SOLID GROUP INC.

May 31, 2013

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 27, 2013 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 5, 2013

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

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

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

    Yes **X** No __________

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 27, 2013 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, 2012
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, 2013 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 17, 2013. 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 21, 2013 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, May 15, 2013.

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 27, 2013** 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 5, 2013.**

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, 2013.

As of record date April 30, 2013, 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, 2013 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. [1] 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r) [1]	32.03
Common	AV Value Holdings Corporation 2285 Pasong Tamo Ext, Makati Affiliate	David S. Lim President of AV Value Holding Corp.	Filipino	499,999,999 (r) [2]	27.45

Common	PCD Nominee Corporation (F) [2] G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	334,546,726 (r) [3]	18.37
Common	Lim, David S c/o Solid House, 2285 Pasong Tamo Ext, Makati	Not applicable	Filipino	179,488,591 (r and b)	9.85

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

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

3. 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, 2013 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	-
		7,300,000 (indirect)[3]		0.40
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		5,000,000 (indirect)[3]		0.27
		499,999,999 (indirect) [2]		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect) [1]		32.03
		5,996,000 (indirect) [3]		0.33
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	3,505,000 (direct)	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	7,010,000 (direct)	Filipino	0.38
Common	Corpuz, Mellina T.	-	Filipino	-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,429,069,296 or 78.45% 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	12	83	Filipino
Chairman of the Board	Susan L. Tan	12	59	Filipino
Director and President and Chief Executive Officer	David S. Lim	12	57	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	11	56	Filipino
Director and Sr. VP and Chief Financial Officer	Vincent S. Lim	3	54	Filipino
Director	Quintin Chua	19	53	Australian
Director	Luis-Maria Zabaljauregui	5	67	Filipino
Director	Joseph Lim	3	87	Filipino
Director and VP for Business Development	Beda T. Manalac	3	52	Filipino

and Investor Relations				
VP and Treasurer	Lita Joaquin	11	51	Filipino
Corporate Secretary	Roberto V. San Jose	17	70	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	16	43	Filipino
VP and Chief Accounting Officer	Mellina T. Corpuz	7	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 Quantum Capital Management, Inc. (formerly 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 is a Consultant of Roxas Holdings Inc. since February 2012. 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 of Roxol Bioenergy Corporation 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 President of Solid Manila Corporation effective January 2012. 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, United Paragon Mining Corporation and Vulcan Industrial and Mining Corp. He is also either a director, corporate secretary, or an officer of various companies which are clients of the law firm of Castillo Laman Tan Pantaleon & San Jose, of which he is presently a Senior Consultant. He is a member of the Integrated Bar of the Philippines.

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

Mellina T. Corpuz is the Chief Accounting Officer 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	83	Filipino
Director	Susan L. Tan	59	Filipino
Director	David S. Lim	57	Filipino
Director	Jason S. Lim	56	Filipino
Director	Vincent S. Lim	54	Filipino
Independent Director	Quintin Chua	53	Australian
Independent Director	Luis-Maria L. Zabaljauregui	67	Filipino
Director	Joseph Lim	87	Filipino
Director	Beda T. Mañalac	52	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 Corporate Governance & Nominations Committee was constituted with the following as current members:

1. Mrs. Susan L. Tan (Chairman)
2. Mr. Luis-Maria L. Zabaljauregui (Vice Chairman; Independent Director)
3. Mr. Vincent S. Lim
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

See full discussion on related party-transactions disclosed in Note 26 of the 2012 annual audited consolidated financial statements.

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

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

Solid 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. .

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

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

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

Advances to and from Related Parties

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

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. In 2011, the parties agreed to increase the annual rate to 5% and extend the maturity date for another date. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

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

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

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

3. The Company has no parent company holding or controlling more than 50% of its outstanding capital stock. However, AA Commercial Inc. and AV Value Holdings Corporation

separately own and control 32.03% and 27.45%, respectively, of the Company's outstanding shares.

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

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.

		Annual Compensation		
(a)	(b)	(c)	(d)	(e)
Name and Principal Position	Year	Salary (₱)	Bonus (₱)	Other Annual Compensation Income (₱)
Chairman and four most highly compensated executive officers	2013	22,500,000	3,000,000	1,000,000
	2012	20,334,875	2,167,880	811,367

Susan L. Tan	Chairman of the Board
David S. Lim	Director, President and Chief Executive Officer
Jason S. Lim	Director, Senior VP and Chief Operating Officer
Vincent S. Lim	Director, Senior VP and Chief Financial Officer
Beda T. Manalac	Director, VP for Business Development

Chairman and four most highly compensated executive officers	2011	14,680,000	2,028,788	1,450.,859

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 Joaquin	VP and Treasurer

All officers and directors as a group unnamed	2013 (Est.)	4,000,000	800,000	2,400,000
	2012	3,460,000	629,591	2,198,296
	2011	2,740,000	424,293	2,041,401

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 & Remuneration Committee. The members of the Compensation & Remuneration Committee are the following:

Chairman:	Vincent S. Lim
Vice Chairman:	Susan L. Tan
Members:	Quintin Chua (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 30,000 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 2012. 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 2012 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. Beginning audit year 2011 and including the current audit year 2013, 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 2012 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 June 28, 2012 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 2011 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 audited and interim financial statements; approval of cash dividends; approval of option agreement with Skycable Corp.; opening and closure of bank accounts; sale of shares; and approval of corporate governance matters.

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 28, 2013.

Solid Group, Inc.

By:

Roberto V. San Jose
Corporate Secretary

SOLID GROUP INC.

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

For the 2013 Annual Stockholders' Meeting

A. Audited Financial Statements for Fiscal Year Ended December 31, 2012

Please refer to the accompanying audited financial statements for year ended December 31, 2012 and first quarter report on SEC Form 17Q for the quarter ended March 31, 2013.

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 June 28, 2012, the stockholders of the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2012.

There was no change in our existing auditor for the years 2011 and 2012. 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 2012, 2011 and 2010 are as follows:

	December 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Revenue growth	18%	53%	17%
Asset turnover	40%	37%	26%
Operating expense ratio	14 %	16%	19%
EBITDA	P1,574 million	P660 million	P452 million
Earnings (loss) per share	P0.68	P0.24	P0.13
Current ratio	3.14:1	2.47:1	2.81:1
Debt to equity ratio	0.33:1	0.36 : 1	0.29 :1

2012

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

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

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

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

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

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

Debt to equity ratio stood at 0.33 : 1 as of December 31, 2012 from 0.36 : 1 as of December 31, 2010 primarily due to improved equity position this year.

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.

Results of Operations 2012

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

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

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

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

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

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

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

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

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

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

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

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

Other operating expenses (income) amounted to P116 million other operating income in 2012 against P412 million other operating expenses in 2011 as explained below.

General and administrative expenses amounted to P 343 million in 2012 from P366 million in 2011. The decline was principally due to lower operating expenses of the broadband segment after it disposed of its assets.

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

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

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

Operating profit amounted to P 1,345 million in 2012 from P577 million in 2011, improving by 133% from higher gross profit and other operating income and gain of sale of asset as discussed above.

Other income (charges) amounted to P 172 million gain in 2012 against P3.5 million loss in 2011 mainly from the following:

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

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

Other gains amounted to P57 million in 2012 versus P21 million in 2011 primarily due to gain on derecognition of liabilities.

Income before tax reached P1,517 million in 2012, or higher by 165% from P573 million in 2011 mainly due to higher operating profit as explained above. The sale of assets of the broadband segment posted P267 million one time-gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense amounted to P276 million in 2012 from P139 million in 2011 due to higher pre-tax income.

Profit from continuing operations amounted to P1,241 million in 2012 against P434 million in 2011 due to the factors discussed above.

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

Net profit for the year reached P1,241 million in 2012 against P430 million in 2011.

Net income attributable to equity holders of the parent amounted to P1,244 million in 2012 against P439 million in 2011 as discussed above.

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

Financial Position 2012

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

Trade and other receivables reached P1,287 million as of December 31, 2012 against P1,137 million as of December 31, 2011. The increase was principally due to higher receivable position of the distribution segment.

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

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

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

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

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

Other current assets amounted to P252 million as of December 31, 2012 compared with P267 million as of December 31, 2011, or a decrease of 6% was mainly due to lower input VAT and creditable withholding taxes.

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

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

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

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

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

Retirement benefit assets amounted to P73 million as of December 31, 2012 and P79 million as of December 31, 2011. The decrease was principally due to claims and refund by the broadband segment.

Deferred tax assets - net amounted to P63 million as of December 31, 2012 and P69 million as of December 31, 2011, a decrease of 10% principally due to lower allowances for inventory obsolescence and provision for warranty.

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

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

Total assets reached P12,848 million as of December 31, 2012 from P11,716 million as of December 31, 2011 as discussed above.

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

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

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

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

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

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

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

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

Retirement benefit obligation amounted to P 12 million as of December 31, 2012 and P6 million December 31, 2011. The increase was due to unfunded retirement benefit obligation of the distribution segment.

Deferred tax liabilities -net amounted to P 920 million as of December 31, 2012 and P861 million as of December 31, 2011. The increase was primarily from provision for fair value gains on investment property.

Total non-current liabilities amounted to P948 million as of December 31, 2012 from P882 million as of December 31, 2012 and December 31, 2011.

Total liabilities amounted to P3,176 million as of December 31, 2012 from P3,160 million as of December 31, 2011.

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

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

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

Revaluation reserves amounted to P46 million loss as of December 31, 2012 from P29 million loss as of December 31, 2011 due to other comprehensive income for the period mainly from currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P2,758 million as of December 31, 2012 from P1,623 million as of December 31, 2011 as a result of net income and dividend declaration during the period.

Total equity attributable to Equity holders of Parent amounted to P9,269 million as of December 31, 2012 from P8,151 million as of December 31, 2011 due to higher retained earnings.

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

Total equity amounted to P9,671 million as of December 31, 2012 from P8,556 million as of December 31, 2011.

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 disbribution 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 toP3.5 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 in2011 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.

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.

Results of Operations 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 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 .

Financial Position 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.

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

The Company 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. In 2012, the Company concluded the sale of the broadband assets of Solid Broadband Corporation, a wholly-owned subsidiary of the Company. The sale further strengthened the Company's financial position with the sale providing a P1 billion proceeds. It increased its total assets to P12.8 billion in 2012 from P11.7 billion in 2011 and P10.64 billion in 2010. It increased its equity to P9.65 billion in 2012 from P8.56 billion in 2011 and P8.11 billion in 2010. It has maintained a low debt to equity ratio of 0.33:1 in 2012 from 0.36:1 in 2011 and 0.29:1 in 2010 and even a lower gearing percentage (computed as financial debt divided by total equity) of 6% in 2012 from 9% in 2011 and 12% in 2010 resulting from minimal financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. Additionally, the company kept significant amounts of cash and cash equivalents and short-term cash investments as part of its current assets to maintain its liquidity such that its current ratio had always exceeded the conservative rule of thumb of 2 : 1 by achieving a current ratio of 3.14:1 in 2012 from 2.47:1 in 2011 and 2.81:1 in 2010.

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, 2012 was a net income of P1,241.6 million from P430.3 million in 2011 and P226.70 million in 2010, translating to earnings per share of P0.68, P0.24 and P0.13 in 2012, 2011 and 2010, respectively. The broadband asset sale contributed a one-time gain on sale of assets of P267 and gain on reversal of asset impairment of P437 million. Moreover, the improved earnings was achieved by strong revenue growth and earnings of the digital products of the distribution business segment and also of the investing and financing business segment in 2012.

The Group expects its consolidated operations to continue to be profitable in the future as robust growth is projected 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 number of mobile phone users in the country has more than doubled in just a few years and is expected to further increase in the years to come. The Company will capitalize on the rising demand of mobile phone and continue to deliver mobile phones of high quality and competitive prices and continue to grow my|phone market share. It has partnered with a mobile and web application development company which will exclusively develop Filipino-made applications to its roster of mobile phones to support its commitment to deliver and redefine consumer expectations from the fast-phased mobile revolution. 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 was competed in 2012 and already started providing revenues in 2012. The Company expects Tower 2 to improve sales in 2013. 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. On its third year, the Company expects sales to hit the P100 million mark. In 2012, the Company started its pilot project of modular residential housing units in Tandang Sora, Quezon City called My|Rainbow Place, a low-rise condominium project using the same modular insulated steel housing technology. The project aims to provide affordable modern urban housing for the working-class Filipinos. Although the project had minor setbacks in 2012, it is expected to proceed in May 2013 and to be completed within the year. The Company also started the renovation of Solid House Building in 2012 with projected capital expenditures of about P300 million. It started development of a Business Hotel and Event Center consisting of 157 rooms to be named Green Sun Hotel and expects to generate revenues in 2014.

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 2013 to amount to P500 million for various real estate development and/ or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

On 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 plastic injection business are expected to reduce about 1% and 5% of revenues, respectively while the Company does not expect any reduction in income.

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

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

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

vii. Causes for any Material Changes from Period to Period

On May 11, 2012, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base. The disposal of the assets of SBC contributed to a one time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million.

Balance Sheet Items (2012 vs. 2011)

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

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

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

Trade and other receivables – 13 % increase to P1,287 million from P1,137 million

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

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

Principally from collections of advances made. This account stood at 0.16% and 1% as a percentage of total assets in 2012 and 2011, respectively.

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

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

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

The decrease was principally due to disposal of financial assets. This account stood at nil and 4% as a percentage of total assets in 2012 and 2011, respectively.

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

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

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

The increase was mainly due to construction of Golden Hill Project. This account stood at 10% and 14% as a percentage of total assets in 2012 and 2011, respectively.

Other current assets – 6% decrease to P252 million from P267 million

Mainly due to lower input VAT and creditable withholding taxes. This account stood at 2% as a percentage of total assets for years 2012 and 2011.

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

Mainly due to lower translated value of the foreign-currency receivables. This account stood at 7% as a percentage of total assets for years 2012 and 2011.

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

Mainly from fair value gains of club shares. This account stood at nil and 0.007% as a percentage of total assets for 2012 and 2011.

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

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

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

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

Retirement benefit assets - 8% decrease to P73 million from P79 million

Decrease was mainly due to claims and refund by the broadband segment.This represented 0.57% and .67% of total assets in 2012 and 2011, respectively.

Deferred tax assets –net - 10% decrease to P63 million from P70 million

Mainly due to lower allowances for inventory obsolescence and provision for warranty. This account stood at 0.49% and 0.60% of total assets in 2012 and 2011 respectively.

Other non-current assets – no change

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

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

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

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

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

Customers' Deposit – increase to P881 million from P686 million

Principally due to additional collection of deposits from real estate and prefabricated modular houses buyers

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

The decrease was due to payments made during the period. This account stood at 0.09% in 2012 and 0.9% in 2011 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change

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

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

Mainly due to higher tax expenses. This account was pegged at 0.50% and 0.37% of the total liabilities and equity in 2012 and 2011, respectively.

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

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

Retirement benefit obligation – 106% increase to P12 million from P6 million

Mainly from unfunded retirement obligation of the distribution segment. This account stood at 0.97% and 0.05% of the total liabilities and equity in 2012 and 2011, respectively.

Deferred tax liabilities – 7 % increase to P920 million from P861 million

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

Capital stock – no change

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

Additional Paid-In-Capital – no change

This account represented 36 % and 39% of total liabilities and equity for 2012 and 2011, respectively.

Treasury Shares – no change

This account represented 1% and 10% of total liabilities and equity for 2012 and 2011, respectively.

Revaluation reserves –amounted to (P46 million) from (P29 million)

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations offset with reclassificationadjustments for losses recognized in profit or loss. This account stood at .036%% and 0.25% total liabilities and equity in 2012 and 2011, respectively.

Retained earnings – 70% increase to P2,758 million from P1.623 million

As a result of net income and dividend declaration during the period. This account stood at 21% and 13.85% of total liabilities and equity in 2012 and 2011, respectively.

Income Statement Items (2012 vs. 2011)

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

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

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

Service revenue –8% decrease to P630 million from P682 million

Principally due to broadband's sale of assets and subscriber base in May 2012.

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

Principally since there was no sale of industrial lots for 2012. As a percentage of total revenues, this account decreased to 2% in 2012 and 16% in 2011.

Rental income – 13% decrease to P136 million from P157 million

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

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

Mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets. As a percentage of total revenues, this account represents 1% in 2012 and .01% in 2011.

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

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

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

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

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

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

Cost of rentals – 11% increase to P35 million from P39 million

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

General and administrative expenses – 7% decrease to P343 million from P366 million

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

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

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

Gain on sale of assets – 267 million

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

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

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

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

Principally contributed by reversals of impairment loss on trade and other receivables of the broadband segment. This account increased at 3% of total revenues for 2012 from 1.8% in 2011.

Finance costs – P49 million from P89 million

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

Other gains - net –P57 million to P21 million

Primarily due to gain on derecognition of liabilities. This account increased to 1.17% in 2012 from 0.59% in 2011 as a percentage of total revenues.

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

*T*his 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 2000 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

*T*his 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.

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 to12% 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

Principally 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 of total revenues.

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 twelve (12) wholly-owned subsidiaries as of December 31, 2012, as follows:

My Solid Technologies & Devices Corporation (MySolid) was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. MySolid merged with MyTel Mobility Solutions Inc. (MyTel), another wholly subsidiary of the Company with similar business, with MySolid as the surviving company effective June 1, 2013.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. On February 22, 2011, the Board of Directors and stockholders approved the amendment of the SGTC's articles of incorporation to change its primary purpose. This was approved by the Securities and Exchange Commission on March 22, 2011 and starting that date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units. SGTC was formerly a wholly-owned subsidiary of SC. In 2007, SGTC became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in SGTC.

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

Solid Manila Corporation (SMC) was incorporated on June 13, 1983. SMC is engaged in the lease and development of the Company's real estate properties. SMC merged with Solid Distributors, Inc. (SDI), another wholly-owned subsidiary of the Company, on December 23, 2003, with SMC as the surviving company. Effective January 1, 2012, SMC merged with Solid Corporation, also another wholly owned subsidiary of the Company engaged in the same business of leasing real estate properties, with the SMC as the surviving company.

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

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

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 and operated as lessor of real estate. SLC merged with Omni Logistics Corporation (OLC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SLC as the surviving company. After the merger, SLC resumed the business of OLC of providing warehousing and logistics services to third parties. On March 19, 2012, SLC changed its corporate name to Omni Solid Services, Inc.

Solid Electronics Corporation (SEC), 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 MyPhone digital devices. SEC merged with AA Electronics Corporation (AAEC), another wholly-owned subsidiary of the Company and Solid Electronics Services Inc. (SESI), a wholly owned subsidiary of SC on April 12, 2004 with SEC as the surviving company.

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

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

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

Solid Broadband Corporation (SBC) was incorporated on September 22, 2000 to offer broadband services. SBC obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. It has been granted provisional authority to use its franchise by the National Telecommunications Commission on April 15, 2002. SBC was merged with Destiny Inc. (DI) as approved by the Securities and Exchange Commission on August 26, 2005, with SBC as the surviving entity. Henceforth, SBC assumed the operations of DI of broadband cable infrastructure and provides transport services to an affiliate engaged in cable television operations. It also provides integrated multimedia services, among which are, VSAT, broadcast uplink and leased line services. In 2007, SBC started the marketing and distribution of mobile phones. In 2010, My Solid Technologies & Devices Corporation assumed the importation of the mobile phones from SBC while MyTel Mobility Solutions Inc. took over the distribution of mobile phones from SBC. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

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

2. Business of Issuer

Principal Products and Services

The consumer electronics business of the Company as of December 31, 2012 are:

(1) sale of mobile phones which generated sales of P3,836 million (for 2,985,764 units) or 97% of sales in 2012, P2,908 million (for 2,022,142 units) or 93% of sales in 2011 and P1,495 million in 2010 (for 739,721 units)or 92% of sales in 2010; and (2) after-sales service for principally SONY brands of consumer electronic products and My|Phone with its 37 company-owned service centers throughout the Philippines and 122 independent authorized service centers as of end of 2012 which generated service income of P203 million or 32% of service revenues in 2012, P204 million or 30% of service revenues in 2011 and P203 million or 29% of service revenues in 2010; and (3) warehousing, distribution and product testing of consumer electronic products with service revenue of P116 million or 18% of service revenue in 2012, P84 million or 12% of service revenues in 2011 and P51 million or 7% of service revenues in 2010 and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of nil in 2012 and 2011 and P10 million in 2010 (for 47,959 units) or 2% of service revenues;

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 P156 million in 2012 or 25% of service income, P374 million in 2011 or 55% of service income in 2011 and P391 million in 2010 or 56 % of service income in 2010. As mentioned above, SBC sold its wired and satellite assets and broadband/internet subscriber base on May 11, 2012. After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable Corporation until the SBC's clients are transferred to the latter. Sky Cable Corporation also assumed to pay all cost and expenses in connection with use and operation of the assets. Revenues arising from this activity amounted to P91 million in 2012 or 14% of service revenues (nil for 2011 and 2010.)

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 P82 million or 2% of sales in 2012, P182 million or 93% of sales in 2011 and P112 million or 7 % of sales in 2010; prefabricated modular houses of P39 million in 2012 and P13 million in 2011 (nil in 2010). Real estate sales amounted to P99 million or 2% of revenues in 2012, P126 million or 3% of revenues in 2011and P207 million or 8% of revenues in 2010.

Distribution

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

The Company distributes through its subsidiaries consumer electronic products and devices in the Philippines. The MyPhone brand is distributed by MySolid Technologies and Devices Corporation. As of December 31, 2012, MySolid supplied approximately 343 dealer accounts.

Status of any-publicly announced new product or service

None.

Competition

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

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

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

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

The 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. On May 11, 2012, , SBC sold its wired and satellite assets and broadband/internet subscriber base. (See Agreements)

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). On May 11, 2012, SBC sold its wired and satellite assets, (See Agreements).

Dependency of the business upon a single or few customers

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

Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2012, it has 37 service centers throughout the Philippines and 122 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 services and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

Principal Terms and Expiration Dates of all Licenses and Agreements

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

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony 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.

- Agreement with Sky Cable Corporation

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

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

- Management Agreement with Sky Cable Corporation

For continuity of services to subscribers, SBC and Sky Cable Corporation agreed that the management and administration of the Assets be entrusted to Sky Cable Corporation pending the approval of the National Telephone Commission (NTC) of the assignment of the Assets.

Sky Cable Corporation, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

The Management Agreement shall remain in effect until December 31, 2013. If NTC's approval is not obtained by December 31, 2013, the terms of the Management Agreement shall be automatically renewed for two years from such date and thereafter automatically renewed for another two years from the end of term of its renewal, until the Management Agreement is terminated.

The Management Agreement shall be automatically terminated on the date NTC approves the transfer of the Assets in favor of Sky Cable Corporation.

- Option Agreement

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

- Franchise

Solid Broadband Corporation (SBC) obtained a congressional franchise for 25 years to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 14, 2001. SBC has been granted provisional authority to use its franchise by the National Telecommunications Commission.

Need for any government approval

The assignment/ sale of the assets of Solid Broadband Corporation on May 11, 2012 to Sky Cable Corporation is pending approval of the National Telecommunication Commission.

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

None.

Research and development activities

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

Costs and effects of compliance with environmental laws

The Company has complied with environmental laws at minimal costs.

Employees

The Company and its subsidiaries have 392 regular employees as at December 31, 2012 as shown in the table below. It estimates to have 450 employees by the end of December 31, 2013. There is no existing union as of December 31, 2012. There are no employees who would be on strike nor have been on strike in the past three (3) years, nor are threatening to strike. The Company has no supplemental benefits and incentive arrangements with its employees other than the regular Christmas bonus, thirteenth month pay, performance incentives and leave conversions.

	Number of employees
Management	20
Sales and Distribution	48
Operation	77
Service	121
Administration	80
Finance	46
Total	392

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.

The Company's business is continuously subject to rapid technology changes which may cause inventory obsolescence. Also, 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.

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, Marulas, Bulacan	10,493	Office Building and warehouses
Laguna International Industrial Park, Binan, Laguna	5,141	Building for lease
Pasong Tamo, Makati City	5,000	Building (Under renovation for Hotel and Office use)
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; (Future site of the pilot project for modular residential housing units)
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)
Bacoor, Cavite	1,334	Office building for lease
Cabanatuan City, Nueva Ecija	1,212	Service center and building for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	9,852	Industrial/ Commercial lots for sale
Araneta, Quezon City	1,000	Land (Intended for sale or lease)
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

Solid Corporation also owns a parcel of land in Bgys. Talipapa and Pamaldan, Cabanatuan City, Nueva Ecija with an area of 1,914,180 square meters. This property is the subject of a case filed by Solid Corporation on October 17, 1995 with the Department of Agrarian Reform Regional Adjudication Board (RARAB) to declare the emancipation patents issued to several tenant farmers of the said property and any patents that may subsequently be issued covering the same, null and void on the ground that the requirements of Presidential Decree No. 27 have not been complied with. The portion of the property that may be subject to litigation consists of 47,211 square meters. On February 6, 1997, the case was submitted for resolution. On June 26, 1997, the RARAB ordered the processing of the Certificate of Land Transfer for issuance to the tenants. On July 31, 1997, Solid Corporation appealed the RARAB decision to the DAR's Central Adjudication Board (DARAB). The appeal was resolved adverse to Solid Corporation on January 31, 2002. Solid Corporation appealed the DARAB decision to the Court of Appeals on February 11, 2002. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City on November 18, 2007. The Department of Agrarian Reform granted Solid Corporation's petition and ordered Land Bank to re-evaluate the land valuation based only on Republic Act No. 6657 (The Comprehensive Agrarian Reform Program) on September 28, 2012. Land Bank amended the valuation and tendered an Amended Offer of P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation agreed to the offer and is complying the documentation requirements. 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 favorably endorsed by Municipal Agrarian Reform Officer to the Regional Director of DAR and recommended a retention of 3.9 hectares. This is pending the approval of the Regional Director as of April 2013.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267 , 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264 which is pending resolution as of April 2013. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

There are two other cases involving certain properties of Solid Manila Corporation. Its titles to the Balintawak, Quezon City property with land area of 31,423 square meters, currently used as a service center and office building, are sought to be annulled in a civil action filed on 25th September, 1990, with the Regional Trial Court Branch 120 on the ground that another title covers the same area claimed by Lilia Sevilla et.al. On July 14, 1995, the in-house counsel assumed the case. On January 20, 2003, the RTC Branch 120 rendered a decision in favor of Lilia Sevilla annulling seven titles of Solid Manila Corporation to wit-- TCT Nos. 12729 up to 12736._SMC filed an appeal with the Court of Appeals. The Company's legal counsel believes that the titles of Solid Manila Corporation will prevail over those of the claimants on the grounds that the titles of the claimants are being sought to be nullified and voided by the government itself. The government's case filed by the Land Registration Authority (which is represented by the Office of the Solicitor General) before the Regional Trial Court (RTC) Branch 122 was for the annulment of claimant's title. Solid Manila Corporation filed an intervention in the government's case despite opposition by Lilia Sevilla et.al. The Court allowed Solid Manila Corporation to intervene in the government's case. Pending the incident of other third party intervenors, the Department of Justice recommended the dismissal of the Register of Deeds (ROD) and Deputy ROD of Caloocan based on inquiry of the antecedent facts of the case. In November 2000, the RTC Branch 122 rendered a decision in favor of the government, thus nullifying the land titles of Lilia Sevilla et. al., who subsequently appealed the decision of RTC Branch 122 to the Court of Appeals. SMC consolidated these cases as of February 2004. Lilia Sevilla et. al. filed a motion for reconsideration to the Court of Appeals' order consolidating these cases. The Court of Appeals had received the memoranda of the respective parties of Lilia Sevilia, the Government and Solid Manila Corp. and had raffled the case to another division for the promulgation of the decision. This case is now submitted for decision. There is no decision as of April 2013.

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. On May 11, 2012, SBC sold its wired and satellite assets, (See Agreements).

Franchise

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

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

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

Lease agreements

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	7,717*	March and August 2019
Metro Manila	27,465**	December 2012
Metro Manila	9,952***	August 2012
Orbital space	11,524****	August 2012

* 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. The contract was assigned to Skycable Corporation after the sale of its assets on May 11, 2012.

*** Represents lease of internet connection. The contract was assigned to Skycable Corporation after the sale of its assets on May 11, 2012.

**** Represents lease of transponder for telecommunication and satellite uplink services. The contract was assigned to Skycable Corporation after the sale of its assets on May 11, 2012.

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	4,159	July 31, 2013
Balintawak, Quezon City	21,894	Various up to September, 2015
Cagayan de Oro	1,842	Various up to January 31, 2016
Chino Roces Ave, Makati City	13,548	Various up to July 6, 2019
Clark, Pampanga	28,577	Various up to June 15, 2013
Iloilo	1,621	Various up to September 14, 2013
Laguna International Industrial Park, Binan, Laguna	40,462	Various up to June 30, 2017
Laguna International Industrial Park, Binan, Laguna	3,375	April 30, 2013
La Huerta, Bicutan, Paranaque	5,810	Various up to March 31,2014
Ermita, Manila	7,983	Various up to February 2016

Ermita, Manila	4,761	Various up to December 14, 2017
San Dionisio, Paranaque City	1,175	February 14, 2013

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2013 to amount to P500 million for various real estate development and/ or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

Legal Proceedings

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

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 (₱)
2013		
First quarter	2.54	1.90
2012		
First quarter	1.37	1.10
Second quarter	1.69	1.23
Third quarter	2.71	1.38
Fourth quarter	2.20	1.85
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

The trading price of Company shares closed at P2.10 as of May 28, 2013 (the latest practicable trading date).

Holders

The number of shareholders as of April 30, 2013 was 4,447. Common shares outstanding as of April 30, 2013 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, 2013:

	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)	334,546,726	18.37
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)	38,815,033	2.13
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.	Lucio W. Yan &/or Clara Yan	1,000,000	0.05
	Columbian Motors Corporation	1,000,000	0.05
14.	Juan Go Yu &/or Grace Chu Yu	940,000	0.05
15.	Ong, Victoria	632,000	0.03
16.	Union Properties, Inc.	625,000	0.03
17.	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

A cash dividend of Php 0.06 per share was declared on October 12, 2012 out of the unrestricted retained earnings as of December 31, 2011 in favor of holders of common shares as of the record date October 31, 2012 payable on or before November 28, 2012.

No dividends were declared in year 2011.

The Company's retained earnings as of December 31, 2012 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, 2012.

Recent Sales of Unregistered Securities in the Past Three Years

There was no sale of unregistered or exempt securities in 2010, 2011 and 2012.

G. Compliance with Corporate Governance Practices

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

Pursuant to the Manual, three Board Committees – Audit, Nomination and Compensation and Renumeration Committees were created in 2003 to aid in complying with principles of good corporate governance. In 2003, the Company increased the number of independent directors from one (1) to two (2). In 2004, in compliance with SEC Memorandum Circular No. 6. the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee. The company has reelected Mr. Quintin Chua and Mr. Luis Maria L. Zabaljauregui as Independent Directors during the Annual Stockholders' meeting on June 28, 2012. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. In 2012, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2011 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier.

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 15, 2013. 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 2012 during the Annual Stockholders' meeting on June 28, 2012.

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.

H. 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, 2012 and 2011 amounted to P5 million and P4.66 million, respectively. Also, audit fees for the short period reports as well as long form reports in 2012 and 2011 as required for the filing of merger of the various subsidiaries of the Company amounted to P210 thousand and P1.21 million, respectively. The audit fee of Grant Thornton for the examination of Fil-Dragon for the years ended December 31, 2012 and 2011 amounted to HK$274,000 and HK$245,000, 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 2012 and 2011.

(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, 2012 and 2011 amounted to P204 thousand and P276 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 amounted to P200 thousand and P689 thousand in 2012 and 2011, respectively.

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

There were no other fees paid for the years 2012 and 2011.

(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.

