IFRIC 13	Customer Loyalty Programmes	Not Applicable	
Philippine Interpretation IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	Adopted	
Philippine Interpretation IFRIC 16	Hedges of a Net Investment in a Foreign Operation	Not Applicable	
Philippine Interpretation IFRIC 17	Distributions of Non-cash Assets to Owners	Adopted	
Philippine Interpretation IFRIC 18	Transfers of Assets from Customers	Not Applicable	
Philippine Interpretation IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments	Adopted	

***Philippine Interpretations - Standing Interpretations Committee (SIC)***

Philippine Interpretation SIC 7	Introduction of the Euro	Not Applicable	
Philippine Interpretation SIC 10	Government Assistance - No Specific Relation to Operating Activities	Not Applicable	
Philippine Interpretation SIC 12	Consolidation - Special Purpose Entities	Not Applicable	
Philippine Interpretation SIC 13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers	Not Applicable	
Philippine Interpretation SIC 15	Operating Leases - Incentives	Adopted	
Philippine Interpretation SIC 21	Income Taxes - Recovery of Revalued Non-Depreciable Assets	Not Applicable	
Philippine Interpretation SIC 25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	Not Applicable	
Philippine Interpretation SIC 27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	Not Applicable	
Philippine Interpretation SIC 29	Service Concession Arrangements: Disclosures	Not Applicable	
Philippine Interpretation SIC 31	Revenue - Barter Transactions Involving Advertising Services	Not Applicable	
Philippine Interpretation SIC 32	Intangible Assets - Web Site Costs	Not Applicable	

Solid Group Inc. and Subsidiaries  
Schedule L - Conglomerate Mapping



Note: All of the Companies shown under Solid Group Inc. are subsidiaries of the Company

# **Solid Group Inc. and Subsidiaries**

Unaudited Consolidated Financial Statements

March 31, 2012 and December 31, 2011



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2012 AND DECEMBER 31, 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	P 1,942,054,158	P 1,720,748,062
Trade and other receivables - net	7	1,240,584,133	1,137,152,304
Advances to related parties	28	60,227,080	128,543,399
Financial assets at fair value through profit or loss	8	88,323,094	70,272,991
Available-for-sale financial assets - net	9	55,096,269	51,994,367
Merchandise inventories and supplies - net	11	571,114,631	564,543,065
Real estate inventories - net	12	1,657,277,894	1,675,780,772
Other current assets	15	258,988,593	267,196,925
Total Current Assets		<u>5,873,665,852</u>	<u>5,616,231,885</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	660,142,802	669,885,531
Available-for-sale financial assets - net	9	8,229,402	7,881,527
Property, plant and equipment - net	13	1,392,386,200	1,386,934,809
Investment property - net	14	3,864,945,265	3,864,333,786
Retirement benefit asset	23	79,281,451	79,281,451
Deferred tax assets - net	24	69,982,489	69,982,489
Other non-current assets - net	15	26,624,306	22,151,072
Total Non-current Assets		<u>6,101,591,915</u>	<u>6,100,450,665</u>
<b>TOTAL ASSETS</b>		<u><b>P 11,975,257,767</b></u>	<u><b>P 11,716,682,550</b></u>

	Notes	2012	2011
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	16	P 769,354,821	P 779,398,755
Trade and other payables	17	792,904,901	592,432,973
Customers' deposits	12	681,378,801	686,313,646
Advances from related parties	28	89,938,989	107,495,231
Estimated liability for land and land development costs	12	68,304,647	68,304,647
Income tax payable		59,544,699	43,387,647
Total Current Liabilities		2,461,426,858	2,277,332,899
<b>NON-CURRENT LIABILITIES</b>			
Refundable deposits - net	18	17,620,995	15,611,010
Retirement benefit obligation	23	6,111,141	6,111,141
Deferred tax liabilities - net	24	861,145,243	861,145,243
Total Non-current Liabilities		884,877,379	882,867,394
Total Liabilities		3,346,304,237	3,160,200,293
<b>EQUITY</b>			
Equity attributable to the Parent Company's stockholders			
Capital stock	25	2,030,975,000	2,030,975,000
Additional paid-in capital		4,641,701,922	4,641,701,922
Treasury shares - at cost	25	( 115,614,380 )	( 115,614,380 )
Revaluation reserves	25	( 22,615,617 )	( 29,242,370 )
Retained earnings	25	1,689,110,225	1,623,289,267
Total equity attributable to the Parent Company's stockholders		8,223,557,150	8,151,109,439
Non-controlling interests		405,396,380	405,372,818
Total Equity		8,628,953,530	8,556,482,257
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 11,975,257,767</b>	<b>P 11,716,682,550</b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Notes	2012	2011
<b>REVENUES</b>	2		
Sale of goods		P 840,999,724	P 599,094,955
Rendering of services		186,628,713	169,187,829
Sale of real estate		12,058,254	28,374,457
Rentals		36,646,828	37,353,791
Interests		11,221,408	10,111,369
		<u>1,087,554,927</u>	<u>844,122,401</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>			
Cost of sales	19	697,672,080	479,647,025
Cost of services	19	126,372,594	109,407,289
Cost of real estate sold	21	8,421,070	21,853,958
Cost of rentals	19	15,323,909	16,258,773
		<u>847,789,653</u>	<u>627,167,045</u>
<b>GROSS PROFIT</b>		<u>239,765,274</u>	<u>216,955,356</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>			
General and administrative expenses	21	90,832,721	89,263,603
Selling and distribution costs	21	63,853,621	67,925,104
Other operating income - net	20	( 11,079,400 )	( 12,416,772 )
		<u>143,606,942</u>	<u>144,771,935</u>
<b>OPERATING PROFIT</b>		<u>96,158,332</u>	<u>72,183,421</u>
<b>OTHER INCOME (CHARGES)</b>			
Finance costs	22	( 15,728,404 )	( 18,407,196 )
Finance income	22	22,281,578	13,880,223
Other gains - net		171,309	87,102
		<u>6,724,483</u>	<u>( 4,439,871 )</u>
<b>PROFIT BEFORE TAX</b>		102,882,815	67,743,550
<b>TAX EXPENSE</b>	24	<u>37,038,295</u>	<u>22,744,056</u>
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<u>65,844,520</u>	<u>P 44,999,494</u>
<b>Profit for the year attributable to the</b>			
Parent Company's stockholders		P 65,820,958	P 47,568,087
Non-controlling interests		<u>23,562</u>	<u>( 2,568,593 )</u>
		<u>P 65,844,520</u>	<u>P 44,999,494</u>
<b>Earnings per share attributable to the</b>			
Parent Company's stockholders - basic and diluted	26	<u>P 0.04</u>	<u>P 0.03</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>NET PROFIT FOR THE PERIOD</b>		<b>P 65,844,520</b>	P 44,999,494
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Reclassification adjustments for losses recognized in profit or loss		12,145,053	3,870,706
Fair value gains (losses) on available-for-sale financial assets, net of taxes	9	<b>P 6,701,485</b>	2,269,598
Currency exchange differences on translating balances of foreign operations	2	( 12,219,785 )	( 4,673,374 )
		<u>-</u>	<u>-</u>
		<u>6,626,753</u>	<u>1,466,930</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>P 72,471,273</b>	P 46,466,424
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		<b>P 72,447,711</b>	P 49,035,017
Non-controlling interests		<u>23,562</u>	( 2,568,593 )
		<b>P 72,471,273</b>	P 46,466,424

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Note	2012	2011
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>			
<b>CAPITAL STOCK</b> - 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
<b>ADDITIONAL PAID-IN CAPITAL</b>		4,641,701,922	4,641,701,922
<b>TREASURY SHARES</b> - at cost			
Acquired at P0.5520 per share - 209,433,000 shares		( 115,614,380 )	( 115,614,380 )
<b>REVALUATION RESERVES</b>	25		
Balance at beginning of year		( 29,242,370 )	( 43,480,551 )
Other comprehensive income (loss) for the year		6,626,753	1,466,930
Balance at end of year		( 22,615,617 )	( 42,013,621 )
<b>RETAINED EARNINGS (DEFICIT)</b>			
Balance at beginning of year			
As previously reported		1,623,289,267	1,183,851,839
Prior period adjustments, net of tax		-	-
As restated		1,623,289,267	1,183,851,839
Profit (loss) for the year attributable to the Parent Company's stockholders		65,820,958	47,568,087
Balance at end of year		1,689,110,225	1,231,419,926
Total Equity Attributable to the Parent Company's stockholders		8,223,557,150	7,746,468,847
<b>NON-CONTROLLING INTERESTS</b>			
Balance at beginning of year		405,372,818	414,514,261
Additional non-controlling interests on acquired subsidiary		-	-
Profit for the year attributable to non-controlling interests		23,562	( 2,568,593 )
Balance at end of year		405,396,380	411,945,668
<b>TOTAL EQUITY</b>		P 8,628,953,530	P 8,158,414,515
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		P 72,447,711	P 49,035,017
Non-controlling interests		23,562	( 2,568,593 )
		P 72,471,273	P 46,466,424

