SOLID GROUP INC.

August 20, 2010

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

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

Gentlemen:

We are submitting herewith the SEC Form 17-Q Quarterly Report .

We trust that you will find everything in order.

Very truly yours,

MELLINA T. CORPUZ
Corporate Information Officer

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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: June 30, 2010

2. Commission Identification Number: 845

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

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

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

6. _________ (SEC Use Only)
Industry Classification Code

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

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

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

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

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

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

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

Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

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

Yes [X]   No [ ]

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

Yes [X]   No [ ]

PART I. – FINANCIAL INFORMATION

Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the six (6) months period ended June 30, 2010 are attached to this report.

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

Key Performance Indicators

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

Key performance indicators for 2010 and 2009 are as follows:

	2010	2009
Revenue growth	(7%)	39%
Asset turnover	22%	22%
Operating expense ratio	20%	18%
EBITDA	P148 million	P180 million
EPS	P0.03	P0.05
Current ratio	3.84 : 1	3.94 : 1
Debt to equity ratio	0.26 : 1	0.23 :1

Revenue growth is determined as follows: revenues for the current period less revenues for last period divided by the revenues of the previous period.

Asset turnover is computed based on the revenues (annualized) earned during the period divided by the average total assets.

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

EBITDA is determined by adding back interest expense, depreciation and amortization charges, impairment losses to income from operations before income tax for the period.

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

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

Debt to equity ratio is computed by dividing the total liabilities excluding amounts due to related parties as of end of the period by the total equity as of end of the period.

Revenue declined by 7% for the first semester of 2010 vs. revenue growth of 39% for the same period in 2009. The decline was mainly due to lower real estate sales offset by higher sales of the trading segment during the first semester of the year.

Asset turnover was 22% for the first semester in 2010 and 2009.

Operating expense ratio was higher at 20% in 2010 compared with 18% in 2009 mainly due to higher operating expenses.

EBITDA amounted to P148 million for the first semester of 2010 against P180 million for the same period in 2009. The decrease was mainly due to lower operating profit during the period.

Earnings per share amounted to P0.03 in 2010 versus P0.05 in 2009 mainly from lower net income for the period.

Current ratio was lower at 3.84 : 1 as of June 30, 2010 and 3.94 : 1 as of December 31, 2009 mainly due to higher current liabilities.

Debt to equity ratio was slightly higher at 0.26 : 1 as of June 30, 2010 from 0.23 : 1 as of December 31, 2009 primarily due to higher liabilities.

Results of Operations

Revenues reached P1,121 million for the first semester of 2010, or higher by 7% from P1,047 million for the same period in 2009 as discussed below.

Service revenue amounted to P313 million for the first semester of 2010 or almost the same level as in 2009 of P310 million for the same period in 2009.

Sale of goods reached P580 million for the first semester of 2010, improving by 34% from P432 million for the same period in 2009 mainly due higher volume of sales of the digital products.

Rental income amounted to P61 million for the first semester of 2010 or slightly higher by 2% from P59 million for the same period in 2009.

Sale of land amounted to P135 million for the first semester of 2010, or lower by 29% from P192 million for the same period in 2009. This was principally due the lower sale of industrial lots for the period.

Interest income amounted to P30 million for the first semester of 2010, or down by 42% from P52 million for the same period in 2009 mainly from lower yield of the placements and also in 2009, the Company earned interest income from the amortization of discounts on held to maturity financial assets versus none in 2010 as a result of the reclassification of these financial assets to available for sale.

Cost of sales, services and rentals amounted to P810 million for the first semester of 2010, or higher by 11% from P731 million for the first semester of 2009 as discussed below.

Cost of services amounted to P215 million for the first semester of 2010 from P221 million for the same period of 2009 or lower by 3%. There was no material variance for this account.

Cost of sales went up to P469 million for the first semester of 2010, or higher by 40%, from P334 million for the same period of last year in relation to the increase in sales.

Cost of rentals amounted to P24 million for the first semester of 2010 and 2009.

Cost of land amounted to P100 million for the first semester of 2010, or a decrease of 33% from P150 million for the same period of 2009. The decrease was mainly in relation to lower sale of real estate.

Gross profit amounted to P311 million for the first semester of 2010 from P316 million for the same period in 2009. There was no material variance for this account.

Other operating expenses (income) amounted to P201 million for the first semester of 2010 against P173 million for the same period in 2009 as explained below.

General and administrative expenses amounted to P146 million for the first semester of 2010, or up by 2% from P143 million for the same period of 2009. There was no material variance for this account.

Selling and distribution costs amounted to P80 million for the first semester of 2010, up by 81% from P44 million for the same period of 2009 mainly from higher commissions, personnel and advertising costs .

Other operating income amounted to P24 million for the first semester of 2010 compared with P14 million for the same period in 2009 principally from miscellaneous income.

Operating profit amounted to P109 million for the first semester of 2010 from P142 million for the same period in 2009, or a decrease of 23%, mainly from lower gross profit rate and higher selling and distribution costs.

Other income (charges) amounted to P2.7 million for the first semester of 2010 against P12 million loss for the same period in 2009 mainly from the following:

Finance income amounted to P14 million for the first semester of 2010, down by 4% compared with P13 million for the same period of last year primarily due to lower interest income.

Finance costs amounted to P14 million for the first semester in 2010, decreasing by 44% against P26 million for the same period in 2009 mainly due lower interest rates on loans.

Other gains amounted to none for the first semester of 2010 versus P62 thousand for the same period in 2009 due to gain on sale of property in 2009.

Income before tax reached P108 million for the first semester in 2010, or down from P129 million for the same period in 2009 mainly due to lower operating profit as explained above.

Tax expense amounted to P42 million for the first semester of 2010 from P18 million in 2009 due to higher pre-tax income of certain subsidiaries.

Net income amounted to P65 million for the first semester of 2010 against P111 million for the same period in 2009 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P58 million for the first semester of 2010 against P97 million in for the same period of 2009 as discussed above.

Net income attributable to minority interest amounted to P7 million for the first semester of 2010 compared with P13 million income in 2009 due to higher earnings of the industrial estate business of the Company in 2009 .

Financial Position

Cash and cash equivalents amounted to P 1,624 million as of June 30, 2010, up by 29% from P1,263 million as of December 31, 2009. Cash was mainly provided by operating activities primarily from decrease in advances to related parties and increase in payables and by financing activities mainly from proceeds of loans.

Trade and other receivables reached P500 million as of June 30, 2010 against P501 million as of December 31, 2009, or almost the same level as last year. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P136 million as of June 30, 2010 from P504 million as of December 31, 2009. Certain advances as at December 31, 2009 were mainly provided to MyTel Mobility Solutions Inc. (MyTel) for working capital purposes. The acquisition of MyTel was consummated in January 2010. The said advances were included and eliminated in the consolidated financial statements in June 2010.

Available-for-sale financial assets amounted to P322 million as of June 30, 2010 from P305 million as of December 31, 2009, or higher by 5%. The increase was principally due to additions during the period.

Merchandise inventories and supplies - net amounted to P313 million as of June 30, 2010, increasing by 275% compared with P83 million as of December 31, 2009 mainly from higher merchandise and finished goods for digital products.

Real estate inventories amounted to P1,100 million as of June 30, 2010 from P1,046 million as of December 31, 2009 or higher by 5%. The increase was mainly due to additions made during the period offset by real estate sold.

Other current assets amounted to P358 million as of June 30, 2010, higher by 20% compared with P299 million as of December 31, 2009 principally from higher advances to suppliers and input taxes.

Total current assets amounted to P4,354 million as of June 30, 2010 from P4,003 million as of December 31, 2009 as discussed above.

Non-current trade and other receivable amounted to P706 million as of June 30, 2010 from P679 million as of December 31, 2009 mainly from higher non-current finance receivables.

Non-current available-for-sale financial assets stood at P11 million as of June 30, 2010 against P8 million as of December 31, 2009 or an increase of 40% mainly from other investments.

Property, plant and equipment amounted to P1,402 million as of June 30, 2010 down by 1% from P1,397 million as of December 31, 2008. There was no material variance for this account.

Investment property amounted to P3,774 million as of June 30, 2010 from P3,776 million December 31, 2009. There was no material variance for this account.

Retirement benefit assets amounted to P45 million as of June 30, 2010 and December 31, 2009.