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

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

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER

1. For the quarterly period ended: March 31, 2013

2. Commission Identification Number: 845

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

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

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

6. _________ (SEC Use Only)
   Industry Classification Code

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

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

9. Former name, former address and former fiscal year,
   if changed since last report: N/A

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

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

11. Are any or all of the securities listed on the Philippine Stock Exchange?
    Yes [X] No [ ]

    If yes, state the name of such Stock Exchange and the classes of securities listed therein:

    Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

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

Yes [X]   No [ ]

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

Yes [X]   No [ ]

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the three (3) months period ended March 31, 2013 are attached to this report.

Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

Key Performance Indicators

The following key performance indicators are identified by the Company and included in the discussion of the results of operations and financial condition: revenue growth, asset turnover, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share (EPS), current ratio and debt to equity ratio.

Key performance indicators for 2013 and 2012 are as follows:

	2013	2012
Revenue growth(decline)	(37%)	29%
Asset turnover	21%	37%
Operating expense ratio	24%	14%
EBITDA	P46 million	P126 million
EPS	P0.01	P0.04
Current ratio	2.84 : 1	3.14 : 1
Debt to equity ratio	0.36 : 1	0.33 : 1

Revenue growth (decline) 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 declined by 37% for the first quarter of 2013 vs. 29% for the same period in 2012 principally due to lower revenues of the distribution segment on digital product sales for the first quarter and lower broadband revenues due to sale of its assets in May 2012.

Asset turnover stood lower at 21% for the first quarter of 2013 from 37% for the same period in 2012 as a result of lower revenues for the period.

Operating expense ratio was 24% and 14% for the first quarter of 2013 and 2012, respectively due to lower revenues for the period.

EBITDA amounted to P46 million for the first quarter of 2013 against P126 million for the same period in 2012. The decrease was mainly due to lower operating profit of the distribution segment.

Earnings per share amounted to P0.01 in 2013 versus P0.04 in 2012 mainly from lower net income for the period.

Current ratio stood at 2.84:1 as of March 31, 2013 and 3.14 : 1 as of December 31, 2012 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.36 : 1 as of March 31, 2013 from 0.33: 1 as of December 31, 2012 primarily due to higher liabilities.

Results of Operations

Revenues declined by 37% in the first quarter of 2013 reaching P681 million from P1,087 million for the same period in 2012 principally from lower revenues of the distribution segment from digital product sales and broadband lower revenue due to sale of its assets in May 2012.

Sale of goods amounted to P521 million for the first quarter of 2013, lower by 38% from P840 million for the same period in 2012 mainly due lower volume of sales of the digital products.

Service revenue went down to P97 million for the first quarter of 2013, decreasing by 47% for the same period in 2012 of P186 million principally from lower warehousing, distribution service and broadband revenues

Rental income amounted to P37 million for the first quarter of 2013 from P36 million for the same period in 2012. There was no material variance for this account.

Sale of real estate amounted to P14 million for the first quarter of 2013, up by 18% from P12 million for the same period in 2012. This was principally due to higher condominium sales.

Interest income amounted to P10 million for the first quarter of 2013, lower by 6% from P11 million for the same period in 2012 mainly from lower yield on placements as compared with previous year.

Cost of sales, services and rentals amounted to P504 million for the first quarter of 2013, or a decrease of 40% from P847 million for the same period in 2012 as discussed below.

Cost of sales amounted to P412 million for the first quarter of 2013, lower by 41%, from P697 million for the same period of last year in relation to the decrease in sales.

Cost of services amounted to P65 million for the first quarter of 2013 from P126 million for the same period of 2012, down by 48% mainly in relation to lower service revenue for the period.

Cost of rentals amounted to P16 million for the first quarter of 2013 from P15 million for the same period in 2012, higher by 7% principally due to higher repairs and maintenance of rented properties.

Cost of real estate sold amounted to P9 million for the first quarter of 2013, up by 16% from P8 million for the same period of 2012. The increase was mainly in relation to higher sale of real estate.

Gross profit amounted to P176 million for the first quarter of 2013 from P239 million for the same period in 2012. The decrease was principally due to lower revenues and cost of sales and services.

Other operating expenses (income) amounted to P155 million for the first quarter of 2013 against P143 million for the same period in 2012 as explained below.

General and administrative expenses amounted to P76 million for the first quarter of 2013 from P90 million for the same period of 2012. Expenses went down after the broadband assets were sold in May 2012.

Selling and distribution costs amounted to P85 million for the first quarter of 2013, up by 34% from P63 million for the same period of 2012 mainly from higher advertising costs.

Other operating income amounted to P6 million for the first quarter of 2013, down by 41% from P11 million for the same period in 2012 principally due to lower other income.

Operating profit amounted to P20 million for the first quarter of 2013 from P96 million for the same period in 2012, declining by 78% from lower gross profit as discussed above.

Other income (charges) amounted to P9 million gain for the first quarter of 2013 against P6 million gain for the same period in 2012 mainly from the following:

Finance income was lower at P20 million for the first quarter of 2013 compared with P22 million for the same period of last year mainly due to lower yield on placements.

Finance costs improved to P11 million for the first quarter of 2013 compared with P15 million in 2012 primarily due to impairment losses on available for sale financial assets which were sold in 2012 offset by interest cost for our Golden Hill project.

Other gains was nil for the first quarter of 2013 versus P171 thousand in 2012.

Income before tax reached P30 million for the first quarter in 2013, decreasing by 71% from P102 million for the same period in 2012 mainly due to lower operating profit as explained above.

Tax expense amounted to P11 million for the first quarter of 2013 from P37 million in 2012 due to lower pre-tax income.

Net income amounted to P18 million for the first quarter of 2013 against P65 million for the same period in 2012 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P23.5 million for the first quarter of 2013 against P65.8 million in for the same period of 2012 as discussed above.

Net income attributable to minority interest amounted to P4.9 million loss for the first quarter of 2013 compared with P23.5 thousand in 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Financial Position

Cash and cash equivalents amounted to P 3,007 million as of March 31, 2013 from P3,019 million as of December 31, 2012. There was no material variance for this account. Cash was provided from operating activities mainly from increases in trade and other payables and decrease of trade and other receivables. Cash was used from investing activities mainly from acquisition of property and equipment (for the renovation of Solid House Building). Cash was used for financing activities mainly from payment of loans.

Trade and other receivables reached P986 million as of March 31, 2013 against P1,287 million as of December 31, 2012, or a decrease of 23% principally due to collection of receivables of the distribution segment. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P21 million as of March 31, 2013 and December 31, 2012.

Merchandise inventories and supplies - net amounted to P955 million as of March 31, 2013, compared with P391 million as of December 31, 2012, an increase of 144% due to buildup of inventories of the myphone business.

Real estate inventories amounted to P2,026 million as of March 31, 2013 from P2,011 million as of December 31, 2012. There was no material variance for this account.

Other current assets amounted to P318 million as of March 31, 2013 compared with P252 million as of December 31, 2012, an increase of 26% due to higher input VAT of the distribution segment.

Total current assets reached P 7,315 million as of March 31, 2013 from P6,984 million as of December 31, 2012 as discussed above.

Non-current trade and other receivable amounted to P636 million as of March 31, 2013 from P630 million as of December 31, 2012. There was no material variance for this account.

Non-current available-for-sale financial assets stood at P8 million as of March 31, 2013 against P9 million as of December 31, 2012. There was no material variance for this account.

Property, plant and equipment amounted to P1,083 million as of March 31, 2013 from P1,048 million as of December 31, 2012. There was no material variance for this account.

Investment property amounted to P4,013 million as of March 31, 2013 and December 31, 2012.

Retirement benefit assets amounted to P73 million as of March 31, 2013 and December 31, 2012.

Deferred tax assets - net amounted to P63 million as of March 31, 2013 and December 31, 2012.

Other non-current assets amounted to P19 million as of March 31, 2013 or a decrease of 11% from P22 million as of December 31, 2012 primarily from lower prepaid insurance and others.

Total non-current assets amounted to P5,897 million as of March 31, 2013 from P5,863 million as of December 31, 2012 as discussed above.

Total assets reached P13,213 million as of March 31, 2013 from P12,848 million as of December 31, 2012 as discussed above.

Interest-bearing loans amounted to P545 million as of March 31, 2013 from P571 million as of December 31, 2012 due to payment of loans.

Trade and other payables amounted to P933 million as of March 31, 2013 against P628 million as of December 31, 2012, higher by 49% primarily due to higher trade payable, advances from customers and other payables.

Customers' deposits amounted to P940 million as of March 31, 2013 versus P881 million as of December 31, 2012. The increase of 7% was mainly additional deposits for real estate sales.

Advances from related parties amounted to P15 million as of March 31, 2013 and P11 million as of December 31, 2012 due to additional advances.

Estimated liability for land and land development costs amounted to P 68 million as of March 31, 2013 and December 31, 2012. There was no movement for this account.

Income tax payable amounted to P68 million as of March 31, 2013 from P65 million as of December 31, 2012 mainly due to provision for taxes for the first quarter of the year.

Total current liabilities stood at P2,571 million as of March 31, 2013, higher by 15% from P2,227 million as of December 31, 2012 as explained above mainly due to higher customers' deposits and trade and other payables.

Non-current refundable deposits amounted to P20 million as of March 31, 2013 from P16 million as of December 31, 2012 from additional deposits.

Retirement benefit obligation amounted to P12 million as of March 31, 2013 and December 31, 2012.

Deferred tax liabilities -net amounted to P920 as of March 31, 2013 and December 31, 2012.

Total non-current liabilities amounted to P952 million as of March 31, 2013 from P948 million as of December 31, 2012.

Total liabilities amounted to P3,524 million as of March 31, 2013 from P3,176 million as of December 31, 2012.

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

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

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

Revaluation reserves amounted to P48 million loss as of March 31, 2013 from P46 million loss as of December 31, 2012 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations.

Retained earnings amounted to P2,781 million as of March 31, 2013 from P2,758 million as of December 31, 2012 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P9,290 million as of March 31, 2013 from P9,269 million as of December 31, 2011 due to higher retained earnings.

Minority interest amounted to P397 million as of March 31, 2013 and P402 million as of December 31, 2012. There was no material variance for this account.

Total equity amounted to P9,688 million as of March 31, 2013 from P9,671 million as of December 31, 2012.

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

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

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

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

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

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

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

The Company estimates capital expenditures of P500 million for 2013 for various real estate development and/or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

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

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

None.

vii. Causes for any Material Changes from Period to Period

Discussion of the material changes for each account is included in the Management Discussion and Analysis

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

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

PART II –OTHER INFORMATION

None.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOLID GROUP INC.

DAVID S. LIM

President & Chief Executive Officer

VINCENT S. LIM

SVP & Chief Financial Officer

May 20, 2013

Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

March 31, 2013 and December 31, 2012

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2013 AND DECEMBER 30, 2012
(Amounts in Philippine Pesos)

	Notes	2013	2012
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 3,007,210,853**	P 3,019,984,213
Trade and other receivables - net	6	**986,225,188**	1,287,469,305
Advances to related parties	25	**21,619,346**	21,633,388
Available-for-sale financial assets - net	8	-	-
Merchandise inventories and supplies - net	9	**955,615,390**	391,862,888
Real estate inventories - net	10	**2,026,306,565**	2,011,065,441
Other current assets	13	**318,476,427**	
Total Current Assets		**7,315,453,769**	6,984,176,594
NON-CURRENT ASSETS			
Trade and other receivables	6	**636,923,168**	630,458,102
Available-for-sale financial assets - net	8	**8,553,149**	9,076,527
Property, plant and equipment - net	11	**1,083,022,586**	1,048,407,834
Investment property - net	12	**4,013,141,218**	4,017,441,106
Retirement benefit asset	21	**73,164,772**	73,164,772
Deferred tax assets - net	22	**63,135,755**	63,135,755
Other non-current assets - net	13	**19,778,665**	22,231,704
Total Non-current Assets		**5,897,719,313**	5,863,915,800
TOTAL ASSETS		**P 13,213,173,082**	P 12,848,092,394

	Notes	2013	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 545,689,625**	P 571,666,922
Trade and other payables	15	**933,975,968**	628,902,651
Customers' deposits	10	**940,311,342**	881,899,665
Advances from related parties	25	**15,249,703**	11,629,819
Estimated liability for land and land development costs	10	**68,304,647**	68,304,647
Income tax payable		**68,238,903**	65,207,807
Total Current Liabilities		**2,571,770,188**	2,227,611,511
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**20,147,402**	16,045,396
Retirement benefit obligation	21	**12,582,159**	12,582,159
Deferred tax liabilities - net	22	**920,063,448**	920,063,448
Total Non-current Liabilities		**952,793,009**	948,691,003
Total Liabilities		**3,524,563,197**	3,176,302,514
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital		**4,641,701,922**	4,641,701,922
Treasury shares - at cost	23	**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**(48,144,119)**	(46,319,482)
Retained earnings	23	**2,781,897,457**	2,758,300,997
Total equity attributable to the Parent Company's stockholders		**9,290,815,880**	9,269,044,057
Non-controlling interests		**397,794,005**	402,745,823
Total Equity		**9,688,609,885**	9,671,789,880
TOTAL LIABILITIES AND EQUITY		**P 13,213,173,082**	P 12,848,092,394

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2013	2012
REVENUES	2		
Sale of goods		P 521,032,633	P 840,999,724
Rendering of services		97,981,665	186,628,713
Sale of real estate		14,250,727	12,058,254
Rentals		37,760,486	36,646,828
Interests	20	10,582,941	11,221,408
		681,608,452	1,087,554,927
COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS			
Cost of sales	17	412,868,800	697,672,080
Cost of services	17	65,808,415	126,372,594
Cost of real estate sold	19	9,776,737	8,421,070
Cost of rentals	17	16,343,220	15,323,909
		504,797,172	847,789,653
GROSS PROFIT		176,811,280	239,765,274
OTHER OPERATING EXPENSES (INCOME)			
General and administrative expenses	19	76,527,548	90,832,721
Selling and distribution costs	19	85,856,872	63,853,621
Other operating income - net	18	(6,504,118)	(11,079,400)
		155,880,302	143,606,942
OPERATING PROFIT		20,930,978	96,158,332
OTHER INCOME (CHARGES)			
Finance costs	20	(11,236,487)	(15,728,404)
Finance income	20	20,450,264	22,281,578
Other gains - net		-	171,309
		9,213,777	6,724,483
PROFIT BEFORE TAX		30,144,755	102,882,815
TAX EXPENSE	22	11,500,112	37,038,295
PROFIT (LOSS) FOR THE PERIOD		18,644,643	P 65,844,520
Profit for the year attributable to the			
Parent Company's stockholders		P 23,596,460	P 65,820,958
Non-controlling interests		(4,951,818)	23,562
		P 18,644,642	P 65,844,520
Earnings per share attributable to the			
Parent Company's stockholders - basic and diluted	24	P 0.01	P 0.04

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2013	2012
NET PROFIT FOR THE PERIOD		**P 18,644,643**	P 65,844,520
OTHER COMPREHENSIVE INCOME (LOSS)			
Reclassification adjustments for losses recognized in profit or loss		**-**	12,145,053
Fair value gains (losses) on available-for-sale financial assets, net of taxes	8	**-**	6,701,485
Currency exchange differences on translating balances of foreign operations	2	**(1,824,637)**	(12,219,785)
		-	-
		(1,824,637)	6,626,753
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**P 16,820,006**	P 72,471,273
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**P 21,771,824**	P 72,447,711
Non-controlling interests		**(4,951,818)**	23,562
		P 16,820,006	P 72,471,273

See Notes to Consolidated Financial Statements.

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

	Note	2013	2012
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS			
CAPITAL STOCK - P1 par value			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares		**P 2,030,975,000**	P 2,030,975,000
ADDITIONAL PAID-IN CAPITAL		**4,641,701,922**	4,641,701,922
TREASURY SHARES - at cost			
Acquired at P0.5520 per share - 209,433,000 shares		**(115,614,380)**	(115,614,380)
REVALUATION RESERVES	23		
Balance at beginning of year		**(46,319,482)**	(29,242,370)
Other comprehensive income (loss) for the year		**(1,824,637)**	6,626,753
Balance at end of year		**(48,144,119)**	(22,615,617)
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year			
As previously reported		**2,758,300,997**	1,623,289,267
Prior period adjustments, net of tax		-	-
As restated		**2,758,300,997**	1,623,289,267
Profit (loss) for the year attributable to the Parent Company's stockholders		**23,596,460**	65,820,958
Cash dividends		**-**	-
Balance at end of year		**2,781,897,457**	1,689,110,225
Total Equity Attributable to the Parent Company's stockholders		**9,290,815,880**	8,223,557,150
NON-CONTROLLING INTERESTS			
Balance at beginning of year		**402,745,823**	405,372,818
Additional non-controlling interests on acquired subsidiary		-	
Profit for the year attributable to non-controlling interests		**(4,951,818)**	23,562
Balance at end of year		**397,794,005**	405,396,380
TOTAL EQUITY		**P 9,688,609,885**	P 8,628,953,530
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**P 21,771,824**	P 72,447,711
Non-controlling interests		**(4,951,818)**	23,562
		P 16,820,006	P 72,471,273

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2013 AND 2012
(Amounts in Philippine Pesos)

	Notes	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**30,144,755**	102,882,815
Adjustments for:			
Interest income		**(27,824,218)**	(26,185,229)
Depreciation and amortization		**7,732,860**	21,329,182
Losses (gain) on sale of financial assets		**-**	602,181
Impairment losses on financial assets		**794**	965,420
Impairment losses on trade and other receivables			
Interest expense		**7,757,202**	1,863,106
Fair value gains on financial assets at fair value through profit or loss		**-**	(6,629,089)
Loss (Reversal) on inventory obsolescence		**-**	22,104,673
Impairment (reversal) losses on available-for-sale financial assets		**-**	-
Operating profit before working capital changes		**15,836,045**	116,911,690
Decrease (increase) in trade and other receivables		**292,626,913**	(93,689,100)
Decrease (increase) in available-for-sale financial assets		**522,584**	1,995,956
Decrease (increase) in held-to-maturity investments			
Decrease (increase) in merchandise inventories and supplies		**(563,752,502)**	(28,676,239)
Decrease (increase) in real estate inventories		**(15,241,124)**	18,502,878
Decrease (increase) in advances to related parties		**14,042**	68,316,319
Increase in deferred tax assets		**-**	
Decrease (increase) in other non-current assets		**2,453,039**	(4,473,234)
land development costs		**-**	-
Increase (decrease) in customers' deposits		**58,411,677**	(4,934,845)
Increase (decrease) in advances from related parties		**3,619,884**	(17,556,242)
Increase in deferred tax liabilities		**-**	-
Cash generated from (used in) operations		**37,350,813**	253,656,429
Interest received		**27,953,748**	11,221,408
Cash paid for income taxes		**(8,469,016)**	(20,881,243)
Net Cash From Operating Activities		**56,835,545**	243,996,594
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (Acquisitions) of property and equipment		**(42,347,612)**	(26,780,573)
Interest received		**-**	14,963,821
Decrease (Additions) to investment property		**4,299,888**	(611,479)
Net Cash Used in Investing Activities		**(38,047,724)**	(12,428,231)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments) of interest-bearing loans - net		**(25,977,297)**	(10,043,934)
Interest paid		**(7,559,232)**	(239,702)
Net Cash From (Used in) Financing Activities		**(33,536,529)**	(10,283,636)
Effect of Currency Rate Changes on Cash and Cash Equivalents		**1,975,348**	21,369
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(12,773,360)**	221,306,096
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**3,019,984,213**	1,720,748,062
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 3,007,210,853**	P 1,942,054,158

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2013 AND DECEMBER 31, 2012
(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. On September 4, 1996, SGI listed its shares in the Philippine Stock Exchange (PSE).

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

Subsidiaries	Percentage of Ownership 2013	2012	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	(a)	Investment company
Kita Corporation (Kita)	**100**	100		Real estate and manufacturing of injected plastics
Solid Broadband Corporation (SBC)	**100**	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
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 and mobile phones
Solid Corporation (SC)	**-**	-	(k)	Real estate
Solid Manila Corporation (SMC)	**100**	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	(e)	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), (g)	Real estate
Mytel Mobility Solutions, Inc. (Mytel)	**-**	-	(j), (m)	Sale of mobile phones
My Solid Technologies & Devices Corporation (My Solid)	**100**	100	(i), (m)	Sale of mobile phones
Omni Logistics Corporation (OLC)	**-**	-	(l)	Logistics and assembly of consumer electronics products
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)	**100**	100	(l)	Logistics and assembly of consumer electronics products
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; with SMC as the surviving company, effective January 1, 2012
(l) Merged; with SLC as the surviving company, effective January 1, 2012.On March 19, 2012, the Securities and Exchange Commission(SEC) approved the change in corporate name of SLC to OSSI.
(m) Merged; with My Solid as the surviving company, effective June 1, 2012

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

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

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) Sale of SBC's Assets

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

(b) *Mergers of Certain Subsidiaries*

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; OLC and OSSI; respectively, whereby SMC and OSSI will be the surviving entities. 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 OSSI(see Note 1.1).

On May 28, 2012, SEC approved the merger of Mytel and My Solid, wherein My Solid would be the surviving entity. The merger became effective on June 1, 2012 (see Note 1.1).

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.

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	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SMC andCBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, NanningCity, Guangxi Province, PRC.
My Solid and SGTC	-	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, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Parent Company's BOD on April 8, 2013.

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.

(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 2012 that are Relevant to the Group

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for its consolidated financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. 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 did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its 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 that arises from 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) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretations Committee, 21,*Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring deferred tax on depreciable asset that are measured using revaluation model in PAS 16, *Property, Plant and Equipment*, should always be assumed on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements because the Group's investment properties that are measured at fair value are taxable with the same rate regardless of whether these assets will be sold or used in operation.

(b) Effective in 2012 that is not Relevant to the Group

PFRS 1, *First-time Adoption of PFRS,* was amendedto provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) Effective Subsequent to 2012 but not Adopted Early

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2012. 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) 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 PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company's management expects that this will change the current presentation of items in other comprehensive income [i.e., unrealized fair value gains and losses on Available-for-Sale (AFS) financial assets].

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision 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 actuarial 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 those plans.

Currently, the Group is using the corridor approach and its unrecognized actuarial losses and gains as of December 31, 2012 amounting to P25.2 million (see Note 21.2), respectively, will be retrospectively recognized as loss in other comprehensive income in 2013.

(iii) 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 Associates and Joint Ventures*. 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.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 andIFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

(v) 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.

(vi) 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.

(vii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(viii) PFRS 9, *Financial Instruments: Clarification 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, do 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.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

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 Group's consolidated financial statements and is committed to conduct a comprehensive study of the potential impact of this standard in the last quarter of 2014 before its adoption in 2015 to assess the impact of all changes.

(ix) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

(c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments.* The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

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 non-controlling interest (NCI) as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of 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 Group obtains control, direct or indirect, 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 NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's net assets.

Goodwill (positive) represents the excess of acquisition cost over the Parent'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 NCI*

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

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity 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 with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(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, 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 Other Assets

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

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

2.9 Property, 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
Machinery and equipment	5 to 10 years
Transportation equipment	5 years
Computer system	2 to 5 years
Furniture, fixtures and office equipment	2 to 5 years
Tools and equipment	2 to 3 years

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

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the 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 2.18).

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.

2.10 Investment Property

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

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

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

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

2.11 Financial Liabilities

Financial liabilities, which include Interest-bearing Loans, Trade and Other Payables [excluding Output Value-Added Tax (VAT) and other tax-related payables, Advances from Customers, Reserve for Warranty Cost sand Unearned Subscription Income], Advances from Related Parties and Refundable Deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and Other Payables, Advances from Related Parties and Refundable Deposits 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.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the BOD.

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

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

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 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 2.18).

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

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

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.
If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

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

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

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

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

(a) *Rendering of services* – 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 2.16).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective 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 2.20), on an accrual basis.

2.16 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments 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.

2.17 Foreign Currency Transactions and Translation

(a) Transactions and Balances

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine peso. Foreign currency transactions during the period 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 as part of income or loss from operations.

(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 for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

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

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investments in BRL and Fil-Dragon are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is partially disposed of or sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale 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 RMB amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.18 Impairment of Non-financial Assets

The Group's property, plant and equipmentand 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 asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

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

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 a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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) *Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits 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.

(d) 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.

2.20 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

Tax expense recognized in the consolidated statement of income comprises the sum of 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 deductible temporary difference can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group, (b) associates; 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.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock 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 APIC, net of any related profit tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the cumulative translation adjustments and fair value gains (losses) on AFS financial assets.

Retained earnings, the restricted portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income.

2.24 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding.

2.25 Events After the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The 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) 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 were impaired as of December 31, 2012. 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 8.

(b) Determining Net Realizable Value of Real Estate Inventories

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. Net realizable value for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. Net realizable value in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The carrying amounts of the real estate inventories is disclosed in Note 10.

(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) *Fair Value Measurement 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 12.

(f) *Distinction Between 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.

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Note 27.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) *Impairment of Trade and Other Receivables*

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, 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) Fair Value Measurement of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 8 and 9, respectively.

(c) Determining Net Realizable Value of Merchandise Inventories and Supplies

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 10). 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) Estimating 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 12. Based on management's assessment as at December 31, 2012, and 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.

(e) Determining Net Realizable Value of Properties Under Development

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

(f) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2012 is disclosed in Note 23.2.

(g) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in 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 other non-financial assets in 2012.

(h) *Estimating Liability for Land and Land Development Costs*

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of March 31, 2013 and December 31, 2012 are disclosed in Note 11.

(i) *Estimating 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 16.

(j) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates, expected return on plan assets and salary increase rates. 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 22.2.

4. SEGMENT INFORMATION

4.1 Business Segments

The Group's operating businesses are organized and managed separately according to the nature of products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. The Group's different business segments are as follows:

(a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones and LCD televisions, and prefabricated modular houses; and,

(b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties.

(c) Support services and other 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 the business of fund investments, automotive and consumer financing and credit extension and broadband services.

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, 2013 December 31, 2012 and the revenue and profit for the three months ended March 31, 2013 and 2012 (in thousands).

	Distribution	Real Estate	Support Services and Others	Elimination	Total
2013					
SEGMENT RESULTS					
Total revenues	P 525,570	P 62,088	P 109,896	(P 15,946)	P 681,608
Net profit (loss)	P 4,708	(P 1,610)	P 15,547	P -	P 18,645
SEGMENT ASSETS AND LIABILITIES					
Total assets	P 2,026,545	P 7,402,022	P 9,355,414	(P 5,570,808)	P 13,213,173
Total liabilities	P 1,401,435	P 3,996,459	P 563,537	(P 2,436,868)	P 3,524,563
2012					
SEGMENT RESULTS					
Total revenues	P 843,043	P 49,639	P 208,880	(P 14,007)	P 1,087,555
Net profit (loss)	P 30,198	P 6,688	P 29,505	(P 547)	P 65,844
SEGMENT ASSETS AND LIABILITIES					
Total assets	P 1,866,902	P 7,373,405	P 11,150,200	(P 7,542,415)	P 12,848,092
Total liabilities	P 1,246,501	P 3,961,994	P 568,502	(P 2,600,694)	P 3,176,303

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of March 31, 2013 and December 31, 2012:

	2013	2012
Cash on hand and in bank	**P 320,460,914**	P 274,888,192
Short-term placements	**2,686,749,939**	2,745,096,021
	P3,007,210,853	P 3,019,984,213

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 90 days and earn annual effective interest ranging from 0.8% to 3.7% in 2013 and 0.8% to 4.7%in 2012.

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	**2013**	2012
Current:			
Trade receivables	25	**P 638,939,144**	P 980,564,213
Advances to suppliers	25	**235,209,090**	223,559,332

Loans receivables	25	**45,152,613**	45,836,453
Due from related parties	25	**-**	2,734,223
Other receivables		**86,343,869**	66,287,945
		1,005,644,716	1,318,982,166
Allowance for impairment		**(19,419,528)**	(31,512,861)
		986,225,188	1,287,469,305
Non-current:			
Trade receivables		**32,261,816**	26,168,353
Loans receivables	25	**144,271,465**	145,381,293
Cash surrender value of investment in life insurance		**460,389,887**	458,908,456
		636,923,168	630,458,102
		P1,623,148,356	P 1,917,927,407

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.

Advances to suppliers mainly pertain to the advance payments received by Solid Trading Limited (STL) for My Solid's future purchase of inventories (see Note 25.6), various contractors for the construction of ZTC's Tri Towers (see Note 10) and various suppliers for CBHI's acquisition of supplies.

Interest rates on loans receivables range from 5.0% to 30.0% in 2012 and 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 25).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 18.1). The difference between the initial cash surrender value and the premiums paid amounting to P608 thousand in 2013 and P1.2 million in 2012 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 Note13).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 14).

Other receivables consist primarily of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the Unit Owners, interest receivable, rental receivable and income tax recoverable.

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 2012 is shown below.

	Note	2012
Balance at beginning of year		P 117,015,673
Impairment losses during the year	20	12,767,663
Reversals of impairment losses	20	(75,708,696)
Write-off of receivables previously provided with allowance		(22,561,779)
Balance at end of year		P 31,512,861

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 30.1).

7. 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. In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	2013	2012
Current:		
Investments in foreign currency-denominated bonds	**P 12,444,384**	P 52,237,573
Allowance for impairment	**(12,444,384)**	(52,237,573)
	-	-
Non-current:		
Club shares	**15,712,400**	10,292,400
Equity securities	**8,580,000**	8,580,000
Others	**870,749**	634,127
	25,163,149	19,506,527
Allowance for impairment	**(16,610,000)**	(10,430,000)
	8,553,149	9,076,527
	P 8,553,149	P 9,076,527

A reconciliation of the allowance for impairment at the beginning and end of 2012 is show below.

	Note	2012
Balance at beginning of year		P 63,658,216
Provision (reversal) of impairment losses	20	(990,643)
Balance at end of year		P 62,667,573

A reconciliation of the carrying amounts of AFS financial assets is shown below.

	Notes	2012
Balance at beginning of year		P 59,875,894
Disposals		(50,636,180)
Reversal (provision) of impairment loss during the year	20	990,643
Fair value losses – net	23.3	(1,153,830)
Balance at end of year		P 9,076,527

Investments in foreign currency-denominated bonds were used as collateral for the interest-bearing loans of BRL (see Note 15).

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, 2012.

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2012 have been determined directly by reference to published prices in active markets (see Note 30).

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 17).

	2013	20112
Merchandise and finished goods	**P 970,712,080**	P 406,495,008
Raw materials	**362,856**	362,856
Service parts, supplies and others	**26,124,864**	26,589,434
	997,199,799	433,447,298
Allowance for inventory obsolescence	**(41,584,409)**	(41,584,410)
Balance at end of year	**P 955,615,390**	P 391,862,888

The movements in allowance for inventory obsolescence are as follows:

	Note	2012
Balance at beginning of year		P 103,832,347
Reversal of allowance for inventory obsolescence	17	(65,257,144)
Loss on inventory obsolescence	17	3,009,207
Write-off of inventory previously provided with allowance		-
		P 41,584,410

The Group has not entered into any purchase commitment in the acquisition of its merchandise inventories and supplies in 2012.

10. REAL ESTATE INVENTORIES

This account is composed of:

	2013	2012
Land and land development costs:		
Land	**P 9,725,593**	P 9,725,593
Land development costs	**17,695,475**	17,695,475
	27,421,068	27,421,068
Allowance for impairment	**(2,022,800)**	(2,022,800)
	25,398,268	25,398,268
Property development costs – Construction in progress and development costs	**2,000,908,297**	1,985,667,173
	P 2,026,306,565	P 2,011,065,441

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.

Borrowing costs incurred from loans availed by Fil-Dragon were capitalized as part of its Property development costs. Borrowing cost incurred in 2012 relating to these loans amounted to RMB5.0million (P32.9 million), and are capitalized as part of Real Estate Inventories (see Notes14 and 25.8).

The allowance for impairment recognized in 2005 pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized since then.