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		102,882,815	67,743,550
Adjustments for:			
Interest income		(26,185,229)	( 21,460,628 )
Depreciation and amortization		21,329,182	19,523,016
Losses (gain) on sale of financial assets		602,181	( 1,582,509 )
Impairment losses on financial assets		965,420	4,808,250
Interest expense		1,863,106	2,150,024
Fair value gains on financial assets at fair value through profit or loss		(6,629,089)	
Loss (Reversal) on inventory obsolescence		22,104,673	( 4,528,515 )
Unrealized foreign currency losses (gains) - net		(21,369)	( 79,952 )
Impairment losses on available-for-sale financial assets			4,808,250
Operating profit before working capital changes		116,911,690	71,381,486
Decrease (increase) in trade and other receivables		(93,689,100)	( 202,757,466 )
Decrease (increase) in available-for-sale financial assets		1,995,956	14,721,886
Decrease (increase) in financial assets at fair value through profit		(11,421,014)	( 24,570,472 )
Decrease (increase) in held-to-maturity investments			
Decrease (increase) in merchandise inventories and supplies		(28,676,239)	( 320,904,025 )
Increase in real estate inventories		18,502,878	( 67,042,310 )
Decrease (increase) in advances to related parties		68,316,319	65,010,159
Decrease (increase) in other current assets		8,208,332	( 54,895,572 )
Decrease in other non-current assets		(4,473,234)	1,976,089
Increase (decrease) in trade and other payables		200,471,928	471,173,509
Increase (decrease) in customers' deposits		(4,934,845)	-
Increase (decrease) in advances from related parties		(17,556,242)	( 20,718,583 )
Increase in deferred tax liabilities			-
Cash generated from (used in) operations		253,656,429	( 66,625,299 )
Interest received		11,221,408	10,111,369
Cash paid for income taxes		(20,881,243)	( 13,440,856 )
Net Cash From Operating Activities		243,996,594	( 69,954,786 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (Acquisitions) of property and equipment		(26,780,573)	( 5,869,970 )
Interest received		14,963,821	11,349,259
Decrease (Additions) to investment property		(611,479.00)	-
Net Cash Used in Investing Activities		( 12,428,231 )	5,479,289

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from (repayments) of interest-bearing loans - net		(10,043,934)	( 3,574,460 )
Interest paid		<u>(239,702)</u>	<u>( 113,656 )</u>
Net Cash From (Used in) Financing Activities		<u>(10,283,636)</u>	<u>( 3,688,116 )</u>
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>		<u>21,369</u>	<u>79,952</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		221,306,096	( 68,083,661 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>1,720,748,062</u>	<u>1,620,114,468</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>P 1,942,054,158</u>	<u>P 1,552,030,807</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2012 AND DECEMBER 31, 2011**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Company Background**

Solid Group Inc. (SGI or the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) 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 (PSE).

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		Notes	Nature of Business
	2012	2011		
Brilliant Reach Limited (BRL)	100	100	(a)	Investment company
Kita Corporation (Kita)	100	100		Real estate and manufacturing of injected plastics
Omni Logistics Corporation (OLC)	-	100	(l)	Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	-	100	(k)	Real estate
Solid Group Technologies Corporation (SGTC)	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	100	100	(l)	Real estate
Solid Manila Corporation (SMC)	100	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI) [formerly Zen By The Park, Inc.]	100	100	(e), (g)	Real estate
Solid Manila Finance, Inc. (SMFI)	100	100		Financing
Solid Video Corporation (SVC)	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	100	100	(c), (h)	Real estate
My Solid Technologies & Devices Corporation (My Solid)	100	100	(i)	Sale of mobile phones
Mytel Mobility Solutions, Inc. (Mytel)	100	100	(j)	Sale of mobile phones
Skyworld Corporation (Skyworld)	75	75	(c), (e)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	51	51	(h)	Real estate
Starworld Corporation (Starworld)	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) Indirectly owned through Precos
- (h) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC)
- (i) Incorporated in 2009 and started commercial operations in January 2010
- (j) Acquired in 2010
- (k) Merged as one company, with SMC as the surviving company, effective January 1, 2012
- (l) Merged as one company, with SLC as the surviving company, effective January 1, 2012

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*.

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

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

### **(a) Phasing-out of Manufacturing Business and Related Services of Certain Subsidiaries**

On November 23, 2009, the Parent Company's management disclosed to the 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. Kita and SLC have ceased their plastic injection manufacturing business as of December 31, 2011 (see Note 5).

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

During the year, to attain efficiency in the operations and management of certain entities, the respective BODs of SC and SMC; OLC and SLC; and Mytel and My Solid approved respective entities' plans of mergers of such subsidiaries whereby SMC, SLC and My Solid will be the surviving entities, respectively. The mergers will become effective upon the approval and issuance by the SEC of the Certificates of Filing of the Articles and Plans of Merger (see Note 27).

### **1.3 Other Corporate Information**

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

BRL	-	2 <sup>nd</sup> Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	-	Ganado Street, Laguna International Industrial Park, Mamlasan, 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, Mamlasan, 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

Starting March 3, 2011, My Solid's and Mytel's new principal places of business are located at 2000 East Service Road, Bicutan, Parañaque City; Omni's new principal place of business, starting January 5, 2011, is located at 17 A. Fernando St., Marulas, Valenzuela, Metro Manila; SGTC's new principal place of business starting July 29, 2011 is located at Solid City Center, KM 16, 2000 East Service Road, Bicutan, Parañaque City.

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

The consolidated financial statements of the Group for the year ended December 31, 2011 (including the comparatives for the years ended December 31, 2010 and 2009) were authorized for issue by the Parent Company's BOD on March 27, 2012.

## **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 (IASB).

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

(b) *Presentation of Consolidated Financial Statements*

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

In 2011, as there were no retrospective application of accounting policy, retrospective restatement and reclassification in the financial statements, only one comparative period was presented in the consolidated statement of financial position.

(c) *Functional and Presentation Currency*

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

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

## **2.2 Adoption of New and Amended PFRS**

(a) *Effective in 2011 that are Relevant to the Group*

In 2011, the Group adopted the following amendments, interpretations and annual improvements to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after February 1, 2010, July 1, 2010 or January 1, 2011:

PAS 24 (Amendment)	:	Related Party Disclosures
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issue
Philippine Interpretations		
International		
Financial Reporting		
Interpretations		
Committee (IFRIC) 14		
(Amendment)	:	Prepayment of a Minimum Funding Requirement
IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2010 Annual Improvements to PFRS

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

- (i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any change on the Group's disclosures of related parties in its consolidated financial statements.
- (ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayment of a Minimum Funding Requirement* (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 surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements, hence, the adoption of the revised standard has no material effect on its consolidated financial statements.
- (iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. 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, *Financial Instruments: Recognition and Measurement*;
  - 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.

The adoption of the interpretation did not have a material effect on the Group's consolidated financial statements as it did not extinguish financial liabilities through equity swap during the year.

(iv) 2010 Annual Improvements to PFRS. The FRSC has adopted the *2010 Improvements to PFRS*. Most of these amendments became effective for annual periods beginning on or after July 1, 2010 or January 1, 2011. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has elected to continue presenting each item of other comprehensive income in the notes to the financial statements.
- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* (effective from July 1, 2010). These amendments clarify that the consequential amendments made to PAS 21, PAS 28 and PAS 31 arising from the amendment to PAS 27 (2008), *Consolidated and Separate Financial Statements* apply prospectively, to be consistent with the related PAS 27 transition requirements. These amendments have no impact on the Group's consolidated financial statements since there is no disposal of foreign operations, loss of significant influence over an associate and loss of control over a jointly controlled entity at the time of the adoption of the amendment on PAS 27.
- PAS 34 (Amendment), *Interim Financial Reporting – Significant Events and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report.
- PFRS 3 (Amendments), *Business Combinations* (effective from July 1, 2010). The amendment clarifies that contingent consideration arrangement and balances arising from business combinations with acquisition dates prior to the entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances. It further clarifies that the choice of measuring non-controlling interest at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, applies only to instruments that represent ownership present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of non-controlling interests (NCI) are measured at fair value unless PFRS requires another measurement basis. This amendment also clarifies accounting for all share-based payment transactions that are part of a business combination, including unreplaced and voluntary replaced share-based payment awards. Specifically, this provides guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the

acquisition, thus resulting to the accounting for these awards being the same as for the awards that the acquirer is obliged to replace.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. The Group already provides adequate information in its consolidated financial statements in compliance with the disclosure requirements.