Deferred tax assets - net amounted to P3 million as of June 30, 2010 and December 31, 2009.

Other non-current assets amounted to P18 million as of June 30, 2010 or a decline of 27% from P24 million as of December 31, 2009 mainly from lower prepaid insurance and refundable deposits.

Total non-current assets amounted to P5,961 million as of June 30, 2010 from P5,936 million as of December 31, 2009 as discussed above.

Non-current assets held for sale stood at P12 million as June 30, 2010 and end of 2009.

Total assets reached P10,328 million as of June 30, 2010 from P9,952 million as of the December 31, 2009 as discussed above.

Interest-bearing loans amounted to P412 million as of June 30, 2010, up by 2% from P419 million as of December 31, 2009. There was no material variance for this account.

Trade and other payables amounted to P466 million as of June 30, 2010 against P322 million as of December 31, 2009, up by 45% primarily due to higher accrued expenses and other payables.

Advances from related parties amounted to P161 million as of June 30, 2010 from P201 million as of December 31, 2009 due to payments made.

Estimated liability for land and land development costs amounted to P68 million as of June 30, 2010 and December 31, 2009. There was no movement for this account.

Income tax payable amounted to P25 million as of June 30, 2010 from P4 million as of December 31, 2009 mainly from due to higher provision for income tax of certain subsidiaries.

Total current liabilities stood at P1,134 million as of June 30, 2010, higher by 12% from P1,016 million as of December 31, 2009 as explained above mainly due to higher trade and other payables.

Non-current interest bearing loans amounted to P272 million from P135 million principally due to additional availments.

Non-current refundable deposits amounted to P11 million as of June 30, 2010 and December 31, 2009.

Retirement benefit obligation amounted to P1 million as of June 30, 2010 and December 31, 2009.

Deferred tax liabilities -net amounted to P849 million as of June 30, 2010 and December 31, 2009.

Total non-current liabilities amounted to P1,134 million as of June 30, 2010 from P997 million as of December 31, 2009.

Capital stock stood at P2,030 million as of June 30, 2010 and December 31, 2009.

Additional paid-in capital amounted to P4,641 million as of June 30, 2010 and December 31, 2009.

Treasury shares amounted to P115 million as of June 30, 2010 and December 31, 2009.

Revaluation reserves amounted to P46 million loss as of June 30, 2010 from P101 million loss as of December 31, 2009 principally due to currency differences on translating financial statements of foreign operations and fair value gains on available for sale financial assets.

Retained earnings amounted to P1,124 million as of June 30, 2010 from P1,065 million as of December 31, 2009 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P7,635 million as of June 30, 2010 from P7,521 million as of December 31, 2009 due to higher retained earnings.

Minority interest amounted to P424 million as of June 30, 2010 from P417 million in December 31, 2009 primarily from share of minority in net income.

Total equity amounted to P8,059 million as of June 30, 2010 from P7,938 million as of December 31, 2009.

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

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

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

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

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

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

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

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

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

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

Solid Electronics Corporation, a wholly-owned subsidiary of the Company, provides in-warranty and out-of-warranty services for Sony products sold in the Philippines under the After-Sales Service and Network Support Agreements, which was effective until September 30, 2004. In May 2005, the Company entered into an informal agreement with Sony wherein these agreements was renewed annually until revoked. This contributed 2% of total revenues in 2009 .

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

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

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

vii. Causes for any Material Changes from Period to Period

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

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

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

PART II –OTHER INFORMATION

None.

SIGNATURES

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

SOLID GROUP INC.

DAVID S. LIM
President & Chief Executive Officer

VINCENT S. LIM
Senior Vice President for Finance & Investment

August 20, 2010

Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

June 30, 2010 and December 31, 2009

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2010 and DECEMBER 31, 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
A S S E T S			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 1,624,437,053**	P 1,263,142,145
Trade and other receivables - net	6	**500,228,541**	501,285,288
Available-for-sale financial assets	7	**322,203,820**	305,804,353
Merchandise inventories and supplies - net	9	**313,029,900**	83,440,928
Real estate inventories - net	10	**1,100,604,914**	1,046,881,038
Advances to related parties	25	**136,183,248**	504,328,415
Other current assets	13	**358,091,842**	299,085,713
Total Current Assets		**4,354,779,318**	4,003,967,880
NON-CURRENT ASSETS			
Trade and other receivables	6	**706,215,326**	679,762,808
Available-for-sale financial assets - net	7	**11,168,807**	8,001,527
Property, plant and equipment - net	11	**1,402,155,835**	1,397,744,432
Investment property - net	12	**3,774,734,499**	3,776,756,869
Retirement benefit asset	21	**45,935,962**	45,935,962
Deferred tax assets - net	22	**3,408,612**	3,408,612
Other non-current assets - net	13	**18,223,063**	24,919,357
Total Non-current Assets		**5,961,842,104**	5,936,529,567
NON-CURRENT ASSETS HELD FOR SALE	11	**12,090,324**	12,090,324
TOTAL ASSETS		**P 10,328,711,746**	P 9,952,587,771

	Notes	2010	2009
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 412,459,814**	P 419,206,324
Trade and other payables	15	**466,912,987**	322,604,948
Advances from related parties	25	**161,328,863**	201,439,920
Estimated liability for land and land development costs	10	**68,304,647**	68,304,647
Income tax payable		**25,770,284**	4,764,696
Total Current Liabilities		**1,134,776,595**	1,016,320,535
NON-CURRENT LIABILITIES			
Interest-bearing loans	14	**272,544,000**	135,742,000
Refundable deposits - net	16	**11,096,848**	11,096,848
Retirement benefit obligation	21	**1,484,596**	1,484,596
Deferred tax liabilities - net	22	**849,404,316**	849,404,315
Total Non-current Liabilities		**1,134,529,760**	997,727,759
Total Liabilities		**2,269,306,355**	2,014,048,294
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock		2,030,975,000	2,030,975,000
Additional paid-in capital		4,641,701,922	4,641,701,922
Treasury shares - at cost		(115,614,380)	(115,614,380)
Revaluation reserves	23	**(46,647,579)**	(101,653,736)
Retained earnings	23	**1,124,812,309**	1,065,972,835
Total equity attributable to the Parent Company's stockholders		**7,635,227,272**	7,521,381,641
Non-controlling interests		**424,178,119**	417,157,836
Total Equity		**8,059,405,391**	7,938,539,477
TOTAL LIABILITIES AND EQUITY		**P 10,328,711,746**	P 9,952,587,771

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010 2nd Quarter	2010 1st Semester	2009 2nd Quarter	2009 1st Semester
REVENUES					
Rendering of services	25	**150,379,394**	**P 313,591,925**	148,214,423	P 310,172,963
Sale of goods	25	**266,529,920**	**580,691,586**	165,822,835	432,561,292
Rentals	25	**30,366,159**	**61,187,444**	27,732,814	59,698,946
Sale of real estate	2	**76,751,152**	**135,683,759**	19,583,140	192,321,760
Interest income	20	**15,504,932**	**30,427,140**	30,955,064	52,340,455
		539,531,557	**1,121,581,854**	392,308,276	1,047,095,416
COST OF SALES, SERVICES AND RENTALS					
Cost of services	17	**108,937,377**	**215,970,159**	111,049,734	221,659,513
Cost of sales	17	**195,835,869**	**469,595,557**	124,410,506	334,456,432
Cost of rentals	17	**7,330,466**	**24,476,393**	12,718,216	24,253,263
Cost of real estate sold	19	**54,927,086**	**100,461,283**	15,473,849	150,657,950
		367,030,798	**810,503,392**	263,652,305	731,027,158
GROSS PROFIT		**172,500,759**	**311,078,462**	128,655,971	316,068,258
OTHER OPERATING EXPENSES (INCOME)					
General and administrative expenses	19	**69,462,783**	**146,472,895**	54,131,516	143,466,920
Selling and distribution costs	19	**47,254,245**	**80,029,078**	22,723,506	44,261,539
Other operating income - net	18	**(12,177,817)**	**(24,832,085)**	(15,663,627)	(14,067,789)
		104,539,211	**201,669,888**	61,191,395	173,660,670
OPERATING PROFIT		**67,961,548**	**109,408,574**	67,464,576	142,407,588
OTHER INCOME (CHARGES)					
Finance income	20	**7,254,353**	**14,201,099**	6,515,948	13,695,542
Finance costs	20	**(5,827,515)**	**(14,780,053)**	(20,190,540)	(26,191,723)
Other gains - net		**-**	**-**	0	62,500
		1,426,838	**(578,954)**	(13,674,592)	(12,433,681)
PROFIT BEFORE TAX		**69,388,386**	**108,829,620**	53,789,984	129,973,907
TAX EXPENSE	22	**1**	**42,969,863**	8,154,087	18,692,110
PROFIT (LOSS) FOR THE PERIOD		**P 69,388,385**	**P 65,859,757**	P 45,635,897	P 111,281,797
Profit (loss) for the year attributable to:					
Parent Company's stockholders		**(1)**	**P 58,839,474**	45,366,093	P 97,910,713
Non-controlling interests		**-**	**7,020,283**	269,804	13,371,084
		(P 1)	**P 65,859,757**	P 45,635,897	P 111,281,797
Earnings (loss) per share attributable to the Parent Company's stockholders - Basic and Dilut	24	**(P 0.00)**	**P 0.03**	P 0.02	P 0.05