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, 2012, 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. The construction of Tower 1 and Tower 2 was completed in completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

In addition, the balances of Property Development Costs as of March 31, 2013 and December 31, 2012include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 28.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of March 31, 2013 and December 31,2012 amounting to P922.3 million and P840.1 million, respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2013 and 2012 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 27.4).

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at March 31, 2013 and December 31, 2012 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
March 31, 2013											
Cost	P 897,854,682	P 38,184,710	P 36,089,059	p 134,853,901	P 77,926,912	P 6,056,392	P 26,772,640	P 60,871,817	P 17,275,215	P 90,416,597	P 1,386,301,925
Accumulated depreciation and amortization	-	(25,624,612)	(20,111,663)	(118,087,860)	(60,934,410)	(5,986,942)	(22,226,870)	(35,038,373)	(15,268,609)	-	(303,279,339)
Net carrying amount	**P 897,854,682**	**P 12,560,098**	**P 15,977,396**	**P 16,766,041**	**P 16,992,502**	**P 69,450**	**P 4,545,770**	**P 25,833,444**	**P 2,006,606**	**P 90,416,597**	**P 1,083,022,586**
December 31, 2012											
Cost	P 897,854,682	P 38,195,726	P 29,916,266	p 136,048,761	P 83,554,950	P 8,525,595	P 7,003,937	P 50,148,179	P 24,551,023	P 57,155,448	P 1,332,954,567
Accumulated depreciation and amortization	-	(24,749,504)	(14,305,764)	(116,881,738)	(62,694,698)	(6,717,422)	(5,694,879)	(33,536,071)	(19,966,657)	-	(284,546,733)
Net carrying amount	**P 897,854,682**	**P 13,446,222**	**P 15,610,502**	**P 19,167,023**	**P 20,860,252**	**P 1,808,173**	**P 1,309,058**	**P 16,612,108**	**P 4,584,366**	**P 57,155,448**	**P 1,048,407,834**

In 2012, construction in progress pertains to the ongoing construction of a hotel of SMC to be named Green Sun Hotel. Also, the costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use and the on-going improvements are recorded as construction in progress.

Also in 2012, SBC reversed the allowance for impairment provided against its cable system, following the sale of its assets used in business operations (see Note 1.3). The reversal amounted to P350.0 million and is presented as part of Other Operating Income in the 2012 annual consolidated statement of income.

No additional impairment losses were recognized in 2012 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2012, the fair values of the Group's land and building and improvements amounted to P203.5 million.

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 March 31, 2013 and December 31, 2012.

Fully depreciated property, plant and equipment still in use in the Group's operations amounted to P109.9 million as of December 31, 2012.

12. INVESTMENT PROPERTY

The Group's investment property, which 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. Direct costs such as real property taxes, repairs and maintenance and utilities are presented as part of Cost of Rentals in the consolidated statements of income (see Note 18.3).

The fair values of the Group's investment property as of December 31, 2012 were determined based on appraisal reports dated February 5, 2013.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:

	Land and Improvements	Buildings and Improvements	Total
2012:			
Balance at beginning of year	P 3,047,677,774	P 816,656,012	P 3,864,333,786
Fair value gains (losses) on investment property – net	242,054,661	(92,485,479)	149,569,182
Additions	-	5,153,524	5,153,524
Reclassification	(1,615,386)	-	(1,615,386)
Balance at end of year	**P 3,288,117,049**	**P 729,324,057**	**P 4,017,441,106**

Certain real estate properties owned by SMCare subject to litigations brought up by third parties against the subsidiary(see Notes 13 and 27.3).

In 2012, the Company transferred land in Pamaldan City with carrying amount of P1.6 million as of December 31, 2012 to Other Non-current Assets.

13. OTHER ASSETS

The composition of these accounts as of December 31 is shown below.

	Notes	**2013**	2012
Current:			
Input VAT - net		**P 145,203,846**	P 73,056,951
Creditable withholding taxes		**60,441,686**	50,378,018
Prepaid business taxes		**75,654,757**	61,116,160
Other prepayments		**8,628,950**	16,103,292
Advances to suppliers and contractors		**3,368,991**	33,632,728
Refundable deposits		**8,547,935**	10,988,982
Restricted cash		**5,129,971**	5,141,100
Others		**11,500,293**	1,744,128
		318,476,427	252,161,359
Non-current:			
Refundable deposits - net		**10,777,449**	10,765,679
Prepaid insurance	7	**607,960**	1,225,956
Land under litigation	27.3	**4,935,606**	4,935,606
Investment in shares		**1,308,557**	1,375,290
Cash bond		**568,234**	568,234
Others		**1,580,859**	3,360,939
		19,778,665	22,231,704
		P 326,712,332	P 274,393,063

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates. Other prepayments consist mainly of prepaid insurance and rent.

14. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of March 31, 2013 and December 31, 2012 are broken down as follows:

	2013			2012		
	USD	**RMB**	**PHP**	USD	RMB	PHP
BRL	**$ 5,167,374**	**¥ -**	**P 211,541,952**	$ 5,155,223	¥ -	P 212,353,946
Fil-Dragon	**-**	**50,696,030**	**334,147,673**	-	54,396,030	359,312,976
	$ 5,167,374	**¥ 50,696,030**	**P 545,689,625**	$ 5,155,223	¥ 54,396,030	P 571,666,922

The Group's short-term interest-bearing loans as of March 31, 2012 and December 31, 2012 amounting to P545.7 million and P571.7 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, and are currently due within 12 months after the end of reporting period; hence classified as part of the Group's current liabilities in the consolidated statements of financial position.

Information relating to significant loan transaction of the Group are as follows:

(a) Loans of BRL

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 7). The loans bear interest at prevailing market rates per annum ranging is 1.25% in 2013 and 2.0% to 2.3% in 2012.

In 2012, BRL extended the terms of various loans it obtained from Bank of Singapore. The loans are extended for one year up to June 30, 2013.

(b) 2011 Loans of Fil-Dragon

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance from the loan amounted to RMB50.6 million (P334.1 million) and RMB54.4 million (P359.3 million) as of March 31, 2013 and December 31, 2012 respectively. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2013 and 2012.

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 26.9). 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 30.1). As of December 31, 2012, the Group is not subjected to any covenants relating to the above loans.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2013	2012
Trade payables	25	**P 531,456,732**	P 335,534,348
Output VAT		**7,509,625**	48,843,309
Rental payable		**17,722,369**	17,671,797
Refundable deposits	16	**13,952,350**	16,181,595
Retention payable		**6,715,522**	16,061,269
Reserve for warranty costs		**9,753,905**	14,545,332
Accrued municipal taxes		**14,348,012**	14,357,151
Advances from customers		**14,375,467**	9,542,619
Deferred output VAT		**4,997,260**	1,505,635
Other accrued expenses		**153,170,685**	119,649,509
Other payables		**159,974,043**	35,010,087
		P 933,975,968	P 628,902,651

Reserve for warranty costs pertains to amounts recognized by My Solid, 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 claims also includes the amounts recognized by OSSI for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders.

The changes in the Reserve for Warranty Costs account are as follows:

	Notes	2012
Balance at beginning of year		P 18,354,383
Additional provision for warranty claims during the year	19	41,465,997
Actual warranty claims during the year		(36,118,916)
Reversals during the year		(9,156,132)
		P 14,545,332

Other accrued expenses include accrued rentals, accrued outside services, accrued salaries and other operating expenses. Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

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 value (see Note 29.1).

16. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P16.0 million as at December 31, 2012, 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. . The interest expense recognized amounting to P1.4 million in 2012 is presented as part of Finance Costs in the annual consolidated statements of income.

The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Sales

The details of this account are shown below.

	Notes	2013	2012
Merchandise and finished goods at beginning of year	9	**P 406,495,008**	P 621,292,896
Net purchases of merchandise during the year	19 25	**977,085,872**	695,317,379
Cost of goods manufactured:			
Raw materials at beginning of year	9	**362,856**	362,856
Raw materials at end of the period	9	**(362,856)**	(362,856)
		-	-
Goods available for sale		**1,383,580,880**	1,316,610,275
Merchandise and finished goods at end of year	9	**(970,712,080)**	(641,042,868)
Net provision (reversal) on inventory obsolescence	9	**(-)**	22,104,673
	9	**P 412,868,800**	P 697,672,080

17.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

	Notes	2013	2012
Materials, supplies and other consumables		**P 14,852,124**	P 21,304,491
Salaries and employee benefits		**12,140,842**	19,537,060
Service fees		- **8,968,808**	-
Rentals		**-**	7,875,340
Communication, light and water		**4,219,493**	13,324,229
Depreciation and amortization	11	**2,494,872**	15,109,329
Transponder rental and leased line		-	10,192,056
Outside services		**14,855,391**	15,173,096
Transportation and travel		**571,273**	1,635,255
Repairs and maintenance		**410,269**	7,460,971
Cable services		**153,552**	135,815
Others		**7,141,791**	14,624,952
	19	**P 65,808,415**	P 126,372,594

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2013	2012
Taxes and licenses		**P 9,148,919**	P 9,583,233
Rentals		**1,838,326**	1,235,916
Outside services		**1,848,292**	1,680,308
Repairs and maintenance		**1,401,723**	276,710
Salaries and employee benefits		**190,473**	332,963
Depreciation & amortization		**665,880**	1,290,993
Others		**1,249,607**	923,786
	19	**P 16,343,220**	P 15,323,909

Other cost of rentals primarily consists of depreciation expense, supplies and transportation and travel expenses.

18. OTHER INCOME

18.1 Other Operating Income

The breakdown of this account is as follows:

	Notes	2013	2012
Increase in cash surrender value of investment in life insurance	6	**P 4,289,212**	P 4,332,940
Miscellaneous		**2,214,906**	6,746,460
		P 6,504,118	P 11,079,400

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2013	2012
Net purchases of merchandise inventories	17.1	**P 977,085,872**	P 695,317,379
Salaries and employee benefits	21.1	**53,628,920**	65,391,738
Outside services		**37,665,341**	30,127,795
Advertising and promotions			
Materials, supplies and other consumables		**17,303,065**	23,592,385
Rentals	25	**8,002,208**	11,615,239
Service fee		**8,968,808**	
Utilities and communication		**8,335,690**	18,439,499
Taxes and licenses		**20,710,436**	25,343,797
Depreciation and amortization	11	**7,732,860**	21,329,182
Net provision (reversal) on inventory obsolescence	17.1		22,104,673
Cost of real estate sold		**9,776,737**	8,421,070
Transportation and travel		**4,916,340**	7,833,100

Provision for warranty	15		
Repairs and maintenance		**5,081,036**	10,546,129
Transponder rental and leased line			10,192,056
Change in merchandise, finished goods and work-in-process inventories		**(564,217,072)**	(19,749,972)
Miscellaneous		**72,191,351**	71,971,925
		P 667,181,592	P 1,002,475,995

In 2012, SBC entered into a sale agreement with a third party for the sale of SBC's assets used in operations. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers and accordingly, remit to the third party all collection received. Service fees incurred for the remittance of the collections to the third party amounting to P59.3 million is presented as part of Cost of Services in the 2012 annual consolidated statement of income.

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:

	Notes	**2013**	2012
Cost of sales	17	**P 412,868,800**	P 697,672,080
Cost of services	17	**65,808,415**	126,372,594
Cost of real estate sales		**9,776,737**	8,421,070
Cost of rentals	17	**16,343,220**	15,323,909
General and administrative expenses		**76,527,548**	90,832,721
Selling and distribution costs		**85,856,872**	63,853,621
		P 667,181,592	P 1,002,475,955

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	**2013**	2012
Interest income from banks	5	**P 17,241,277**	P 14,963,821
Fair value gains on financial assets at fair value though profit & loss			6,629,089
Reversal of impairment losses on financial assets			428,574
Foreign currency gains – net		**3,208,987**	260,094
Others			
		P 20,450,264	P 22,281,578

Interest income earned by SGI, SMFI, BRL from cash and cash equivalents amounting to P10.5 million in 2013 and P11.2 million in 2012 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

20.2 Finance Costs

This account consists of the following:

	Notes	2013	2012
Foreign currency losses		**P 1,233,639**	P 126,060
Impairment losses on trade and other receivables	6	**905,229**	
Interest expense arising from interest–bearing loans	14	**7,757,202**	1,863,106
Loss on sale of financial asset			602,181
Impairment losses on AFS financial assets	8	**794**	13,104,579
Fair value loss on FVTPL	7	**-**	
Others		**1,339,623**	32,478
		P 11,236,487	P 15,728,404

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 19.)

	Note	2013	2012
Short-term benefits		**P 53,628,920**	P 65,391,738

21.2 Post-employment Benefit

The Group maintains a tax-qualified, fully-funded and noncontributory post-employment defined benefit plan that is being administered by a trustee covering all regular full-time employees. Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions.

The amounts of total retirement benefit asset of SGI and certain subsidiaries that have retirement benefit asset recognized in the consolidated statements of financial position are determined as follows:

	2012
Fair value of plan assets	P 195,334,214
Present value of the obligation	96,955,783
Excess of plan assets	98,378,431
Unrecognized actuarial losses	(25,213,659)
	P 73,164,772

The amounts of retirement benefit obligation of certain subsidiaries that have retirement benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2012
Fair value of plan assets	P 14,080,141
Present value of the obligation	29,632,031
Excess (deficiency) of plan assets	(15,551,890)
Unrecognized actuarialgains	(2,969,731)
Retirement benefit obligation	P 12,582,159

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.

	2012	2011	2010	2009	2008
Fair value of plan assets	**P 209,414,355**	P 251,693,199	P 239,409,688	P 210,694,669	P 163,517,091
Present value of the obligation	**126,587,814**	153,273,245	91,208,751	71,624,495	74,604,282
Excess in the plan	**P 82,826,541**	P 98,419,954	P 148,200,937	P 139,070,174	P 88,912,809

Experience adjustments arising on plan assets amounted to P5.4 in 2012. Experience adjustments on plan liabilities amounted toP1.1 million in 2012.

The overall movements in the fair value of plan assets of the Group are presented below.

	2012
Balance at beginning of year	P 251,693,199
Effect of curtailment	(53,322,778)
Contributions paid into the plan	659,116
Benefits paid by the plan	(1,597,216)
Expected return on plan assets	15,869,634
Actuarial losses	(3,887,600)
Balance at end of year	P 209,414,355

The overall movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2012
Balance at beginning of year	P 153,273,245
Effect of curtailment	(43,907,143)
Current service and interest costs	24,297,471
Benefits paid	(1,597,216)
Actuarial (gains)losses	(5,478,543)
Balance at end of year	P 126,587,814

Actual returns on plan assets amounted to P12.0 million in 2012,. The Group expects to contribute a total of P17.6 million to the post-employment defined benefit plan in 2013.

The plan assets consist of the following as of December 31:

	2012
Government securities	P 197,407,650
Mutual and trust funds	12,006,705
	P 209,414,355

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	2012
Current service cost	P 17,610,274
Interest cost	6,687,197
Expected return on plan assets	(15,869,634)
Net actuarial gains (loss) recognized during the year	(1,237,938)
	P 7,188,899

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

	2012
Discount rates	4% - 6%
Expected rate of return on plan assets	5%
Expected rate of salary increases	9%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 21 years for both males and females.

The overall expected long-term rate of return on assets is ranges from 6% to 8%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

In 2011 and prior years, SBC maintained a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. As a result of the sale its business, SBC ceased operations immediately thereafter and requested the release of the remaining balance in the trust fund account under the multi-employer retirement plan. The retirement plan assets were withdrawn in 2012 since all of the employees were terminated during such year. Accordingly, SBC's plan assets had a nil balance as of December 31, 2012.

22. TAXES

22.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation

(a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.*As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% Regular Corporate Income Tax (RCIT) tax rate is applied to income coming from sources other than Kita's registered activities.

(b) Registration with Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

(c) Fil-Dragon Taxation

Pursuant to the relevant law and regulations in the PRC, the Fil-Dragon is subject to PRCcorporate 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 notgenerate any assessable profits in 2012.

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:

		2012
Deferred tax assets:		
Fair value adjustments on investment property	P	23,831,400
Accrued municipal taxes		14,721,085
Allowance for inventory obsolescence		11,462,608
Allowance for impairment on trade and other receivables		6,483,910
Retirement benefit obligation		3,066,967
Unrealized foreign		

currency loss – net	2,982,141
Provision for warranty	2,181,337
Unamortized pre-operating expenses	54,271
Unamortized past service costs	-
Deferred tax liability –	
Retirement benefit asset	(1,647,964)
Deferred tax assets – net	P 63,135,755

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:

	2012
Deferred tax assets:	
Provision for warranty claims	P 2,012,749
Unamortized past service costs	1,657,651
Allowance for impairment on trade and other receivables	688,083
Deferred rent expense – PAS 17	408,033
Allowance for inventory obsolescence	324,678
Retirement benefit obligation	314,196
Unearned rent income	257,395
Deferred tax liabilities:	
Fair value gains on investment property	(772,747,918)
Accumulated depreciation on investment property	(132,666,733)
Retirement benefit asset	(19,947,117)
Deferred rent income – PAS 17	(213,056)
Changes in fair value ofAFS	(132,000)
Unrealized foreign currency gains	(19,409)
Deferred tax liabilities – net	(P 920,063,448)

The movements in the Group's NOLCO and MCIT are as follows:

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2012	P 15,862,462	P -	P -	P -	P 15,862,462	2015
2011	31,305,517	-	5,501,441	-	25,804,076	2014
2010	3,283,221	2,008,326	331,953	-	942,942	2013
2009	29,179,579	15,006,564	7,473,992	6,699,023	-	2012
	P 79,630,779	P 17,014,890	P 13,307,386	P 6,699,023	P 42,609,480	
MCIT:						
2012	P 222,424	P	P	P	P 222,424	2015
2011	832,637	-	611,343	-	221,294	2014
2010	4,774,835	-	1,368,240	-	3,406,595	2013
2009	719,699	18,000	594,109	107,590	-	2012
	P 6,549,595	P 18,000	P 2,573,692	P 107,590	P 3,846,578	

Fil-Dragon has incurred tax losses amounting to P22.8 million (RMB3.5 million), P32.5 million (RMB4.8 million), P28.2 million (RMB4.2 million) in 2012, 2011, and 2010 respectively. Similar to NOLCO, these tax losses can be applied to future taxable income. However, these tax losses expire within five years from the year such tax losses were incurred.

The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

	2012	
	Amount	Tax Effect
NOLCO	P 41,220,143	P 12,366,043
Allowance for impairment of financial assets classified as loans and receivables	22,555,186	6,766,555
Unrealized foreign currency loss	12,211,081	3,663,324
Allowance for impairment loss on AFS financial assets	5,060,000	1,518,000
MCIT	3,679,121	3,679,121
Unearned income	1,170,000	351,000
Retirement benefit obligation	1,001,270	300,381
Allowance for inventory obsolescence	362,856	108,857
	P 87,259,657	P 28,753,281

In 2012, except for SBC, the Group opted to claim itemized deductions in computing for its income tax due. SBC used OSD in computing for its income tax due in 2012.

23. EQUITY

23.1 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, 2012, the Company has issued shares of 2,030,975,000 (with P1 par value), of which, 392,472,704 shares are held by the public. There are 4,482 holders of the listed shares which closed at P1.98 per share on December 31, 2012.

23.2 Retained Earnings

On October 12, 2012, the BOD approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million, payable to stockholders of record as of October 31, 2012. The cash dividends were paid on November 28, 2012.

Retained earnings is restricted in the amount of P115.6 million in 2013 and 2012, equivalent to the 209,433,000 shares held in treasury.

23.3 Revaluation Reserves

The components of this account and its movements are as follows:

	Notes	2013	2012
Cumulative translation adjustments:			
Balance at beginning of year		(P 44,892,478)	(P 19,459,760)
Currency differences on translating financial statements of foreign operations	2	(1,824,637)	(12,219,785)
		(46,717,115)	(31,679,545)
Fair value losses on AFS financial assets:			
Balance at beginning of year		(P 1,427,004)	(9,782,610)
Reclassification adjustments for losses recognized in profit or loss			12,145,053
Fair value gains (losses) – net	8	( )	(6,701,485)
Deferred tax income on changes in fair value of AFS financial assets		( )	( )
		(1,427,004)	(9,063,928)
Other comprehensive income attributable to non-controlling interest			
Balance at end of the period		(P 48,144,119)	(P 22,615,617)

24. EARNINGS PER SHARE

Basic and diluted EPS for profit attributable to the Parent Company's stockholders are computed as follows:

	2013	2012
Net profit for the period attributable to the Parent Company's stockholders	P 23,596,460	P 65,820,958
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 0.01	P 0.04

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2013 and December 31, 2012, hence, diluted EPS is equal to the basic EPS.

25. RELATED PARTY TRANSACTIONS

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

Related Party Category	Notes	2012 Amount of Transaction	2012 Outstanding Receivable (Payable)
Related Parties Under Common Ownership:			
Use of cable infrastructure		P 81,656,142	P -
Management services		1,500,000	-
Purchase of parts		87,557,687	(6,412,755)
Lease of real property		1,905,820	274,060
Granting of business loans		-	67,560,199
Interest income		12,045,070	9,565,856
Advances to		(106,324,516)	22,218,883
Advances from		(95,931,619)	11,563,612
Collection of receivables		19,627,454	(18,756,177)
Commissions		1,730,242	1,730,242
Advances for equipment		20,063	(3,090,785)
Purchase of mobile phones		2,816,688,776	121,141,047
Advances to suppliers		(8,668,237)	210,754,352
Sale of mobile phones		-	-
Granting of loans		-	104,354,742
Availment of loans		(44,740,216)	359,312,976
Interest expense		32,874,588	3,436,432

The Group's outstanding receivables from and payables to related parties arising from the transactions summarized in the preceding page are unsecured, noninterest-bearing, payable in cash, unguaranteed, and due within 12 months from the end of the reporting period except for the following:

	Note	**Condition**	**Term**
Business loans		interest-bearing and secured	long-term and short-term
Granting of loans		interest-bearing	short-term
Availment of loans		interest-bearing and secured	short-term

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

None of the Group's outstanding receivables from related parties are impaired.

25.1 Sale of Goods and Rendering of Services

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 100% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered.The outstanding receivable arising from these transactions amounted to nil in 2012. As of December 31, 2012, however, SBC has sold a significant portion of its assets used in its operations to a third party (see Note 26.3).

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.

25.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P87.6 million in 2012are recorded as part of Cost of Services (see Note 17.1). The outstanding balance from the above transactions amounted to net advances of P6.4 million as of December 31, 2012.

25.3 Lease of Real Property

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, form part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

25.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 9.0% in 2012. Total interests earned from these loans amounted toP6.3 million in 2012and 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 Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The outstanding receivables from business loans as of December 31, 2012 are as follows:

		2012
Avid	P	27,000,000
AA Export and Import Corp. (AA Export)		8,304,380
AA Marine Development Corp. (AA Marine)		8,329,955
Philippine Prawn, Inc. (PPI)		7,975,288
Baybayan Farm, Inc. (BFI)		7,975,288
Kawayan Farm, Inc. (KFI)		7,975,288
	P	67,560,199

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2012.

The business loan pertaining to AA Export is secured by its own shares of stock which are owned by a related party.

In a prior year, the SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment to this loan amounted of P10.1 million were made in 2012. This loan is payable on demand.

Total interests earned from these loans is presented as part of the Interest Income on Loans and Receivables account in the consolidated statements of income.

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 the Company decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of the company's net worth which is not in accordance with Section 9 (d) of RA No. 8556. In 2012, the Company has not extended credits to any debtor which exceeded such threshold.

25.5 Advances to and from Related Parties

Certain subsidiaries of the Group grants to and obtains unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances arising from these transactions amounting to P21.6million and P11.6 million as of December 31, 2012 are presented as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position.

In 2012, the Advances to Related Parties had net repayments of P106.3 million while Advances from Related Parties had net repayments of P95.9 million.

No impairment losses were recognized on the Advances to Related Parties as management has assessed that the total amounts is fully collectible.

25.6 Transactions with STL

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P1.7 million in 2012is 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 receivable from STL amounted to P1.7 million as of December 31, 2012, and is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections made in behalf of STL in 2012 amounted to P19.6 million. Total obligations arising from this transaction as of December 31, 2012 amounting to P18.8 million is presented as part of Non-trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being made by STL on behalf of the Company. Total advances received related to this transaction amounted to P0.02 million in 2012. Outstanding balance arising from this transaction amounting to P3.1 million as of December 31, 2012 is presented as part of Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid purchases mobile phones from STL. Total purchases amounted to P2.8 billion in 2012and are presented as part of Cost of Sales in the 2012 annual consolidated statements of income (see Note 17.1). Outstanding liabilities relating to these purchases amounted to P121.1 million as of December 31, 2012 and is shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid also made advancepayments to STL for its future purchase of mobile phones. The outstanding advances amount to P210.8 million as of December 31, 2012 respectively, and is presented as part of Advances to supplier under Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

25.7 Transactions with Solid Company Limited (SCL)

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to 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. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

The loan amounting to P103.7 million and P104.4 million as of March 31, 2013 and December 31, 2012 is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).Total interests earned from these loans amounted to P5.8 million in 2012 and is presented as part of Interest Income under the Revenues account in the consolidated statements of income.

25.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted RMB50.7million (P334.1 million) RMB54.4 million (P359.3 million) as of March 31, 2013 and December 31, 2012. These loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2013 and 2012. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2013 and 2012 consolidated statement of financial position. Borrowing cost incurred in 2012 relating to these loans amounted to RMB5.0million (P32.9 million) and are capitalized as part of Real Estate Inventories (see Notes 10 and 14).

25.9 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for the year 2012 are as follows (see Note 21.1):

		2012
Short-term benefits	P	26,592,346
Post-employment benefit		3,009,664
	P	29,602,010

25.10 Transactions with the Retirement Plans

The Group has a formal retirement plan established separately for each significant subsidiary. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for CBHI, My Solid, SGTC and ZTC which are still unfunded plans). The carrying amount and the composition of the plan assets as of December 31, 2012 are shown in Note 20.

Government securities and unit investment trust fund which are included as plan assets under the fund consist of investments in corporations listed in the PSE. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Parent Company's shares of stock.

26. SIGNIFICANT CONTRACTS AND AGREEMENTS

26.1 Memorandum of Understanding with SPI

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with SPI for network support for SPI 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 productsor 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 amounted to P77,726,164for the years ended December 31, 2012respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P14,668,136 as of December 31, 2012 and are included as part of Trade and Other Receivables in the consolidated statements of financial position (see Note 6).No network support fees and in-warranty services relate to Aiwa products in 2012.

26.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)

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

26.3 Sale of SBC's Assets

(a) *Agreement on Sale of Assets*

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 26.3 (d)].

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

(b) Management Agreement

For continuity of services to subscribers, SBC and SCC agreed that the management and administration of the Assets be entrusted to SCC pending the approval of theNTC of the assignment of the Assets.

SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

The Management Agreement shall remain in effect until December 31, 2013. If NTC's approval is not obtained by December 31, 2013, the terms of the Management Agreement shall be automatically renewed for two years from such date and thereafter automatically renewed for another two years from the end of term of its renewal, until the Management Agreement is terminated.

The Management Agreement shall be automatically terminated on the date NTC approves the transfer of the Assets in favor of SCC.

(c) Option Agreement

On the same date, SGI entered into an Option Agreement (the Option) with SCC to purchase its shares of stocks in the Company which option must be exercised not later than December 31, 2013. As of December 31, 2012, SCC has not exercised the option (see Note 27.8).

(d) Gain on Sale of Assets

SBC sold the Assets to SCC for a gross amount totaling to P1.1 billion. The book value of the assets sold amounted to P827.2 million resulting in the recognition of gain on sale of assets amounting to P267.1 million, which is presented as Gain on Sale of Assets in the 2012 annual statement of income.

27. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

27.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease 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:

	2012
Within one year	P 114,423,915
After one year but not more than five years	198,445,354
More than five years	3,261,256
	P 316,130,525

27.2 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%.

	2012
Within one year	**P 12,490,671**
After one year but not more than five years	**47,388,054**
More than five years	**15,858,583**
	P 75,737,308

Total rental expense from these operating leases amounted to P7.4 million each in 2012 and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 18.2 and 20).

27.3 Legal Claims

SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:

(i) a portion of land in Pililla, Rizal, with a carrying value of 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.

Management believes that the ultimate resolution of these cases will not materially affect the Group's consolidated financial statements.

27.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2012 for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

27.5 Purchase Commitments

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of theTriTowerscondominium building (see Note 11). The construction of Tower 1 and Tower 2 was completed in completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

27.6 Possible Impact of Government Project

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the TriTowers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the TriTowers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.

27.7 Properties Under Development

Fil-Dragon has commitment of about P34.0 million(RMB5.2 million) as of December 31, 2012, respectively, for the construction of the Golden Hill Project.

27.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2012, SCC has not exercised this option [see Note 26.3(c)].

27.9 Others

As of December 31, 2012, the Group has unused credit facilities amounting to P788.6 million.

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.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's risk management is coordinated with its BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

28.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables, 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:

	2013		2012	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	P 125,632,816	P 5,065,017	P 342,359,128	P 48,982,187
Financial liabilities	(646,203,131)	(496,410,956)	(512,512,383)	(525,912,848)
Total net exposure	(P 520,570,315)	(P 491,345,939)	P 170,153,255	(P 476,930,661)

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.

	2013		2012	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	0.80%	(P 4,167,684)	13.83%	(P 23,532,195)
Php – RMB	1.27%	(5,344,878)	11.52%	(54,942,412)
		(P 9,512,562)		(P 78,474,607)

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

28.2 Interest Rate Sensitivity

At March 31, 2013 and December 31, 2012, 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+/-2.19% in 2013 and +/-1.54% in 2012. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by +/-2.19% and +/-1.54%profit before tax in 2013 and 2012 would have increased by P 62 million and P46.4 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

28.3 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown 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	**2013**	2012
Cash and cash equivalents	5	**P 3,007,210,853**	P 3,019,984,213
Trade and other receivables - net	6	**1,623,148,356**	1,917,927,407
AFS financialassets- net	8	**-**	-
Advances to related parties	25	**21,619,346**	21,633,388
Refundable deposits - net	13	**19,325,384**	21,754,661
		P4,671,1303,939	P 4,981,299,669

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 andAFS Financial Assets*

The credit risk for cash and cash equivalents 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:

	2012
Not more than 3 months	P 160,693,790
More than 3 months but not more than one year	77,870,120
More than one year	131,075
	P 238,694,985

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade receivables that are not past due or impaired to be good.

28.4 Liquidity Risk

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of December 31, 2012, 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 571,666,922	P -
Trade and other payables	536,510,356	-
Advances from related parties	-	11,629,819
	P1,108,177,278	P 11,629,819

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

29. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

29.1 Comparison of Carrying Values and Fair Values

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below.

	Notes	2013 Carrying Values	2013 Fair Values	2012 Carrying Values	2012 Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	6	**P 3,007,210,853**	P 3,007,210,853	P 3,019,984,213	P 3,019,984,213
Trade and other receivables - net	7	**1,623,148,356**	1,623,148,356	1,917,927,407	1,917,927,407
Advances to related parties	26	**21,619,346**	21,619,346	21,633,388	21,633,388
Refundable deposits	17	**19,325,384**	19,325,384	21,754,661	21,754,661
Available-for-sale financial assets:	9				
Investments in bonds		**-**	-	-	-
Golf club shares – net		**15,712,400**	15,712,400	8,442,400	8,442,400
Others		**870,749**	870,749	634,127	634,127
		P 4,687,887,088	P 4,687,887,088	P 4,990,376,196	P 4,990,376,196
Financial liabilities					
At amortized cost:					
Interest-bearing loans - net	15	**P 545,689,624**	P 545,689,624	P 571,666,922	P 571,666,922
Trade and other payables	16	**920,023,618**	920,023,618	563,429,613	563,429,613
Advances from related parties	26	**15,249,703**	15,249,703	11,,629,819	11,629,819
Refundable deposits - net	17	**34,099,752**	34,099,752	32,226,991	32,226,991
		P 1,515,062,697	P 1,515,062,697	P 1,178,953,045	P 1,178,953,045

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.