(b) *Effective in 2011 that are not Relevant to the Group*

The following amendments and improvements to PFRS are mandatory for accounting periods beginning on or after July 1, 2010 or January 1, 2011 but are not relevant to the Group's consolidated financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Limited Exemption from PFRS 7 Comparative Disclosures
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Classification of Rights Issues
2010 Annual Improvements to PFRS		
PFRS 1 (Amendment)	:	First-time Adoption of PFRS
Philippine Interpretation IFRIC 13 (Amendment)	:	Customer Loyalty Programmes – Fair Value Awards Credits

(c) *Effective Subsequent to 2011 but not Adopted Early*

There are new and amended PFRS that are effective for periods subsequent to 2011. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.
- PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the

measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standing Interpretations Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn. The Group is currently evaluating the impact of this amendment on its consolidated financial statements as its investment property includes buildings and improvements.

- (iii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (i) will not be reclassified subsequently to profit or loss and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since most of the Group's other comprehensive income, which includes unrealized fair value gains and losses on available-for-sale (AFS) financial assets, can be reclassified to profit or loss when specified conditions are met.
- (iv) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
  - eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
  - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

Currently, the Group is using the corridor approach and its unrecognized actuarial gain as of December 31, 2011 and 2010 amounted to P25.2 million and P66.4 million, respectively, which will be retrospectively recognized as gain in other comprehensive income in 2013.

- (v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by

removing the requirement to consider whether or not they are closely related and, in most arrangements, does not require separation from the host contract.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized-cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the consolidated financial statements of the Group and is currently conducting a comprehensive study of the potential impact of this standard to assess the impact of all changes. The Group does not expect any significant impact to its operating results.

(vi) PFRS 13, *Fair Value Measurements* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

(vii) Consolidation Standards (effective from January 1, 2013)

The Group is currently reviewing the impact of the following consolidation standards on its consolidated financial statements in time for their adoption in 2013:

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 11, *Joint Arrangements*. This standard provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. This standard replaces the three categories under PAS 31, mainly, jointly controlled entities, jointly controlled operations and jointly controlled assets, with two new categories – joint operations and joint ventures. Moreover, this also eliminates the option of using proportionate consolidation for joint ventures.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure



requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
  - PAS 28 (Revised), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11.
- (viii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. 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 completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines but does not expect it to have an impact on the Group's consolidated financial statements as it currently accounts for its real estate transactions using the full accrual method.

### **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. 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 NCI 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 more than one half of the voting rights. The existence and effect of potential

voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

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

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non-controlling interest in the acquiree either at fair value or at 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.

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

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

## **2.4 Segment Reporting**

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. In addition, corporate assets which are not directly attributable to any business segment are not allocated to a segment.

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

## **2.5 Financial Assets**

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and 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 end of 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. 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, discounted at the effective interest rate.

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

(b) *Financial Asset at FVTPL*

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

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

(c) *AFS Financial Assets*

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

All AFS financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserve account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

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 consolidated 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 end of 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.

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

## **2.6 Merchandise Inventories and Supplies**

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition is determined as follows:

- (a) *Raw materials and 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) *Merchandise and 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 the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of raw materials, service parts, supplies and others is the current replacement cost.

## **2.7 Real Estate Inventories**

Real estate inventories consist of the following:

- (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.

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	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

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

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the 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.

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, plant and equipment, including the related accumulated depreciation and impairment, 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, accounted for under the fair value model, is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property, 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 14).

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 (losses) on investment property under Other Operating Income in the consolidated statement of income.

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

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the profit or loss in the year of retirement or 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, which include Interest-bearing Loans, Trade and Other Payables [excluding Output Value-Added Tax (VAT), withholding taxes, and Unearned Subscription Income], Advances from Related Parties, Customers' Deposits and Refundable Deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and Other Payables, Advances from Related Parties and Refundable Deposits with maturities beyond one year are initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability

for at least twelve months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

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

### ***2.11 Business Combination***

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

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

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

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

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

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



## **2.12 Provisions and Contingencies**

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive 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. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

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

## **2.13 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 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 and other income 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 upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective in April 2009, network support fees is recorded at a fixed amount of P1.25 million per month.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

- (f) *Interest income on loans receivables* – Revenue is recognized when earned using effective interest method.

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

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

- (g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.
- (h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.
- (i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.
- (j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon 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 peso. 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 United States (U.S.) dollar and Chinese yuan renminbi (RMB), respectively, their respective functional currencies, are translated to Philippine peso, 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 investments 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 peso should not be construed as a representation that the U.S. dollar and Chinese yuan renminbi 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 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 Related Party Transactions***

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

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

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

## ***2.21 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 AFS financial assets.

Retained earnings include all current and prior period results of operations as reported in the consolidated statement of income.

## ***2.22 Earnings per Share***

Basic earnings per share (EPS) 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 EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of March 31, 2012 and December 31, 2011, the Parent Company does not have potential dilutive shares.

## ***2.23 Events After the End of Reporting Period***

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

# **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

The 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) Determining Net Realizable Value of Real Estate Inventories***

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

The carrying amounts of the real estate inventories is disclosed in Note 12.



(b) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are impaired as of March 31, 2012 and December 31, 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Impairment losses recognized on AFS financial assets are disclosed in Note 9.

(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 Property 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 properties 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. Based on management judgment, such leases were determined to be operating leases.

*(f) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of provisions and contingencies are discussed in Note 2.12 and the relevant disclosures are presented in Note 30.

*(g) Principal Assumptions for Estimation of Fair Value of Investment Property*

The Group's investment property composed of parcels of land and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The 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. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Note 14.

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

Adequate amount of 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 and the analysis of allowance for impairment on such financial assets are shown in Note 7.

*(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/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 13. Based on management's assessment as at December 31, 2011, no change in the estimated useful lives of property, plant and equipment during those years occurred. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 11). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

(d) *Fair Value of Financial Instruments*

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 8 and 9, respectively.

(e) *Estimated Liability for Land and Land Development Costs*

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of March 31, 2012 and December 31, 2011 is disclosed in Note 12.

(f) *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 appropriate value of each component of revenue.

(g) *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.

Provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are discussed on Note 17.

(h) *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 five years, as of December 31, 2011 and disclosed in Note 24.2.

(i) *Fair Value of Investment Property*

The Group's investment property composed of land and improvements and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The 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. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties. A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on certain investment property are disclosed in Notes 14.

(j) *Impairment of Non-financial Assets*

The Group'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-financial assets in 2011.

(k) *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 23.2 and include, among others, discount rates, expected return on plan assets, salary increase rate and employee turnover. 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 amounts of estimated present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation are presented in Note 23.2.

## 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) Related support services segment is engaged in the business of rendering after sales service operations as the recognized authorized Service Network for products of a third party and in manufacturing plastic injection molding parts (see Note 5);
- (c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties;
- (d) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones and LCD televisions, and prefabricated modular houses; and,
- (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.

### 4.2 *Segment Assets and Liabilities*

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

### 4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of March 31, 2012 and December 31, 2011 and the related revenue and profit information for the years then ended (in thousands).

		Broadband Services		Related Support Services		Real Estate		Distribution		Investing, Financing and Others		Elimination		Total
<b>2012</b>														
<b>SEGMENT RESULTS</b>														
Revenues	P	96,249	P	95,671	P	49,639	P	843,043	P	16,960	(P	14,007)	P	1,087,555
Net Profit (Loss)	P	<u>14,414</u>	P	<u>12,420</u>	P	<u>6,688</u>	P	<u>30,198</u>	P	<u>2,671</u>	P	<u>547</u>	P	<u>65,844</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>														
Total assets	P	<u>645,852</u>	P	<u>820,206</u>	P	<u>6,590,007</u>	P	<u>1,785,761</u>	P	<u>7,725,745</u>	(P	<u>5,592,313</u> )	P	<u>11,975,258</u>
Total liabilities	P	<u>555,199</u>	P	<u>749,217</u>	P	<u>3,024,423</u>	P	<u>1,340,372</u>	P	<u>599,943</u>	(P	<u>2,922,850</u> )	P	<u>3,346,304</u>
<b>2011</b>														
<b>SEGMENT RESULTS</b>														
Revenues	p	93,117	P	83,797	P	72,171	P	594,660	P	14,257	(P	13,880)	P	844,122
Net Profit (Loss)	P	<u>6,255</u>	P	<u>6,576</u>	P	<u>3,062</u>	P	<u>27,206</u>	P	<u>980</u>	P	<u>920</u>	P	<u>44,999</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>														
Total assets	P	<u>667,320</u>	P	<u>815,191</u>	P	<u>6,959,481</u>	P	<u>2,140,921</u>	P	<u>8,683,126</u>	(P	<u>7,610,860</u> )	P	<u>11,716,683</u>
Total liabilities	P	<u>567,828</u>	P	<u>680,818</u>	P	<u>3,392,086</u>	P	<u>1,814,943</u>	P	<u>606,576</u>	(P	<u>3,886,434</u> )	P	<u>3,160,200</u>

## 5. DISCONTINUED OPERATIONS

As mentioned in Note 1.2, Kita and SLC ceased the operations of their plastic injection manufacturing business as of December 31, 2010. Termination benefits paid to employees who accepted voluntary redundancy amounted to P0.7 million in 2011, P1.1 million in 2010 and P9.7 million in 2009 (see Note 23.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented in the consolidated statements of income under the Loss from Discontinued Operations account.