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
PROFIT (LOSS) FOR THE PERIOD		**P 65,859,757**	P 111,281,797
OTHER COMPREHENSIVE INCOME (LOSS)			
Fair value gains (losses) on available-for-sale financial assets, net of taxes	7	**6,057,827**	7,255,966
Reclassification adjustments for losses recognized in profit or loss		**3,621,231**	7,203,714
Currency exchange differences on translating balances of foreign operations	2	**45,327,099**	(25,807,330)
		55,006,157	(11,347,650)
TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD		**P 120,865,914**	P 99,934,147
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**P 113,845,631**	P 86,563,063
Non-controlling interests		**7,020,283**	13,371,084
		P 120,865,914	P 99,934,147

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Note	2010	2009
EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS			
CAPITAL STOCK - P1 par value			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares		P 2,030,975,000	P 2,030,975,000
ADDITIONAL PAID-IN CAPITAL		4,641,701,922	4,641,701,922
TREASURY SHARES - at cost			
Acquired at P0.5520 per share - 209,433,000 shares		(115,614,380)	(115,614,380)
REVALUATION RESERVES	23		
Balance at beginning of year		(101,653,736)	(213,026,395)
Other comprehensive income (loss) for the year		55,006,157	(11,347,650)
Balance at end of year		(46,647,579)	(224,374,045)
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year			
As previously reported		1,065,972,835	876,103,268
Prior period adjustments, net of tax	23	-	(30,856,584)
As restated		1,065,972,835	845,246,684
Profit (loss) for the year attributable to the Parent Company's stockholders		58,839,474	97,910,713
Balance at end of year		1,124,812,309	943,157,397
Total Equity Attributable to the Parent Company's stockholders		7,580,221,115	7,287,193,544
NON-CONTROLLING INTERESTS			
Balance at beginning of year		417,157,836	394,136,368
Additional non-controlling interests on acquired subsidiary		-	
Profit for the year attributable to non-controlling interests		7,020,283	13,371,084
Balance at end of year		424,178,119	407,507,452
TOTAL EQUITY		P 8,004,399,234	P 7,694,700,996
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		P 113,845,631	P 86,563,063
Non-controlling interests		7,020,283	13,371,084
		P 120,865,914	P 99,934,147

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2010 AND 2009
(Amounts in Philippine Pesos)

	Notes	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 108,829,620	P 129,973,907
Adjustments for:			
Interest income		(42,559,194)	(66,035,997)
Depreciation and amortization	11	33,864,207	40,393,257
Realized loss on sale of financial assets			7,203,714
Loss (gain) on sale of financial assets	20	(2,069,045)	8,733,396
Impairment losses on trade and other receivables	6		
Interest expense	20	5,359,363	10,206,656
Loss on inventory obsolescence	9		
Unrealized foreign currency losses (gains) - net		5,799,459	47,957
Gain on sale of property and equipment			(62,500)
Impairment losses on available-for-sale financial assets	7	-	
Operating profit before working capital changes		109,224,410	130,460,390
Decrease (increase) in trade and other receivables		(27,474,049)	(119,613,435)
Decrease (increase) in available-for-sale financial assets		37,508,457	8,804,291
Decrease (increase) in held-to-maturity investments			(31,008,681)
Decrease (increase) in merchandise inventories and supplies		(229,588,972)	(262,919,213)
Increase in real estate inventories		(53,723,876)	63,588,803
Decrease (increase) in advances to related parties		368,145,167	37,768,845
Decrease (increase) in other current assets		(59,006,129)	(17,462,148)
Decrease (increase) in retirement benefit asset		-	
Decrease in other non-current assets		6,696,294	327,627
Increase (decrease) in trade and other payables		139,693,755	266,380,914
Increase in estimated liability for land and land development costs		-	
Increase (decrease) in advances from related parties		(40,111,057)	51,360,741
Increase (decrease) in retirement benefit obligation		-	
Increase in deferred tax liabilities			2,752,422
Cash generated from (used in) operations		251,364,000	130,440,556
Interest received		44,637,472	71,837,874
Cash paid for income taxes		(21,964,276)	(21,062,838)
Net Cash From Operating Activities		274,037,196	181,215,592
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (Acquisitions) of property and equipment	11	(38,275,610)	(18,981,168)
Decrease (Additions) to investment property	12	2,022,370	
Net Cash Used in Investing Activities		(P 36,253,240)	(P 18,981,168)

Forward

	Notes	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments) of interest-bearing loans - net	14	**P 130,055,490**	(P 43,504,723)
Interest paid	20	**(745,079)**	(915,026)
Net Cash From (Used in) Financing Activities		**129,310,411**	(44,419,749)
Effect of Currency Rate Changes on Cash and Cash Equivalents		**(5,799,459)**	(47,957)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**361,294,908**	117,766,718
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**1,263,142,145**	1,118,462,976
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 1,624,437,053**	P 1,236,229,694

Supplement Information on Noncash Investing Activities

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

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

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

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See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
JUNE 30, 2010 AND DECEMBER 31, 2009
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

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

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

Subsidiaries	Percentage of Ownership 2010	2009	2008	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	a	Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	c	Information and communications and technology systems
Precos, Inc. (Precos)	**100**	100	100	c	Real estate
Solid Electronics Corporation (SE Corp)	**100**	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Casa Bocobo Hotel, Inc. (CBHI) [Formerly Zen By The Park, Inc.]	**100**	100	100	e, g	Hotel operations
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	100	100	h	Real estate
My Solid Technologies and Devices Corporation	**100**	100	100	j	Sale of mobile phones
Skyworld Corporation (Skyworld)	**75**	75	75	c, e	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	b, c	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	51	-	i, c	Real estate
Starworld Corporation (Starworld)	**50**	50	50	e, f	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	-	b, d	Real estate

Notes:

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

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

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

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

1.2 Status of Operations

(a) Revaluation of Investment Property

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

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

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

1.3 Other Corporate Information

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

BRL	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	7175 Gil Puyat Ave. cor Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SC	-	17 A. Fernando St., Marulas, Valenzuela, Metro Manila
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
SLC	-	Solid St., LIIP, Mamplasan, Biñan, Laguna
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	Room 1913B, Oriental Manhattan, Nanning City, Guanxi Province, China

1.4 Approval for Issuance of Consolidated Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

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

(c) Functional and Presentation Currency

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

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

(d) Reclassification of Accounts

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

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

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

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

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

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

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

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

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

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

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

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

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

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

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

(iv) PFRS 8, *Operating Segments*. Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports therefore, adoption of this new standard did not have a material impact on the Group's consolidated financial statements as it merely improved the disclosure of operating segment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(c) *Effective Subsequent to 2009*

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

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

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

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

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

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

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

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments. The Group will apply the amendment on its 2010 consolidated financial statements but expects it to have no material impact in its consolidated financial statements.

- PAS 7 (Amendment), *Statement of Cash Flows*. PAS 7 amendment states explicitly that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. The amendment will not have a material impact on the consolidated financial statements since only recognized assets are classified by the Group as cash flow from investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. Management has initially determined that this will not have a material impact on the consolidated financial statements as the Group has not yet entered into a lease agreement that includes both land and building.

- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Management will apply this amendment prospectively in its 2010 consolidated financial statements.

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

Acquired subsidiaries are accounted for under the purchase method. This involves the measurement at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition.

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

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

(b) Transactions with Non-controlling Interests

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

2.4 Segment Reporting

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

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

2.5 Financial Assets

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

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

Currently, the Group's financial assets are categorized as follows:

(a) *Loans and Receivables*

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

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

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

(b) *Held-to-maturity Investments*

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

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

(c) *Available-for-sale Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the
Available-for-sale Financial Assets account in the consolidated statement of financial

position unless management intends to dispose of the investment within 12 months from the reporting period.

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

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

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

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

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

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

2.6 Merchandise Inventories and Supplies

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

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

(b) *Finished goods and work-in-process* – on a moving average method; cost includes direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity.

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

2.7 Real Estate Inventories

(a) Land and Land Development Costs

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

(b) Property Development Costs

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

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

2.8 Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

2.9 Investment Property

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

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

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

2.10 Financial Liabilities

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

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

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

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

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

2.11 Business Combination

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

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

Transfers of assets between commonly controlled entities are accounted for under historical cost accounting.

2.12 Provisions

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

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

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

2.13 Revenue and Expense Recognition

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

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

(a) *Rendering of services* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.

(b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

For sales involving multiple element arrangements, customers pay the bundle amount, which includes the LCD television and the internet and/or cable subscriptions. Total selling price is allocated among and/or between the items included in the bundle based on the relative fair values of the separately identifiable components.

The recognition criteria for each of these components are described as follows:

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.

- *Rendering of Services from Internet Subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

- *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

(c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.14).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized within 30 days after the actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by a third party of its products.

(e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, income is recognized when it is probable that the economic benefits from the sale will flow to the Group and collectibility of the sales price is reasonably assured. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

(f) *Interest income on loans receivables* – Revenue is recognized when earned using effective interest method. In accordance with RA 8556, interest income is not recognized on loans receivable that remain outstanding beyond their maturity dates.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.

(h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.

(i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.

(j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

Cost and expenses are recognized in the consolidated statement of income upon consumption of the goods and/or utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.18), on an accrual basis.

2.14 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

Leases which do not transfer to the Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the consolidated statement of income on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term.

The Group determines whether an arrangement is, or contains a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

2.15 Foreign Currency Transactions

(a) *Transactions and Balances*

The accounting records of the Group, except BRL and Fil-Dragon, are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statement of income.

(b) *Translation of Financial Statements of Foreign Subsidiaries*

The operating results and financial position of BRL and Fil-Dragon, which are measured using the U.S. dollar and Chinese yuan renminbi, respectively, their respective functional currencies, are translated to Philippine pesos, the Group's functional currency as follows:

(i) Assets and liabilities presented for each reporting date are translated at the closing rate at the date of the consolidated statement of financial position;

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

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

On consolidation, exchange differences arising from the translation of the net investment in BRL and Fil-Dragon are recognized in other comprehensive income and taken to equity under Revaluation Reserves. When a foreign operation is sold, such exchange differences are reclassified in the consolidated statement of income as part of the gain or loss on sale of the investment.

The translation of the financial statements into Philippine pesos should not be construed as a representation that the U.S. dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.16 Impairment of Non-financial Assets

The Group's property, plant and equipment, investment property and other non-financial assets are subject to impairment testing. All individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized for the amount by which the assets' or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro-rata to other assets in the cash-generating unit.

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

2.17 Employee Benefits

(a) Post-employment Benefit

Post-employment benefit is provided to employees through a defined benefit plan. The Group's post-employment defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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

The liability recognized in the consolidated statement of financial position for post-employment defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an income or expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-employment plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than
12 months after the end of the reporting period are discounted to present value.

(c) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in Trade and Other Payables account in the consolidated statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.18 Borrowing Costs

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

2.19 Income Taxes

Tax expense recognized in the consolidated statement of income comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated statement of income.

Deferred tax is provided, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred income tax asset can be utilized.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss. Only changes in deferred tax assets or liabilities that relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity.

2.20 Equity

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

Additional paid-in capital includes any premiums received on the initial issuance of capital stock and equity adjustments on mergers and acquisitions of entities under common control in previous years. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related profit tax benefits.

Treasury shares are stated at the cost of reacquiring such shares.

Revaluation reserves comprise the cumulative translation adjustments and fair value gains (losses) on available-for-sale financial assets.

Retained earnings include all current and prior period results of operations recognized in profit or loss as reported in the consolidated statement of income.

2.21 Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing profit for the year by the weighted average number of issued and outstanding common shares during the year after giving retroactive effect to stock dividends declared, stock split and reverse stock split during the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of June 30, 2010 and December 31, 2009, the Parent Company does not have potential dilutive shares.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) Held-to-maturity Investments

In classifying non-derivative financial assets with fixed or determinable payments and fixed maturity, such as bonds, as held-to-maturity investments the Group evaluates its intention and ability to hold such investments up to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity. If the Group fails to keep these investments to maturity other than for specific circumstances as allowed under the standards, it will be required to reclassify the whole class as available-for-sale financial assets. In such a case, the investments would therefore be measured at fair value, not amortized cost.

(b) Impairment of Available-for-sale Financial Assets

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's available-for-sale financial assets, management concluded that certain assets are impaired as of December 31, 2009. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) Costing of Merchandise Inventories and Supplies

The Group's inventory costing policies and procedures were based on a careful evaluation of present circumstances and facts affecting production operations. A review of the benchmarks set by management necessary for the determination of inventory costs and allocation is performed regularly. Actual data are compared to the related benchmarks and critical judgment is exercised to assess the reasonableness of the costing policies and procedures which are currently in place and to make the necessary revisions in light of current conditions.

(d) Distinction Between Investment Properties and Owner-managed Properties

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(e) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in Notes 2.12 and 27.

3.2 Key Sources of Estimation Uncertainty

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

(a) Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories (P313 million and P83.4 million as at June 30, 2010 and December 31, 2009, respectively, as presented in Note 9) is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipments and accessories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Company's inventories within the next financial year.

(b) *Useful Lives of Property, Plant and Equipment*

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2009, there is no change in the estimated useful lives of property, plant and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) *Allowance for Impairment of Trade and Other Receivables*

Allowance is made for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Group's relationship with the customers, the customers' current credit status based on the average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables amounted to P1.2 billion as at June 30, 2010 and December 31, 2009 alike (see Note 6). Impairment losses on trade and other receivables, as also shown in Note 6.

(d) *Valuation of Financial Assets Other than Trade and Other Receivables*

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument. The amount of changes in fair value would differ if the Company utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

(e) *Allocation of Income Among Sale of Goods, Rendering of Services and Other Income*

The Group allocates the income coming from its bundled sales, which is composed of LCD television and internet and/or cable subscriptions, based on the estimated selling price of each revenue component. Management believes that the allocated selling prices represent the relative fair value of each component.

(f) *Reserve for Warranty Costs*

The Group offers a one-year warranty for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales, as determined based on historical warranty claim information as well as recent trends that might suggest that past cost information may differ from expectations. Warranty costs also include the actual cost of materials used in repairing the electronic products.

(g) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to three years, as of June 30, 2010 and December 31, 2009, is disclosed in Note 22.2.

(h) *Impairment of Non-financial Assets*

The Company's policy on estimating the impairment of non-financial assets is discussed in Note 2.16. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-current assets in 2010 and 2009.

(i) *Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

As of December 31, 2009, the estimated present value of the retirement benefit obligation amounted to P71.6 million while the fair value of plan assets amounted to P210.7 million (see Note 21.2).

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Broadband services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure.

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for products of a third party (see Note 27.1).

(c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties.

(d) Trading segment is involved in the sale of plastic resins, professional audio and video equipment and peripherals, and mobile phones and LCD televisions.

(e) Investing, financing and others segment is presently engaged in the business of fund investments, automotive and consumer financing and credit extension.

Segment accounting policies are the same as the policies described in Note 2.4.

4.1 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities.

4.2 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments, which are eliminated in the consolidation.

The following tables present certain assets and liability information regarding business segments as of June 30, 2010 and December 31, 2009 and the related revenue and profit information for the years then ended (in thousands).