29.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of March 31, 2013 and December 31, 2012.

	Level 1	Level 2	Level 3	Total
March 31, 2013				
Financial assets at FVTPL	P -	P -	P -	P -
AFS financial assets	8,553,149	-	-	8,553,149
	P 8,553,149	**P -**	**P -**	**P 8,553,149**
December 31, 2012				
Financial assets at FVTPL	P -	P -	P -	P -
AFS financial assets	9,076,527	-	-	9,076,527
	P 9,076,527	**P -**	**P -**	**P 9,076,527**

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The following is the computation of the Group's debt-to-equity ratio:

	2013	2012
Total liabilities (excluding advances from related parties)	**P 3,509,313,494**	P 3,164,672,695
Total equity	**9,688,609,885**	9,671,789,880
Debt-to-equity ratio	**0.36 : 1**	0.33 : 1

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

SOLID GROUP INC. & SUBSIDIARIES
AGING OF TRADE AND OTHER RECEIVABLES
MARCH 31, 2013

	Current	1-30 days	31-60 days	61-90 days	91 days & over	**TOTAL**
TRADE	375,388,856	61,095,482	19,870,647	77,751,950	104,832,209	**638,939,144**
ADVANCES TO SUPPLIERS	214,283,405	363,962	75,043	239,717	20,246,962	**235,209,090**
LOANS RECEIVABLES	45,152,613	0	0	0	0	**45,152,613**
OTHER RECEIVABLES	54,743,495	1,220,090	1,405,279	1,835,803	27,139,202	**86,343,869**
TOTAL	**689,568,369**	**62,679,534**	**21,350,969**	**79,827,470**	**152,218,373**	**1,005,644,716**
ALLOWANCE FOR IMPAIRMENT						**19,419,528**
TRADE AND OTHER RECEIVABLES, NET						**986,225,188**

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

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

1. For the fiscal year ended December 31, 2012

2. SEC Identification Number: 845

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

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

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

6. _________ (SEC Use Only)
   Industry Classification Code

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

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

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

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

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

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

    Yes [x] No [ ]

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

    Philippine Stock Exchange Common

12. Check whether the issuer:

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

Yes [x] No [ ]

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

Yes [x] No [ ]

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

P816,343,224

TABLE OF CONTENTS

PART I. BUSINESS AND GENERAL INFORMATION

Item 1. Business

(A) Description of Business

1. Business Development

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

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

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

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

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

The Company has twelve (12) wholly-owned subsidiaries as of December 31, 2012, as follows:

My Solid Technologies & Devices Corporation (MySolid) was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. MySolid merged with MyTel Mobility Solutions Inc. (MyTel), another wholly subsidiary of the Company with similar business, with MySolid as the surviving company effective June 1, 2013.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. On February 22, 2011, the Board of Directors and stockholders approved the amendment of the SGTC's articles of incorporation to change its primary purpose. This was approved by the Securities and Exchange Commission on March 22, 2011 and starting that date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units. SGTC was formerly a wholly-owned subsidiary of SC. In 2007, SGTC became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in SGTC.

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

Solid Manila Corporation (SMC) was incorporated on June 13, 1983. SMC is engaged in the lease and development of the Company's real estate properties. SMC merged with Solid Distributors, Inc. (SDI), another wholly-owned subsidiary of the Company, on December 23, 2003, with SMC as the surviving company. Effective January 1, 2012, SMC merged with Solid Corporation, also another wholly owned subsidiary of the Company engaged in the same business of leasing real estate properties, with the SMC as the surviving company.

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

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

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 and operated as lessor of real estate. SLC merged with Omni Logistics Corporation (OLC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SLC as the surviving company. After the merger, SLC resumed the business of OLC of providing warehousing and logistics services to third parties. On March 19, 2012, SLC changed its corporate name to Omni Solid Services, Inc.

Solid Electronics Corporation (SEC), 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 MyPhone digital devices. SEC merged with AA Electronics Corporation (AAEC), another wholly-owned subsidiary of the Company and Solid Electronics Services Inc. (SESI), a wholly owned subsidiary of SC on April 12, 2004 with SEC as the surviving company.

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

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

Solid Broadband Corporation (SBC) was incorporated on September 22, 2000 to offer broadband services. SBC obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. It has been granted provisional authority to use its franchise by the National Telecommunications Commission on April 15, 2002. SBC was merged with Destiny Inc. (DI) as approved by the Securities and Exchange Commission on August 26, 2005, with SBC as the surviving entity. Henceforth, SBC assumed the operations of DI of broadband cable infrastructure and provides transport services to an affiliate engaged in cable television operations. It also provides integrated multimedia services, among which are, VSAT, broadcast uplink and leased line services. In 2007, SBC started the marketing and distribution of mobile phones. In 2010, My Solid Technologies & Devices Corporation assumed the importation of the mobile phones from SBC while MyTel Mobility Solutions Inc. took over the distribution of mobile phones from SBC. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

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

2. Business of Issuer

Principal Products and Services

The consumer electronics business of the Company as of December 31, 2012 are:
(1) sale of mobile phones which generated sales of P3,836 million (for 2,985,764 units) or 97% of sales in 2012, P2,908 million (for 2,022,142 units) or 93% of sales in 2011 and P1,495 million in 2010 (for 739,721 units)or 92% of sales in 2010; and (2) after-sales service for principally SONY brands of consumer electronic products and My|Phone with its 37 company-owned service centers throughout the Philippines and 122 independent authorized service centers as of end of 2012 which generated service income of P203 million or 32% of service revenues in 2012, P204 million or 30% of service revenues in 2011 and P203 million or 29% of service revenues in 2010; and (3) warehousing, distribution and product testing of consumer electronic products with service revenue of P116 million or 18% of service revenue in 2012, P84 million or 12% of service revenues in 2011 and P51 million or 7% of service revenues in 2010 and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of nil in 2012 and 2011 and P10 million in 2010 (for 47,959 units) or 2% of service revenues;

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 P156 million in 2012 or 25% of service income, P374 million in 2011 or 55% of service income in 2011 and P391 million in 2010 or 56 % of service income in 2010. As mentioned above, SBC sold its wired and satellite assets and broadband/internet subscriber base on May 11, 2012. After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable Corporation until the SBC's clients are transferred to the latter. Sky Cable Corporation also assumed to pay all cost and expenses in connection with use and operation of the assets. Revenues arising from this activity amounted to P91 million in 2012 or 14% of service revenues (nil for 2011 and 2010.)

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 P82 million or 2% of sales in 2012, P182 million or 93% of sales in 2011 and P112 million or 7 % of sales in 2010; prefabricated modular houses of P39 million in 2012 and P13 million in 2011 (nil in 2010). Real estate sales amounted to P99 million or 2% of revenues in 2012, P126 million or 3% of revenues in 2011and P207 million or 8% of revenues in 2010.

Distribution

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

The Company distributes through its subsidiaries consumer electronic products and devices in the Philippines. The MyPhone brand is distributed by MySolid Technologies and Devices Corporation. As of December 31, 2012, MySolid supplied approximately 343 dealer accounts.

Status of any-publicly announced new product or service

None.

Competition

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

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

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

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

The 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. On May 11, 2012, , SBC sold its wired and satellite assets and broadband/internet subscriber base. (See Agreements)

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). On May 11, 2012, SBC sold its wired and satellite assets, (See Agreements).

Dependency of the business upon a single or few customers

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

Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2012, it has 37 service centers throughout the Philippines and 122 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 services and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

Principal Terms and Expiration Dates of all Licenses and Agreements

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

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony 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.

- Distributoship Agreement with Sony Corporation

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

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

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

- Agreement with Sky Cable Corporation

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

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

- Management Agreement with Sky Cable Corporation

For continuity of services to subscribers, SBC and Sky Cable Corporation agreed that the management and administration of the Assets be entrusted to Sky Cable Corporation pending the approval of the National Telephone Commission (NTC) of the assignment of the Assets.

Sky Cable Corporation, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

The Management Agreement shall remain in effect until December 31, 2013. If NTC's approval is not obtained by December 31, 2013, the terms of the Management Agreement shall be automatically renewed for two years from such date and thereafter automatically renewed for another two years from the end of term of its renewal, until the Management Agreement is terminated.

The Management Agreement shall be automatically terminated on the date NTC approves the transfer of the Assets in favor of Sky Cable Corporation.

- Option Agreement

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

- Franchise

Solid Broadband Corporation (SBC) obtained a congressional franchise for 25 years to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 14, 2001. SBC has been granted provisional authority to use its franchise by the National Telecommunications Commission.

<u>Need for any government approval</u>

The assignment/ sale of the assets of Solid Broadband Corporation on May 11, 2012 to Sky Cable Corporation is pending approval of the National Telecommunication Commission.

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

<u>Effect of existing and probable governmental regulations on the business</u>

None.

<u>Research and development activities</u>

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

<u>Costs and effects of compliance with environmental laws</u>

The Company has complied with environmental laws at minimal costs.

<u>Employees</u>
The Company and its subsidiaries have 392 regular employees as at December 31, 2012 as shown in the table below. It estimates to have 450 employees by the end of December 31, 2013. There is no existing union as of December 31, 2012. There are no employees who would be on strike nor have been on strike in the past three (3) years, nor are threatening to strike. The Company has no supplemental benefits and incentive arrangements with its employees other than the regular Christmas bonus, thirteenth month pay, performance incentives and leave conversions.

	Number of employees
Management	20
Sales and Distribution	48
Operation	77
Service	121
Administration	80
Finance	46
Total	392

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.

The Company's business is continuously subject to rapid technology changes which may cause inventory obsolescence. Also, certain infrastructure assets, particularly in the broadband business, are subject to technological advances which could affect their economic life and the cost of providing the service/ product to clients /customers. The Company monitors developments in technology advances that could affect its business.

Item 2. Properties

B. Description of Property

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

Location	Land Area (in sq. m.)	Current and Intended Use
Laguna International Industrial Park, Binan, Laguna	73,532	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, Marulas, Bulacan	10,493	Office Building and warehouses
Laguna International Industrial Park, Binan, Laguna	5,141	Building for lease
Pasong Tamo, Makati City	5,000	Building (Under renovation for Hotel and Office use)
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; (Future site of the pilot project for modular residential housing units)

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)
Bacoor, Cavite	1,334	Office building for lease
Cabanatuan City, Nueva Ecija	1,212	Service center and building for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	9,852	Industrial/ Commercial lots for sale
Araneta, Quezon City	1,000	Land (Intended for sale or lease)
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

Solid Corporation also owns a parcel of land in Bgys. Talipapa and Pamaldan, Cabanatuan City, Nueva Ecija with an area of 1,914,180 square meters. This property is the subject of a case filed by Solid Corporation on October 17, 1995 with the Department of Agrarian Reform Regional Adjudication Board (RARAB) to declare the emancipation patents issued to several tenant farmers of the said property and any patents that may subsequently be issued covering the same, null and void on the ground that the requirements of Presidential Decree No. 27 have not been complied with. The portion of the property that may be subject to litigation consists of 47,211 square meters. On February 6, 1997, the case was submitted for resolution. On June 26, 1997, the RARAB ordered the processing of the Certificate of Land Transfer for issuance to the tenants. On July 31, 1997, Solid Corporation appealed the RARAB decision to the DAR’s Central Adjudication Board (DARAB). The appeal was resolved adverse to Solid Corporation on January 31, 2002. Solid Corporation appealed the DARAB decision to the Court of Appeals on February 11, 2002. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City on November 18, 2007. The Department of Agrarian Reform granted Solid Corporation’s petition and ordered Land Bank to re-evaluate the land valuation based only on Republic Act No. 6657 (The Comprehensive Agrarian Reform Program) on September 28, 2012. Land Bank amended the valuation and tendered an Amended Offer of P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation agreed to the offer and is complying the documentation requirements. 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 favorably endorsed by Municipal Agrarian Reform Officer to the Regional Director of DAR and recommended a retention of 3.9 hectares. This is pending the approval of the Regional Director as of April 2013.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267 , 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264 which is pending resolution as of April 2013. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

There are two other cases involving certain properties of Solid Manila Corporation. Its titles to the Balintawak, Quezon City property with land area of 31,423 square meters, currently used as a service center and office building, are sought to be annulled in a civil action filed on 25th September, 1990, with the Regional Trial Court Branch 120 on the ground that another title covers the same area claimed by Lilia Sevilla et.al. On July 14, 1995, the in-house counsel assumed the case. On January 20, 2003, the RTC Branch 120 rendered a decision in favor of Lilia Sevilla annulling seven titles of Solid Manila Corporation to wit-- TCT Nos. 12729 up to 12736. SMC filed an appeal with the Court of Appeals. The Company's legal counsel believes that the titles of Solid Manila Corporation will prevail over those of the claimants on the grounds that the titles of the claimants are being sought to be nullified and voided by the government itself. The government's case filed by the Land Registration Authority (which is represented by the Office of the Solicitor General) before the Regional Trial Court (RTC) Branch 122 was for the annulment of claimant's title. Solid Manila Corporation filed an intervention in the government's case despite opposition by Lilia Sevilla et.al. The Court allowed Solid Manila Corporation to intervene in the government's case. Pending the incident of other third party intervenors, the Department of Justice recommended the dismissal of the Register of Deeds (ROD) and Deputy ROD of Caloocan based on inquiry of the antecedent facts of the case. In November 2000, the RTC Branch 122 rendered a decision in favor of the government, thus nullifying the land titles of Lilia Sevilla et. al., who subsequently appealed the decision of RTC Branch 122 to the Court of Appeals. SMC consolidated these cases as of February 2004. Lilia Sevilla et. al. filed a motion for reconsideration to the Court of Appeals' order consolidating these cases. The Court of Appeals had received the memoranda of the respective parties of Lilia Sevilia, the Government and Solid Manila Corp. and had raffled the case to another division for the promulgation of the decision. This case is now submitted for decision. There is no decision as of April 2013.

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. On May 11, 2012, SBC sold its wired and satellite assets, (See Agreements).

Franchise

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

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

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

Lease agreements

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Clark, Pampanga	7,717*	March and August 2019
Metro Manila	27,465**	December 2012
Metro Manila	9,952***	August 2012
Orbital space	11,524****	August 2012

* 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. The contract was assigned to Skycable Corporation after the sale of its assets on May 11, 2012.

*** Represents lease of internet connection. The contract was assigned to Skycable Corporation after the sale of its assets on May 11, 2012.

**** Represents lease of transponder for telecommunication and satellite uplink services. The contract was assigned to Skycable Corporation after the sale of its assets on May 11, 2012.

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	4,159	July 31, 2013
Balintawak, Quezon City	21,894	Various up to September, 2015
Cagayan de Oro	1,842	Various up to January 31, 2016
Chino Roces Ave, Makati City	13,548	Various up to July 6, 2019
Clark, Pampanga	28,577	Various up to June 15, 2013
Iloilo	1,621	Various up to September 14, 2013
Laguna International Industrial Park, Binan, Laguna	40,462	Various up to June 30, 2017
Laguna International Industrial Park, Binan, Laguna	3,375	April 30, 2013
La Huerta, Bicutan, Paranaque	5,810	Various up to March 31,2014
Ermita, Manila	7,983	Various up to February 2016
Ermita, Manila	4,761	Various up to December 14, 2017
San Dionisio, Paranaque City	1,175	February 14, 2013

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2013 to amount to P500 million for various real estate development and/ or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

Item 3. Legal Proceedings

C. Legal Proceedings

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

Company does not believe any such litigation will have a significant impact on the financial results, operations or prospects of the Company.

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

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

PART II - OPERATIONAL AND FINANCIAL INFORMATION

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

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

(1) Market Information

(a) Principal Market

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

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

	High (₱)	Low (₱)
2012		
First quarter	1.37	1.10
Second quarter	1.69	1.23
Third quarter	2.71	1.38
Fourth quarter	2.20	1.85
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

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

(b) The Company share was trading at P2.08 as of April 26, 2013 (the latest practicable trading date).

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

(2) Holders

The number of shareholders of record as of December 31, 2012 was 4,482. Common shares outstanding as of December 31, 2012 were 1,821,542,000 shares. Total issued shares as of December 31, 2012 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of December 31, 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)	326,610,742	17.93
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)	46,307,667	2.54
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.	Lucio W. Yan &/or Clara Yan	1,000,000	0.05
	Columbian Motors Corporation	1,000,000	0.05
14.	Juan Go Yu &/or Grace Chu Yu	940,000	0.05
15.	Ong, Victoria	632,000	0.03
16.	Union Properties, Inc.	625,000	0.03
17.	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.	Jacinto, Ray Sy	500,000	0.03
	GMA Farms Inc.	500,000	0.03

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

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

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

(3) Dividends

a. In 2012, cash dividends amounted to P0.06 per share to stockholders of record as of October 31, 2012. None were declared in 2011 and 2010.

b. The Company's retained earnings as of December 31, 2012 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, 2012.

(4) Recent Sales of Unregistered or Exempt Securities

There was no sale of unregistered or exempt securities in 2010 to 2012.

a. Securities Sold.

No securities were sold by the Company from 2010 to 2012.

b. Underwriters and Other Purchases

Not applicable. There were no securities were sold by the Company from 2010 to 2012.

c. Consideration

Not applicable. There were no securities were sold by the Company from 2010 to 2012.

d. Exemption from Registration Claimed

Not applicable. There were no securities were sold by the Company from 2010 to 2012.

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

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

(1) Plan of Operation

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

(2) Management's Discussion and Analysis

Full Fiscal Years

<u>Key Performance Indicators</u>

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

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

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

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

EBITDA was determined by adding back interest expense, depreciation and amortization charges 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 2012, 2011 and 2010 are as follows:

	December 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Revenue growth	18%	53%	17%
Asset turnover	40%	37%	26%
Operating expense ratio	14 %	16%	19%
EBITDA	P1,574 million	P660 million	P452 million
Earnings (loss) per share	P0.68	P0.24	P0.13
Current ratio	3.14:1	2.47:1	2.81:1
Debt to equity ratio	0.33:1	0.36 : 1	0.29 :1

2012

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

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

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

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

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

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

Debt to equity ratio stood at 0.33 : 1 as of December 31, 2012 from 0.36 : 1 as of December 31, 2010 primarily due to improved equity position this year.

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.

Results of Operations 2012

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

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

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

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

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

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

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

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

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

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

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

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

Other operating expenses (income) amounted to P116 million other operating income in 2012 against P412 million other operating expenses in 2011 as explained below.

General and administrative expenses amounted to P 343 million in 2012 from P366 million in 2011. The decline was principally due to lower operating expenses of the broadband segment after it disposed of its assets.

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

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

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

Operating profit amounted to P 1,345 million in 2012 from P577 million in 2011, improving by 133% from higher gross profit and other operating income and gain of sale of asset as discussed above.

Other income (charges) amounted to P 172 million gain in 2012 against P3.5 million loss in 2011 mainly from the following:

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

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

Other gains amounted to P57 million in 2012 versus P21 million in 2011 primarily due to gain on derecognition of liabilities.

Income before tax reached P1,517 million in 2012, or higher by 165% from P573 million in 2011 mainly due to higher operating profit as explained above. The sale of assets of the broadband segment posted P267 million one time-gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense amounted to P276 million in 2012 from P139 million in 2011 due to higher pre-tax income.

Profit from continuing operations amounted to P1,241 million in 2012 against P434 million in 2011 due to the factors discussed above.

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

Net profit for the year reached P1,241 million in 2012 against P430 million in 2011.

Net income attributable to equity holders of the parent amounted to P1,244 million in 2012 against P439 million in 2011 as discussed above.

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

Financial Position 2012

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

Trade and other receivables reached P1,287 million as of December 31, 2012 against P1,137 million as of December 31, 2011. The increase was principally due to higher receivable position of the distribution segment.

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

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

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

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

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

Other current assets amounted to P252 million as of December 31, 2012 compared with P267 million as of December 31, 2011, or a decrease of 6% was mainly due to lower input VAT and creditable withholding taxes.

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

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

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

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

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

Retirement benefit assets amounted to P73 million as of December 31, 2012 and P79 million as of December 31, 2011. The decrease was principally due to claims and refund by the broadband segment.

Deferred tax assets - net amounted to P63 million as of December 31, 2012 and P69 million as of December 31, 2011, a decrease of 10% principally due to lower allowances for inventory obsolescence and provision for warranty.

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

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

Total assets reached P12,848 million as of December 31, 2012 from P11,716 million as of December 31, 2011 as discussed above.

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

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

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

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

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

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

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

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

Retirement benefit obligation amounted to P 12 million as of December 31, 2012 and P6 million December 31, 2011. The increase was due to unfunded retirement benefit obligation of the distribution segment.

Deferred tax liabilities -net amounted to P 920 million as of December 31, 2012 and P861 million as of December 31, 2011. The increase was primarily from provision for fair value gains on investment property.

Total non-current liabilities amounted to P948 million as of December 31, 2012 from P882 million as of December 31, 2012 and December 31, 2011.

Total liabilities amounted to P3,176 million as of December 31, 2012 from P3,160 million as of December 31, 2011.

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

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

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

Revaluation reserves amounted to P46 million loss as of December 31, 2012 from P29 million loss as of December 31, 2011 due to other comprehensive income for the period mainly from currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P2,758 million as of December 31, 2012 from P1,623 million as of December 31, 2011 as a result of net income and dividend declaration during the period.

Total equity attributable to Equity holders of Parent amounted to P9,269 million as of December 31, 2012 from P8,151 million as of December 31, 2011 due to higher retained earnings.

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

Total equity amounted to P9,671 million as of December 31, 2012 from P8,556 million as of December 31, 2011.

<u>Results of Operations 2011</u>

Revenues reached P4,149 million in 2011 from P2,709 million in 2010, improving by 53% driven by strong sale of goods of the disbribution 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 toP412 million in 2011 compared with P421 million in 2010 as explained below.

General and administrative expenses amounted toP366 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 toP278 million in 2011, or an increase of 22% from P227 million in 2010, mainly from higher advertising costs .

Other operating income amounted toP232 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 toP3.5 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 in2011 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.

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.

Results of Operations 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 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 .

Financial Position 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.

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

The Company 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. In 2012, the Company concluded the sale of the broadband assets of Solid Broadband Corporation, a wholly-owned subsidiary of the Company. The sale further strengthened the Company's financial position with the sale providing a P1 billion proceeds. It increased its total assets to P12.8 billion in 2012 from P11.7 billion in 2011 and P10.64 billion in 2010. It increased its equity to P9.65 billion in 2012 from P8.56 billion in 2011 and P8.11 billion in 2010. It has maintained a low debt to equity ratio of 0.33:1 in 2012 from 0.36 : 1 in 2011 and 0.29:1 in 2010 and even a lower gearing percentage (computed as financial debt divided by total equity) of 6% in 2012 from 9% in 2011 and 12% in 2010 resulting from minimal financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. Additionally, the company kept significant amounts of cash and cash equivalents and short-term cash investments as part of its current assets to maintain its liquidity such that its current ratio had always exceeded the conservative rule of thumb of 2 : 1 by achieving a current ratio of 3.14:1 in 2012 from 2.47:1 in 2011 and 2.81:1 in 2010.

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, 2012 was a net income of P1,241.6 million from P430.3 million in 2011 and P226.70 million in 2010, translating to earnings per share of P0.68, P0.24 and P0.13 in 2012, 2011 and 2010, respectively. The broadband asset sale contributed a one-time gain on sale of assets of P267 and gain on reversal of asset impairment of P437 million. Moreover, the improved earnings was achieved by strong revenue growth and earnings of the digital products of the distribution business segment and also of the investing and financing business segment in 2012.

The Group expects its consolidated operations to continue to be profitable in the future as robust growth is projected 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 number of mobile phone users in the country has more than doubled in just a few years and is expected to further increase in the years to come. The Company will capitalize on the rising demand of mobile phone and continue to deliver mobile phones of high quality and competitive prices and continue to grow my|phone market share. It has partnered with a mobile and web application development company which will exclusively develop Filipino-made applications to its roster of mobile phones to support its commitment to deliver and redefine consumer expectations from the fast-phased mobile revolution. 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 was competed in 2012 and already started providing revenues in 2012. The Company expects Tower 2 to improve sales in 2013. 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. On its third year, the Company expects sales to hit the P100 million mark. In 2012, the Company started its pilot project of modular residential housing units in Tandang Sora, Quezon City called My|Rainbow Place, a low-rise condominium project using the same modular insulated steel housing technology. The project aims to provide affordable modern urban housing for the working-class Filipinos. Although the project had minor setbacks in 2012, it is expected to proceed in May 2013 and to be completed within the year. The Company also started the renovation of Solid House Building in 2012 with projected capital expenditures of about P300 million. It started development of a Business Hotel and Event Center consisting of 157 rooms to be named Green Sun Hotel and expects to generate revenues in 2014.

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

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

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

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

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

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

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

The Company estimates capital expenditures for the year 2013 to amount to P500 million for various real estate development and/ or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

On 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 plastic injection business are expected to reduce about 1% and 5% of revenues, respectively while the Company does not expect any reduction in income.

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

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

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

vii. Causes for any Material Changes from Period to Period

On May 11, 2012, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base. The disposal of the assets of SBC contributed to a one time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million.

Balance Sheet Items (2012 vs. 2011)

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

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

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

Trade and other receivables – 13 % increase to P1,287 million from P1,137 million

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

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

Principally from collections of advances made. This account stood at 0.16% and 1% as a percentage of total assets in 2012 and 2011, respectively.

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

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

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

The decrease was principally due to disposal of financial assets. This account stood at nil and 4% as a percentage of total assets in 2012 and 2011, respectively.

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

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

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

The increase was mainly due to construction of Golden Hill Project. This account stood at 10% and 14% as a percentage of total assets in 2012 and 2011, respectively.

Other current assets – 6% decrease to P252 million from P267 million

Mainly due to lower input VAT and creditable withholding taxes. This account stood at 2% as a percentage of total assets for years 2012 and 2011.

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

Mainly due to lower translated value of the foreign-currency receivables. This account stood at 7% as a percentage of total assets for years 2012 and 2011.

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

Mainly from fair value gains of club shares. This account stood at nil and 0.007% as a percentage of total assets for 2012 and 2011.

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

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

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

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

Retirement benefit assets - 8% decrease to P73 million from P79 million

Decrease was mainly due to claims and refund by the broadband segment.This represented 0.57% and .67% of total assets in 2012 and 2011, respectively.

Deferred tax assets –net - 10% decrease to P63 million from P70 million

Mainly due to lower allowances for inventory obsolescence and provision for warranty. This account stood at 0.49% and 0.60% of total assets in 2012 and 2011 respectively.

Other non-current assets – no change

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

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

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

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

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

Customers' Deposit – increase to P881 million from P686 million

Principally due to additional collection of deposits from real estate and prefabricated modular houses buyers

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

The decrease was due to payments made during the period. This account stood at 0.09% in 2012 and 0.9% in 2011 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change

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

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

Mainly due to higher tax expenses. This account was pegged at 0.50% and 0.37% of the total liabilities and equity in 2012 and 2011, respectively.

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

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

Retirement benefit obligation – 106% increase to P12 million from P6 million

Mainly from unfunded retirement obligation of the distribution segment. This account stood at 0.97% and 0.05% of the total liabilities and equity in 2012 and 2011, respectively.

Deferred tax liabilities – 7 % increase to P920 million from P861 million

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

Capital stock – no change

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

Additional Paid-In-Capital – no change

This account represented 36 % and 39% of total liabilities and equity for 2012 and 2011, respectively.

Treasury Shares – no change

This account represented 1% and 10% of total liabilities and equity for 2012 and 2011, respectively.

Revaluation reserves –amounted to (P46 million) from (P29 million)

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations offset with reclassificationadjustments for losses recognized in profit or loss. This account stood at .036%% and 0.25% total liabilities and equity in 2012 and 2011, respectively.

Retained earnings – 70% increase to P2,758 million from P1.623 million

As a result of net income and dividend declaration during the period. This account stood at 21% and 13.85% of total liabilities and equity in 2012 and 2011, respectively.

Income Statement Items (2012 vs. 2011)

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

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

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

Service revenue –8% decrease to P630 million from P682 million

Principally due to broadband's sale of assets and subscriber base in May 2012.

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

Principally since there was no sale of industrial lots for 2012. As a percentage of total revenues, this account decreased to 2% in 2012 and 16% in 2011.

Rental income – 13% decrease to P136 million from P157 million

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

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

Mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets. As a percentage of total revenues, this account represents 1% in 2012 and .01% in 2011.

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

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

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

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

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

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

Cost of rentals – 11% increase to P35 million from P39 million

Primarily from lower rental and other overhead. This account represents 1% as a percentage of total revenues for years 2012 and 2011.
General and administrative expenses – 7% decrease to P343 million from P366 million

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

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

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

Gain on sale of assets – 267 million

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

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

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

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

Principally contributed by reversals of impairment loss on trade and other receivables of the broadband segment. This account increased at 3% of total revenues for 2012 from 1.8% in 2011.

Finance costs – P49 million from P89 million

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

Other gains - *net –P57 million to P21 million*

Primarily due to gain on derecognition of liabilities. This account increased to 1.17% in 2012 from 0.59% in 2011 as a percentage of total revenues.

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 2000 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.

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 to12% 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 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

Principally 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.

<u>Finance income – 12% decrease to P38 million from P34 million</u>

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 of total revenues.

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

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

Item 7. FINANCIAL STATEMENTS

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

(B) Information on Independent Accountant and Other Related Matters

(1) External Audit Fees And Services

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

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

The audit fees of our present external auditor, Punongbayan and Araullo for the examination of our annual audited financial statements, including those of our subsidiaries for the years ended December 31, 2012 and 2011 amounted to P5 million and P4.66 million, respectively. Also, audit fees for the short period reports as well as long form reports in 2012 and 2011 as required for the filing of merger of the various subsidiaries of the Company amounted to P210 thousand and P1.21 million, respectively. The audit fee of Grant Thornton for the examination of Fil-Dragon for the years ended December 31, 2012 and 2011 amounted to HK$274,000 and HK$245,000, 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 2012 and 2011.

(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, 2012 and 2011 amounted to P204 thousand and P276 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 amounted to P200 thousand and P689 thousand in 2012 and 2011, respectively.

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

There were no other fees paid for the years 2012 and 2011.

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

The overall scope of the audit was reviewed and approved by the Audit Committee. The terms of engagement of the audit were also reviewed and approved by the Audit Committee.

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

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

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

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

On June 28, 2012, the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2012.

There was no change in our existing accountant for the years 2012 and 2011.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

A. Directors, Executive Officers, Promoters and Control Persons

(1) Directors, including Independent Directors and Executive Officers

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

Position	Name	Age	Citizenship
Chairman Emeritus	Elena S. Lim	83	Filipino
Chairman of the Board	Susan L. Tan	59	Filipino
Director and President and Chief Executive Officer	David S. Lim	57	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	56	Filipino
Director and Sr. VP and Chief Financial Officer	Vincent S. Lim	54	Filipino
Director	Quintin Chua	53	Australian
Director	Luis-Maria Zabaljauregui	65	Filipino
Director	Joseph Lim	86	Filipino
Director and VP for Business Development	Beda T. Manalac	52	Filipino
VP and Treasurer	Lita Joaquin	52	Filipino
Corporate Secretary	Roberto V. San Jose	70	Filipino

Assistant Corporate Secretary	Ana Maria Katigbak-Lim	44	Filipino
VP and Chief Accounting Officer	Mellina T. Corpuz	46	Filipino

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

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

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

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

Mr. Vincent S. Lim is Sr. Vice President and Chief Financial Officer in September 2010 and was Sr. Vice President for Finance and Investments since June 2006 up to September 2010. He was Sr. VP and Chief Financial Officer from May 2002 up to June 2006. He is a director since 1996 and was VP/ Chief Financial Officer from 1996 up to May 2002. He has also been VP Finance, Treasurer and Corporate Secretary for Solid Corporation for more than five years and is also VP Finance and Treasurer for Solid Laguna Corporation and Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Mr. Lim is the son of Joseph and Elena Lim.