## 6. CASH AND CASH EQUIVALENTS

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

	2012	2011
Cash on hand and in bank	P 367,331,642	P 396,965,149
Short-term placements	<u>1,574,722,516</u>	<u>1,323,782,913</u>
	<u>P1,942,054,158</u>	<u>P 1,720,748,062</u>

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 6.0% per annum in 2011.

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Current:			
Trade receivables		<b>P 778,773,849</b>	P 759,929,905
Due from related parties	28.1	<b>86,376,088</b>	75,770,473
Advances to suppliers		<b>313,317,565</b>	277,211,254
Finance receivables	28.4	<b>59,857,018</b>	64,831,149
Other receivables		<b>119,301,907</b>	76,425,196
		<b>1,357,626,427</b>	1,254,167,977
Allowance for impairment		<b>( 117,042,294)</b>	( 117,015,673)
		<b><u>1,240,584,133</u></b>	<u>1,137,152,304</u>
Non-current:			
Trade receivables		<b>46,026,983</b>	47,852,284
Finance receivables		<b>149,450,607</b>	151,801,578
Cash surrender value of investment in life insurance	16	<b>464,665,212</b>	470,231,669
		<b><u>660,142,802</u></b>	<u>669,885,531</u>
		<b><u>P 1,900,726,935</u></b>	<u>P 1,807,037,835</u>

Advances to suppliers mainly pertain to the advance payments received by Solid Company Limited (Hong Kong) for Mytel's future purchase of inventories (see Note 28.8), various contractors for the construction of ZTC's Tri Towers (see Note 12) and various suppliers for CBHI's acquisition of supplies.

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 small business customers, were found to be impaired, hence, adequate amount of allowance for impairment has been recognized.

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

Interest rates on finance receivables range from 7.5% to 30.0% in 2011. 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 28.4).

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 20). 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 15).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 16).

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 32.1).

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2011, BRL acquired additional investments which are classified as financial assets at FVTPL upon initial recognition, while Fil-Dragon's investments are primarily held for trading. The carrying amounts of financial assets at FVTPL are presented as follows:

	<u>2012</u>	<u>2011</u>
Designated as at fair value through profit or loss	<b>P 82,017,357</b>	P 63,846,668
Held-for-trading	<u><b>6,305,737</b></u>	<u>6,426,323</u>
	<u><b>88,323,094</b></u>	<u>70,272,991</u>

This account consists of the following financial assets as of March 31, 2012:

	<u>2012</u>	<u>2011</u>
Debt securities	<b>P 77,296,009</b>	P 60,382,332
Held-for-trading	<u><b>11,027,085</b></u>	<u>9,890,659</u>
	<u><b>88,323,094</b></u>	<u>70,272,991</u>

Debt securities pertain to investments in corporate bonds with interest rates ranging from 5.3% to 12.0% in 2011. On the other hand, equity securities pertain to shares of entities listed in China, Hong Kong and the United States. The fair values of financial assets presented above have been determined directly by reference to published prices quoted in active markets.

In March 31 2012 and 2011, the Group recognized the gain in value of financial assets designated at fair value through profit or loss of P6.6 million and P179 thousand as part of Finance Income in the consolidated statement of income (see Note 22).

The Group's foreign debt securities are used as collateral for interest-bearing loans obtained by BRL (see Note 16).



## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	<u>2012</u>	<u>2011</u>
Current:		
Investments in foreign currency-denominated bonds	<b>P 94,452,063</b>	P 104,647,592
Allowance for impairment	<b>( 39,355,793)</b>	( 52,653,225)
	<u><b>55,096,269</b></u>	<u>51,994,367</u>
Non-current:		
Club shares	<b>20,772,400</b>	8,832,400
Equity securities	<b>8,580,000</b>	8,580,000
Others	<u><b>987,002</b></u>	<u>1,474,118</u>
	<b>30,339,402</b>	18,886,518
Allowance for impairment	<b>( 22,110,000)</b>	( 11,004,991)
	<u><b>8,229,402</b></u>	<u>7,881,527</u>
	<u><b>P 63,325,671</b></u>	<u>P 59,875,894</u>

Investments in foreign currency-denominated bonds were used as collateral for the interest-bearing loans of BRL (see Note 16).

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 on 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 P8.6 million to AFS Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2011.

Impairment losses recognized on the Group's AFS Financial Assets are presented as part of Finance Costs in the 2011 consolidated statement of income (see Note 22.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2011 have been determined directly by reference to published prices in active markets (see Note 32).

## 10. HELD-TO-MATURITY INVESTMENTS

In 2009, the Group disposed of a significant portion of its HTM investments which consisted of investments in foreign currency-denominated bonds. Accordingly, management reclassified the remaining HTM investments with total carrying amount of P125.2 million to AFS Financial Assets to comply with PFRS. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153.4 million. The reclassification resulted in a gain of P28.2 million, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

## 11. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 19.1).

	<u>2012</u>	<u>2011</u>
Merchandise and finished goods	<b>P 641,042,868</b>	P 621,292,896
Work-in-process	-	-
Raw materials	<b>362,856</b>	362,856
Service parts, supplies and others	<b>48,037,133</b>	46,719,660
	<b>689,442,857</b>	668,375,412
Allowance for inventory obsolescence	<b>( 118,328,226)</b>	( 103,832,347)
Balance at end of year	<b><u>P 571,114,631</u></b>	<u>P 564,543,065</u>

The allowance for inventory obsolescence carried from newly acquired subsidiary in 2010 pertains to the beginning balance of the allowance for inventory obsolescence of Mytel, a subsidiary acquired in 2010.

## 12. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2012</u>	<u>2011</u>
Land and land development costs:		
Land	<b>P 36,112,467</b>	P 36,112,467
Land development costs	<b>17,883,041</b>	17,883,041
	<b>53,995,508</b>	53,995,508
Allowance for impairment	<b>( 2,022,800)</b>	( 2,022,800)
	<b>51,972,708</b>	51,972,708
Property development costs -		
Construction in progress		
and development costs	<b>1,605,305,186</b>	1,623,808,064
	<b><u>P1,657,277,894</u></b>	<u>P 1,675,780,772</u>

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 was the amount recognized in 2005 pertaining 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 2011.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2011, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. 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, 2011, 2010 and 2009, the construction of Tower 1, which started in 2007, is fully completed. The construction of Tower 2 started in 2011 while the construction of Tower 3 has not yet started as of December 31, 2011.

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 (see Note 30.5). Advances made to contractors are shown as part of the Other Current Assets account in the consolidated statements of financial position (see Note 15).

In addition, the balances of Property Development Costs as of December 31, 2011 and 2010 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Pre-sale of the condominium units has been commenced for two of the residential towers in December 2010. Customer deposits received relating to the pre-selling activities in March 31, 2012 and December 31, 2011 amounting to P681.3 million and P686.3 million respectively, are shown as Customers' Deposits in the consolidated statement of financial position

Fil-Dragon's right to use the land, included as part of the Property Development Costs account, with a carrying amount of RMB15.2 million (P103.3 million) as of December 31, 2010, is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009. The interest-bearing loans were paid in full in 2011 (see Note 16).

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2011 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 30.4).

### 13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of March 31, 2012 and December 31, 2011 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
March 31, 2012													
Cost	P	897,854,682	P 100,092,451	P 29,822,119	P 133,617,744	P 86,080,570	P 1,343,514,026	P 152,107,998	P 73,467,724	P 50,777,064	P 15,231,829	P -	P 2,882,566,207
Accumulated depreciation and amortization		-	( 44,398,228)	( 17,226,226)	( 112,501,108)	( 72,057,219)	( 631,143,069)	( 99,554,466)	( 69,050,290)	( 46,192,578)	( 13,056,823)	-	( 1,105,180,007)
Accumulated impairment loss		-	( 35,000,000)	-	-	-	( 350,000,000)	-	-	-	-	-	( 385,000,000)
Net carrying amount		<u>P 897,854,682</u>	<u>P 20,694,223</u>	<u>P 12,595,893</u>	<u>P 21,116,636</u>	<u>P 14,023,351</u>	<u>P 362,370,957</u>	<u>P 52,553,532</u>	<u>P 4,417,434</u>	<u>P 4,584,486</u>	<u>P 2,175,000</u>	<u>P -</u>	<u>P 1,392,386,200</u>
December 31, 2011													
Cost	P	897,854,682	P 107,157,571	P 30,124,265	P 132,342,425	P 94,388,131	P 1,337,286,751	P 153,787,380	P 68,446,028	P 56,557,182	P 25,169,630	P -	P 2,903,114,045
Accumulated depreciation and amortization		-	( 64,546,364)	( 24,762,932)	( 115,711,989)	( 76,436,056)	( 621,928,012)	( 96,970,837)	( 65,369,216)	( 45,470,846)	( 19,982,984)	-	( 1,131,179,236)
Accumulated impairment loss		-	( 35,000,000)	-	-	-	( 350,000,000)	-	-	-	-	-	( 385,000,000)
Net carrying amount		<u>P 897,854,682</u>	<u>P 7,611,207</u>	<u>P 5,361,333</u>	<u>P 16,630,436</u>	<u>P 17,952,075</u>	<u>P 365,358,739</u>	<u>P 56,816,543</u>	<u>P 3,076,812</u>	<u>P 11,086,336</u>	<u>P 5,186,646</u>	<u>P -</u>	<u>P 1,386,934,809</u>

No additional impairment losses were recognized in 2011 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2011, the fair values of the Group's land and building and improvements amounted to P203.1 million. 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.