	Broadband Services	Manufacturing and Related Support Services	Real Estate	Trading	Investing, Financing and Others	Elimination	Total
2010							
SEGMENT RESULTS							
Total revenues	**163,359**	**171,574**	**211,883**	**563,761**	**39,176**	**(28.171)**	**1,121,582**
Profit (loss) for the year	**P 10,069**	**P 6,263**	**P 34,423**	**(P 3,963)**	**P 20,012**	**(P 944)**	**P 65,860**
SEGMENT ASSETS AND LIABILITIES							
Total assets	**P 697,909**	**P 792,041**	**P 6,086,808**	**P 1,042,718**	**P 7,514,145**	**(P 5,804,909)**	**P 10,328,712**
Total liabilities	**P 840,991**	**P 780,149**	**P 2,631,958**	**P 741,745**	**P 692,323**	**(P 3,417,860)**	**P 2,269,306**
2009							
SEGMENT RESULTS							
Total revenues	150,679	245,937	260,655	351,363	60,975	(22,514)	1,047,095
Profit for the year	P 15,623	P 9,989	P 32,286	P 36,927	P 20,214	(P 3,757)	P 111,282
SEGMENT ASSETS AND LIABILITIES							
Total assets	P 777,361	P 822,899	P 6,861,492	P 540,242	P 12,505,255	(P 11,554,661)	P 21,507,249
Total liabilities	P 221,409	P 237,776	P 1,968,163	P 137,107	P 783,963	(P 1,334,370)	P 3,348,418

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of June 30, 2010 and December 31, 2009:

	2010	2009
Cash on hand and in banks	**P 377,460,789**	P 318,176,809
Short-term placements	**1,246,976,264**	944,965,336
	P 1,624,437,053	P 1,263,142,145

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 96 days and earn effective interest ranging from 0.5% to 8.0% per annum in 2010 and 2009.

6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Note	**2010**	2009
Current:			
Trade receivables	25.1, 25.3	**P 546,720,021**	P 492,346,538
Finance receivables	25.4	**15,733,166**	70,966,344
Other receivables		**95,401,376**	69,467,339
		657,854,563	632,780,221
Allowance for impairment		**(157,626,022)**	(131,494,933)
		P 500,228,541	P 501,285,288

Non-current:			
Trade receivables		**P -**	P 40,460,934
Finance receivables	25.4, 25.7	**232,310,848**	181,693,263
Receivable from sale of land		**7,175,992**	
Cash surrender value of investment in life insurance		**466,728,486**	457,608,611
		P 706,215,326	P 679,762,808

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are mostly due from the small business customers, were found to be impaired, hence, adequate amount of allowance for impairment have been recognized.

Trade receivables include claims from the Group's real estate buyers arising from sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Company fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment.

Interest rates on finance receivables range from 7.5% to 18.0% in 2010 and 2009. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party
(see Note 25.4).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 18). The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 13).

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

The balance of Other receivables as of June 30, 2010 and December 31, 2009 includes interest-bearing cash advances granted by Starworld in 2004 amounting to P23.5 million to a third party which is secured by the third party's stockholdings in a certain company. The proceeds were used to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). In 2008, an agreement with the third party was executed specifying the payment terms for both principal and interest.

Other receivables as at the end of 2008 also included unsecured, noninterest-bearing cash advances granted by Starworld to LARES, amounting to P6.0 million, to finance the latter's operations and expenses pertaining to the arbitration proceedings with the Land Registration Authority (LRA). The P6.0 million advances to LARES were collected in full in 2009 (see Note 27.1).

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 29.1).

7. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following available-for-sale financial assets:

	2010	2009
Current:		
Investments in foreign currency-denominated bonds	P 322,203,820	P 305,804,353
Non-current:		
Club shares	P 8,010,000	P 9,030,000
Equity securities	8,580,000	8,580,000
Others	5,583,798	1,396,518
	22,173,798	19,006,518
Allowance for impairment	(11,004,991)	(11,004,991)
	P 11,168,807	P 8,001,527

The movements in the allowance for impairment as of June 30, 2010 and December 31, 2009 are as follows:

	Note	2010	2009
Balance at beginning of year		P 11,004,991	P 11,004,991
Impairment loss during the year	20.2	-	-
Balance at end of year		P 11,004,991	P 11,004,991

Investments in foreign currency-denominated bonds were used as collaterals for interest-bearing loans of BRL (see Note 14).

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 in which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent

Company reclassified its remaining investment in shares of stock of SPI with total cost of P8,580,000 to Available-for-sale Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of June 30, 2010 and December 31, 2009.

Impairment losses recognized on the Group's Available-for-sale Financial Assets are presented as part of Finance Costs in the consolidated statements of income (see Note 20.2).

The fair values of the Group's Investments in Club Shares, which represents proprietary membership club shares, as of December 31, 2009 have been determined directly by reference to published prices in active markets.

8. HELD-TO-MATURITY INVESTMENTS

In 2008, the Group reclassified its investments in foreign currency-denominated bonds (previously classified as available-for-sale financial assets in the 2007 consolidated statement of financial position) as held-to-maturity investments (see Note 7) as allowed under the amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments Disclosures*, which was effective from July 1, 2008. These investments in bonds had a total fair value of P165,185,417 when the reclassification was made on October 31, 2008; maturities range from 6 to 493 months and interest rates range from 8.00% to 11.75%. As of December 31, 2008, these investments had a total carrying amount of P161,289,378 and are presented under the non-current assets section of the 2008 consolidated statement of financial position.

In 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with total carrying amount of P125,173,911 back to Available-for-sale Financial Assets. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153,411,308. The reclassification resulted in a gain of P28,237,397, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 17.1).

	2010	2009
Merchandise and finished goods	**P 338,881,092**	P 62,462,687
Work-in process	**1,366,561**	1,665,047
Raw materials	**15,167,271**	20,252,525
Service parts, supplies and others	**58,636,422**	48,866,353
	414,051,346	133,246,612
Allowance for inventory obsolescence	**(101,021,446)**	(49,805,684)
	P 313,029,900	P 83,440,928

10. REAL ESTATE INVENTORIES

This account is composed of:

	2010	2009
Land and land development costs:		
Land	**P -**	P 60,940,229
Land development costs	**120,628,635**	104,735,932
	120,628,635	165,676,161
Allowance for impairment	**-**	(2,022,800)
	120,628,635	163,653,361
Property development costs:		
Construction in progress		
and development costs	**979,976,279**	883,227,677
	P 1,100,604,914	P 1,046,881,038

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by ZTC and Fil-Dragon which are also for sale.

The allowance for impairment recognized in 2005 pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2009.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba, Laguna. As of December 31, 2009, lot areas totalling 83 hectares were acquired, 65 hectares of which are located in Phase 1 (already fully-developed as of end of 2008) and 18 hectares are located in Phase 2 (under development as of end of 2008 but were fully-developed in 2009).

The Group, through ZTC, has initiated the planning and construction of the Tri-Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. As of December 31, 2009 and 2008, the construction of Tower 1 which started in 2007, is fully completed. The construction of Towers 2 and 3 has not yet started as of December 31, 2009.

In October 2007, ZTC obtained its permit to sell that would allow pre-selling of condominium units, and has entered into several construction contracts with various contractors for the construction of the other towers. Advances made to contractors are shown as part of the Other Current Assets account in the consolidated statements of financial position (see Note 13).

In addition, the balances of Property Development Costs as of June 30, 2010 and December 31, 2009 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The purpose of the Golden Hill Project is to develop multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, People's Republic of China. Management plans to obtain its permit to sell from the local government of the People's Republic of China by the 2010.

Fil-Dragon's land use right, included as part of the Property Development Costs account, with a carrying amount of RMB 15,215,025 (P416.2 million) as of December 31, 2009 is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009 (see Note 14).