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

Mr. Luis-Maria L. Zabaljauregui is Independent Director effective September 23, 2008. He was Executive Vice President of Leyte Agri Corporation from 2001 up to 2003. He was vice President and Resident Manager of Central Azucarera de la Carlota, Inc. from January 2004 to June 2008. He was Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008 up to June 2011. He has business experience for more than five (5) years.

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

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

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

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

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

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

(2) Significant Employee

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

(3) Family Relationship

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

(4) Involvement in Certain Legal Proceedings

Ms. Elena S. Lim is included as co-defendant in a case filed by a certain bank against AA Export and Import Corporation for the collection of unsecured business loans granted to that company. In another collection case filed by another bank against AA Export and Import Corporation, Ms. Elena S. Lim, Mr. Joseph Lim, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason Lim and Mr. Vincent S. Lim are impleaded as co-defendants. Except by above, none of the directors and officers was involved in the past five years up to April 2013 in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

Item 10. Executive Compensation

B. Executive Compensation

Executive and Directors Compensation

(1) General

The Company's executive officers are regular employees of the Company and its subsidiaries and are similarly remunerated with a compensation package comprising of regular salary, bonuses, thirteenth month pay and leave conversions that the Company extends to its regular employees. Directors who are not executive officers are paid specified amounts per meeting participation.

(2) Summary Compensation Table

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

SUMMARY COMPENSATION TABLE

		Annual Compensation		
(a)	(b)	(c)	(d)	(e)
Name and Principal Position	Year	Salary (₱)	Bonus (₱)	Other Annual Compensation Income (₱)
Chairman and four most highly compensated	2013 2012	22,500,000 20,334,875	3,000,000 2,167,880	1,000,000 811,367

executive officers				

Susan L. Tan David S. Lim Jason S. Lim Vincent S. Lim Beda T. Manalac	Chairman of the Board Director, President and Chief Executive Officer Director, Senior VP and Chief Operating Officer Director, Senior VP and Chief Financial Officer Director, VP for Business Development

Chairman and four most highly compensated executive officers	2011	14,680,000	2,028,788	1,450.,859

Susan L. Tan David S. Lim Jason S. Lim Vincent S. Lim Lita Joaquin	Chairman of the Board Director, President and Chief Executive Officer Director, Senior VP and Chief Operating Officer Director, Senior VP and Chief Financial Officer VP and Treasurer

All officers and directors as a group unnamed	2013 (Est.) 2012 2011	4,000,000 3,460,000 2,740,000	800,000 629,591 424,293	2,400,000 2,198,296 2,041,401

(3) Compensation of Directors

Please see executive and directors' compensation.

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

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

(5) Warrants and Options Outstanding: Repricing

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

Item 11. Security Ownership of Certain Beneficial Owners and Management

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

(1) Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's voting securities as of December 31, 2012 were as follows.

(1) Title of Class	(2) Name and address of record owner and relationship with issuer	(3)Name of Beneficial Owner and Relationship with Record Owner	(4)Citizenship	(5)No. of Shares Held record (r) or beneficial (b)	(6) % to Total Outstanding
Common	AA Commercial, Inc. [1] 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r) [1]	32.03
Common	AV Value Holdings Corporation 2285 Pasong Tamo Ext, Makati Affiliate	David S. Lim President of AV Value Holding Corp.	Filipino	499,999,999 (r) [2]	27.45
Common	PCD Nominee Corporation (F) [2] G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	326,610,742 (r) [3]	17.93
Common	Lim, David S c/o Solid House, 2285 Pasong Tamo Ext, Makati	Not applicable	Filipino	179,488,591 (r and b)	9.85

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

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

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

(2) Security Ownership of Management

The following directors and officers own shares in the Company as of December 31, 2012.

(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	-
		7,300,000 (indirect)[3]		0.40
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		5,000,000 (indirect)[3]		0.27
		499,999,999 (indirect) [2]		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect) [1]		32.03
		5,996,000 (indirect) [3]		0.33
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	3,505,000 (direct)	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	7,010,000 (direct)	Filipino	0.38
Common	Corpuz, Mellina T.	-	Filipino	-

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,429,069,296 or 78.45% of the total issued and outstanding shares.

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

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

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

(3) Voting Trust Holders of 5% or More

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

(4) Changes in Control

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

Item 12. Certain Relationships and Related Transactions

D. Certain Relationships and Related Transactions

1.
Solid Video Corporation (SVC) earns commission from sales of Solid Trading Limited (STL), a company owned by SGI's majority stockholders, to customers in the Philippines. SVC also advances funds to STL to pay foreign suppliers.

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

Solid 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. .

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

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

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

Advances to and from Related Parties

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

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. In 2011, the parties agreed to increase the annual rate to 5% and extend the maturity date for another date. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

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

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

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

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

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

PART IV CORPORATE GOVERNANCE

Item 13. Corporate Governance

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

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

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 15, 2013. 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 2012 during the Annual Stockholders' meeting on June 28, 2012.

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.

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits - See accompanying Index to Exhibit.

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

(b) Reports on SEC Form 17-C

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

On October 12, 2012, the Company advised that the Board of Directors approved the declaration of cash dividend of P0.06 per share out of its unrestricted retained earnings as of December 31, 2011, in favor of stockholders of record of the Company as of October 31, 2012 and payable on or before November 28, 2012. The Board also appointed Ms. Josephine Santiago as the Company's Chief Information Officer who shall take charge of investor relations matters.

On October 12, 2012, the Company advised that its Audit Committee is conducting a review of its Audit Committee Charter for amendment relative to the requirement of the SEC Memorandum Circular No. 4 series of 2012 for public-listed companies to submit an assessment on the performance of the audit committees. The Company has undertaken to submit the assessment after the amended Charter is approved by the Board.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati, Metro Manila, Philippines on April 25, 2013.

By:

Board of Directors

Elena S. Lim
Chairman Emeritus

Susan L. Tan
Chairman of the Board

Joseph Lim
Director

David S. Lim
Director

Jason S. Lim
Director

Vincent S. Lim
Director

Quintin Chua
Director

Luis-Maria Zabaljauregui
Director

Beda T. Manalac
Director

Executive Officers

David S. Lim
President and Chief Executive Officer

Jason S. Lim
SVP and Chief Operating Officer

Vincent S. Lim
SVP and Chief Financial Officer

Lita L. Joaquin
VP and Treasurer

Roberto V. San Jose
Corporate Secretary

Ana Maria Katigbak-Lim
Assistant Corporate Secretary

Mellina T. Corpuz
VP and Chief Accounting Officer

Beda T. Manalac
VP for Business Development

29 APR 2013

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

Names	Passport No.	Date/Place Issued
Joseph Lim	WW0516827	August 3, 2009, Manila
Elena S. Lim	XX4337253	August 10, 2009, Manila
Susan L. Tan	EB0123180	April 20, 2010, Manila
David S. Lim	EB4305124	December 20, 2011, Manila
Jason S. Lim	EB0671416	July 31, 2010, Manila
Vincent S. Lim	EB5665582	June 15, 2012, Manila
Quintin Chua	M8252881	March 8, 2008, Australia
Luis-Maria Zabaljauregui	XX1984075	September 8, 2008, Manila
Lita L. Joaquin	XX5459012	February 5, 2010, Manila
Roberto V. San Jose	EB6079962	August 3, 2012, Manila
Ana Maria Katigbak-Lim	EB6978724	December 20, 2012, Manila
Mellina T. Corpuz	EB0552738	July 10, 2010, Manila
Beda T. Manalac	EB4988026	March 24, 2012, Manila

Doc. No. 377;
Page No. 77;
Book No. 335;
Series of 2013;

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until December 31, 2013
Appt. No. M-136 Makati City
IBP #905610-Pasig City-11/09/12
PTR #3671504-MAKATI-01/02/13
TIN # 212-965-989
S.C. Roll No. 28757
#250 Sen. Gil Puyat Ave., San Lorenzo Village,
Makati City

SOLID GROUP, INC.

INDEX TO FINANCIAL STATEMENTS

FORM 17-A, Item 7

Consolidated Financial Statements

SOLID GROUP, INC.

INDEX TO SUPPLEMENTARY SCHEDULES
December 31, 2011

Supplementary Schedules

INDEX TO EXHIBITS

Form 17-A

* These Exhibits are either not applicable to the Company or require no answer.

EXHIBIT 9 MATERIAL CONTRACTS

There are no material contracts that are not made in the ordinary course of business entered into by the Company and its subsidiaries during the year.

EXHIBIT 18 SUBSIDIARIES OF THE REGISTRANT

Solid Group Inc. has twelve consolidated subsidiaries, each of which is wholly owned, as follows:

Name	Jurisdiction
Solid Video Corporation	Makati City, Philippines
Kita Corporation	Clark, Pampanga, Philippines
Omni Solid Services Inc. (formerly Solid Laguna Corporation)	Binan, Laguna, Philippines
Solid Electronic Corporation	Balintawak, Quezon City, Philippines
Solid Manila Corporation	Manila, Philippines
Solid Manila Finance Inc.	Makati, Philippines
Solid Broadband Corporation	Makati, Philippines
Brilliant Reach Limited	British Virgin Islands
Zen Tower Corporation	Manila, Philippines
Precos, Inc.	Makati, Philippines
SolidGroup Technologies Corporation	Paranaque, Philippines
MySolid Technologies & Devices Corporation	Paranaque, Philippines

Report and Financial Statements

Guangxi Fil-Dragon Real Estate Development Limited
廣西菲龍房地產開發有限公司

For the year ended 31 December 2012

Contents

Expressed in Renminbi ("RMB")

Grant Thornton
致同

Independent auditors' report

To the members of Guangxi Fil-Dragon Real Estate Development Limited
(established in the People's Republic of China with limited liability)

We have audited the financial statements of Guangxi Fil-Dragon Real Estate Development Limited (the "Company") set out on pages 3 to 26, which comprise the statement of financial position as at 31 December 2012, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

GrantThornton
致同

Auditors' responsibility (Continued)

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

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

Opinion

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2012 and of the Company's loss and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Grant Thornton Hong Kong Ltd

Grant Thornton Hong Kong Limited
Certified Public Accountants
20th Floor, Sunning Plaza
10 Hysan Avenue
Causeway Bay
Hong Kong

19 April 2013

Lin Ching Yee Daniel
Practising Certificate No.: P02771

Statement of comprehensive income for the year ended 31 December 2012

	Notes	2012 RMB	2011 RMB
Revenue	5	-	-
Cost of sales		-	-
Gross Profit		-	-
Other income	6	**144,812**	79,579
Selling and distribution expenses		**(1,127,793)**	(1,711,999)
Administrative and other operating expenses		**(2,484,104)**	(3,214,415)
Loss before income tax	8	**(3,467,085)**	(4,846,835)
Income tax expense	10	-	-
Loss and total comprehensive loss for the year		**(3,467,085)**	(4,846,835)

The notes on pages 7 to 26 are an integral part of these financial statements.

Statement of financial position as at 31 December 2012

	Notes	2012 RMB	2011 RMB
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	11	300,314	435,053
Current assets			
Properties under development	12	223,584,009	179,489,660
Other receivables, deposits and prepayments	13	14,378,299	10,973,970
Amount due from a director	14	-	1,000,000
Income tax recoverable		870,560	354,154
Financial assets at fair value through profit or loss	15	-	924,744
Restricted cash	16	778,306	732,783
Cash and cash equivalents	17	1,511,073	3,724,912
		241,122,247	197,200,223
Current liabilities			
Trade and other payables	18	24,721,387	2,647,129
Receipt in advance from customers		127,187,200	98,760,112
Loan from related companies	19	54,396,030	58,143,006
Amount due to a director	14	500,000	-
		206,804,617	159,550,247
Net current assets		34,317,630	37,649,976
Net assets		34,617,944	38,085,029
EQUITY			
Paid in capital	20	50,000,000	50,000,000
Accumulated losses		(15,382,056)	(11,914,971)
Total equity		34,617,944	38,085,029

Director **Director**

The notes on pages 7 to 26 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2012

	2012 RMB	2011 RMB
Cash flows from operating activities		
Loss before income tax	**(3,467,085)**	(4,846,835)
Adjustments for:		
Depreciation	**142,239**	171,546
Interest income	**(11,142)**	(77,817)
Fair value loss on financial assets at fair value through profit or loss	**-**	75,256
Realized gain on disposal of financial assets at fair value through profit or loss	**(33,670)**	-
Operating loss before working capital changes	**(3,369,658)**	(4,677,850)
Increase in properties under development	**(39,098,211)**	(46,238,941)
Increase in other receivables, deposits and prepayments	**(3,404,329)**	(6,534,096)
Increase in restricted cash as guarantee for construction of projects and other operating activities	**(45,523)**	(537,910)
Increase in trade and other payables	**22,074,258**	1,455,372
Increase in receipt in advance from customers	**28,427,088**	94,379,440
Increase in financial assets at fair value through profit or loss	**-**	(1,000,000)
Cash generated from operations	**4,583,625**	36,846,015
PRC corporate income tax paid	**(516,406)**	(354,154)
Interest paid	**-**	(4,994,467)
Net cash from operating activities	**4,067,219**	31,497,394
Cash flows from investing activities		
Purchase of property, plant and equipment	**(7,500)**	(178,595)
Interest received	**11,142**	77,817
Proceeds from disposal of financial assets at fair value through profit or loss	**958,414**	-
Receipts from/(Advance to) a director	**1,500,000**	(1,000,000)
Net cash from/ (used in) investing activities	**2,462,056**	(1,100,778)
Cash flows from financing activities		
Repayment of bank borrowings	**-**	(92,940,000)
Proceeds from loan from related companies	**5,614,000**	66,692,730
Repayment of loan from related companies	**(14,357,114)**	(18,553,040)
Net cash used in financing activities	**(8,743,114)**	(44,800,310)
Net decrease in cash and cash equivalents	**(2,213,839)**	(14,403,694)
Cash and cash equivalents at 1 January	**3,724,912**	18,128,606
Cash and cash equivalents at 31 December	**1,511,073**	3,724,912

The notes on pages 7 to 26 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2012

	Paid in capital RMB	Accumulated losses RMB	Total equity RMB
Balance at 1 January 2011	50,000,000	(7,068,136)	42,931,864
Loss and total comprehensive loss for the year	-	(4,846,835)	(4,846,835)
Balance at 31 December 2011 and 1 January 2012	50,000,000	(11,914,971)	38,085,029
Loss and total comprehensive loss for the year	-	(3,467,085)	(3,467,085)
Balance at 31 December 2012	**50,000,000**	**(15,382,056)**	**34,617,944**

The notes on pages 7 to 26 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2012

1. GENERAL INFORMATION

Guangxi Fil-Dragon Real Estate Development Limited (the "Company") is a limited liability company established and domiciled in the People's Republic of China ("PRC"). The address of its registered office is 16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC.

The Company is controlled by Phil-Nanning Consortium, Inc., a company registered in the Philippines. The ultimate parent of the Company is Solid Group Inc., a company registered in the Philippines and its shares are listed on the Philippine Stock Exchange.

The Company is principally engaged in the property development in the PRC.

The financial statements for the year ended 31 December 2012 were approved for issue by the board of directors on 19 April 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 3 to 26 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") which collective term includes all applicable individual International Financial Reporting Standards, International Auditing Standards and Interpretations approved by the International Accounting Standards Board ("IASB"). The Company also prepares a set of statutory financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises.

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

The financial statements have been prepared on the historical cost basis, except for financial instruments classified as financial assets at fair value through profit or loss which are stated at fair values. The measurement basis is fully described in the accounting policies below.

The financial statements have been presented in Renminbi ("RMB").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 4.

2.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives for the current and comparative periods are as follows:

Office equipment	3 to 5 years
Furniture and fixtures	3 to 5 years
Motor vehicles	5 years

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets

Financial assets are classified into the following categories:
- Financial assets at fair value through profit or loss
- Loans and receivables

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

All financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term, or it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking.

Subsequent to initial recognition, the financial assets are measured at fair value with changes in fair value recognised in profit or loss. Fair value is determined by reference to active market transactions. The fair value gain or loss does not include any dividend or interest earned on these financial assets. Dividend and interest income is recognised in accordance with the Company's policies in note 2.8 to these financial statements.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Interest is recognised in profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets (Continued)

Impairment of financial assets

At each reporting date, financial assets other than at fair value through profit or loss are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Company about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) Financial assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets (Continued)

Impairment of financial assets (Continued)

(i) Financial assets carried at amortised cost (Continued)

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets other than financial assets at fair value through profit or loss are written off against the corresponding assets directly. Subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.4 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Development cost of property comprises construction costs, cost of land use rights, borrowing costs, and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless those will not be realised in one normal operating cycle.

2.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits which are restricted to use are included in "restricted cash". Restricted cash are excluded from cash and cash equivalents in the statement of cash flows.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.6 Financial liabilities

The Company's financial liabilities include trade and other payables, receipt in advance from customers, loan from related companies and amount due to a director. They are included on the face of the statement of financial position.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Company's accounting policy for borrowing costs (see note 2.11).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables, receipt in advance from customers, loan from related companies and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.7 Operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Company has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sale of properties, net of discount. Provided it is probable that the economic benefits will flow to the Company and specific criteria have been met as described below, and the revenue and cost, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under current liabilities.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.9 Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing and are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

Impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees of the Company are required to participate in the central pension scheme operated by the relevant local municipal government in PRC. The Company is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Company's obligations under these plans are limited to the fixed percentage contributions payable.

2.11 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.12 Accounting for income taxes

Income tax comprises current and deferred taxes.

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

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Accounting for income taxes (Continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged to other comprehensive income or credited directly in equity.

Current tax assets and current tax liabilities are presented net if, and only if,
(a) the Company has the legally enforceable right to set off the recognised amounts; and
(b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company presents deferred tax assets and deferred tax liabilities net if, and only if,
(a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
(b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

2.13 Related parties

(a) A person, or a close member of that person's family, is related to the Company if that person:
  (i) has control or joint control over the Company;
  (ii) has significant influence over the Company; or
  (iii) is a member of the key management personnel of the Company or the Company's parent.
(b) An entity is related to the Company if any of the following conditions applies:
  (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).
  (iii) Both entity are joint ventures of the same thiry party.
  (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
  (vi) The entity is controlled or jointly controlled by a person identified in (a).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Related parties (Continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. ADOPTION OF NEW OR AMENDED IFRSs

At the date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Company.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the impact of these IFRSs but are not yet in the position to state whether they would have any material impact on the Company's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

<u>Net realisable value of properties under development</u>

Management's assessment of net realisable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates requires judgement as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

<u>Recognition of deferred tax assets</u>

The recognition of deferred tax assets requires formal assessment by the Company of the future profitability of related operations. In making this judgement, the Company evaluates, amongst other factors, the forecast financial performance, changes in technology and operational and financing cashflows.

5. REVENUE

The Company's principal activity is disclosed in note 1 to these financial statements. The Company did not generate any revenue for the current and prior years.

6. OTHER INCOME

	2012 RMB	2011 RMB
Bank interest income	**11,142**	77,817
Realized gain on disposal of financial assets at fair value through profit or loss	**33,670**	-
Sundry income	**100,000**	1,762
	144,812	79,579

7. FINANCE COSTS

	2012 RMB	2011 RMB
Interest charges on:		
Bank loans	**-**	4,994,467
Loan from related companies	**4,996,138**	1,450,276
Total borrowing costs	**4,996,138**	6,444,743
Less: amounts capitalised in properties under development (note 12)	**(4,996,138)**	(6,444,743)
	-	-

The borrowing costs have been capitalised at a rate of 6% to 10% (2011: 6% to 10%) per annum.

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging/(crediting):

	2012 RMB	2011 RMB
Operating lease charges:		
- Staff quarter	**89,400**	194,000
Depreciation	**142,239**	171,546
Fair value loss on financial assets at fair value through profit or loss	**-**	75,256
Realized gain on disposal of financial assets at fair value through profit or loss	**(33,670)**	-

9. EMPLOYEE BENEFITS EXPENSE

	2012 RMB	2011 RMB
Wages, salaries and other benefits (including operating lease charges on staff quarter)	**1,471,107**	1,603,164
Pension costs – defined contribution plans	**42,220**	37,803
	1,513,327	1,640,967

10. INCOME TAX EXPENSE

Pursuant to the relevant law and regulations in the PRC, the Company is subject to PRC corporate income tax of 25% (2011: 25%) on the estimated assessable profit for the year. No provision has been provided in the financial statements as the Company did not generate any assessable profits during the year.

Reconciliation between tax expense and accounting loss at applicable tax rate:

	2012 RMB	2011 RMB
Loss before income tax	**(3,467,085)**	(4,846,835)
Tax at PRC corporate income tax rate of 25% (2011: 25%)	**(866,771)**	(1,211,709)
Tax effect of non-deductible expenses	**203,498**	460,027
Tax effect of unrecognised temporary differences	**(25,059)**	59,394
Tax effect of unrecognised tax losses	**688,332**	692,288
Total income tax expense	**-**	-

Unrecognised deferred tax assets

At 31 December 2012, the Company has not recognised tax losses of approximately RMB11,054,000 (2011: RMB8,300,000) which carry forward against future taxable income due to the unpredictability of future profit streams. These tax losses will expire within 5 years from the year in which they arose under the current tax legislation.

11. PROPERTY, PLANT AND EQUIPMENT

	Office equipment RMB	Furniture and fixtures RMB	Motor vehicles RMB	Total RMB
At 1 January 2011				
Cost	174,707	99,761	441,536	716,004
Accumulated depreciation	(32,740)	(42,167)	(213,093)	(288,000)
Net book amount	141,967	57,594	228,443	428,004
Year ended 31 December 2011				
Opening net book amount	141,967	57,594	228,443	428,004
Additions	21,419	-	157,176	178,595
Depreciation	(50,415)	(22,794)	(98,337)	(171,546)
Closing net book amount	112,971	34,800	287,282	435,053
At 31 December 2011 and 1 January 2012				
Cost	196,126	99,761	598,712	894,599
Accumulated depreciation	(83,155)	(64,961)	(311,430)	(459,546)
Net book amount	112,971	34,800	287,282	435,053
Year ended 31 December 2012				
Opening net book amount	112,971	34,800	287,282	435,053
Additions	7,500	-	-	7,500
Depreciation	(49,000)	(15,658)	(77,581)	(142,239)
Closing net book amount	**71,471**	**19,142**	**209,701**	**300,314**
At 31 December 2012				
Cost	203,626	99,761	598,712	902,099
Accumulated depreciation	(132,155)	(80,619)	(389,011)	(601,785)
Net book amount	**71,471**	**19,142**	**209,701**	**300,314**

12. PROPERTIES UNDER DEVELOPMENT

	2012 RMB	2011 RMB
Properties under development comprise:		
Land use rights	**15,145,025**	15,145,025
Construction costs and capitalised expenditures	**192,291,110**	153,192,899
Interest capitalised	**16,147,874**	11,151,736
	223,584,009	179,489,660

Properties under development included leasehold interests in land located in the PRC with lease terms expiring in 2077.

As at the reporting dates, all properties under development are expected to be completed within one operating cycle and are included under current assets.

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2012 RMB	2011 RMB
Other receivables and deposits	**5,125,985**	4,104,651
Prepaid business taxes and other taxes	**9,252,314**	6,572,859
Prepayments	-	296,460
	14,378,299	10,973,970

The directors of the Company considered that the fair values of other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

At each reporting dates, the Company reviews receivables for evidence of impairment on both an individual and collective basis. No impairment has been recognised on other receivables for the years ended 31 December 2012 and 2011. No amounts in relation to other receivables were past due at the reporting date.

14. AMOUNT DUE FROM / TO A DIRECTOR

The amount due is unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair values.

15. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2012 RMB	2011 RMB
Listed equity fund held for trading	-	924,744

The fair value of the Company's investments in listed equity fund has been measured as described in note 24.6.

16. RESTRICTED CASH

	Notes	2012 RMB	2011 RMB
Guarantee deposit for construction of projects	(a)	**196,242**	195,593
Deposit pledged against mortgage loans granted to the purchasers of properties	(b)	**582,064**	537,190
		778,306	732,783

(a) In accordance with relevant documents issued by local government, the Company is required to place certain amount of cash at designated bank accounts as guarantee deposits for construction of properties. The deposits can only be used to pay for construction fees and purchase of construction materials of the relevant project when approvals are obtained from the local government. The restriction will be released upon the construction is completed. This deposit earns interest at floating rates based on daily bank deposit rates.

16. RESTRICTED CASH (Continued)

(b) The bank deposits were pledged as security in favour of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties for the period from the date of draw-down of mortgage loans to the date when the certificates for housing ownership and certificates of others' interest for housing ownership (collectively known as "Certificates") are granted to the property purchasers. Such charges would be released when the Certificates are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates.

17. CASH AND CASH EQUIVALENTS

All bank balances denominated in Renminbi ("RMB") are placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

18. TRADE AND OTHER PAYABLES

	2012 RMB	2011 RMB
Trade payables – third parties	**24,201,149**	1,393,500
Other payables and accrued charges	**520,238**	1,253,629
	24,721,387	2,647,129

All amounts are short term and hence the carrying values of the Company's trade and other payables are considered to be a reasonable approximation of fair value.

19. LOAN FROM RELATED COMPANIES

The amounts due are unsecured, repayable on demand and interest-bearing at 6% to 10% (2011: 6% to 10%) per annum except for an amount of Nil (2011: RMB9,200,000) which is interest-free. The carrying amounts approximate their fair values. The related companies are controlled by a shareholder of the Company.

20. PAID IN CAPITAL

	2012 RMB	2011 RMB
Registered and paid in capital	**50,000,000**	50,000,000

21. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments payable by the Company under non-cancellable operating leases are as follows:

	2012 RMB	2011 RMB
Within one year	**22,350**	20,200

21. OPERATING LEASE COMMITMENTS (Continued)

The Company leases a number of staff quarters under operating leases. The leases run for an initial period of one (2011: one) year, with an option to renew the lease and renegotiated the terms at the expiry dates or at dates as mutually agreed between the Company and respective landlords. None of the leases include contingent rentals.

22. CAPITAL COMMITMENTS

	2012 RMB	2011 RMB
Properties under development		
Contracted but not provided for	**5,153,000**	26,502,000

23. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Company had the following material transactions with related parties:

23.1 Details of the transactions between the Company and its related parties are summarised below.

	2012 RMB	2011 RMB
Companies in which a shareholder of the Company have beneficial interests		
Interest expense	**4,996,138**	1,450,276

23.2 Key management personnel remuneration

Key management of the Company are members of the board of directors as well as certain senior management personnel. Included in staff costs are key management personnel remuneration which includes the following expenses:

	2012 RMB	2011 RMB
Short-term employee benefits		
Salaries, bonus and other benefits	**590,540**	607,750

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include market risk (including interest rate risk), credit risk and liquidity risk.In light of the simplicity of the operations, the risk management of the Company is carried out by the board of directors directly. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Board discusses principles for overall risk management, as well as policies covering specific areas, such as interest rate risk, credit risk, liquidity risk and use of financial instruments.

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

24.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

	2012 RMB	2011 RMB
Financial assets		
Financial assets at fair value through profit or loss		
Listed equity fund held for trading	-	924,744
Loans and receivables		
Other receivables and deposits	5,125,985	4,104,651
Amount due from a director	-	1,000,000
Restricted cash	778,306	732,783
Cash and cash equivalents	1,511,073	3,724,912
	7,415,364	10,487,090
Financial liabilities		
Financial liabilities measured at amortised cost		
Trade and other payables	24,721,387	2,647,129
Loan from related companies	54,396,030	58,143,006
Amount due to a director	500,000	-
	79,617,417	60,790,135

24.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The management considers that the Company is not exposed to foreign currency risk as all of the transactions, monetary assets and liabilities are denominated in the functional currency of the Company.

24.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's interest rate risk arises primarily from bank balances and borrowings. Borrowings bearing variable rates and fixed rates expose the Company to cash flow interest rate risk and fair value interest rate risk respectively. The exposure to interest rates for the Company's short term bank deposits is considered immaterial.

The Company manages interest rate risk by monitoring its interest rate profile, but the Company has not used any interest rate swaps to hedge its exposure to interest rate risk.

No sensitivity analysis is performed as the Company's interest expenses are all capitalised to properties under development, hence there are no profit or loss effect for any general increase/decrease in interest rates.

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

24.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Company. The Company's exposure to credit risk mainly arises from its investing activities.

The Company's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised in note 24.1 above.

In respect of credit risk associated with other receivables, management closely monitors all outstanding debts and reviews the collectability of other receivables periodically. The credit risk for liquid funds is considered negligible as the counterparties are reputable international banks with high quality external credit ratings.

24.5 Liquidity risk

Liquidity risk relates to the risk that the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Company's policy is to regularly monitor current and expected liquidity requirements and ensure that the Company maintains sufficient reserves of cash and adequate committed lines of funding from related companies to meet its liquidity requirements in the short and longer term.

Analysed below is the Company's remaining contractual maturities for its financial liabilities as at the reporting date. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Company is required to pay. Where settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Company is committed to pay.

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

24.5 Liquidity risk (Continued)

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

	Within 1 year or on demand RMB	Total contractual undiscounted cash flow RMB	Carrying amount RMB
2012			
Trade and other payables	24,721,387	24,721,387	24,721,387
Loan from related companies	54,396,030	54,396,030	54,396,030
Amount due to a director	500,000	500,000	500,000
	79,617,417	**79,617,417**	**79,617,417**
2011			
Trade and other payables	2,647,129	2,647,129	2,647,129
Loan from related companies	58,143,006	58,143,006	58,143,006
	60,790,135	60,790,135	60,790,135

24.6 Fair value measurements recognised in the statement of financial position

The following table presents financial assets and liabilities measured at fair value in the statement of financial position in accordance with the fair value hierarchy. The hierarchy groups financial assets and liabilities into three levels based on the relative reliability of significant inputs used in measuring the fair value of these financial assets and liabilities. The fair value hierarchy has the following levels:

Level 1: quoted prices (unadjusted) in active markets for identical assets and liabilities;

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

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level in the fair value hierarchy within which the financial asset or liability is categorised in its entirety is based on the lowest level of input that is significant to the fair value measurement.

24. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

24.6 Fair value measurements recognised in the statement of financial position (Continued)

The financial assets and liabilities measured at fair value in the statement of financial position are grouped into the fair value hierarchy as follows:

	Level 1	
	2012	2011
	RMB	RMB
Assets		
Listed equity fund held for trading	-	924,744

Listed equity fund

The listed equity fund is denominated in RMB. Fair values have been determined by reference to their quoted bid prices at the reporting date.

25. CAPITAL MANAGEMENT

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and to provide an adequate return for shareholders by pricing goods and services commensurately with the level of risks.

The Company actively and regularly reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions.

SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc. and Subsidiaries**, is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and 2011, in accordance with Philippine Financial Reporting Standards (PFRS), including the List of Supplementary Information filed separately from the basic consolidated financial statements.

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

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

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

SUSAN L. TAN	**DAVID S. LIM**	**VINCENT S. LIM**
Chairman	President & Chief Executive Officer	SVP & Chief Financial Officer
Passport No. EB0123180	Passport No. EB4305124	Passport No. EB5665582
Date/Place Issued:	Date/Place Issued:	Date/Place Issued:
April 20, 2010, Manila	December 20, 2011, Manila	June 15, 2012, Manila

Signed this 25 APR 2013 day of April, 2013

SUBSCRIBED AND SWORN to before me this 25 APR 2013 day of ________, affiants exhibiting to me their passport with details shown above.