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of December 31, 2011.

#### 14. INVESTMENT PROPERTY

The Group's investment property, which assets are accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income, and 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 19.3).

The fair values of the Group's investment property as of December 31, 2011 were determined based on appraisal reports dated February 29, 2012. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position can be summarized as follows as of March 31, 2012:

		<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
2012:				
Balance at beginning of year	P	3,047,677,774	P 816,656,012	P 3,864,333,786
Fair value gains on investment property				
Additions		-	611,479	611,479
Disposals	(	)	-	( )
Reclassification		-		
Balance at end of year	<u>P</u>	<u>3,047,677,774</u>	<u>P 817,267,491</u>	<u>P 3,864,945,265</u>
2011:				
Balance at beginning of year	P	2,885,328,774	P 761,189,863	P 3,646,518,637
Fair value gains on investment property		171,420,000	20,224,597	191,644,597
Additions		-	6,927,455	6,927,455
Disposals	(	9,071,000)	-	( 9,071,000)
Reclassification		-	28,314,097	28,314,097
Balance at end of year	<u>P</u>	<u>3,047,677,774</u>	<u>P 816,656,012</u>	<u>P 3,864,333,786</u>

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 30.3).

In 2010, SMC entered to a contract to sell three parcels of land to a customer under an installment sales scheme. The contract price of the land amounting to P30.0 million,

inclusive of VAT, is payable within 29 months. SMC recorded the collections from customer in 2010 as Advances from customers as part of Trade and Other Payables in the 2010 consolidated statement of financial position (see Note 17).

## 15. OTHER ASSETS

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

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Current:			
Input VAT - net		<b>P 103,589,947</b>	P 92,707,110
Creditable withholding taxes		<b>69,561,994</b>	71,855,887
Prepaid expenses		<b>54,584,494</b>	63,998,425
Advances to suppliers and contractors	12	<b>22,966,206</b>	27,879,694
Refundable deposits		<b>3,419,223</b>	3,368,991
Others		<b>4,866,729</b>	7,386,818
		<b><u>P 258,988,593</u></b>	<b><u>P 267,196,925</u></b>
Non-current:			
Refundable deposits - net		<b>P 12,169,799</b>	P 9,836,045
Prepaid insurance	7	<b>4,667,104</b>	5,294,251
Land under litigation	30.3	<b>3,258,220</b>	3,258,220
Investment in shares		<b>1,303,591</b>	1,303,591
Cash bond		<b>568,234</b>	568,234
Others		<b>4,657,358</b>	1,890,731
		<b><u>P 26,624,306</u></b>	<b><u>P 22,151,072</u></b>

## 16. INTEREST-BEARING LOANS

The Group's short-term interest-bearing loans as of March 31, 2012 and December 31, 2011 amounting to P769 million and P779 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, are currently due within 12 months after the end of reporting period and are classified as part of the Group's current liabilities in the consolidated statements of financial position. This is composed of US\$8.3 million and RMB58.1 million as of December 31, 2011 and US\$8.3 million and RMB92.9 million as of December 31, 2010.

In 2011, BRL extended the terms of various loans it obtained from Bank of Singapore in prior years totaling US\$8.3 million. The loans are extended for one year up to June 30, 2012.

The loans of BRL are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 7, 8 and 9). The loans bear interest at prevailing market rates per annum ranging from and 2.0% to 2.3% in 2011. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 22.2).

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited, a shareholder owning 19% of the total shares of Fil-Dragon, amounting to RMB58.1 million (P404.1 million). The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2011 (see Note 28.8).

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the PRC amounting to RMB92.9 million (P615.7 million). These loans are secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million) as of December 31, 2010. Certain real estate properties of Fil-Dragon are used as collaterals for the secured interest-bearing loans (see Note 12). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5:1. As of December 31, 2010, Fil-Dragon has complied with such loan covenant.

As of December 31, 2010, the Group's interest-bearing loans pertains to the RMB92.9 million loan by Fil-Dragon from China Construction Bank Corporation Shenzhen Shang Zhi Branch and Nanning Yuan Hu Branch. The loan was paid in full in 2011.

Total borrowing costs incurred from these interest-bearing loans amounting to RMB6.4 million (P43.2 million) in 2011 and RMB4.6 million (P31.1 million) in 2010 are capitalized as part of Real Estate Inventories at capitalization rates ranging from 6% to 10%.

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 28.9). None of the companies under the Group, including the Parent Company, are included in the guarantee contract.

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 32.1).

## 17. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2012	2011
Trade payables	28.7	<b>P 321,220,315</b>	P 304,917,931
Accrued expenses		<b>116,017,449</b>	109,325,527
Output VAT		<b>44,063,391</b>	37,328,219
Refundable deposits	18	<b>21,756,105</b>	24,769,241
Advances from customers	12	<b>56,865,780</b>	22,623,706
Reserve for warranty costs		<b>28,172,098</b>	18,354,383
Unearned subscription income		<b>9,288,051</b>	9,167,511
Retention payable		<b>4,817,646</b>	4,872,185
Other payables		<b>190,704,066</b>	61,074,270
		<b><u>P 792,904,901</u></b>	<b><u>P 592,432,973</u></b>

Reserve for warranty costs pertains to amounts recognized by Mytel, 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.

Starting October 2011, the obligation to provide warranties was transferred by My Solid to Mytel when the latter was handed over the ownership of the brand and consequently

became importer of the inventories from Mytel's supplier. As a result, Mytel derecognized the outstanding balance of provision for warranty claims from previous year amounting to P10.8 million. The income arising from the derecognition of this liability is presented as Reversal of provision of warranty under Other Operating Income in the 2011 consolidated statement of income (see Note 20).

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 32.1).

## 18. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P9.8 million as of December 31, 2011. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception of the lease terms. The fair value of the non-current refundable deposits amounting to P15.6 million as of December 31, 2011 is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

## 19. COST OF SALES, SERVICES AND RENTALS

### 19.1 Cost of Sales

The details of this account are shown below.

	Notes	2012	2011
Merchandise and finished goods at beginning of year	11	<u>P 621,292,896</u>	<u>P 412,507,056</u>
Net purchases of merchandise during the year	21, 28.7	<u>695,317,379</u>	<u>793,721,884</u>
Cost of goods manufactured:			
Raw materials at beginning of year	11	362,856	10,757,863
Work-in-process at beginning of year	11	-	2,256,191
Net purchases of raw materials during the year		-	8,588,261
Direct labor		-	-
Manufacturing overhead	13		2,233,061
Raw materials at end of year	11	( 362,856)	( 9,261,321)
Work-in-process at end of year	11	<u>-</u>	<u>( 760,825)</u>
		<u>-</u>	<u>13,813,230</u>
Goods available for sale		1,316,610,275	1,220,042,170
Merchandise and finished goods at end of year	11	( 641,042,868)	( 735,866,630)
Net provision (reversal) on inventory obsolescence	11	<u>22,104,673</u>	<u>( 4,528,515)</u>
	21	<u>P 697,672,080</u>	<u>P 479,647,025</u>



### 19.2 Cost of Services

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

	Notes	2012	2011
Salaries and employee benefits		<b>P 19,537,060</b>	P 27,906,979
Materials and other consumables		<b>21,304,491</b>	22,591,345
Depreciation and amortization	13	<b>15,109,329</b>	12,571,337
Communication, light and water		<b>13,324,229</b>	9,771,604
Transponder rental and leased line		<b>10,192,056</b>	10,501,536
Outside services		<b>15,173,096</b>	2,754,758
Rentals	30.2	<b>7,875,340</b>	6,275,812
Repairs and maintenance		<b>7,460,971</b>	3,090,557
Transportation and travel		<b>1,635,255</b>	43,781
Cable services		<b>135,815</b>	-
Others		<b>14,624,952</b>	13,899,580
	21	<b><u>P 126,372,594</u></b>	<u>P 109,407,289</u>

### 19.3 Cost of Rentals

The details of this account are as follows:

	Notes	2012	2011
Rentals		<b>P 1,235,916</b>	P 1,596,823
Depreciation & amortization		<b>1,290,993</b>	1,055,830
Taxes and licenses	14	<b>9,583,233</b>	9,502,523
Outside services		<b>1,680,308</b>	1,257,235
Repairs and maintenance	14	<b>276,710</b>	913,811
Utilities and communication	14	<b>-</b>	681,090
Salaries and employee benefits		<b>332,963</b>	221,942
Others		<b>923,786</b>	1,029,519
	21	<b><u>P 15,323,909</u></b>	<u>P 16,258,773</u>