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2010 and 2009 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
June 30, 2010												
Cost	P 897,854,682	P 192,509,576	P 63,818,207	P 107,794,580	P 77,458,492	P 1,267,201,085	P 126,504,952	P 67,715,346	P 44,624,488	P 7,656,073	P -	P 2,853,137,481
Accumulated depreciation and amortization	-	(130,492,675)	(57,286,469)	(96,303,836)	(67,111,830)	(551,878,714)	(82,170,386)	(67,715,346)	(40,697,329)	(7,325,061)	-	(1,100,981,646)
Accumulated impairment loss	-		-	-	-	(350,000,000)	-	-	-	-	-	(350,000,000)
Net carrying amount	**P 897,854,682**	**P 62,016,901**	**P 6,531,738**	**P 11,490,744**	**P 10,346,662**	**P 365,322,371**	**P 44,334,566**	**(P 0)**	**P 3,927,159**	**P 331,012**	**P -**	**P 1,402,155,835**
December 31, 2009												
Cost	P 897,854,682	P 241,450,890	P 71,660,520	P 125,625,714	P 78,682,842	P 1,246,598,385	P 121,166,643	P 65,101,920	P 43,145,046	P 16,551,005	P 521,261	P 2,908,358,908
Accumulated depreciation and amortization	-	(143,965,176)	(71,434,898)	(108,671,988)	(65,651,485)	(537,711,107)	(82,068,142)	(61,590,859)	(39,275,825)	(15,244,996)	-	(1,125,614,476)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 62,485,714**	**P 225,622**	**P 16,953,726**	**P 13,031,357**	**P 358,887,278**	**P 39,098,501**	**P 3,511,061**	**P 3,869,221**	**P 1,306,009**	**P 521,261**	**P 1,397,744,432**

No additional impairment losses were recognized in 2010 and 2009 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2009, the fair values of the Group's land and building and improvements amounted to P1.1 billion and P352.6 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

In 2009, the BOD of SLC approved the phasing out of its plastic injection manufacturing division due to continued unfavorable results of operations. As a result, certain property, plant and equipment with total carrying amounts of P12,090,324 were reclassified as Non-current Assets Held for Sale in the 2009 consolidated statement of financial position. The fair values of these assets amount to P16.0 million. The fair value was determined as the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction.

12. INVESTMENT PROPERTY

The Group's investment property consists mainly of land and improvements and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income, and have direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 17.3).

Prior to 2008, the Group measured its investment property at cost, less accumulated depreciation, amortization and any impairment loss. In 2008, the Parent Company's BOD approved the change in accounting policy for investment property from the cost model to the fair value model in order to present a more reliable and relevant information on the carrying amounts of investment property. The change in accounting policy was applied retrospectively to January 1, 2007, which resulted in an increase in the carrying amounts of investment property as of January 1, 2008 and 2007 by P1.8 billion and P1.7 billion, respectively, and a decrease in the Deficit balance as of January 1, 2008 and 2007 by P885.1 million and P859.3 million, respectively (see Note 23.2). The 2007 consolidated financial statements were accordingly restated as a result of the accounting change.

Prior to 2008, ZTC's investment property was presented as part of Real Estate Inventories, which is stated at net realizable value as of December 31, 2007. In 2008, ZTC's BOD approved the reclassification of those assets as investment property measured using the fair value model. The remeasurement of the assets at fair value resulted in a gain of P15.1 million shown as part of Fair Value Gains on Investment Property under Other Operating Income in the 2008 consolidated statement of income (see Note 18).

The fair values of the Group's investment property as of January 1, 2007 were determined based on the appraisal report obtained by the Group covering the year ended December 31, 2006. The fair values of the Group's investment property as of December 31, 2009 and 2008 were determined based on appraisal reports dated January 11, 2010 and January 22, 2009, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property (after the retrospective application of the change in measurement from the cost model to the fair value model) as presented in the consolidated statements of financial position can be summarized as follows as of June 30, 2010 and December 31 2009:

	Land and Improvements	Buildings and Improvements	Total
2010:			
Balance at beginning of year	P 2,913,748,754	P 860,985,745	P 3,774,734,499
Balance at end of year	**P 2,913,748,754**	**P 860,985,745**	**P 3,774,734,499**
2009:			
Balance at beginning of year	P 2,833,548,651	P 932,655,701	P 3,766,204,352
Fair value gains (losses) on investment property	46,850,000	(37,026,545)	9,823,455
Additions	-	802,138	802,138
Write-off during the year	(73,076)		(73,076)
Balance at end of year	**P 2,880,325,575**	**P 896,431,294**	**P 3,776,756,869**

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 27.4).

13. OTHER ASSETS

The composition of these accounts as of June 30, 2010 and December 31, 2009 is shown below.

	Note	2010	2009
Current:			
Advances to suppliers and contractors	10	**P 137,009,036**	P 118,645,531
Input VAT		**126,758,487**	94,981,851
Creditable withholding taxes		**75,310,421**	65,526,967
Refundable deposits		**6,978,667**	3,368,991
Prepaid expenses		**221,789**	2,636,231
Others		**11,813,442**	13,926,142
		P 358,091,842	P 299,085,713

	Note	2010	2009
Non-current:			
Prepaid insurance	6	**P 8,283,379**	P 11,040,916
Refundable deposits - net		**4,570,383**	9,706,912
Others		**5,369,301**	4,171,529
		P 18,223,063	P 24,919,357

14. INTEREST-BEARING LOANS

The details of the Group's short-term and long-term interest-bearing loans are as follows as of December 31:

	2010	2009
Current	**P 412,459,814**	P 419,206,324
Non-current	**P 272,544,000**	P 135,742,000

The current portion of the Group's interest-bearing loans pertains to U.S. dollar denominated loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 6, 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.75% to 4.62% in 2010 and 2009. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2).

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the People's Republic of China amounting to RMB 20.0 million. These loans are secured by Fil-Dragon's property development cost amounting to RMB 15.2 million (P103.3 million). Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 25.8).

Certain real estate properties of the Group are used as collaterals for the secured interest-bearing loans (see Note 10). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5.0:1. As of December 31, 2009, Fil-Dragon has complied with such loan covenant.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 29.1).

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2010	2009
Trade payables	25.2	**P 71,112,541**	P 99,972,038
Accrued expenses		**123,259,363**	79,681,728
Output tax		**39,831,129**	-
Refundable deposits	16	-	22,532,420
Reserve for warranty costs	27.2	**6,804,990**	12,828,936
Others		**225,904,964**	107,589,826
		P 466,912,987	P 322,604,948

Reserve for warranty costs pertains to amounts recognized by SVC and SBC for expected warranty claims on products sold based on their past experience of the level of repairs and returns. In addition, provision for warranty also includes the amounts recognized by OLC for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders.

Other payables primarily consist of output taxes payable, payroll-related liabilities, and unearned subscription income and other revenues resulting from advances received from customers for various services provided by the Group.

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered to be a reasonable approximation of their fair values (see Note 29.1).

16. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P12,990,096 as at December 31, 2009 that pertain to leases with terms ending in 2010 to 2012. The refundable deposits are remeasured at amortized cost using the effective interest rates ranging from 7.22% to 15.77% at the inception of the lease terms. Interest expense recognized amounted to P1,386,810 in 2009 is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2). The amortized cost of the refundable deposits amounting to P11,096,848 as of December 31, 2009, respectively, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 15).

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Sales

The details of this account are shown below.

	Notes	**2010**	2009
Merchandise and finished goods at beginning of year	9	**P 458,644,314**	P 174,848,218
Net purchases of merchandise during the year	19, 25.2	**331,829,882**	489,491,602
Cost of goods manufactured:			
Raw materials at beginning of year		**20,252,525**	26,812,225
Work- in-process at beginning of year		**1,665,047**	6,023,600
Net purchases of raw materials during the year		**2,070,571**	54,105,704
Direct labor		**297,330**	4,561,509

Manufacturing overhead	11	**10,250,812**	25,529,474
Raw materials at end of year		**(15,167,271)**	(30,564,393)
Work-in-process at end of year	9	**(1,366,561)**	(5,500,773)
		18,002,453	80,967,346
Goods available for sale		**808,476,649**	745,307,166
Merchandise and finished goods at end of year	9	**(338,881,092)**	(410,850,734)
	19	**P 469,595,557**	P 334,456,432

17.2 Cost of Services

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

	Notes	**2010**	2009
Salaries and employee benefits		**P 24,176,162**	P 23,545,065
Materials and other consumables		**39,674,628**	49,197,942
Outside services	11	**42,139,298**	42,476,678
Depreciation and amortization		**20,526,052**	22,857,062
Communication, light and water	27.3	**20,246,511**	19,162,516
Transponder rental and leased line		**6,652,854**	7,008,174
Rentals		**14,835,461**	13,407,806
Transportation and travel		**17,649,841**	1,551,837
Repairs and maintenance		**7,945,344**	7,885,693
Cable services		**3,348,214**	3,348,214
Others		**18,775,794**	31,218,526
	19	**P 215,970,159**	P 221,659,513