Doc No. 310;
Page No. 64;
Book No. 338;
Series of 2013

ATTY. LOPE M. VELASCO
NOTARY PUBLIC
Until December 31, 2013
Appt. No. M-136 Makati City
IBP #905610-Pasig City-11/09/12
PTR #3671504-MAKATI-01/02/13
TIN # 212-965-989
S.C. Roll No. 28757
#250 Sen. Gil Puyat Ave., San Lorenzo Village, Makati City

Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886 5511
F +63 2 886 5506
www.punongbayan-araullo.com

The Board of Directors and Stockholders
Solid Group Inc. and Subsidiaries
2285 Don Chino Roces Avenue 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, 2012 and 2011, 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, 2012, 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, 2012 and 2011, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 3671451, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 8, 2013

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2012 AND 2011
(Amounts in Philippine Pesos)

	Notes	2012	2011
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	6	**P 3,019,984,213**	P 1,720,748,062
Trade and other receivables - net	7	**1,287,469,305**	1,137,152,304
Advances to related parties	26	**21,633,388**	128,543,399
Financial assets at fair value through profit or loss	8	**-**	70,272,991
Available-for-sale financial assets - net	9	**-**	51,994,367
Merchandise inventories and supplies - net	10	**391,862,888**	564,543,065
Real estate inventories - net	11	**2,011,065,441**	1,675,780,772
Other current assets	14	**252,161,359**	267,196,925
Total Current Assets		**6,984,176,594**	5,616,231,885
NON-CURRENT ASSETS			
Trade and other receivables	7	**630,458,102**	669,885,531
Available-for-sale financial assets - net	9	**9,076,527**	7,881,527
Property, plant and equipment - net	12	**1,048,407,834**	1,386,934,809
Investment property - net	13	**4,017,441,106**	3,864,333,786
Retirement benefit asset	22	**73,164,772**	79,281,451
Deferred tax assets - net	23	**63,135,755**	69,982,489
Other non-current assets - net	14	**22,231,704**	22,151,072
Total Non-current Assets		**5,863,915,800**	6,100,450,665
TOTAL ASSETS		**P 12,848,092,394**	P 11,716,682,550

	Notes	2012	2011
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	15	**P 571,666,922**	P 779,398,755
Trade and other payables	16	**628,902,651**	592,432,973
Customers' deposits	11	**881,899,665**	686,313,646
Advances from related parties	26	**11,629,819**	107,495,231
Estimated liability for land and land development costs	11	**68,304,647**	68,304,647
Income tax payable		**65,207,807**	43,387,647
Total Current Liabilities		**2,227,611,511**	2,277,332,899
NON-CURRENT LIABILITIES			
Refundable deposits - net	17	**16,045,396**	15,611,010
Retirement benefit obligation	22	**12,582,159**	6,111,141
Deferred tax liabilities - net	23	**920,063,448**	861,145,243
Total Non-current Liabilities		**948,691,003**	882,867,394
Total Liabilities		**3,176,302,514**	3,160,200,293
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock	24	**2,030,975,000**	2,030,975,000
Additional paid-in capital		**4,641,701,922**	4,641,701,922
Treasury shares - at cost	24	**(115,614,380)**	(115,614,380)
Revaluation reserves	24	**(46,319,482)**	(29,242,370)
Retained earnings	24	**2,758,300,997**	1,623,289,267
Total equity attributable to the Parent Company's stockholders		**9,269,044,057**	8,151,109,439
Non-controlling interests		**402,745,823**	405,372,818
Total Equity		**9,671,789,880**	8,556,482,257
TOTAL LIABILITIES AND EQUITY		**P 12,848,092,394**	P 11,716,682,550

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
REVENUES	2			
Sale of goods		**P 3,959,978,189**	P 3,135,018,332	P 1,622,862,107
Rendering of services		**630,331,311**	682,884,837	694,808,001
Rentals		**136,716,722**	157,741,960	121,663,078
Sale of real estate		**98,968,685**	126,087,655	207,355,479
Interests	21	**64,387,678**	47,757,624	63,089,091
		4,890,382,585	4,149,490,408	2,709,777,756
COST OF SALES, SERVICES, REAL ESTATE SALES AND RENTALS				
Cost of sales	18	**3,092,129,708**	2,524,843,718	1,225,420,110
Cost of services	18	**488,402,762**	499,294,869	460,191,618
Cost of real estate sales	20	**45,917,227**	95,886,118	151,396,685
Cost of rentals	18	**35,382,941**	39,880,748	38,569,193
		3,661,832,638	3,159,905,453	1,875,577,606
GROSS PROFIT		**1,228,549,947**	989,584,955	834,200,150
OTHER OPERATING EXPENSES (INCOME)				
Selling and distribution costs	20	**361,066,027**	278,372,598	227,552,333
General and administrative expenses	20	**343,002,874**	366,950,584	281,046,941
Gain on sale of assets	27	**(267,133,735)**	-	-
Other operating income - net	19	**(553,926,007)**	(232,773,017)	(87,379,618)
		(116,990,841)	412,550,165	421,219,656
OPERATING PROFIT		**1,345,540,788**	577,034,790	412,980,494
OTHER INCOME (CHARGES)				
Finance income	21	**163,702,479**	64,476,707	38,921,553
Finance costs	21	**(49,088,095)**	(89,426,503)	(88,223,148)
Other gains	19	**57,651,877**	21,439,128	2,736,192
		172,266,261	(3,510,668)	(46,565,403)
PROFIT BEFORE TAX		**1,517,807,049**	573,524,122	366,415,091
TAX EXPENSE	23	**276,164,794**	139,364,314	122,651,703
PROFIT FROM CONTINUING OPERATIONS		**1,241,642,255**	434,159,808	243,763,388
LOSS FROM DISCONTINUED OPERATIONS - Net of Tax	5	-	(3,863,823)	(17,060,653)
NET PROFIT FOR THE YEAR		**P 1,241,642,255**	P 430,295,985	P 226,702,735
Profit for the year attributable to the:				
Parent Company's stockholders		**P 1,244,304,250**	P 439,437,428	P 229,346,310
Non-controlling interests		**(2,661,995)**	(9,141,443)	(2,643,575)
		P 1,241,642,255	P 430,295,985	P 226,702,735
Earnings per share attributable to the Parent Company's stockholders - basic and diluted	25	**P 0.68**	P 0.24	P 0.13

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
NET PROFIT FOR THE YEAR		**P 1,241,642,255**	P 430,295,985	P 226,702,735
OTHER COMPREHENSIVE INCOME (LOSS)				
Reclassification adjustments for losses recognized in profit or loss		**12,145,053**	12,804,822	49,498,034
Fair value gains (losses) on available-for-sale financial assets, net of taxes	9	**(1,153,830)**	(11,064,606)	14,474,181
Currency exchange differences on translating balances of foreign operations	2	**(28,033,335)**	12,497,965	(5,799,030)
		(17,042,112)	14,238,181	58,173,185
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 1,224,600,143**	P 444,534,166	P 284,875,920
Total comprehensive income (loss) for the year attributable to:				
Parent Company's stockholders		**P 1,227,227,138**	P 453,675,609	P 287,519,495
Non-controlling interests		**(2,626,995)**	(9,141,443)	(2,643,575)
		P 1,224,600,143	P 444,534,166	P 284,875,920

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares - at Cost	Revaluation Reserves	Retained Earnings	Total	Non-controlling Interests	Total Equity
		Attributable to the Parent Company's Stockholders							
Balance at January 1, 2012		P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 29,242,370)	P 1,623,289,267	P 8,151,109,439	P 405,372,818	P 8,556,482,257
Transactions between owners:									
Dividends declared	24	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Net loss for the year attributable to non-controlling interests		-	-	-	-	-	-	(2,661,995)	(2,661,995)
Other comprehensive income		-	-	-	-	-	-	35,000	35,000
		-	-	-	-	(109,292,520)	(109,292,520)	(2,626,995)	(111,919,515)
Total comprehensive income attributable to the Parent Company's stockholders:									
Net profit		-	-	-	-	1,244,304,250	1,244,304,250	-	1,244,304,250
Other comprehensive income	2, 9	-	-	-	(17,077,112)	-	(17,077,112)	-	(17,077,112)
		-	-	-	(17,077,112)	1,244,304,250	1,227,227,138	-	1,227,227,138
Balance at December 31, 2012	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 46,319,482)	P 2,758,300,997	P 9,269,044,057	P 402,745,823	P 9,671,789,880
Balance at January 1, 2011		P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 43,480,551)	P 1,183,851,839	P 7,697,433,830	P 414,514,261	P 8,111,948,091
Transaction between owners - Net loss for the year attributable to non-controlling interests		-	-	-	-	-	-	(9,141,443)	(9,141,443)
Total comprehensive income attributable to the Parent Company's stockholders:									
Net profit		-	-	-	-	439,437,428	439,437,428	-	439,437,428
Other comprehensive income	2, 9	-	-	-	14,238,181	-	14,238,181	-	14,238,181
		-	-	-	14,238,181	439,437,428	453,675,609	-	453,675,609
Balance at December 31, 2011	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 29,242,370)	P 1,623,289,267	P 8,151,109,439	P 405,372,818	P 8,556,482,257
Balance at January 1, 2010	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 101,653,736)	P 954,505,529	P 7,409,914,335	P 417,157,836	P 7,827,072,171
Transaction between owners - Net loss for the year attributable to non-controlling interests		-	-	-	-	-	-	(2,643,575)	(2,643,575)
Total comprehensive income attributable to the Parent Company's stockholders:									
Net profit		-	-	-	-	229,346,310	229,346,310	-	229,346,310
Other comprehensive income	2	-	-	-	58,173,185	-	58,173,185	-	58,173,185
		-	-	-	58,173,185	229,346,310	287,519,495	-	287,519,495
Balance at December 31, 2010	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 43,480,551)	P 1,183,851,839	P 7,697,433,830	P 414,514,261	P 8,111,948,091

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Philippine Pesos)

	Notes	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES				
Profit before tax from continuing operations		**P 1,517,807,049**	P 573,524,122	P 366,415,091
Loss before tax from discontinued operations	5	**-**	(3,514,984)	(16,445,538)
Profit before tax		**1,517,807,049**	570,009,138	349,969,553
Adjustments for:				
Reversal of impairment losses on property, plant and equipment - net	19	**(350,000,000)**	-	-
Gain on sale of assets	28	**(267,133,735)**	(1,721,437)	(6,646,929)
Fair value gains on investment property - net	19	**(149,569,182)**	(191,644,597)	(27,648,081)
Interest income		**(147,707,834)**	(84,885,381)	(86,478,277)
Reversal of impairment losses on trade and other receivables	7, 21	**(75,708,696)**	(17,014,146)	(11,104,219)
Reversal of allowance for inventory obsolescence	10	**(65,257,144)**	(27,304,279)	(19,184,724)
Depreciation and amortization	12	**46,467,220**	78,173,250	75,588,976
Gain on derecognition of liabilities	19	**(25,117,698)**	-	-
Impairment losses on trade and other receivables	7	**12,767,663**	21,145,641	9,266,502
Unrealized foreign currency losses (gains) - net		**14,111,262**	1,723,603	1,119,803
Interest expense	21	**6,726,796**	8,203,376	10,530,521
Loss on inventory obsolescence	10	**3,009,207**	34,790,640	59,288,554
Interest amortization on refundable deposits	17	**1,431,460**	614,019	864,519
Reversal of impairment losses on available-for-sale (AFS) financial assets	21	**(990,643)**	-	-
Gain on sale of investment property		**-**	(17,802,607)	-
Fair value loss on financial assets at fair value through profit or loss (FVTPL)	21	**-**	5,909,803	-
Impairment losses on AFS financial assets	9	**-**	18,995,887	33,657,338
Gain on disposal of non-current assets held-for-sale	5	**-**	-	(452,503)
Operating profit before working capital changes		**520,835,725**	399,192,910	388,771,033
Increase in trade and other receivables		**(65,084,488)**	(279,274,483)	(349,009,034)
Decrease in advances to related parties		**106,910,011**	72,650,008	303,135,008
Decrease (increase) in financial assets at FVTPL		**70,272,991**	(76,182,794)	-
Decrease in AFS financial assets		**34,747,898**	86,079,080	187,609,047
Decrease (increase) in merchandise inventories and supplies		**210,494,038**	(179,320,182)	(349,372,147)
Increase in real estate inventories		**(335,284,669)**	(347,777,942)	(281,121,792)
Increase in other current assets		**(130,156,483)**	(96,146,196)	(47,045,684)
Decrease (increase) in retirement benefit asset		**6,116,679**	(4,363,496)	(28,981,993)
Decrease (increase) in other non-current assets		**1,534,754**	2,427,596	(9,494,057)
Increase in trade and other payables		**61,587,376**	178,804,517	120,058,602
Increase in customers' deposits		**195,586,019**	657,278,552	-
Decrease in advances from related parties		**(95,865,412)**	(61,416,380)	(32,528,309)
Increase (decrease) in refundable deposits		**(997,074)**	(255,543)	3,291,167
Increase in retirement benefit obligation		**6,471,018**	2,989,548	1,636,997
Cash generated from (used in) operations		**587,168,383**	354,685,195	(93,051,163)
Interest received		**64,387,678**	47,757,624	63,089,091
Cash paid for income taxes		**(43,387,647)**	(44,020,603)	(12,316,993)
Net Cash From (Used in) Operating Activities		**608,168,414**	358,422,216	(42,279,065)
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of of assets		**1,094,445,648**	4,352,549	1,421,223
Acquisitions of property, plant and equipment	12	**(143,682,133)**	(99,184,297)	(56,800,567)
Interest received		**83,320,157**	37,127,757	23,389,186
Additions to investment property	13	**(5,153,524)**	(6,927,455)	(1,352,695)
Proceeds from disposal of investment property	13	**-**	26,873,607	-
Proceeds from disposal of non-current assets held for sale		**-**	-	9,690,330
Net Cash From (Used in) Investing Activities		**1,028,930,148**	(37,757,839)	(23,652,523)
Balance forwarded		**P 1,637,098,562**	P 320,664,377	(P 65,931,588)

	Note	2012	2011	2010
Balance brought forward		**P 1,637,098,562**	P 320,664,377	(P 65,931,588)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net repayments for interest-bearing loans	15	**(207,731,833)**	(614,156,996)	-
Dividends paid		**(109,292,520)**	-	-
Interest paid		**(6,726,796)**	(8,203,376)	(10,530,521)
Net proceeds from interest-bearing loans	15	**-**	404,053,192	434,554,235
Net Cash From (Used in) Financing Activities		**(323,751,149)**	(218,307,180)	424,023,714
Effect of Currency Rate Changes on Cash and Cash Equivalents		**(14,111,262)**	(1,723,603)	(1,119,803)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**1,299,236,151**	100,633,594	356,972,323
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,720,748,062**	1,620,114,468	1,263,142,145
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 3,019,984,213**	P 1,720,748,062	P 1,620,114,468

Supplemental Information on Non-cash Investing Activities

In 2012, SMC transferred land with carrying amount of P1.6 million as of December 31, 2012, previously classified as Investment Property to Other Non-current Assets (see Note 13).

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2012, 2011 AND 2010
(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. On September 4, 1996, SGI listed its shares in the Philippine Stock Exchange (PSE).

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

Subsidiaries	Percentage of Ownership 2012	2011	2010	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	(a)	Investment company
Kita Corporation (Kita)	**100**	100	100		Real estate and manufacturing of injected plastics
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Group Technologies Corporation (SGTC)	**100**	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	**100**	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products and mobile phones
Solid Corporation (SC)	**-**	100	100	(k)	Real estate
Solid Manila Corporation (SMC)	**100**	100	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	100	(e)	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), (g)	Real estate
Mytel Mobility Solutions, Inc. (Mytel)	**-**	100	100	(j), (m)	Sale of mobile phones
My Solid Technologies & Devices Corporation (My Solid)	**100**	100	100	(i), (m)	Sale of mobile phones
Omni Logistics Corporation (OLC)	**-**	100	100	(l)	Logistics and assembly of consumer electronics products
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)]	**100**	100	100	(l)	Logistics and assembly of consumer electronics products
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; with SMC as the surviving company, effective January 1, 2012
- (l) Merged; with SLC as the surviving company, effective January 1, 2012. On March 19, 2012, the Securities and Exchange Commission (SEC) approved the change in corporate name of SLC to OSSI.
- (m) Merged; with My Solid as the surviving company, effective June 1, 2012

SBC holds a provisional authority, granted by the National Telecommunications Commission (NTC), to use its legislative franchise under Republic Act (RA) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 27.3).

SMFI is subject to the rules and regulations provided under RA No.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) Sale of SBC's Assets

In a special meeting held on May 11, 2012, the BOD of SBC approved the sale, assignment, transfer and conveyance of the assets, contracts and licenses of SBC to a third party. The assets identified to be included in the sale are SBC's property and equipment, a significant portion of its trade receivables and inventories, as well as contracts, permits and licenses that are used in carrying out its operations. Such sale transaction was consummated in 2012. Consequently, SBC's ownership on the identified assets, related contracts and licenses directly attributable to the Company's operations has been transferred to the third party (see Note 27.3).

(b) Mergers of Certain Subsidiaries

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; OLC and OSSI; respectively, whereby SMC and OSSI will be the surviving entities. 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 OSSI (see Note 1.1).

On May 28, 2012, SEC approved the merger of Mytel and My Solid, wherein My Solid would be the surviving entity. The merger became effective on June 1, 2012 (see Note 1.1).

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.

(c) 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, 2010 (see Note 5).

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	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC.
My Solid and SGTC	-	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, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Parent Company's BOD on April 8, 2013.

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.

(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 2012 that are Relevant to the Group

In 2012, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for its consolidated financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Tax: Recovery of Underlying Assets

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

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. 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 did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its 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 that arises from 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) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretations Committee, 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring deferred tax on depreciable asset that are measured using revaluation model in PAS 16, *Property, Plant and Equipment*, should always be assumed on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements because the Group's investment properties that are measured at fair value are taxable with the same rate regardless of whether these assets will be sold or used in operation.

(b) *Effective in 2012 that is not Relevant to the Group*

PFRS 1, *First-time Adoption of PFRS,* was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to the Group's consolidated financial statements.

(c) *Effective Subsequent to 2012 but not Adopted Early*

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2012. 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) 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 PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The Company's management expects that this will change the current presentation of items in other comprehensive income [i.e., unrealized fair value gains and losses on Available-for-Sale (AFS) financial assets].

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision 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 actuarial 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 those plans.

Currently, the Group is using the corridor approach and its unrecognized actuarial losses and gains as of December 31, 2012 amounting to P25.2 million and P15.1 million (see Note 22.2), respectively, will be retrospectively recognized as loss in other comprehensive income in 2013.

(iii) 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 Associates and Joint Ventures*. 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.

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standard (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has initially assessed that the adoption of the amendment will not have a significant impact on its consolidated financial statements.

(v) 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.

(vi) 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.

(vii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(viii) PFRS 9, *Financial Instruments: Clarification 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, do 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.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

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 Group's consolidated financial statements and is committed to conduct a comprehensive study of the potential impact of this standard in the last quarter of 2014 before its adoption in 2015 to assess the impact of all changes.

(ix) 2009-2011 Annual Improvements to PFRS. Annual Improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

(c) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

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 non-controlling interest (NCI) as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of 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 Group obtains control, direct or indirect, 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 NCI in the acquiree either at fair value or at the NCI's proportionate share of the acquiree's net assets.

Goodwill (positive) represents the excess of acquisition cost over the Parent'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 NCI

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

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8, *Operating Segments*, are the same as those used in its financial statements. However, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

2.5 Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, held-to-maturity 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 with original maturities of three months or less, readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(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, 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 Other Assets

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

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

2.9 Property, 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 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the 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 2.18).

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.

2.10 Investment Property

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

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

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

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

2.11 Financial Liabilities

Financial liabilities, which include Interest-bearing Loans, Trade and Other Payables [excluding Output Value-Added Tax (VAT) and other tax-related payables, Advances from Customers, Reserve for Warranty Costs and Unearned Subscription Income], Advances from Related Parties and Refundable Deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and Other Payables, Advances from Related Parties and Refundable Deposits 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.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the BOD.

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

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

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 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 2.18).

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

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

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

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

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

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

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

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

(a) *Rendering of services* – 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 2.16).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective 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 2.20), on an accrual basis.

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments 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.

2.17 Foreign Currency Transactions and Translation

(a) *Transactions and Balances*

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine peso. Foreign currency transactions during the period 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 as part of income or loss from operations.

(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 for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

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

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investments in BRL and Fil-Dragon are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is partially disposed of or sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale 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 RMB amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.18 Impairment of Non-financial Assets

The Group's property, plant and equipment 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 asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements.

Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

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

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 a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

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) Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits 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.

(d) 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.

2.20 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

Tax expense recognized in the consolidated statement of income comprises the sum of 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 deductible temporary difference can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Group and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group, (b) associates; 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.

2.23 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock 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 APIC, net of any related profit tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the cumulative translation adjustments and fair value gains (losses) on AFS financial assets.

Retained earnings, the restricted portion of which is not available for dividend declaration, represent all current and prior period results of operations as reported in the profit and loss section of the consolidated statement of comprehensive income.

2.24 Earnings per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding.

2.25 Events After the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The 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) 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 were impaired as of December 31, 2012 and 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.

(b) Determining Net Realizable Value of Real Estate Inventories

The Group adjusts the cost of its real estate inventories to net realizable value based on its assessment of the recoverability of the inventories. Net realizable value for completed real estate inventories is assessed with reference to market conditions and prices existing at the reporting date and is determined by the Group in the light of recent market transactions. Net realizable value in respect of real estate inventories under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized.

The carrying amounts of the real estate inventories is disclosed in Note 11.

(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) Fair Value Measurement 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 13.

(f) Distinction Between 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.

(g) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Note 28.

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) Impairment of Trade and Other Receivables

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status, 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) Fair Value Measurement of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 8 and 9, respectively.

(c) Determining Net Realizable Value of Merchandise Inventories and Supplies

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 10). 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) Estimating 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 12. Based on management's assessment as at December 31, 2012, and 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.

(e) Determining Net Realizable Value of Properties Under Development

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

(f) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2012 and 2011 is disclosed in Note 23.2.

(g) Impairment of Non-financial Assets

The Group's policy on estimating the impairment of non-financial assets is discussed in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in 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 other non-financial assets in 2012, 2011 and 2010.

(h) Estimating Liability for Land and Land Development Costs

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2012 and 2011 is disclosed in Note 11.

(i) Estimating 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 16.

(j) Valuation of Post-employment Defined Benefit

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates, expected return on plan assets and salary increase rates. 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 22.2.

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 Notes 1.2 and 5);

(c) Real estate segment is involved in the 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, 2012, 2011 and 2010 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	Total
2012						
SEGMENT RESULTS						
Sales to external customers	P 247,416	P 344,984	P 258,611	P 3,956,743	P 82,629	P 4,890,383
Intersegment sales	51	38,926	14,200	6,300	1,813	61,290
Total revenues	247,467	383,910	272,811	3,963,043	84,442	4,951,673
Cost of sales, services and rentals	205,968	268,954	106,973	3,094,531	-	3,676,426
Other operating expense	42,375	81,831	117,873	496,634	45,191	783,904
Operating profit	(876)	33,125	47,965	371,878	39,251	491,343
Finance income	112,427	6,006	39,531	2,389	3,349	163,702
Finance costs	(1,359)	(4,228)	(5,169)	(22,742)	(15,591)	(49,089)
Other gains – net	644,488	4,541	228,820	5,292	28,708	911,849
Profit before tax	754,680	39,444	311,147	356,817	55,717	1,517,805
Tax expense	60,823	4,713	93,545	105,069	11,916	276,066
Profit – continuing operation	693,857	34,731	217,602	251,748	43,801	1,241,739
Loss – discontinued operation	-	-	-	-	-	-
Net profit for the year	**P 693,857**	**P 34,731**	**P 217,602**	**P 251,748**	**P 43,801**	**P 1,241,739**
SEGMENT ASSETS AND LIABILITIES						
Total assets	**P 800,191**	**P 569,479**	**P 7,373,405**	**P 1,866,902**	**P 9,780,530**	**P 20,390,507**
Total liabilities	**P 15,843**	**P 120,935**	**P 3,961,994**	**P 1,246,501**	**P 431,724**	**P 5,776,997**
OTHER SEGMENT INFORMATION						
Capital expenditures	P 27,605	P 26,761	P 84,602	P 9,234	P 317	P 148,519
Depreciation and amortization	20,492	9,645	11,768	4,162	642	46,709
Impairment losses	-	3,087	-	9,414	267	12,768
Other non-cash expenses	123	904	1,431	1,982	-	4,440

	Broadband Services	Related Support Services	Real Estate	Distribution	Investing, Financing and Others	Total
2011						
SEGMENT RESULTS						
Sales to external customers	P 375,330	P 340,653	P 261,951	P 3,122,839	P 48,717	P 4,149,490
Intersegment sales	2,047	32,977	33,148	7,657	21,432	97,261
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	59,380	98,721	113,664	421,751	44,538	738,054
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	4,649	14,902	226,519	3,462	22,688	272,220
Profit before tax	49,766	56,955	287,691	190,577	13,731	598,720
Tax expense	(8,168)	(6,256)	(88,903)	(31,142)	(4,895)	(139,364)
Profit – continuing operation	41,598	50,699	198,788	159,435	8,836	459,356
Loss – discontinued operation	-	(3,864)	-	-	-	(3,864)
Net profit for the year	P 41,598	P 46,835	P 198,788	P 159,435	P 8,836	P 455,492
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 667,320	P 815,191	P 6,959,481	P 2,202,425	P 8,683,126	P 19,327,543
Total liabilities	P 567,828	P 680,818	P 3,392,086	P 1,790,326	P 606,576	P 7,046,634
OTHER SEGMENT INFORMATION						
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
2010						
SEGMENT RESULTS						
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	P 72,235	P 40,354	P 66,024	P 46,035	(P 3,203)	P 221,445
SEGMENT ASSETS AND LIABILITIES						
Total assets	P 762,404	P 830,225	P 6,345,462	P 1,787,307	P 8,145,375	P 17,870,773
Total liabilities	P 211,242	P 215,015	P 2,340,528	P 1,562,209	P 642,037	P 4,971,031
OTHER SEGMENT INFORMATION						
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	76,192
Impairment losses	32,015	-	-	10,909	-	42,924
Other non-cash expenses	-	-	(5,631)	-	-	(5,631)

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in thousands):

	Segment Totals	Intercompany Accounts	Consolidated Balances
2012			
Revenues	P 4,951,673	(P 61,290)	P 4,890,383
Net profit for the year	1,241,739	(97)	1,241,642
Total assets	20,390,507	(7,542,415)	12,848,092
Total liabilities	5,776,997	(2,600,694)	3,176,303
Other segment information:			
Capital expenditures	148,519	317	148,836
Depreciation and amortization	46,709	(242)	46,467
Impairment losses	12,768	-	12,768
Other non-cash expenses	4,440	-	4,440
2011			
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
2010			
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	17,870,773	(7,228,327)	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	76,192	(603)	75,589
Impairment losses	42,924	-	42,924
Other non-cash expenses	(5,631)	-	(5,631)

5. DISCONTINUED OPERATIONS

As mentioned in Note 1.2, Kita and SLC (now OSSI – see Note 1.1) 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 P0.8 million in 2011 and P1.1 million in 2010 (see Note 22.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented in the 2011 and 2010 consolidated statements of income under the Loss from Discontinued Operations account. There were no revenues generated and costs and expenses incurred in 2012 from the Group's discontinued operations.

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 12). 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 19).

In prior years, certain machinery and equipment of SLC (now OSSI – see Note 1.1) with total carrying amounts of P12.1 million are classified as Non-current Assets Held for Sale. These 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 19).

The analysis of the revenue, expenses and tax expense of the discontinued operations for the years ended December 31, 2011 and 2010 are shown below.

	Notes	2011	2010
Sale of goods		P 4,047,684	P 19,912,861
Cost of sales	18.1	(14,307,547)	(31,736,150)
Gross loss		(10,259,863)	(11,823,289)
Other operating income (expenses):			
General and administrative expenses	20	(385,540)	(9,271,158)
Selling and distribution costs	20	(671,435)	(413,308)
Other operating income	19	8,353,416	2,823,829
		7,296,441	(6,860,637)
Other income (charges):			
Finance income	21.1	84,448	2,891,714
Finance costs	21.2	(636,010)	(653,326)
		(551,562)	2,238,388
Loss before tax		(3,514,984)	(16,445,538)
Tax expense	23.2	(348,839)	(615,115)
Loss from discontinued operations		(P 3,863,823)	(P 17,060,653)

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the years ended December 31, 2011 and 2010 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	1,618,111,420	2,003,048	1,620,114,468
Cash and cash equivalents at end of year	P 1,721,181,512	(P 433,450)	P 1,720,748,062

	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	352,173,030	4,798,593	356,972,323
Cash and cash equivalents at beginning of year	1,248,783,034	14,359,111	1,263,142,145
Cash and cash equivalents at end of year	P 1,600,956,764	P 19,157,704	P 1,620,114,468

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 274,888,192**	P 396,965,149
Short-term placements	**2,745,096,021**	1,323,782,913
	P3,019,984,213	P 1,720,748,062

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 90 days and earn annual effective interest ranging from 0.8% to 4.7% in 2012 and 0.5% to 6.0% in 2011.

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2012	2011
Current:			
Trade receivables	27.2	**P 980,564,213**	P 759,929,905
Advances to suppliers	26.6	**223,559,332**	277,211,254
Loans receivables	26.4, 26.7	**45,836,453**	64,831,149
Due from related parties	26.1, 26.6	**2,734,223**	75,770,473
Other receivables		**66,287,945**	76,425,196
		1,318,982,166	1,254,167,977
Allowance for impairment		**(31,512,861)**	(117,015,673)
		1,287,469,305	1,137,152,304
Non-current:			
Trade receivables		**26,168,353**	47,852,284
Loans receivables	26.4, 26.7	**145,381,293**	151,801,578
Cash surrender value of investment in life insurance	14	**458,908,456**	470,231,669
		630,458,102	669,885,531
		P1,917,927,407	P 1,807,037,835

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.

Advances to suppliers mainly pertain to the advance payments received by Solid Trading Limited (STL) for My Solid's future purchase of inventories (see Note 26.6), various contractors for the construction of ZTC's Tri Towers (see Note 11) and various suppliers for CBHI's acquisition of supplies.

Interest rates on loans receivables range from 5.0% to 30.0% in 2012 and 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 26.4).

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 19.1). The difference between the initial cash surrender value and the premiums paid amounting to P1.2 million in 2012 and P5.3 million in 2011 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 14).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 15).

Other receivables consist primarily of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the Unit Owners, interest receivable, rental receivable and income tax recoverable.

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 2012 and 2011 is shown below.

	Note	2012	2011
Balance at beginning of year		**P 117,015,673**	P 129,657,216
Impairment losses during the year	21.2	**12,767,663**	21,145,641
Reversals of impairment losses	21.1	**(75,708,696)**	(17,014,146)
Write-off of receivables previously provided with allowance		**(22,561,779)**	(16,773,038)
Balance at end of year		**P 31,512,861**	P 117,015,673

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 30.1).

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. In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL.

The carrying amounts of financial assets at FVTPL as of December 31, 2011 are presented as follows:

Designated as at FVTPL	P 63,846,668
Held-for-trading	6,426,323
	P 70,272,991

This account consists of the following financial assets as of December 31, 2011:

Debt securities	P 60,382,332
Equity securities	9,890,659
	P 70,272,991

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 decline in value of financial assets at FVTPL of P5.9 million. The loss is presented as part of Finance Costs in the 2011 consolidated statement of income (see Note 21.2).

The disposals of financial assets at FVTPL resulted to a gain of P8.6 million in 2012 which is presented as part of Gain from sale of financial assets – net shown under Finance Income in the 2012 consolidated statement of income (see Note 21.1). There were no disposals of financial assets at FVTPL in 2011.

As of December 31, 2011, BRL's foreign debt securities are used as collateral for interest-bearing loans obtained by BRL (see Note 15).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	2012	2011
Current:		
Investments in foreign currency-denominated bonds	**P 52,237,573**	P 60,204,848
Allowance for impairment	**(52,237,573)**	(52,653,225)
	-	51,994,367
Non-current:		
Club shares	**10,292,400**	8,832,400
Equity securities	**8,580,000**	8,580,000
Others	**634,127**	1,474,118
	19,506,527	18,886,518
Allowance for impairment	**(10,430,000)**	(11,004,991)
	9,076,527	7,881,527
	P 9,076,527	P 59,875,894

A reconciliation of the allowance for impairment at the beginning and end of 2012 and 2011 is show below.