## 20. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	2012	2011
Increase in cash surrender value of investment in life insurance	7	<b>4,332,940</b>	4,416,773
Miscellaneous	5	<b>6,746,460</b>	7,999,999
		<b><u>P 11,079,400</u></b>	<u>P 12,416,772</u>

## 21. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Net purchases of merchandise inventories	19.1	<b>P 695,317,379</b>	P 793,721,884
Salaries and employee benefits	23.1	<b>65,391,738</b>	63,549,015
Outside services		<b>30,127,795</b>	23,735,083
Materials, supplies and other consumables		<b>23,592,385</b>	32,560,415
Cost of real estate sold		<b>8,421,070</b>	21,853,958
Depreciation and amortization	13	<b>21,329,182</b>	19,523,016
Utilities and communication		<b>18,439,499</b>	14,560,294
Taxes and licenses		<b>25,343,797</b>	26,007,625
Repairs and maintenance		<b>10,546,129</b>	6,306,230
Transponder rental and leased line		<b>10,192,056</b>	10,501,536
Transportation and travel		<b>7,833,100</b>	5,723,686
Rentals	28.3, 30.2	<b>11,615,239</b>	10,820,805
Net provision (reversal) on inventory obsolescence	19.1	<b>22,104,673</b>	( 4,528,515)
Change in merchandise, finished goods and work-in-process inventories		<b>( 19,749,972)</b>	( 320,367,666)
Miscellaneous		<b><u>71,971,925</u></b>	<u>78,888,377</u>
		<b><u>P 1,002,475,995</u></b>	<u>P 784,355,752</u>

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:

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Cost of sales	19.1	<b>P 697,672,080</b>	P 479,647,025
Cost of services	19.2	<b>126,372,594</b>	109,407,289
Cost of real estate sold		<b>8,421,070</b>	21,853,958
Cost of rentals	19.3	<b>15,323,909</b>	16,258,773
General and administrative expenses		<b>90,832,721</b>	89,263,603
Selling and distribution costs		<b><u>63,853,621</u></b>	<u>67,925,104</u>
		<b><u>1,002,475,995</u></b>	<u>784,355,752</u>

## 22. OTHER INCOME (CHARGES)

### 22.1 Finance Income

This account consists of the following:

	Notes	2012	2011
Interest income from banks	6	P 14,963,821	P 11,349,258
Fair value gains of financial assets		-	-
at fair value through profit & loss		6,629,089	179,604
Reversal of impairment losses on financial assets	7	428,574	-
Gain on sale of financial assets		-	1,582,509
Foreign currency gains		260,094	768,852
Others		-	-
		<u>P 22,281,578</u>	<u>P 13,880,223</u>

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P11.2 million in March 31, 2012 and P10.1 million in March 31, 2011 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

### 22.2 Finance Costs

This account consists of the following:

	Notes	2012	2011
Foreign currency losses		P 126,060	P 1,230,769
Impairment losses on trade and other receivables	7	-	10,000,000
Impairment losses on AFS financial assets	9	13,104,579	4,808,250
Loss on Sale of Financial Asset		602,181	-
Interest expense arising from interest-bearing loans	16	1,863,106	2,150,024
Fair value loss on FVTPL	8	-	-
Others		32,478	218,153
		<u>P 15,728,404</u>	<u>P 18,407,196</u>

## 23. EMPLOYEE BENEFITS

### 23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 21 and 28.10).

	Note	2011
Short-term benefits		P 249,752,464
Post-employment benefit	23.2	3,634,033
Termination benefits		764,785
		<u>P 254,151,282</u>

### 23.2 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 post-employment 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:

	<u>2011</u>
Fair value of plan assets	P 198,950,272
Present value of the obligation	<u>104,569,041</u>
Excess of plan assets	94,381,231
Withdrawal of fund*	( - )
Unrecognized actuarial gains (losses)	( <u>15,099,780</u> )
	<u>P 72,281,451</u>

*\*Withdrawal represents the amount pulled out by Kita and SLC from the plan assets.*

In 2010, Kita and SLC withdrew a portion of the plan assets amounting to P10.0 million out of the total excess retirement fund representing the benefits paid by Kita and SLC for terminated employees (see Note 5). Management assessed that the remaining value of plan assets is more than enough to cover the current and future current cost of Kita and SLC's remaining employees.

The amounts of retirement benefit obligation of SGI, My Solid, Mytel, SBC, ZTC and CBHI that are recognized in the consolidated statements of financial position are determined as follows:

	<u>2011</u>
Fair value of plan assets	P 52,742,927
Present value of the obligation	<u>48,704,204</u>
Excess of plan assets	4,038,723
Unrecognized actuarial gains	( <u>10,149,864</u> )
Retirement benefit obligation	<u>P 6,111,141</u>

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.

	<u>2011</u>
Fair value of plan assets	P 251,693,199
Present value of the obligation	<u>153,273,245</u>
Excess in the plan	<u>P 98,419,954</u>

Experience adjustments arising on plan assets amounted to P5.3 in 2011. Experience adjustments on plan liabilities amounted to P7.2 million in 2011.

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

	<u>2011</u>
Balance at beginning of year	P 91,208,751
Transfers	1,267,732
Current service and interest costs	20,067,558
Benefits paid	( 1,840,988)
Actuarial gains	<u>42,570,192</u>
Balance at end of year	<u>P 153,273,245</u>

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

	<u>2011</u>
Balance at beginning of year	P 239,409,688
Contributions paid into the plan	4,976,389
Benefits paid by the plan	( 1,840,988)
Expected return on plan assets	12,604,518
Actuarial gains (losses)	<u>( 3,456,408)</u>
Balance at end of year	<u>P 251,693,199</u>

Actual returns on plan assets amounted to P9.15 million. The Group expects to contribute a total of P8.9 million to the post-employment defined benefit plan in 2011.

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

	<u>2011</u>
Government securities	P 234,845,476
Mutual and trust funds	<u>16,847,723</u>
	<u>P 251,693,199</u>

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	<u>2011</u>
Current service cost	P 13,004,057
Interest cost	7,063,501
Expected return on plan assets	( 12,604,518)
Net actuarial gains (loss) recognized during the year	<u>( 3,829,007)</u>
	<u>P 3,634,033</u>

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

	<u>2011</u>
Discount rates	6% - 7%
Expected rate of return on plan assets	8%
Expected rate of salary increases	10%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 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.

## 24. TAXES

### ***24.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation***

#### *(a) Registration with Clark Development Corporation (CDC)*

, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes*. As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% Regular Corporate Income Tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

#### *(b) Registration with Philippine Economic Zone Authority (PEZA)*

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

#### *(c) Fil-Dragon Taxation*

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

## 24.2 Current and Deferred Taxes

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

	<u>2011</u>
<i>Consolidated statements of income</i>	
Current tax expense:	
RCIT at 30%	P 105,566,741
Final taxes at 20% and 7.5%	9,686,979
Preferential taxes at 5%	1,165,853
Minimum corporate income tax (MCIT) at 2%	<u>784,751</u>
	117,204,324
Deferred tax expense relating to origination and reversal of temporary differences	<u>22,508,829</u>
	<u><b>P 139,713,153</b></u>
<i>Consolidated statements of comprehensive income –</i>	
Deferred tax income on changes in fair value of AFS financial assets (see Note 25.2)	<u><b>(P 1,458,000)</b></u>

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.