17.3 Cost of Rentals

The details of this account are as follows:

	Note	**2010**	2009
Rentals		**P 4,737,146**	P 4,724,896
Taxes and licenses		**10,526,613**	9,326,993
Security and janitorial services		**2,531,545**	2,411,009
Light and water		-	1,893,870
Depreciation and amortization		**1,594,246**	2,152,167
Repairs and maintenance		**2,533,119**	1,297,815
Salaries and employee benefits		**558,561**	553,758
Others		**1,995,163**	1,892,755
	19	**P 24,476,393**	P 24,253,263

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	2010	2009
Increase in cash surrender value of investment in life insurance	6	**P 9,371,693**	P 9,503,498
Others		**15,460,392**	4,564,291
		P 24,832,085	P 14,067,789

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2010	2009
Net purchases of merchandise inventories	17.1	**P 331,829,882**	P 489,491,602
Salaries and employee benefits	21.1	**100,263,481**	96,901,285
Materials, supplies and other consumables		**44,144,318**	107,435,245
Depreciation and amortization		**33,864,207**	40,731,648
Communication, light and water		**30,528,167**	34,577,477
Manpower and other outside services		**60,348,779**	69,082,114
Cost of real estate		**100,461,283**	150,657,950
Rentals	25.3, 27.3	**24,894,388**	22,449,921
Transportation and travel		**25,542,127**	9,564,559
Repairs and maintenance		**18,017,587**	14,317,771
Transponder rental and leased line		**6,652,854**	7,008,174
Taxes and licenses		**29,974,007**	23,926,681
Change in merchandise, finished goods and work-in-process inventories		**125,146,962**	(239,231,857)
Others	15	**105,337,322**	91,843,047
		P 1,037,005,364	P 918,755,617

Items classified under the miscellaneous account primarily consist of advertising and promotions, subcontracting services, taxes and licenses, cable services and insurance expenses incurred by the Group.

These expenses are classified in the consolidated statements of income as follows:

	Note	2010	2009
Cost of services	17.1	**P 215,970,159**	P 221,659,513
Cost of sales	17.2	**469,595,557**	334,456,432
Cost of rentals		**24,476,393**	24,253,263
Cost of real estate sold	17.3	**100,461,283**	150,657,950
General and administrative expenses		**146,472,895**	143,466,920
Selling and distribution costs		**80,029,078**	44,261,539
		P 1,037,005,364	P 918,755,617

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2010	2009
Interest income from banks	4	**P 12,132,054**	P 13,695,542
Gain on sale of financial assets		**2,069,045**	
Others	-		-
		P 14,201,099	P 13,695,542

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P30.4 million in 2010 and P52.3 million in 2009 are presented as Interest Income under Revenues in the consolidated statements of income, as these were generated from the entities' primary business operations.

20.2 Finance Costs

This account consists of the following:

	Notes	2010	2009
Interest expense arising from loans	14	**P 5,359,363**	10,206,656
Loss on sale of financial assets		-	8,733,396
Reclassification adjustment – realized loss on sale of financial assets		**3,621,231**	7,203,714
Foreign currency losses		**5,799,459**	47,957
		P 14,780,053	P 26,191,723

20.3 Other Gains (Losses)

This account consists of the following:

	Notes	2010	2009
Gain on sale of property and equipment	11	-	62,500
		P -	P 62,500

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 19 and 25.9).

		2010		2009
Short-term benefits	P	96,106,901	P	90,014,129
Retirement benefits		2,867,525		6,002,232
Termination benefits		1,289,055		884,924
	P	100,263,481	P	96,901,285

21.2 Post-Employment Benefit

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

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

		2009
Fair value of plan assets	P	165,590,060
Present value of the obligation		46,764,337
Excess of plan assets		118,825,723
Unrecognized actuarial losses (gains)		(72,889,761)
	P	45,935,962

The amounts of retirement benefit obligation of SGI, SBC, ZTC and CBHI that are recognized in the consolidated statements of financial position are determined as follows:

		2009
Fair value of plan assets	P	45,104,609
Present value of the obligation		24,860,158
Excess of plan assets		20,244,451
Unrecognized actuarial losses (gains)		(21,729,047)
Retirement benefit obligation	P	1,484,596

Presented below are the overall historical information related to the present value of the retirement benefit obligation, fair value of plan assets and net excess in the plan of the Group.

		2009
Fair value of plan assets	P	210,694,669
Present value of the obligation		71,624,495
Excess in the plan	P	139,070,174

Experience adjustments arising on plan assets amounted to P8.9 million in 2009, P2.4 million in 2008, P2.5 million in 2007 and P23.4 million in 2006. Experience adjustments on plan liabilities amounted to P9.1 million in 2009 and P14.8 million in 2008. Management has determined that the experience adjustments on plan liabilities in 2007 and 2006 are not significant.

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

	2009
Balance at beginning of year	P 74,604,282
Current service and interest costs	15,235,629
Benefits paid	(1,355,624)
Actuarial gains (losses)	(16,859,792)
Balance at end of year	P 71,624,495

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

	2009
Balance at beginning of year	P 163,517,091
Contributions paid into the plan	27,235,347
Benefits paid by the plan	(1,355,624)
Expected return on plan assets	8,576,874
Actuarial gains (losses)	12,720,981
Balance at end of year	P 210,694,669

Actual returns on plan assets amounted to P13.3 million in 2009. The Group expects to contribute a total of P9.7 million to the post-employment defined benefit plan in 2010.

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

	2009
Government securities	P 191,732,149
Mutual and trust funds	18,962,520
Others	-
	P 210,694,669

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

	2009
Current service cost	P 7,494,912
Interest cost	7,740,717
Expected return on plan assets	(8,576,874)
Net actuarial gains recognized during the year	(9,807,179)
Effect of asset limit	15,044,164
	P 11,895,740

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

	2009
Discount rates	**8% - 9%**
Expected rate of return on plan assets	**6%**
Expected rate of salary increases	**9%**

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

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

22. TAXES

22.1 Registration with Economic Zone Authorities

(a) Registration with Clark Development Corporation (CDC)

Kita, a subsidiary, is registered with CDC under RA 7227, *The Bases Conversion and Development Act of 1992*, as amended under RA 9400, *An Act Amending RA 7227, as Amended, Otherwise Known as the Bases Conversion and Development Act of 1992, and for Other Purposes.* As a registered business enterprise within the Clark Freeport Zone, Kita is exempted from national and local taxes and is entitled to tax and duty free importation of raw materials, equipment, household and personal items. In lieu of said taxes, Kita is subject to a 5% preferential tax rate on its registered activities. However, the 30% in 2009 and 35% in 2008 and 2007 RCIT rate is applied to income coming from sources other than Kita's registered activities.

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

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

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

22.2 Current and Deferred Tax

The components of tax expense as reported in the consolidated statements of income and consolidated statements of comprehensive income are as follows:

	2009
Consolidated statements of income:	
Current tax expense:	
Regular corporate income tax (RCIT) at 30% in 2009 and 35% in 2008	**P 41,898,822**
Final taxes at 20% and 7.5%	**7,710,318**
Preferential taxes at 5%	**4,336,892**
Minimum corporate income tax (MCIT) at 2%	**865,972**
	54,812,004
Deferred tax expense (income) relating to:	
Origination and reversal of temporary differences	**15,337,458**
Reduction in deferred tax rate in 2009	**-**
Derecognition of deferred tax assets	**-**
Benefit from previously unrecognized MCIT and net operating loss carryover (NOLCO)	**-**
Increase in RCIT rate	**-**
	15,337,458
	P 70,149,462
Consolidated statements of comprehensive income –	
Deferred tax income on changes in fair value of available-for-sale financial assets (see Note 23.1)	**(P 150,000)**

The reconciliation of tax on pretax profit computed at the applicable statutory rate to tax expense reported in the consolidated statements of income is shown below.