	Note	**2012**	2011
Balance at beginning of year		**P 63,658,216**	P 44,662,329
Provision (reversal) of impairment losses	21.1, 21.2	**(990,643)**	18,995,887
Balance at end of year		**P 62,667,573**	P 63,658,216

A reconciliation of the carrying amounts of AFS financial assets is shown below.

	Notes	**2012**	2011
Balance at beginning of year		**P 59,875,894**	P 150,712,680
Disposals		**(50,636,180)**	(60,776,293)
Reversal (provision) of impairment loss during the year	21.1, 21.2	**990,643**	(18,995,887)
Fair value losses – net	24.3	**(1,153,830)**	(11,064,606)
Balance at end of year		**P 9,076,527**	P 59,875,894

Investments in foreign currency-denominated bonds were used as collateral for the interest-bearing loans of BRL (see Note 15).

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, 2012 and 2011.

Impairment losses recognized on the Group's AFS Financial Assets are presented as part of Finance Costs in the 2011 and 2010 consolidated statements of income (see Note 21.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2012, 2011 and 2010 have been determined directly by reference to published prices in active markets (see Note 30).

10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 18.1).

	2012	2011
Merchandise and finished goods	**P 406,495,008**	P 621,292,896
Raw materials	**362,856**	362,856
Service parts, supplies and others	**26,589,434**	46,719,660
	433,447,298	668,375,412
Allowance for inventory obsolescence	**(41,584,410)**	(103,832,347)
Balance at end of year	**P 391,862,888**	P 564,543,065

The movements in allowance for inventory obsolescence are as follows:

	Note	2012	2011
Balance at beginning of year		**P 103,832,347**	P 89,909,514
Reversal of allowance for inventory obsolescence	18.1	**(65,257,144)**	(7,486,361)
Loss on inventory obsolescence	18.1	**3,009,207**	34,790,640
Write-off of inventory previously provided with allowance		**-**	(13,381,446)
		P 41,584,410	P 103,832,347

In 2012, SBC reversed the allowance for obsolescence on materials and supplies inventories obsolescence amounting to P13.3 million following the sale of those inventories to a third party (see Note 1.2). The gain on reversal of allowance for inventory obsolescence is separately recorded as part of Other Gains under Other Income in the 2012 consolidated statement of income (see Notes 19.2 and 27.3).

SLC and Kita's inventory write-down with no previous allowance for inventory obsolescence amounted to P1.7 million and P7.6 million in 2011, respectively, and is presented as Loss on inventory obsolescence on discontinued operations under Cost of Sales in the 2011 consolidated statement of income (see Note 18.1).

The Group has not entered into any purchase commitment in the acquisition of its merchandise inventories and supplies in 2012 and 2011.

11. REAL ESTATE INVENTORIES

This account is composed of:

	2012	2011
Land and land development costs:		
Land	**P 9,725,593**	P 36,112,467
Land development costs	**17,695,475**	17,883,041
	27,421,068	53,995,508
Allowance for impairment	**(2,022,800)**	(2,022,800)
	25,398,268	51,972,708
Property development costs – Construction in progress and development costs	**1,985,667,173**	1,623,808,064
	P 2,011,065,441	P 1,675,780,772

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.

Borrowing costs incurred from loans availed by Fil-Dragon were capitalized as part of its Property development costs. Borrowing cost incurred in 2012 and 2011 relating to these loans amounted to RMB5.0 million (P32.9 million) and RMB1.5 million (P9.7 million) respectively, and are capitalized as part of Real Estate Inventories (see Notes 15 and 26.8).

The allowance for impairment recognized in 2005 pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized since then.

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, 2012, 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. The construction of Tower 1 and Tower 2 was completed in completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

In addition, the balances of Property Development Costs as of December 31, 2012 and 2011 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 28.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of December 31, 2012 and 2011 amounting to P840.1 million and P686.3 million, respectively, are shown as part of Customers' Deposits in the consolidated statements 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, was 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 15).

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2012 and 2011 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 28.4).

12. 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 2012 and 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
December 31, 2012												
Cost	P 897,854,682	P 38,195,726	P 29,916,266	p 136,048,761	P 83,554,950	P -	P 8,525,595	P 7,003,937	P 50,148,179	P 24,551,023	P 57,155,448	P 1,332,954,567
Accumulated depreciation and amortization	-	(24,749,504)	(14,305,764)	(116,881,738)	(62,694,698)	-	(6,717,422)	(5,694,879)	(33,536,071)	(19,966,657)	-	(284,546,733)
Net carrying amount	**P 897,854,682**	**P 13,446,222**	**P 15,610,502**	**P 19,167,023**	**P 20,860,252**	**P -**	**P 1,808,173**	**P 1,309,058**	**P 16,612,108**	**P 4,584,366**	**P 57,155,448**	**P 1,048,407,834**
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	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	P 1,386,934,809
January 1, 2011												
Cost	P 897,854,682	P 227,896,093	P 54,731,671	P 126,509,662	P 86,920,710	P 1,281,118,081	P 145,693,981	P 66,396,464	P 46,690,676	P 18,292,269	P 1,090,679	P 2,953,194,968
Accumulated depreciation and amortization	-	(153,016,433)	(48,742,034)	(109,698,115)	(70,628,188)	(578,531,307)	(88,187,124)	(63,558,745)	(42,916,185)	(16,047,865)	-	(1,171,325,996)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	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

A reconciliation of the carrying amounts at the beginning and end of 2012 and 2011 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, 2012, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	1,386,934,809
Additions	-	6,321,232	12,903,587	14,677,574	12,142,765	27,343,618	1,023,283	574,747	7,734,842	723,925	60,236,560	143,682,133
Reclassification	-	-	(538,936)	-	-	-	538,936	-	2,346,898	734,214	(3,081,112)	-
Disposals	-	-	-	(1,382,405)	(3,803,270)	(726,059,448)	(52,820,340)	(1,291,636)	(384,789)	-	-	(785,741,888)
Reversal of impairment loss	-	-	-	-	-	350,000,000	-	-	-	-	-	350,000,000
Depreciation and amortization charges for the year	-	(486,217)	(2,115,482)	(10,758,582)	(5,431,318)	(16,642,909)	(3,750,249)	(1,050,865)	(4,171,179)	(2,060,419)		(46,467,220)
Balance at December 31, 2012 net of accumulated depreciation, amortization and impairment loss	**P 897,854,682**	**P 13,446,222**	**P 15,610,502**	**P 19,167,023**	**P 20,860,252**	P -	**P 1,808,173**	**P 1,309,058**	**P 16,612,108**	**P 4,584,366**	**P 57,155,448**	**P 1,048,407,834**
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	10,489,417	56,168,670	8,343,400	2,026,701	8,818,446	3,481,703	-	99,184,297
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)	(9,033,714)	(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	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	P 1,386,934,809

In 2012, construction in progress pertains to the ongoing construction of a hotel of SMC to be named Green Sun Hotel. Also, the costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use and the on-going improvements are recorded as construction in progress.

Also in 2012, SBC reversed the allowance for impairment provided against its cable system, following the sale of its assets used in business operations (see Note 1.3). The reversal amounted to P350.0 million and is presented as part of Other Operating Income in the 2012 consolidated statement of income (see Note 19.1).

No additional impairment losses were recognized in 2012, 2011 and 2010 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2012, the fair values of the Group's land and building and improvements amounted to P203.5 million.

The amount of depreciation and amortization computed on property, plant and equipment is presented as follows:

	Notes	**2012**	2011	2010
Cost of services	18.2	**P 29,405,353**	P 63,913,859	P 61,817,018
Cost of rentals		**3,428,898**	4,119,796	-
General and administrative expenses		**13,632,969**	9,439,774	10,438,234
Discontinued operations		**-**	699,821	3,333,724
	20	**P 46,467,220**	P 78,173,250	P 75,588,976

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, 2012 and 2011.

Fully depreciated property, plant and equipment still in use in the Group's operations amounted to P109.9 million and P106.4 million as of December 31, 2012 and 2011, respectively.

13. INVESTMENT PROPERTY

The Group's investment property, which 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. Direct costs such as real property taxes, repairs and maintenance and utilities are presented as part of Cost of Rentals in the consolidated statements of income (see Note 18.3).

The fair values of the Group's investment property as of December 31, 2012, 2011 and 2010 were determined based on appraisal reports dated February 5, 2013, February 29, 2012 and January 4, 2011, 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:

	Land and Improvements	Buildings and Improvements	Total
2012:			
Balance at beginning of year	P 3,047,677,774	P 816,656,012	P 3,864,333,786
Fair value gains (losses) on investment property – net	242,054,661	(92,485,479)	149,569,182
Additions	-	5,153,524	5,153,524
Reclassification	(1,615,386)	-	(1,615,386)
Balance at end of year	**P 3,288,117,049**	**P 729,324,057**	**P 4,017,441,106**
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	P 3,047,677,774	P 816,656,012	P 3,864,333,786

Certain real estate properties owned by SMC are subject to litigations brought up by third parties against the subsidiary (see Notes 14 and 28.3).

In 2012, the Company transferred land in Pamaldan City with carrying amount of P1.6 million as of December 31, 2012 to Other Non-current Assets.

In 2010, SMC entered into 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. 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 (see Note 19.2).

14. OTHER ASSETS

The composition of these accounts as of December 31 is shown below.

	Notes	2012	2011
Current:			
Input VAT - net		**P 73,056,951**	P 92,707,110
Creditable withholding taxes		**50,378,018**	71,855,887
Prepaid business taxes		**61,116,160**	45,676,769
Other prepayments		**16,103,292**	18,321,656
Advances to suppliers and contractors		**33,632,728**	27,879,694
Refundable deposits		**10,988,982**	3,368,991
Restricted cash		**5,141,100**	5,092,329
Others		**1,744,128**	2,294,489
		252,161,359	267,196,925
Non-current:			
Refundable deposits - net		**10,765,679**	9,836,045
Prepaid insurance	7	**1,225,956**	5,294,251
Land under litigation	28.3	**4,935,606**	3,258,220
Investment in shares		**1,375,290**	1,303,591
Cash bond		**568,234**	568,234
Others		**3,360,939**	1,890,731
		22,231,704	22,151,072
		P 274,393,063	P 289,347,997

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates. Other prepayments consist mainly of prepaid insurance and rent.

15. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of December 31, 2012 and 2011 are broken down as follows:

	2012			2011		
	USD	**RMB**	**PHP**	USD	RMB	PHP
BRL	**$ 5,155,223**	**¥ -**	**P 212,353,946**	$ 8,544,563	¥ -	P 375,345,563
Fil-Dragon	**-**	**54,396,030**	**359,312,976**	-	58,143,006	404,053,192
	$ 5,155,223	**¥ 54,396,030**	**P 571,666,922**	$ 8,544,563	¥ 58,143,006	P 779,398,755

The Group's short-term interest-bearing loans as of December 31, 2012 and 2011 amounting to P571.7 million and P779.4 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, and are currently due within 12 months after the end of reporting period; hence classified as part of the Group's current liabilities in the consolidated statements of financial position.

Information relating to significant loan transaction of the Group are as follows:

(a) Loans of BRL

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 7). The loans were also secured by the outstanding investments in foreign currency-denominated bonds as of December 31, 2011 (see Notes 8 and 9). The loans bear interest at prevailing market rates per annum ranging from 2.0% to 2.3% in 2012 and 2011. Interest expense arising from these loans amounted to P6.0 million and P8.0 million in 2012 and 2011, respectively, and is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2).

In 2012, BRL extended the terms of various loans it obtained from Bank of Singapore. The loans are extended for one year up to June 30, 2013.

(b) 2011 Loans of Fil-Dragon

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance from the loan amounted to RMB54.4 million (P359.3 million) and RMB58.1 million (P404.1 million) as of December 31, 2012 and 2011, respectively. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2012 and 2011. Borrowing cost incurred in 2012 and 2011 relating to these loans amounted to RMB5.0 million (P32.9 million) and RMB1.5 million (P9.7 million) respectively, and are capitalized as part of Real Estate Inventories (see Notes 11 and 26.8).

(c) 2009 Loans of Fil-Dragon

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). The loans were secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million) as of December 31, 2010. The loan was paid in full in 2011. Total borrowing costs incurred from these interest-bearing loans amounted RMB6.4 million (P43.2 million) in 2011 were capitalized as part of Real Estate Inventories at capitalization rates ranging from 6% to 10% (see Note 11).

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 26.9). 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 30.1). As of December 31, 2012, the Group is not subjected to any covenants relating to the above loans.

16. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2012	2011
Trade payables	26.6	**P 335,534,348**	P 304,917,931
Output VAT		**48,843,309**	37,328,219
Accrued dealers' incentives		**24,375,822**	12,364,027
Collection due to STL	26.6	**18,706,344**	2,331,894
Unearned subscription income		**18,143,581**	9,167,511
Rental payable		**17,671,797**	17,354,928
Refundable deposits	17	**16,181,595**	24,769,241
Retention payable		**16,061,269**	4,872,185
Reserve for warranty costs		**14,545,332**	18,354,383
Accrued municipal taxes		**14,357,151**	8,673,969
Advances from customers		**9,542,619**	22,623,706
Deferred output VAT		**1,505,635**	3,032,367
Other accrued expenses		**58,423,762**	88,287,531
Other payables		**35,010,087**	38,355,081
		P 628,902,651	P 592,432,973

Reserve for warranty costs pertains to amounts recognized by My Solid, 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 claims also includes the amounts recognized by OSSI for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders.

In 2012, SMC derecognized certain accrued expenses and other payables which were acquired by SMC from the merger with SC (see Note 1.2). Management believes that the possibility of cash outflows is remote since the purpose for which the liability was recognized no longer exists. The Gain on Derecognition of Liabilities amounting to P25.1 million is presented under Other Income Gains in the 2012 consolidated statement of income (see Note 19.2).

In 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 part of Reversal of warranty provision under Other Operating Income in the 2011 consolidated statement of income (see Note 19.1). My Solid and Mytel have merged in 2012 (see Note 1.2).

The changes in the Reserve for Warranty Costs account are as follows:

	Notes	2012	2011
Balance at beginning of year		**P 18,354,383**	P 23,359,511
Additional provision for warranty claims during the year	20	**41,465,997**	45,072,286
Actual warranty claims during the year		**(36,118,916)**	(38,173,009)
Reversals during the year	19.1	**(9,156,132)**	(11,904,405)
		P 14,545,332	P 18,354,383

Other accrued expenses include accrued rentals, accrued outside services, accrued salaries and other operating expenses. Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

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 value (see Note 30.1).

17. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P16.0 million and P15.6 million as at December 31, 2012 and 2011, 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. The interest expense recognized amounting to P1.4 million in 2012, P0.6 million in 2011 and P0.9 million in 2010 is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2). The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

18. COST OF SALES, SERVICES AND RENTALS

18.1 Cost of Sales

The details of this account are shown below.

	Notes	**2012**	2011	2010
Merchandise and finished goods at beginning of year	10	**P 621,292,896**	P 412,507,056	P 62,462,687
Net purchases of merchandise during the year	20, 26.6 26.2	**2,925,915,239**	2,700,622,823	1,582,453,911
Cost of goods manufactured:				
Raw materials at beginning of year	10	**362,856**	10,757,863	20,252,525
Work- in-process at beginning of year	10	**-**	2,256,191	1,665,047
Net purchases of raw materials during the year		**-**	3,811,972	6,759,772
Direct labor		**-**	1,715,564	3,709,810
Manufacturing overhead			1,831,269	16,613,479
Raw materials at end of year	10	**(362,856)**	(362,856)	(10,757,863)
Work-in-process at end of year		**-**	-	(2,256,191)
		-	20,010,003	35,986,579
Goods available for sale		**3,547,208,135**	3,133,139,882	1,680,903,177
Merchandise and finished goods at end of year	10	**(406,495,008)**	(621,292,896)	(412,507,056)
Net provision (reversal) on inventory obsolescence	10	**(48,583,419)**	27,304,279	(11,239,861)
	20	**P 3,092,129,708**	P 2,539,151,265	P 1,257,156,260

The allocation of cost of sales between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations	20	**P 3,092,129,708**	P 2,524,843,718	P 1,225,420,110
Discontinued operations	5, 10	**-**	14,307,547	31,736,150
		P 3,092,129,708	P 2,539,151,265	P 1,257,156,260

18.2 Cost of Services

The following are the breakdown of direct costs and expenses from rendering of services:

	Notes	2012	2011	2010
Materials, supplies and other consumables		**P 94,017,131**	P 90,295,728	P 73,058,882
Salaries and employee benefits		**80,725,659**	92,304,067	91,449,097
Service fees	20	**59,347,325**	-	-
Subcontracting services		**48,254,650**	30,841,268	18,674,615
Rentals	28.2	**36,602,623**	29,463,835	42,954,302
Communication, light and water		**33,262,444**	50,503,338	47,309,256
Depreciation and amortization	12	**29,405,353**	63,913,859	61,817,018
Transponder rental and leased line		**27,803,313**	46,122,992	49,380,862
Outside services		**24,560,909**	37,481,054	33,384,542
Transportation and travel		**18,032,263**	18,442,548	12,640,691
Repairs and maintenance		**10,731,747**	19,949,027	4,567,611
Cable services		**3,901,463**	6,696,429	6,696,429
Others		**21,757,882**	13,280,724	18,258,313
	20	**P 488,402,762**	P 499,294,869	P 460,191,618

18.3 Cost of Rentals

The details of this account are as follows:

	Notes	2012	2011	2010
Taxes and licenses	13	**P 9,835,266**	P 9,571,471	P 7,706,287
Rentals		**8,043,416**	10,040,302	10,990,367
Outside services		**7,397,150**	5,856,501	9,728,407
Repairs and maintenance	13	**3,461,720**	3,487,349	3,488,634
Salaries and employee benefits		**1,194,501**	1,144,438	1,011,864
Utilities and communication	13	**-**	3,324,709	4,565,515
Others		**5,450,888**	6,455,978	1,078,119
	20	**P 35,382,941**	P 39,880,748	P 38,569,193

Other cost of rentals primarily consists of depreciation expense, supplies and transportation and travel expenses.

19. OTHER INCOME

19.1 Other Operating Income

The breakdown of this account is as follows:

	Notes	2012	2011	2010
Reversal of impairment losses on property and equipment	12	**P 350,000,000**	P -	P -
Fair value gains on investment property	13	**149,569,182**	191,644,597	27,648,081
Increase in cash surrender value of investment in life insurance	7	**18,365,563**	19,110,728	17,678,362
Reversal of warranty provision	16	**9,156,132**	11,904,405	3,126,950
Gain on insurance settlement		**353,338**	55,000	4,694,715
Miscellaneous	5	**26,481,792**	18,411,703	37,055,339
		P 553,926,007	P 241,126,433	P 90,203,447

The allocation of other operating income between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations		**P 553,926,007**	P 232,773,017	P 87,379,618
Discontinued operations	5	**-**	8,353,416	2,823,829
		P 553,926,007	P 241,126,433	P 90,203,447

19.2 Other Gains

The breakdown of this account is as follows:

	Notes	2012	2011	2010
Gain on derecognition of liabilities	16	**P 25,117,698**	P -	P -
Reversal of allowance for inventory obsolescence	10	**13,334,706**	-	-
Retirement benefit income		**8,999,316**	-	171,983
Gain on disposal of property,		**7,767,563**	-	-
plant, and equipment		**1,071,310**	-	-
Gain on sale of investment property	13	**-**	17,802,607	-
Others		**1,361,274**	3,636,521	2,564,209
		P 57,651,877	P 21,439,128	P 2,736,192

All other gains pertain to continuing operations for all the years presented.

Retirement benefit income in 2012 resulted from SGI's transfers of the amount of obligation in the Group plan due to transfer of employees within the group. Also, no retirement benefit expense was recorded in 2010 as the expected return and the actuarial gain recognized in the plan assets during the year is higher than the current service and interest cost incurred.

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	**2012**	2011	2010
Net purchases of merchandise inventories	18.1	**P 2,925,915,239**	P 2,700,622,823	P 1,582,453,911
Salaries and employee benefits	22.1	**259,430,838**	254,151,282	231,327,047
Outside services		**194,934,604**	149,697,511	97,545,658
Advertising and promotions		**130,977,514**	132,187,080	92,776,544
Subcontracting services		**110,298,465**	86,887,735	52,116,171
Materials, supplies and other consumables		**78,028,164**	110,419,752	109,721,847
Rentals	26.3, 28.2	**60,820,460**	42,785,957	44,419,377
Service fee		**59,347,325**	-	-
Utilities and communication		**54,590,325**	72,208,053	72,260,992
Taxes and licenses		**52,113,634**	46,839,422	55,402,878
Depreciation and amortization	12	**46,467,220**	78,173,250	75,588,976
Net provision (reversal) on inventory obsolescence	18.1	**(48,770,199)**	27,304,279	(11,239,861)
Cost of real estate sold		**45,917,227**	95,886,118	151,396,685
Transportation and travel		**44,072,915**	43,880,536	29,924,036
Provision for warranty	16	**41,465,997**	45,072,286	35,696,455
Repairs and maintenance		**31,640,652**	45,966,836	28,229,042
Transponder rental and leased line		**7,070,544**	44,719,890	48,257,021
Change in merchandise, finished goods and work-in-process inventories		**168,559,419**	(206,529,649)	(338,484,611)
Miscellaneous		**103,021,196**	50,319,996	68,205,328
		P 4,365,901,539	P 3,820,593,157	P 2,425,597,496

In 2012, SBC entered into a sale agreement with a third party for the sale of SBC's assets used in operations. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers and accordingly, remit to the third party all collection received. Service fees incurred for the remittance of the collections to the third party amounting to P59.3 million is presented as part of Cost of Services in the 2012 consolidated statement of income (see Notes 18.2 and 27.3).

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:

	Notes	2012	2011	2010
Continuing operations:				
Cost of sales	18.1	**P 3,092,129,708**	P 2,524,843,718	P 1,225,420,110
Cost of services	18.2	**488,402,762**	499,294,869	460,191,618
Cost of real estate sales		**45,917,227**	95,886,118	151,396,685
Cost of rentals	18.3	**35,382,941**	39,880,748	38,569,193
General and administrative expenses		**343,002,874**	366,950,584	281,046,941
Selling and distribution costs		**361,066,027**	278,372,598	227,552,333
		4,365,901,539	3,805,228,635	2,384,176,880
Discontinued operations:				
Cost of sales	18.1	**-**	14,307,547	31,736,150
General and administrative expenses	5	**-**	385,540	9,271,158
Selling and distribution costs	5	**-**	671,435	413,308
		-	15,364,522	41,420,616
		P 4,365,901,539	P 3,820,593,157	P 2,425,597,496

21. OTHER INCOME (CHARGES)

21.1 Finance Income

This account consists of the following:

	Notes	2012	2011	2010
Reversal of impairment losses on trade and other receivables	7	**P 75,708,696**	P 17,014,146	P 11,104,219
Interest income from banks	6	**56,862,020**	28,088,868	23,389,186
Interest income from financing		**26,458,136**	11,990,898	5,041,854
Gain on sale of financial assets - net	8	**2,095,315**	-	-
Reversal of impairment losses on AFS financial assets	9	**990,643**	-	-
Foreign currency gains – net		**827,155**	5,624,590	1,372,689
Others		**760,514**	1,842,653	905,319
		P 163,702,479	P 64,561,155	P 41,813,267

The allocation of finance income between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations		**P 163,702,479**	P 64,476,707	P 38,921,553
Discontinued operations	5	-	84,448	2,891,714
		P 163,702,479	P 64,561,155	P 41,813,267

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P64.4 million in 2012, P47.8 million in 2011 and P63.1 million in 2010 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

21.2 Finance Costs

This account consists of the following:

	Notes	2012	2011	2010
Foreign currency losses		**P 22,738,154**	P 33,124,222	P 28,649,430
Impairment losses on trade and other receivables	7	**12,767,663**	21,145,641	9,266,502
Interest expense arising from interest–bearing loans	15	**6,726,796**	8,203,376	10,530,521
Interest amortization on refundable deposits	17	**1,431,460**	614,109	864,519
Impairment losses on AFS financial assets	9	**-**	18,995,887	33,657,338
Fair value loss on FVTPL	8	**-**	5,909,803	-
Others		**5,424,022**	797,455	4,601,512
		P 49,088,095	P 90,062,513	P 88,876,474

The allocation of finance costs between continuing and discontinued operations is shown below.

	Note	2012	2011	2010
Continuing operations		**P 49,088,095**	P 89,426,503	P 88,223,148
Discontinued operations	5	**-**	636,010	653,326
		P 49,088,095	P 90,062,513	P 88,876,474

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 20 and 26.10).

	Note	2012	2011	2010
Short-term benefits		**P 250,773,629**	P 249,752,464	P 225,608,349
Post-employment benefit	22.2	**7,188,899**	3,634,033	4,594,191
Termination benefits		**1,468,310**	764,785	1,124,507
		P 259,430,838	P 254,151,282	P 231,327,047

22.2 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 SGI and certain subsidiaries that have retirement benefit asset recognized in the consolidated statements of financial position are determined as follows:

	2012	2011
Fair value of plan assets	**P 195,334,214**	P 198,950,272
Present value of the obligation	**96,955,783**	104,569,041
Excess of plan assets	**98,378,431**	94,381,231
Unrecognized actuarial losses	**(25,213,659)**	(15,099,780)
	P 73,164,772	P 79,281,451

The amounts of retirement benefit obligation of certain subsidiaries that have retirement benefit obligation recognized in the consolidated statements of financial position are determined as follows:

	2012	2011
Fair value of plan assets	**P 14,080,141**	P 52,742,927
Present value of the obligation	**29,632,031**	48,704,204
Excess (deficiency) of plan assets	**(15,551,890)**	4,038,723
Unrecognized actuarial gains	**(2,969,731)**	(10,149,864)
Retirement benefit obligation	**P 12,582,159**	P 6,111,141

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.

	2012	2011	2010	2009	2008
Fair value of plan assets	**P 209,414,355**	P 251,693,199	P 239,409,688	P 210,694,669	P 163,517,091
Present value of the obligation	**126,587,814**	153,273,245	91,208,751	71,624,495	74,604,282
Excess in the plan	**P 82,826,541**	P 98,419,954	P 148,200,937	P 139,070,174	P 88,912,809

Experience adjustments arising on plan assets amounted to P5.4 in 2012, P5.3 in 2011 and P6.2 million in 2010. Experience adjustments on plan liabilities amounted to P1.1 million in 2012, P7.2 million in 2011 and P5.9 million in 2010.

The overall movements in the fair value of plan assets of the Group are presented below.

	2012	2011
Balance at beginning of year	**P 251,693,199**	P 239,409,688
Effect of curtailment	**(53,322,778)**	-
Contributions paid into the plan	**659,116**	4,976,389
Benefits paid by the plan	**(1,597,216)**	(1,840,988)
Expected return on plan assets	**15,869,634**	12,604,518
Actuarial losses	**(3,887,600)**	(3,456,408)
Balance at end of year	**P 209,414,355**	P 251,693,199

The overall movements in the present value of the retirement benefit obligation recognized in the books are as follows:

	2012	2011
Balance at beginning of year	**P 153,273,245**	P 91,208,751
Effect of curtailment	**(43,907,143)**	-
Transfers	**-**	1,267,732
Current service and interest costs	**24,297,471**	20,067,558
Benefits paid	**(1,597,216)**	(1,840,988)
Actuarial (gains) losses	**(5,478,543)**	42,570,192
Balance at end of year	**P 126,587,814**	P 153,273,245

Actual returns on plan assets amounted to P12.0 million, P9.15 million and P25.7 million in 2012, 2011 and 2010, respectively. The Group expects to contribute a total of P17.6 million to the post-employment defined benefit plan in 2012.

The plan assets consist of the following as of December 31:

	2012	2011
Government securities	**P 197,407,650**	P 234,845,476
Mutual and trust funds	**12,006,705**	16,847,723
	P 209,414,355	P 251,693,199

The amount of post-employment benefit expense recognized in the consolidated statements of income is as follows:

	2012	2011
Current service cost	**P 17,610,274**	P 13,004,057
Interest cost	**6,687,197**	7,063,501
Expected return on plan assets	**(15,869,634)**	(12,604,518)
Net actuarial gains (loss) recognized during the year	**(1,237,938)**	(3,829,007)
	P 7,188,899	P 3,634,033

For determination of the post-employment benefit obligation, the following actuarial assumptions were used:

	2012	2011	2010
Discount rates	**4% - 6%**	6% - 7%	8% - 9%
Expected rate of return on plan assets	**5%**	8%	6%
Expected rate of salary increases	**9%**	10%	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 ranges from 6% to 8%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

In 2011 and prior years, SBC maintained a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. As a result of the sale its business, SBC ceased operations immediately thereafter and requested the release of the remaining balance in the trust fund account under the multi-employer retirement plan. The retirement plan assets were withdrawn in 2012 since all of the employees were terminated during such year. Accordingly, SBC's plan assets had a nil balance as of December 31, 2012.

23. TAXES

23.1 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 in 2012, 2011 and 2010.

23.2 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:

	2012	2011	2010
Consolidated statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 190,483,882**	P 105,566,741	P 91,903,929
Final taxes at 20% and 7.5%	**17,657,651**	9,686,979	8,917,838
Preferential taxes at 5%	**2,035,898**	1,165,853	2,718,628
Minimum corporate income tax (MCIT) at 2%	**222,424**	784,751	4,269,350
	210,399,855	117,204,324	107,809,745
Deferred tax expense relating to origination and reversal of temporary differences	**65,764,939**	22,508,829	15,457,073
	P 276,164,794	P 139,713,153	P 123,266,818
Consolidated statements of comprehensive income –			
Deferred tax income on changes in fair value of AFS financial assets (see Note 24.3)	**(P 300,000)**	(P 1,458,000)	(P 1,110,000)

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of income is shown below.