	<u>2011</u>
Tax on pretax profit at 30%	P 171,602,741
Adjustment for income subject to lower tax rates	( 6,615,150)
Tax effects of:	
Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets	( 26,314,832)
Reversal of previously recognized DTL	( 11,409,417)
Nontaxable income	( 11,209,655)
Income (loss) of foreign subsidiary not subject to taxes	9,739,812
Derecognized and unrecognized deductible temporary differences	7,975,800
Nondeductible expenses and losses	5,437,096
Unrecognized deferred taxes from NOLCO and MCIT	1,430,215
Others	( 923,457)
	<u><b>P 139,713,153</b></u>

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:

	<u>2011</u>
Deferred tax assets:	
Fair value adjustments on investment property	P 23,831,400
Allowance for inventory obsolescence	20,630,203
Accrued municipal taxes	9,026,376
Provision for warranty	7,288,866
Retirement benefit obligation	6,094,079
Allowance for impairment on trade and other receivables	3,776,335
Unamortized past service costs	1,156,422
Unamortized pre-operating expenses	112,648
Unrealized foreign currency loss – net	165,867
Deferred tax liabilities:	
Retirement benefit asset	( 2,099,707)
Unrealized foreign currency gain	<u>-</u>
Deferred tax assets – net	<u><b>P 69,982,489</b></u>

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

	<u>2011</u>
Deferred tax assets:	
Allowance for impairment on trade and other receivables	P 7,500,210
Unamortized past service costs	675,055
Deferred rent expense – PAS 17	609,324
Allowance for inventory obsolescence	-
NOLCO	-
Deferred tax liabilities:	
Fair value gains on investment property	( 722,756,790)
Accumulated depreciation on investment property	( 129,743,498)
Retirement benefit asset	( 14,115,622)
Deferred rent income – PAS 17	( 3,523,866)
Changes in fair value of AFS	246,000
Unrealized foreign currency gains	<u>( 36,056)</u>
Deferred tax liabilities – net	<u><b>(P 861,145,243)</b></u>



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

	<u>2011</u>
Fair value gains on investment property	P 54,506,870
Allowance for inventory obsolescence	( 19,956,486)
Accrued municipal taxes	( 6,702,344)
Accumulated depreciation on investment property	6,651,556
Retirement benefit obligation	( 5,830,938)
Allowance for impairment on trade and other receivables	( 2,896,526)
Deferred rent income – PAS 17	( 1,752,527)
Reserve for warranty costs	( 1,214,422)
Unamortized past service costs	344,910
Unamortized preoperating expenses	50,164
Benefits from previously unrecognized MCIT	( 47,888)
Deferred rent expense – PAS 17	34,412
Change in fair value of AFS NOLCO	-
Unrealized foreign currency losses	( 677,951)
	<u>P 22,508,829</u>

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS Financial Assets.

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

<u>Year</u>	<u>Original Amount</u>	<u>Applied in Previous Years</u>	<u>Applied in Current Year</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
<b>NOLCO:</b>						
2011	P 25,849,966	P -	P -	P -	P 25,849,966	2014
2010	3,120,173	1,991,003	17,323	-	1,111,847	2013
2009	29,179,579	11,884,333	3,122,231	-	14,173,015	2012
2008	<u>26,449,985</u>	<u>6,184,682</u>	<u>10,709,470</u>	<u>9,555,833</u>	<u>-</u>	2011
	<u>P 84,599,703</u>	<u>P 20,060,018</u>	<u>P 13,849,024</u>	<u>P 9,555,833</u>	<u>P 41,134,828</u>	
<b>MCIT:</b>						
2011	P 1,125,824	P -	P -	P -	P 1,125,824	2014
2010	4,301,987	-	-	-	4,301,987	2013
2009	868,871	18,000	-	-	850,871	2012
2008	<u>4,174,555</u>	<u>71,162</u>	<u>3,326,116</u>	<u>777,277</u>	<u>-</u>	2011
	<u>P 10,471,237</u>	<u>P 89,162</u>	<u>P 3,326,116</u>	<u>P 777,277</u>	<u>P 6,278,592</u>	

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.

	2011	
	Amount	Tax Effect
Accumulated impairment losses on property, plant, and equipment	P 350,000,000	P 105,000,000
Allowance for impairment of financial assets classified as loans and receivables	113,897,224	34,169,167
NOLCO	41,027,061	12,308,119
Allowance for inventory obsolescence	15,504,733	4,651,420
Fair value loss in investment property	10,167,900	3,050,370
MCIT	5,545,272	5,545,272
Allowance for impairment loss on AFS financial assets	5,420,000	1,626,000
Unearned income	4,920,000	1,476,000
Unrealized foreign currency loss	1,606,837	506,431
Unamortized past service cost	976,947	293,084
Retirement benefit obligation	875,601	262,680
	<u>P 549,941,575</u>	<u>P 168,888,543</u>

In 2011, the Group opted to claim itemized deductions.

### ***24.3 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.

## **25. EQUITY**

### ***25.1 Capital Stock***

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

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

As of December 31, 2011, the Parent Company has issued capital stock of P2,030,975,000, of which, 1,821,542,000 shares, are outstanding and are listed in the PSE. There are 4,583 holders of the listed shares which closed at P1.16 per share on December 31, 2011.

Retained earnings is restricted in the amount of P115.6 million in 2011 equivalent to the 209,433,000 shares held in treasury.

## 25.2 Revaluation Reserves

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

	Notes	2012	2011
Cumulative translation adjustments:			
Balance at beginning of year		(P 19,459,760)	P 64,979,425
Currency differences on translating financial statements of foreign operations	2	( 12,219,785)	( 4,673,374)
		( 31,679,545 )	60,306,051
Fair value losses on AFS financial assets:			
Balance at beginning of year		( 9,782,610)	( 108,459,976)
Reclassification adjustments for losses recognized in profit or loss		12,145,053	3,870,706
Fair value gains (losses) – net	9	6,701,485	2,269,598
		9,063,928	( 102,319,672)
Balance at end of the year		(P 22,615,617)	(P 42,013,621)

## 26. EARNINGS PER SHARE

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

	2012	2011
Net profit for the year attributable to the Parent Company's stockholders	P 65,820,958	P 47,568,087
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
EPS – basic and diluted	P 0.04	P 0.03

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2012 and December 31, 2011, hence, diluted EPS is equal to the basic EPS.

## 27. EVENTS AFTER THE REPORTING PERIOD

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; and OLC and SLC, respectively, whereby SMC and SLC will be the surviving entities. Consequently on the same dates, SEC issued the Certificates of Filing of the Articles and Plans of Merger. Both mergers became effective on January 1, 2012; hence, starting that date, SC started to operate under the corporate name of SMC; and OLC under the corporate name of SLC.

The merger documents related to the planned merger between Mytel and My Solid are yet to be submitted to SEC for its approval as of March 27, 2012, the date the consolidated financial statements were authorized for issue (see Note 1.2).

The Group expects that these mergers will result in efficiency in operations and management of the surviving entities, which will ultimately result positively in the overall financial performance of the Group.

## 28. 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.

### 28.1 Sale of Goods and Rendering Services

	<u>Amounts of Transactions</u> <u>2011</u>	<u>Outstanding Balances</u> <u>2011</u>
Rendering of services:		
Use of cable infrastructure	P 228,608,036	P 71,595,493
Commissions	2,498,762	1,132,958
Management services	<u>1,200,000</u>	<u>-</u>
	232,306,798	72,728,451
Sales of goods -		
Sale of mobile phones	<u>3,042,022</u>	<u>3,042,022</u>
	<u>P 235,348,820</u>	<u>P 75,770,473</u>

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 49% 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 Due from related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

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 28.6).

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.

In 2011, Mytel sold mobile phone inventories to STL. The outstanding receivables arising from these sales transactions are shown as part of Due from related parties under the Trade and Other Receivables account in the statements of financial position (see Note 7).

## 28.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P105.5 million in 2011 are recorded as part of Cost of Services (see Note 19.1). There were no outstanding payables arising from the transactions as of December 31, 2011 and 2010.

## 28.3 Lease of Real Property

	<u>Amount of Transactions</u> <u>2011</u>
Group as lessor	P <u>993,192</u>
Group as lessee	P <u>-</u>

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

In 2009, 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 2009 consolidated statement of income (see Note 21). There are no outstanding liabilities related to this lease in 2011 and 2010.

## 28.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 30.0% in December 31, 2011. Total interests earned from these loans amounted to P7.6 million in 2011 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 7).

The outstanding receivables from business loans as of December 31, 2011 are as follows:

	<u>2012</u>	<u>2011</u>
AA Export & Import Corporation	P <u>51,979,709</u>	P 51,979,709
Avid Sales Corporation	<u>37,121,075</u>	<u>37,121,075</u>
	P <u>89,100,784</u>	P <u>89,100,784</u>

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 7). Total principal repayments received on the loans amounted to P3.3 million in 2011, P10.4 million in 2010 and P13.1 million in 2009.

SMFI also granted unsecured business loan to Avid amounting to P80.0 million. Principal repayments in the amount of P2.9 million and P6.0 million were made in 2011 and 2010, respectively, related to the business loan. There were no principal repayments made in 2009 related to the business loan.

Section 9 (d) of RA No. 8556 states that the total credit that a financing Company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of SMFI decreased in 2011, the balance of business loan extended to Avid Sales as of December 31, 2011 exceeds thirty percent (30%) of SMFI's net worth which is not in accordance with Section 9 (d) of RA No. 8556.

### ***28.5 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 amounting to P60.2 million and P89.9 million in March 31, 2012 and P128.5 million and P107.5 million in December 31, 2011, are presented as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position.

In 2011, the Advances to Related Parties had net repayments of P72.7 million while Advances from Related Parties had net repayments of P61.4 million.

No impairment losses were recognized on the Advances to Related Parties as management has assessed that the total amounts is fully collectible.

### ***28.6 Transactions with 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 2011 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 P48.0 million as of December 31, 2011 and is included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 28.5).