	2012	2011	2010
Tax on pretax profit at 30%	**P 455,342,115**	P 172,057,237	P 109,924,527
Adjustment for income subject to lower tax rates	**(13,388,166)**	(6,615,150)	(17,302,712)
Tax effects of:			
Benefit from previously unrecognized net operating loss carry-over (NOLCO) MCIT and other temporary differences	**(142,098,292)**	(26,314,832)	(47,588,087)
Excess of optional standard deduction (OSD) over itemized deduction	**(27,893,962)**	-	-
Nontaxable income	**(2,640,899)**	(11,209,655)	(5,563,691)
Derecognized and unrecognized deductible temporary differences	**3,233,154**	7,975,800	4,004,029
Nondeductible expenses and losses	**2,513,046**	5,437,096	9,597,237
Unrecognized deferred taxes from NOLCO and MCIT	**567,373**	1,430,215	4,060,303
Income (loss) of foreign subsidiary not subject to taxes	**(547,491)**	9,739,812	62,238,190
Reversal of previously recognized DTL	**-**	(11,409,417)	-
Loss on non-recoverable foreign currency losses	**-**	-	958,240
Unrecognized benefit from write-off of receivables	**-**	-	3,735
Others	**1,77,916**	(1,377,953)	2,935,047
	P 276,164,794	P 139,713,153	P 123,266,818

The allocation of the tax expense relating to profit or loss from continuing and discontinued operations in 2012 is shown below:

	Note	**2012**	2011	2010
Continuing operations		**P 276,164,794**	P 139,364,314	P 122,651,703
Discontinued operations	5	**-**	348,839	615,115
		P 276,164,794	P 139,713,153	P 123,266,818

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:

	2012	2011
Deferred tax assets:		
Fair value adjustments on investment property	P 23,831,400	P 23,831,400
Accrued municipal taxes	14,721,085	9,026,376
Allowance for inventory obsolescence	11,462,608	20,630,203
Allowance for impairment on trade and other receivables	6,483,910	3,776,335
Retirement benefit obligation	3,066,967	6,094,079
Unrealized foreign currency loss – net	2,982,141	165,867
Provision for warranty	2,181,337	7,288,866
Unamortized pre-operating expenses	54,271	112,648
Unamortized past service costs	-	1,156,422
Deferred tax liability – Retirement benefit asset	(1,647,964)	(2,099,707)
Deferred tax assets – net	P 63,135,755	P 69,982,489

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:

	2012	2011
Deferred tax assets:		
Provision for warranty claims	**P 2,012,749**	P -
Unamortized past service costs	**1,657,651**	675,055
Allowance for impairment on trade and other receivables	**688,083**	7,500,210
Deferred rent expense – PAS 17	**408,033**	609,324
Allowance for inventory obsolescence	**324,678**	-
Retirement benefit obligation	**314,196**	-
Unearned rent income	**257,395**	-
Deferred tax liabilities:		
Fair value gains on investment property	**(772,747,918)**	(722,756,790)
Accumulated depreciation on investment property	**(132,666,733)**	(129,743,498)
Retirement benefit asset	**(19,947,117)**	(14,115,622)
Deferred rent income – PAS 17	**(213,056)**	(3,523,866)
Changes in fair value of AFS	**(132,000)**	246,000
Unrealized foreign currency gains	**(19,409)**	(36,056)
Deferred tax liabilities – net	**(P 920,063,448)**	(P 861,145,243)

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

	2012	2011	2010
Fair value gains on investment property	**P 49,991,128**	P 54,506,870	P 8,472,450
Allowance for inventory obsolescence	**14,668,089**	(19,956,486)	(445,274)
Accumulated depreciation on investment property	**6,337,868**	6,651,556	7,859,993
Accrued municipal taxes	**(5,694,710)**	(6,702,344)	(2,324,032)
Allowance for impairment on trade and other receivables	**3,395,556**	(2,896,526)	993,245
Reserve for warranty costs	**3,169,076**	(1,214,422)	(744,120)
Unrealized foreign currency losses - net	**(2,749,471)**	(677,951)	(18,750)
Deferred rent expense – PAS 17	**(2,627,509)**	34,412	(1,352,937)
Benefits from previously unrecognized MCIT	**(1,812,952)**	(47,888)	-
Retirement benefit obligation	**1,577,061**	(5,830,938)	1,971,288
Deferred rent income – PAS 17	**(556,364)**	(1,752,527)	(376,861)
Unamortized past service costs	**173,828**	344,910	138,036
Unearned rent income	**(165,041)**		
Unamortized pre-operating expenses	**58,380**	50,163	54,271
Change in fair value of AFS	**-**	-	1,122,000
NOLCO	**-**	-	107,764
	P 65,764,939	P 22,508,829	P 15,457,073

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 NOLCO and MCIT are as follows:

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2012	P 15,862,462	P -	P -	P -	P 15,862,462	2015
2011	31,305,517	-	5,501,441	-	25,804,076	2014
2010	3,283,221	2,008,326	331,953	-	942,942	2013
2009	29,179,579	15,006,564	7,473,992	6,699,023	-	2012
	P 79,630,779	P 17,014,890	P 13,307,386	P 6,699,023	P 42,609,480	
MCIT:						
2012	P 222,424	P	P	P	P 222,424	2015
2011	832,637	-	611,343	-	221,294	2014
2010	4,774,835	-	1,368,240	-	3,406,595	2013
2009	719,699	18,000	594,109	107,590	-	2012
	P 6,549,595	P 18,000	P 2,573,692	P 107,590	P 3,846,578	

Fil-Dragon has incurred tax losses amounting to P22.8 million (RMB3.5 million), P32.5 million (RMB4.8 million), P28.2 million (RMB4.2 million) in 2012, 2011, and 2010 respectively. Similar to NOLCO, these tax losses can be applied to future taxable income. However, these tax losses expire within five years from the year such tax losses were incurred.

The NOLCO, MCIT and other deductible temporary differences as of December 31 for which the related deferred tax assets have not been recognized by certain entities in the Group are shown below.

	2012		2011		2010	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
NOLCO	**P 41,220,143**	**P 12,366,043**	P 41,027,061	P 12,308,118	P 44,866,357	P 13,459,907
Allowance for impairment of financial assets classified as loans and receivables	**22,555,186**	**6,766,555**	113,897,224	34,169,167	120,021,728	36,006,518
Unrealized foreign currency loss	**12,211,081**	**3,663,324**	1,606,837	482,051	22,322,126	6,696,638
Allowance for impairment loss on AFS financial assets	**5,060,000**	**1,518,000**	5,420,000	1,626,000	5,420,000	1,626,000
MCIT	**3,679,121**	**3,679,121**	5,545,272	5,545,272	5,911,763	5,911,763
Unearned income	**1,170,000**	**351,000**	4,920,000	1,476,000	-	-
Retirement benefit obligation	**1,001,270**	**300,381**	875,601	262,680	(10,207,044)	(3,062,114)
Allowance for inventory obsolescence	**362,856**	**108,857**	15,504,733	4,651,420	29,729,592	8,918,877
Accumulated impairment losses on property, plant, and equipment	**-**	**-**	350,000,000	105,000,000	350,000,000	105,000,000
Fair value loss in investment property	**-**	**-**	10,167,900	3,050,370	6,586,000	1,975,800
Unamortized past service cost			976,947	293,084	1,496,952	449,086
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)
	P 87,259,657	**P 28,753,281**	P 549,941,575	P 168,864,162	P 593,496,051	P 182,187,047

In 2012, 2011 and 2010, except for SBC, the Group opted to claim itemized deductions in computing for its income tax due. SBC used OSD in computing for its income tax due in 2012.

24. EQUITY

24.1 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, 2012, the Company has issued shares of 2,030,975,000 (with P1 par value), of which, 392,472,704 shares are held by the public. There are 4,482 holders of the listed shares which closed at P1.98 per share on December 31, 2012.

24.2 Retained Earnings

On October 12, 2012, the BOD approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million, payable to stockholders of record as of October 31, 2012. The cash dividends were paid on November 28, 2012.

Retained earnings is restricted in the amount of P115.6 million in 2012 and 2011, equivalent to the 209,433,000 shares held in treasury.

24.3 Revaluation Reserves

The components of this account and its movements are as follows:

	Notes	**2012**	2011	2010
Cumulative translation adjustments:				
Balance at beginning of year		**P 77,477,390**	P 64,979,425	P 70,778,455
Currency differences on translating financial statements of foreign operations	2	**(28,103,335)**	12,497,965	(5,799,030)
		49,374,055	77,477,390	64,979,425
Fair value losses on AFS financial assets:				
Balance at beginning of year		**(106,719,760)**	(108,459,976)	(172,432,191)
Reclassification adjustments for losses recognized in profit or loss		**12,145,053**	12,804,822	49,498,034
Fair value gains (losses) – net	9	**(853,830)**	(9,606,606)	15,584,181
Deferred tax income on changes in fair value of AFS financial assets	23.2	**(300,000)**	(1,458,000)	(1,110,000)
		(95,728,537)	(106,719,760)	(108,459,976)
Other comprehensive income attributable to non-controlling interest		**35,000**	-	-
Balance at end of the year		**(P 46,319,482)**	(P 29,242,370)	(P 43,480,551)

25. EARNINGS PER SHARE

Basic and diluted EPS for profit attributable to the Parent Company's stockholders are computed as follows:

	2012	2011	2010
Net profit for the year attributable to the Parent Company's stockholders	**P 1,244,304,250**	P 439,437,428	P 229,346,310
Divided by weighted average shares outstanding:			
Number of shares issued	**2,030,975,000**	2,030,975,000	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
EPS – basic and diluted	**P 0.68**	P 0.24	P 0.13

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2012, 2011 and 2010, hence, diluted EPS is equal to the basic EPS.

26. 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.

		2012		2011	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Receivable (Payable)**	Amount of Transaction	Outstanding Receivable (Payable)
Related Parties Under Common Ownership:					
Use of cable infrastructure	26.1	**P 81,656,142**	**P -**	P 228,608,036	P 71,595,493
Management services	26.1	**1,500,000**	**-**	1,200,000	-
Purchase of parts	26.2	**87,557,687**	**(6,412,755)**	107,849,402	(4,072,024)
Lease of real property	26.3	**1,905,820**	**274,060**	485,592	-
Granting of business loans	26.4	**-**	**67,560,199**	-	84,625,060
Interest income	26.4, 26.7	**12,045,070**	**9,565,856**	5,196,900	6,430,356
Advances to	26.5	**(106,324,516)**	**22,218,883**	(72,650,008)	128,543,399
Advances from	26.5	**(95,931,619)**	**11,563,612**	(61,416,380)	107,495,231
Collection of receivables	26.6	**19,627,454**	**(18,756,177)**	109,898	(2,331,894)
Commissions	26.6	**1,730,242**	**1,730,242**	2,498,762	1,132,958
Advances for equipment	26.6	**20,063**	**(3,090,785)**	3,070,522	(3,070,522)
Purchase of mobile phones	26.6	**2,816,688,776**	**121,141,047**	2,582,212,621	219,422,589
Advances to suppliers	26.6	**(8,668,237)**	**210,754,352**	2,928,899	219,422,589
Sale of mobile phones	26.6	**-**	**-**	1,778,608	3,042,022
Granting of loans	26.7	**-**	**104,354,742**	-	111,286,053
Availment of loans	26.8	**(44,740,216)**	**359,312,976**	404,053,192	404,053,192
Interest expense	26.8	**32,874,588**	**3,436,432**	9,714,529	1,253,629

The Group's outstanding receivables from and payables to related parties arising from the transactions summarized in the preceding page are unsecured, noninterest-bearing, payable in cash, unguaranteed, and due within 12 months from the end of the reporting period except for the following:

	Note	Condition	Term
Business loans	26.4	interest-bearing and secured	long-term and short-term
Granting of loans	26.7	interest-bearing	short-term
Availment of loans	26.8	interest-bearing and secured	short-term

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

None of the Group's outstanding receivables from related parties are impaired.

26.1 Sale of Goods and Rendering of Services

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 100% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivable arising from these transactions amounted to P71.6 million as of December 31, 2011 (nil in 2012) and is 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). As of December 31, 2012, however, SBC has sold a significant portion of its assets used in its operations to a third party (see Note 27.3).

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.

26.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P87.6 million in 2012, P107.8 million in 2011 and P85.9 million in 2010 are recorded as part of Cost of Services (see Note 18.1). The outstanding balance from the above transactions amounted to net advances of P6.4 million and payable of P4.1 million as of December 31, 2012 and 2011, respectively.

26.3 Lease of Real Property

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, form part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

26.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 9.0% in 2012 and 7.5% to 8.0% in 2011. Total interests earned from these loans amounted to P6.3 million in 2012, P7.6 million in 2011 and P10.2 million in 2010, 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 Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from business loans as of December 31, 2012 and 2011 are as follows:

	2012	2011
Avid	**P 27,000,000**	P 37,121,075
AA Export and Import Corp. (AA Export)	**8,304,380**	9,720,117
AA Marine Development Corp. (AA Marine)	**8,329,955**	9,761,015
Philippine Prawn, Inc. (PPI)	**7,975,288**	9,340,951
Baybayan Farm, Inc. (BFI)	**7,975,288**	9,340,951
Kawayan Farm, Inc. (KFI)	**7,975,288**	9,340,951
	P 67,560,199	P 84,625,060

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2012.

The business loan pertaining to AA Export is secured by its own shares of stock which are owned by a related party.

In a prior year, the SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment to this loan amounted of P10.1 million, P2.8 million and P6.0 million were made in 2012, 2011 and 2010, respectively. This loan is payable on demand.

Total interests earned from these loans is presented as part of the Interest Income on Loans and Receivables account in the consolidated statements of income.

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 the Company decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of the company's net worth which is not in accordance with Section 9 (d) of RA No. 8556. In 2012, the Company has not extended credits to any debtor which exceeded such threshold.

26.5 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 P21.6 million and P11.6 million as of December 31, 2012 and P128.5 million and P107.5 million as of December 31, 2011 are presented as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position.

In 2012, the Advances to Related Parties had net repayments of P106.3 million while Advances from Related Parties had net repayments of P95.9 million.

No impairment losses were recognized on the Advances to Related Parties as management has assessed that the total amounts is fully collectible.

26.6 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 P1.7 million in 2012, P2.5 million in 2011 and P5.6 million in 2010 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 receivable from STL amounted to P1.7 million and P1.1 million as of December 31, 2012 and 2011, respectively, and is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections made in behalf of STL in 2012 and 2011 amounted to P19.6 million and P0.2 million, respectively. Total obligations arising from this transaction as of December 31, 2012 and 2011 amounting to P18.8 million and P2.3 million, respectively, is presented as part of Non-trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being made by STL on behalf of the Company. Total advances received related to this transaction amounted to P0.02 million in 2012 and P3.1 million in 2011. Outstanding balance arising from this transaction amounting to P3.1 million as of December 31, 2012 and 2011 is presented as part of Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid purchases mobile phones from STL. Total purchases amounted to P2.8 billion in 2012, P2.6 billion in 2011 and P898.3 million in 2010 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 18.1). Outstanding liabilities relating to these purchases amounted to P121.1 million as of December 31, 2012 and P219.4 million as of December 31, 2011 and is shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid also made advance payments to STL for its future purchase of mobile phones. The outstanding advances amount to P210.8 million and P219.4 million as of December 31, 2012 and 2011 respectively, and is presented as part of Advances to supplier under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

In 2011 and 2010, Mytel (now My Solid – see Note 1.2) 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 consolidated statements of financial position (see Note 7).

26.7 Transactions with Solid Company Limited (SCL)

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to 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. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

The loan amounting to P104.4 million and P111.3 million as of December 31, 2012 and 2011, respectively, is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7). Total interests earned from these loans amounted to P5.8 million in 2012, P5.2 million in 2011 and P4.6 million in 2010, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income.

26.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted RMB54.4 million (P359.3 million) and RMB58.1 million (P404.1 million) as of December 31, 2012 and 2011, respectively. These loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2012 and 2011. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2012 and 2011 consolidated statement of financial position. Borrowing cost incurred in 2012 and 2011 relating to these loans amounted to RMB5.0 million (P32.9 million) and RMB1.5 million (P9.7 million) respectively, and are capitalized as part of Real Estate Inventories (see Notes 11 and 15).

26.9 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 15).

26.10 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2012, 2011 and 2010 are as follows (see Note 22.1):

	2012	2011	2010
Short-term benefits	**P 26,592,346**	P 33,992,630	P 34,456,347
Post-employment benefit	**3,009,664**	-	884,848
	P 29,602,010	P 33,992,630	P 35,341,195

26.11 Transactions with the Retirement Plans

The Group has a formal retirement plan established separately for each significant subsidiary. These plans are defined benefit post-employment plan maintained for qualified employees, administered and managed by trustee banks (except for CBHI, My Solid, SGTC and ZTC which are still unfunded plans). The carrying amount and the composition of the plan assets as of December 31, 2012 and 2011 are shown in Note 21.2.

Government securities and unit investment trust fund which are included as plan assets under the fund consist of investments in corporations listed in the PSE. The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also does not have any investments in the Parent Company's shares of stock.

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 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 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 amounted to P77,726,164, P56,652,858, and P43,665,418 for the years ended December 31, 2012, 2011 and 2010, respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P14,668,136 and P3,027,479 as of December 31, 2012 and 2011, respectively and are included as part of Trade and Other Receivables in the consolidated statements of financial position (see Note 7). No network support fees and in-warranty services relate to Aiwa products in 2012, 2011, and 2010.

27.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)

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

27.3 Sale of SBC's Assets

(a) Agreement on Sale of Assets

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 27.3 (d)].

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

(b) Management Agreement

For continuity of services to subscribers, SBC and SCC agreed that the management and administration of the Assets be entrusted to SCC pending the approval of the NTC of the assignment of the Assets.

SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

The Management Agreement shall remain in effect until December 31, 2013. If NTC's approval is not obtained by December 31, 2013, the terms of the Management Agreement shall be automatically renewed for two years from such date and thereafter automatically renewed for another two years from the end of term of its renewal, until the Management Agreement is terminated.

The Management Agreement shall be automatically terminated on the date NTC approves the transfer of the Assets in favor of SCC.

(c) Option Agreement

On the same date, SGI entered into an Option Agreement (the Option) with SCC to purchase its shares of stocks in the Company which option must be exercised not later than December 31, 2013. As of December 31, 2012, SCC has not exercised the option (see Note 28.8).

(d) Gain on Sale of Assets

SBC sold the Assets to SCC for a gross amount totaling to P1.1 billion. The book value of the assets sold amounted to P827.2 million resulting in the recognition of gain on sale of assets amounting to P267.1 million, which is presented as Gain on Sale of Assets in the 2012 statement of income (see Notes 6, 10 and 12).

28. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Group:

28.1 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:

	2012	2011	2010
Within one year	**P 114,423,915**	P 85,906,404	P 84,506,562
After one year but not more than five years	**198,445,354**	137,864,538	159,674,701
More than five years	**3,261,256**	806,905	865,866
	P 316,130,525	P 224,577,847	P 245,047,129

28.2 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%.

	2012	2011	2010
Within one year	**P 12,490,671**	P 11,131,271	P 6,984,946
After one year but not more than five years	**47,388,054**	40,612,597	33,500,497
More than five years	**15,858,583**	25,977,359	36,195,820
	P 75,737,308	P 77,721,227	P 76,681,263

Total rental expense from these operating leases amounted to P7.4 million each in 2012, 2011 and 2010, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 18.2 and 20).

28.3 Legal Claims

SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:

(i) a portion of land in Pililla, Rizal, with a carrying value of 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.

Management believes that the ultimate resolution of these cases will not materially affect the Group's consolidated financial statements.

28.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2012, 2011 and 2010, for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

28.5 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 11). The construction of Tower 1 and Tower 2 was completed in completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

28.6 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 2nd Ayala Bridge. However, the URPO stated that it has not yet undertaken the detailed engineering design that will ascertain if the location of the ZTC's property will be affected by the road's right-of-way.

The Group decided to continue the Tri Towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project.

28.7 Properties Under Development

Fil-Dragon has commitment of about P34.0 million (RMB5.2 million) and P184.2 million (RMB184.2 million) as of December 31, 2012 and 2011, respectively, for the construction of the Golden Hill Project.

28.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2012, SCC has not exercised this option [see Note 27.3(c)].

28.9 Others

As of December 31, 2012, the Group has unused credit facilities amounting to P788.6 million.

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.

29. 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.

29.1 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		2010	
	U.S. Dollar	**Chinese Yuan Renminbi**	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	**P 342,359,128**	**P 48,982,187**	P 476,601,716	P 75,339,059	P 429,590,753	P 129,100,783
Financial liabilities	**(512,512,383)**	**(525,912,848)**	(379,197,829)	(404,053,192)	(386,804,826)	(706,843,136)
Total net exposure	**(P 170,153,255)**	**(P 476,930,661)**	P 97,403,887	(P 328,714,133)	P 42,785,927	(P 577,742,353)

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.

	2012		2011		2010	
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Reasonably Dollar	Effect in Effect in Renminbi
Php – USD	**13.83%**	**(P 23,532,195)**	16.13%	P 6,939,858	20.63%	P 8,826,737
Php – RMB	**11.52%**	**(54,942,412)**	13.18%	(43,337,150)	12.21%	(70,542,341)
		(P 78,474,607)		(P 36,397,292)		(P 61,715,604)

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.

29.2 Interest Rate Sensitivity

At December 31, 2012, 2011 and 2010, 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 +/-1.54% in 2012, +/-1.17% in 2011 and +/-1.19% in 2010. 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 +/-1.54%, 1.17% and 1.19% profit before tax in 2011, 2010 and 2009 would have increased by P46.4 million, P14.1 million and P13.2 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

29.3 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	2010
Cash and cash equivalents	6	**P 3,019,984,213**	P 1,720,748,062	P 1,620,114,468
Trade and other receivables - net	7	**1,061,954,170**	1,807,037,835	1,531,894,847
Financial assets at FVTPL	8	**-**	70,272,991	-
AFS financial assets - net	9	**-**	51,994,367	150,712,680
Advances to related parties	26	**21,633,388**	128,543,399	201,193,407
Refundable deposits - net	14	**21,754,661**	13,205,036	12,386,030
		P 4,125,326,432	P 3,791,801,690	P 3,516,301,432

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:

	2012	2011	2010
Not more than 3 months	**P 160,693,790**	P 69,088,088	P 162,017,197
More than 3 months but not more than one year	**77,870,120**	9,400,170	68,330,159
More than one year	**131,075**	66,597,236	294,468,345
	P 238,694,985	P 145,085,494	P 524,815,701

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.

29.4 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, 2012, 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 571,666,922	P -
Trade and other payables	536,510,356	-
Advances from related parties	-	11,629,819
	P 1,108,177,278	**P 11,629,819**

This compares to the maturity of the Group's financial liabilities as of December 31, 2011 as follows:

	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
	P 956,125,579	P 482,840,794

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
	P 1,436,442,779	P 168,911,611

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

30. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

30.1 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 Carrying Values	2012 Fair Values	2011 Carrying Values	2011 Fair Values	2010 Carrying Values	2010 Fair Values
Financial assets							
Loans and receivables:							
Cash and cash equivalents	6	**P 3,019,984,213**	**P 3,019,984,213**	P 1,720,748,062	P 1,720,748,062	P 1,620,114,468	P 1,620,114,468
Trade and other receivables - net	7	**1,917,927,407**	**1,917,927,407**	1,807,037,835	1,807,037,835	1,531,894,847	1,531,894,847
Advances to related parties	26	**21,633,388**	**21,633,388**	128,543,399	128,543,399	201,193,407	201,193,407
Refundable deposits	17	**21,754,661**	**21,754,661**	13,651,421	13,651,421	12,386,030	12,386,030
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
Golf club shares – net		**8,442,400**	**8,442,400**	6,407,409	6,407,409	10,670,009	10,670,009
Others		**634,127**	**634,127**	1,474,118	1,474,118	1,436,518	1,436,518
		P 4,990,376,196	**P 4,990,376,196**	P 3,800,129,602	P 3,800,129,602	P 3,516,301,432	P 3,516,301,432
Financial liabilities							
At amortized cost:							
Interest-bearing loans - net	15	**P 571,666,922**	**P 571,666,922**	P 779,398,755	P 779,398,755	P 989,502,559	P 989,502,559
Trade and other payables	16	**563,429,613**	**563,429,613**	495,511,929	495,511,929	442,663,550	442,663,550
Advances from related parties	26	**11,629,819**	**11,629,819**	115,790,251	115,790,251	168,911,611	168,911,611
Refundable deposits - net	17	**32,226,991**	**32,226,991**	40,380,251	40,380,251	15,252,534	15,252,534
		P 1,178,953,045	**P 1,178,953,045**	P 1,431,081,186	P 1,431,081,186	P 1,616,330,254	P 1,616,330,254

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.

30.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of December 31, 2012, 2011 and 2010.

	Level 1	**Level 2**	**Level 3**	**Total**
December 31, 2012				
Financial assets at FVTPL	P -	P -	P -	P -
AFS financial assets	9,076,527	-	-	9,076,527
	P 9,076,527	**P -**	**P -**	**P 9,076,527**
December 31, 2011				
Financial assets at FVTPL	P 70,272,991	P -	P -	P 70,272,991
AFS financial assets	58,938,767	-	937,127	59,875,894
	P 129,211,758	P -	P 937,127	P 130,148,885
December 31, 2010				
AFS financial assets	P 149,276,174	P -	P 1,436,518	P 150,712,692

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).

31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the 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)	**P 3,164,672,695**	P 3,052,705,062
Total equity	**9,671,789,880**	8,556,482,257
Debt-to-equity ratio	**0.33 : 1**	0.36 : 1

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886 5511
F +63 2 886 5506
www.punongbayan-araullo.com

The Board of Directors and Stockholders
Solid Group Inc. and Subsidiaries
2285 Don Chino Roces Avenue 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, 2012, on which we have rendered our report dated April 8, 2013. 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. 3671451, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 8, 2013

SOLID GROUP INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012

Supplementary Schedules

Independent Auditors' Report on the SEC Supplementary Schedules Filed Separately from the Basic Financial Statements

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

Other Required Information

Solid Group Inc. and Subsidiaries
Schedule A - Financial Assets
December 31, 2012

Name of Issuing entity and assocation of each issue	Number of shares of principal amount of bonds and notes	Amount shown in statement of financial position	Value based on market quotation at end of reporting period	Income received and accrued
Financial Assets at Fair Value Through Profit or Loss		P -		P -
Available-for-Sale Financial Assets - Current		P -		P -
Available-for-Sale Financial Assets - Non-Current				
The Country Club	2	3,600,000	3,600,000	-
Tagaytay Midlands Golf Club	4	2,080,000	2,080,000	-
Alabang Country Club	152,740	1,900,000	1,900,000	-
Philippine Long Distance Telephone Co.	56,440	564,400	564,400	1,719
Philam Properties Corporation	1	272,127	272,127	-
The Manila Southwoods and Country Club	1	660,000	660,000	-
		P 9,076,527	P 9,076,527	P 1,719

Solid Group Inc. and Subsidiaries
Schedule B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)
December 31, 2012

Name and Designation of Debtor	Balance at the beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Ending Balance: Current	Ending Balance: Not current	Balance at the end of period
Amount Due from a Director							
May So	P 6,949,300	P -	(P 6,949,300)	P -	P -	P -	P -

Solid Group Inc. and Subsidiaries
Schedule C - Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31,2012

Name and designation of debtor	Balance at beginning of period	Additions	Deductions: Amounts collected	Deductions: Amounts written off	Ending Balance: Current	Ending Balance: Not current	Balance at end of period
Trade Receivables:							
Kita Corporation	P 13,600,000	P -	P -	P -	P 13,600,000	P -	P 13,600,000
Due from Related Parties:							
Kita Corporation	521,759,173	-	10,000,000	-	511,759,173	-	511,759,173
Solid Broadband Corporation	440,009,147	-	440,009,147	-	-	-	-
Zen Towers Corporation	553,407,157	-	-	-	553,407,157	-	553,407,157
Solid Manila Corporation	170,043,188	20,000,000	-	-	190,043,188	-	190,043,188
Precos, Inc.	149,511,000	-	-	-	149,511,000	-	149,511,000
Solid Video Corporation	6,929,308	-	6,929,308	-	-	-	-
Casa Bocobo Hotel, Inc.	3,000,000	-	-	-	3,000,000	-	3,000,000
Brilliant Reach Limited	142,221,803	-	8,858,106	-	133,363,697	-	133,363,697
Mytel Mobility Solutions Inc.	779,500,000	146,000,000	241,500,000	-	684,000,000	-	684,000,000
My Solid Devices & Technologies Corporation	225,000,000	319,000,000	404,000,000	-	140,000,000	-	140,000,000
SolidGroup Technologies Corporation	-	28,000,000	5,000,000	-	23,000,000	-	23,000,000
	P 2,991,380,776	P 513,000,000	P 1,116,296,561	-	P 2,388,084,215	-	P 2,388,084,215
Payables to Related Parties	P -	P -	P -	P -	P -	P -	P -

Solid Group Inc. and Subsidiaries
Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)
December 31, 2012

Title of issue and type of obligation	*Amount authorized by indenture*	*Amount shown under caption"Current portion of long-term debt" in related statement of financial position*		*Amount shown under caption"Long-Term Debt" in related statement of financial position*
Loans:				
Fil-Dragon Real Estate Development Ltd.		P	359,312,976	-
		P	**359,312,976**	-

Solid Group Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2012

Title of Issue	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption (A)*	*Number of shares reserved for options, warrants, conversion and other rights*	*Number of shares held by*		
				Related parties (B)	*Directors, officers and employees*	*Others*
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	345,691,480	392,472,704

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
For the Year Ended December 31, 2012

Unappropriated Retained Earnings at Beginning of Year		P 241,358,724
Prior Years' Outstanding Reconciling Items, net of tax		
Recognized actuarial gains on defined benefit plans		(2,684,178)
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted		P 238,674,546
Net Profit Realized during the Year		520,256,711
Net profit per audited financial statements		
Non-actual / unrealized income, net of tax		
Retirement income	(P 5,796,750)	
Recognized actuarial gains on defined benefit assets	(506,755)	(6,303,505)
		513,953,206
Other Transactions During the Year		
Dividends declared	(P 109,292,520)	
Retained Earnings Restricted for Treasury Shares	(115,614,380)	(224,906,900)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		**P 527,720,852**

SOLIDGROUP INC. AND SUBSIDIARIES
Schedule J - Financial Soundness Indicators

	FORMULA	DECEMBER 31, 2012	DECEMBER 31, 2011
Liquidity Ratios			
Current ratio	Current Assets / Current Liabilities	3.14:1	2.47:1
Acid Test ratio	Cash + Marketable Securities + Accounts Receivable + Other Liquid Assets / Current Liabilities	1.93:1	1.31:1
Solvency Ratios			
Debt to Equity ratio	Total Liabilites (excluding advances from related parties) / Total Equity	0.33:1	0.36:1
Gearing Ratio	Financial Debt / Total Equity + Financial Debt	0.06:1	0.09:1
Asset-toEquity Ratios	Total Assets / Total Equity	1.33:1	1.37:1
Interest Rate Coverage Ratio	EBIT / Interest Expense	225.64:1	70.91:1
Profitability Ratios			
Operating Margin	Operating Profit / Total Revenues	28%	16%
Net Profit Margin	Net Income after Tax / Total Revenues	25%	10%
Return on Total Assets	Net Income after Tax / Average Total Assets	10	4%
Return on Equity	Net Income after Tax / Total Equity	13.00	5%

SOLID GROUP INC. AND SUBSIDIARIES

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2012

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		**Adopted**	**Not Adopted**	**Not Applicable**
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendments to PFRS 1: Government Loans* *(effective January 1, 2013)*			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition**	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets**	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2013)*			✓
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)*			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments *(effective January 1, 2015)*			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(effective January 1, 2015)*			✓
PFRS 10	Consolidated Financial Statements* *(effective January 1, 2013)*			✓
	Amendments to PFRS 10: Transition Guidance* *(effective January 1, 2013)*			✓
	Amendments to PFRS 10: Investment Entities* *(effective January 1, 2013)*			✓
PFRS 11	Joint Arrangements* *(effective January 1, 2013)*			✓
	Amendments to PFRS 11: Transition Guidance* *(effective January 1, 2013)*			✓
PFRS 12	Disclosure of Interests in Other Entities* *(effective January 1, 2013)*			✓
	Amendments to PFRS 12: Transition Guidance* *(effective January 1, 2013)*			✓
	Amendments to PFRS 12: Investment Entities* *(effective January 1, 2013)*			✓
PFRS 13	Fair Value Measurement* *(effective January 1, 2013)*			✓

Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts	✓		
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
PAS 19 (Revised)	Employee Benefits* *(effective January 1, 2013)*			✓
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Revised)	Related Party Disclosures	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27	Consolidated and Separate Financial Statements	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in Subsidiary, Jointly Controlled Entity or Associate	✓		
PAS 27 (Amended)	Separate Financial Statements* *(effective January 1, 2013)*			✓
	Amendments to PAS 27 (Amended): Investment Entities* *(effective January 1, 2013)*			✓
PAS 28	Investments in Associates	✓		
PAS 28 (Amended)	Investments in Associates and Joint Ventures* *(effective January 1, 2013)*			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 31	Interests in Joint Ventures			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation**	✓		
	Amendment to PAS 32: Classification of Rights Issues**	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)*			✓

PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions**	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets**	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition**	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives**	✓		
	Amendment to PAS 39: Eligible Hedged Items**	✓		
PAS 40	Investment Property	✓		
PAS 41	Agriculture			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities**	✓		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds**	✓		
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment	✓		
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment	✓		
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine* *(effective January 1, 2013)*			✓

Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-12	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives **	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs**	✓		

* These standards will be effective for periods subsequent to 2012 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

Solid Group Inc. and Subsidiaries
Schedule L - Conglomerate Mapping