### ***28.7 Transactions with Solid Company Limited (Hong Kong)***

Mytel, My Solid and SBC purchases mobile phones from Solid Company Limited (Hong Kong), a related party owned by the Parent Company's majority stockholders in 2011. Total purchases amounted to P2.5 billion in 2011 and is presented as part of Cost of Sales in the consolidated statements of income (see Note 19.1). Outstanding liabilities relating to these purchases amounted to P372.3 million as of December 31, 2011

In 2011, My Solid made advances to Solid Company Limited (Hong Kong) for its future purchase of mobile phones. The advances were later assigned to Mytel after it was issued by the Bureau of Customs (BOC) with a Certificate of Accreditation as Importer in July 2011. The outstanding advances amount to P219.4 million as of December 31, 2011 and is presented as part of Advances to supplier under Trade and Other Receivables account in the 2011 consolidated statement of financial position.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hong Kong) amounting to P120.8 million which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year.

The amount of loan amounting to P108.9 million and P111.3 million as of March 31, 2012 and December 31, 2011, respectively, are presented as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

### ***28.8 Loan Availments***

In 2011, Fil-Dragon obtained loans from companies that are owned by Solid Company Limited (Hong Kong) amounting to RMB58.1 million (P404.1 million). These bear interest at prevailing market rates per annum ranging from and 6.0% to 10.0% in 2011. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2011 consolidated statement of financial position. Borrowing cost incurred in 2011 relating to these loans amounted to RMB1.5 million (P9.7 million) and are capitalized as part of Real Estate Inventories (see Note 16).

### ***28.9 Financial Guarantees***

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC 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 was terminated during the year as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 16).

### ***28.10 Key Management Personnel Compensation***

Salaries and other benefits given to key management personnel for 2011.

	<u>2011</u>
Short-term benefits	<b>P 33,992,630</b>
Post-employment benefit	<u>-</u>
	<b><u>P 33,992,630</u></b>

## **29. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***29.1 Memorandum of Understanding with SPI***

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support for SPI and Aiwa products. Under the MOU, SPI 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 SPI's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by SPI. Also, SPI agrees to pay the SE Corp. network support fees equal to 1% of net sales for SPI products and 1% or P50,000 per month whichever is higher for Aiwa products. In the first quarter of 2009, SE Corp. and SPI agreed to lower the network support fees to 0.45% of SPI's net sales. Subsequently, SE Corp. and SPI agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

The breakdown of network support fees and in-warranty service fees are shown below.

	<u>Amounts of Transactions</u> 2011	<u>Outstanding Balances</u> 2011
SPI Products	P 56,652,858	P 3,027,479
AIWA Products	-	-
	<u>P 56,652,858</u>	<u>P 3,027,479</u>

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 (see Note 7).

### ***29.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)***

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 17). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

## **30. COMMITMENTS AND CONTINGENCIES**

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

### ***30.1 Operating Lease Commitments – Group as Lessor***

Certain subsidiaries lease various properties for a period of one to ten 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, 2011 is:

	<u>2011</u>
Within one year	P 85,906,404
After one year but not more than five years	137,864,538
More than five years	<u>806,905</u>
	<u>P 224,577,847</u>



### **30.2 Operating Lease Commitments – Group as Lessee**

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2009, these leases have a remaining term of 10 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	<u>2011</u>
Within one year	<b>P 11,131,271</b>
After one year but not more than five years	<b>40,612,597</b>
More than five years	<u><b>25,977,359</b></u>
	<u><b>P 77,721,227</b></u>

Total rental expense from these operating leases amounted to P7.4 million each in 2011, and is shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 19.2 and 21).

### **30.3 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 P3.3 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.

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

### **30.4 Estimated Liability for Land and Land Development Cost**

The Group has commitment of about P68.3 million as of December 31, 2011, 2010 and 2009, for the fulfillment of projects in the development and marketing of CPIP (see Note 12).

### **30.5 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 12). The construction of

Tower 1 was fully completed in 2009; the construction of Tower 2 started in 2011 while the construction of Tower 3 has not yet started as of December 31, 2011.

### ***30.6 Possible Impact of Government Project***

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2<sup>nd</sup> Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri Towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.

### ***30.7 Others***

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements 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.

## **31. 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 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.

### ***31.1 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, AFS financial assets, 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:

	2012		2011	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	P 555,020,501	P 100,605,778	P 476,601,716	P 75,339,059
Financial liabilities	( 402,691,813)	( 415,775,186)	( 379,197,829)	( 404,053,192)
Total net exposure	<u>P 152,328,688</u>	<u>(P 315,169,408)</u>	<u>P 97,403,887</u>	<u>(P 328,714,133)</u>

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 3 months at a 99% confidence level.

	2012		2011	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	8.25%	P 8,221,794	20.63%	P 6,939,858
Php – RMB	7.56%	( 40,038,438)	12.21%	( 43,337,150)
		<u>(P 31,816,644)</u>		<u>(P 36,397,292)</u>

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.

### 31.2 Interest Rate Sensitivity

At March 31, 2012 and December 31, 2011 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 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of 1.09% in March 31, 2012 and +/-1.17% in December 31, 2011. 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 1.09% in March 31, 2012 and 1.17% profit before tax in 2011 would have increased by P14.1 million. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

### 31.3 Credit Risk

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

	Notes	2012	2011
Cash and cash equivalents	6	<b>P 1,942,054,158</b>	P 1,720,748,062
Trade and other receivables - net	7	<b>1,900,726,935</b>	1,807,037,835
Financial assets at FVTPL	8	<b>88,323,094</b>	70,272,991
AFS financial assets - net	9	<b>55,096,269</b>	51,994,367
Advances to related parties	28	<b>60,227,080</b>	128,543,399
Refundable deposits - net	15	<b>15,589,022</b>	13,205,036
		<b><u>P 4,062,016,558</u></b>	<b><u>P 3,791,801,690</u></b>

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

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

(a) *Cash and Cash Equivalents, FVTPL and AFS Financial Assets*

The credit risk for cash and cash equivalents, FVTPL and AFS 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 and advances to related parties are past due at the end of the reporting period. Trade receivables and advances to related parties past due but not impaired can be shown as follows:

	2011
Not more than 3 months	<b>P 69,088,088</b>
More than 3 months but not more than one year	<b>9,400,170</b>
More than one year	<b><u>66,597,236</u></b>
	<b><u>P 145,085,494</u></b>

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.

### 31.4 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 of December 31, 2011, the Group's financial liabilities have contractual maturities which are presented below.

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 404,053,192	P 375,345,563
Trade and other payables	552,072,387	-
Advances from related parties	-	107,495,231
	<b>P 956,125,579</b>	<b>P 482,840,794</b>

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

## 32. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

### 32.1 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	2012		2011	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>				
Loans and receivables:				
Cash and cash equivalents	6	P 1,942,054,158	1,942,054,158	P 1,720,748,062
Trade and other receivables - net	7	1,900,726,935	1,900,726,935	1,807,037,835
Advances to related parties	28	60,227,080	60,227,080	128,543,399
Financial assets at FVTPL				
Investments in bonds	8	88,323,094	88,323,094	70,272,991
Available-for-sale financial assets:	9			
Investments in bonds		55,096,269	55,096,269	51,994,367
Golf club shares - net		6,407,409	6,407,409	6,407,409
Others		987,002	987,002	1,474,118
Refundable deposits	15	15,589,022	15,589,022	13,651,421
		<b>P 4,069,410,969</b>	<b>P 4,069,410,969</b>	<b>P 3,800,129,602</b>
<b>Financial liabilities</b>				
At amortized cost:				
Interest-bearing loans - net	16	P 769,354,821	769,354,821	P 779,398,755
Trade and other payables	17	792,904,901	792,904,901	592,432,973
Advances from related parties	28	89,938,989	89,938,989	115,790,251
Refundable deposits - net	18	17,620,995	17,620,995	15,611,010
		<b>P 1,669,817,706</b>	<b>P 1,669,817,706</b>	<b>P 1,503,232,989</b>

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 31.

### 32.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of March 31, 2012 and December 31, 2011.

	Level 1	Level 2	Level 3	Total
March 31, 2012				
Financial assets at FVTPL	P 88,323,094	P -	P -	P 88,323,094
AFS financial assets	<u>62,388,544</u>	<u>-</u>	<u>937,127</u>	<u>63,325,671</u>
	<b><u>P 150,711,638</u></b>	<b><u>P -</u></b>	<b><u>P 937,127</u></b>	<b><u>P 151,648,765</u></b>
December 31, 2011				
Financial assets at FVTPL	P 70,272,991	P -	P -	P 70,272,991
AFS financial assets	<u>58,938,767</u>	<u>-</u>	<u>937,127</u>	<u>59,875,894</u>
	<b><u>P 129,211,758</u></b>	<b><u>P -</u></b>	<b><u>P 937,127</u></b>	<b><u>P 130,148,885</u></b>

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).

### 33. 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:

	2012	2011
Total liabilities (excluding advances from related parties)	<b>P 3,256,365,248</b>	P 3,052,705,062
Total equity	<b>8,628,953,530</b>	8,556,482,257
Debt-to-equity ratio	<b><u>0.38:1</u></b>	<u>0.36 : 1</u>

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.