	2009
Tax on pretax profit at 30% in 2009 and 35% in 2008 and 2007	**P 100,389,917**
Adjustment for income subject to lower tax rates	**(26,930,042)**
Tax effects of:	
Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets	**(32,929,923)**
Derecognized and unrecognized deductible temporary differences	**15,170,833**

Unrecognized deferred taxes from NOLCO and MCIT		**7,018,190**
Nondeductible expenses and losses		**7,010,443**
Nontaxable income	**(**	**707,241)**
Income (loss) of foreign subsidiary not subject to taxes		**596,279**
Loss on non-recoverable foreign currency losses		**486,363**
Decrease in deferred tax assets due to decrease in applicable tax rates		**-**
Unrecognized benefit from write-off of receivables		**-**
Amortization of goodwill attributable to property, plant and equipment		**-**
Fair value gains of financial assets at fair value through profit or loss		**-**
Deferred tax assets recognized		**-**
Others		**44,643**
	P	**70,149,462**

The net deferred tax assets of the Parent Company and subsidiaries having a net deferred tax asset position as of June 30, 2010 and December 31, 20009 relate to the following:

		2010		2009
Deferred tax assets:				
Retirement benefit obligation	**P**	**1,259,470**	P	1,259,470
Allowance for impairment on trade and other receivables		**1,018,217**		1,018,217
Reserve for warranty costs		**956,903**		956,903
Unamortized past service costs		**340,650**		340,650
Unamortized pre-operating expenses		**217,082**		217,082
NOLCO		**107,765**		107,765
Accrued rentals – PAS 17		**4,965**		4,965
Allowance for inventory obsolescence		**-**		-
	P	**3,905,052**	P	3,905,052
Deferred tax liabilities:				
Retirement benefit asset	**(**	**496,440)**	(	496,440)
Deferred rent income – PAS 17		**-**		-
Retirement benefit asset	**(**	**496,440)**	(	496,440)
Deferred Tax Assets – net	**P**	**3,408,612**	P	3,408,612

The net deferred tax liabilities of the subsidiaries which have a net deferred tax liability position as of June 30, 2010 and December 31, 2009 relate to the following:

		2010		2009
Deferred tax assets:				
Allowance for impairment on trade and other receivables	**P**	**7,818,450**	P	7,818,450

Unamortized past service costs	**804,481**	804,481
Deferred rent expense – PAS 17	**532,188**	532,188
Reserve for warranty costs	**459,875**	459,875
Allowance for inventory obsolescence	**228,443**	228,443
NOLCO	**-**	-
Deferred tax liabilities:		
Fair value gains on investment property	**(730,957,917)**	(730,957,917)
Accumulated depreciation on investment property	**(112,331,376)**	(112,331,376)
Retirement benefit asset	**(9,021,525)**	(9,021,525)
Deferred rent income – PAS 17	**(6,280,044)**	(6,280,044)
Unrealized foreign currency gains	**(566,890)**	(566,890)
Changes in fair value of AFS	**(90,000)**	(90,000)
Deferred Tax Liabilities – net	**(P 849,404,315)**	(P 830,416,148)

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

	2009
Accumulated depreciation on investment property	**P 6,184,084**
Fair value gains on investment property	**5,109,437**
Retirement benefit obligation	**2,795,573**
Deferred rent income – PAS 17	**887,629**
Allowance for impairment on trade and other receivables	**602,140**
Reserve for warranty costs	**(415,140)**
NOLCO	**338,063**
Unamortized preoperating expenses	**(217,082)**
Unamortized past service costs	**114,254**
Unrealized foreign currency losses	**(76,027)**
Allowance for inventory obsolescence	**29,492**
Deferred rent expense – PAS 17	**(14,965)**
	P 15,337,458

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of Available-for-sale Financial Assets.

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2009	P 19,952,531	P -	P -	P -	P 19,952,531	2012
2008	20,437,740	-	6,012,245	-	14,425,495	2011
2007	176,380,777	-	23,700	-	176,357,077	2010
2006	136,073,628	-	88,010,244	48,063,384	-	2009
	P 352,844,676	P -	P 94,046,189	P 48,063,384	P 210,735,103	

MCIT:						
2009	P 716,890	P -	P -	P -	P 716,890	2012
2008	4,174,555	-	3,397,278	-	777,277	2011
2007	1,875,456	-	1,513,791	-	361,665	2010
2006	10,929	-	-	10,929	-	2009
	P 6,777,830	P -	P 4,911,069	P 10,929	P 1,855,832	

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

	2009		2008		2007	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
Accumulated impairment losses on property, plant, and equipment	**P 350,000,000**	**P 105,000,000**	P 350,000,000	P 105,000,000	P 350,000,00	P 122,500,000
NOLCO	**251,122,331**	**75,336,699**	338,611,024	101,583,309	427,656,047	149,679,617
Allowance for impairment of financial assets classified as loans and receivables	**105,528,652**	**30,158,596**	98,284,975	29,485,492	96,360,678	33,726,237
Allowance for inventory obsolescence	**47,404,857**	**14,221,457**	35,322,425	10,596,728	37,804,064	13,231,422
Unrealized foreign currency loss (gain)	**9,943,291**	**2,982,987**	(6,427,131)	(1,928,289)	55,234,775	19,332,171
Fair value loss in investment properties	**5,676,000**	**1,702,800**	-	-	347,373	121,581
Allowance for impairment loss on available-for-sale financial assets	**5,460,000**	**1,638,000**	5,320,000	1,596,000	5,220,000	1,827,000
Unamortized past service cost	**2,077,689**	**623,307**	2,760,646	828,194	3,443,603	1,205,261
Retirement benefit obligation	**1,974,541**	**592,362**	7,558,321	2,267,496	4,480,376	1,568,133
MCIT	**2,015,843**	**1,877,237**	6,054,878	6,054,878	1,616,652	1,616,652
	P 781,203,204	**P 234,133,445**	P 837,485,138	P 255,483,808	P 982,163,568	P 344,808,074

22.3 Optional Standard Deductions

In July 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross sales. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. In 2009 and 2008, the Group opted to claim itemized deductions.

22.4 Change in Applicable Tax Rates

Effective January 1, 2009, in accordance with RA 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

23. EQUITY

23.1 Revaluation Reserves

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

	Note	**2010**	2009
Cumulative translation adjustments:			
Balance at beginning of year		**P 70,778,455**	**P 85,204,455**
Currency differences on translating financial statements of foreign operations	2	**45,327,099**	**(14,426,000)**

	Notes		
		P 116,105,554	P 70,778,455
Fair value gains (losses) on available-for-sale financial assets:			
Balance at beginning of year		(172,432,191)	(298,230,850)
Fair value gains (losses) – net		6,057,827	35,278,701
Gain on reclassification of financial assets	8		28,237,397
Reclassification adjustments for losses recognized in profit or loss		3,621,231	62,432,561
Deferred tax income on changes in fair value of available-for-sale financial assets	22	(-)	(150,000)
Balance at end of year		(162,753,133)	(172,432,191)
		(P 46,647,579)	(P 101,653,736)

23.2 Prior Period Adjustments

The Deficit balances as of January 1, 2009, 2008 and 2007 were restated to reflect the retrospective effects of a change in the Group's accounting policy on investment property and to correct certain misstatements in the consolidated financial statements.

The details of the Group's prior period adjustments are discussed in the succeeding pages.

(a) Retrospective Effects of Change in Accounting Policy

The balances of retained earnings (deficit) as of January 1, 2009 were restated to reflect the effects of the change in accounting policy for investment property (see Note 12) made in 2008, as well as the adjustment made in 2009 to reduce the effect of such change as initially reported as fair value gains in 2008 by certain subsidiaries, as summarized below.

	January 1, 2009
Fair value gains – as restated	P -
Adjustment to previously recognized fair value gains	(22,120,000)
Deferred tax effect on fair value gains/adjustment	6,636,000
Reversal of accumulated depreciation based on cost	-
Reversal of accumulated impairment losses	-
Deferred tax effect on accumulated depreciation based on cost	-
Total adjustment to equity arising from change in accounting policy	(P 15,484,000)

(b) *Correction of Misstatements*

In 2009, the Group recognized prior period adjustments to restate the beginning balance of Retained Earnings as of January 1, 2009 as follows:

- SE Corp. recognized retirement benefit asset at its full amount in its 2008 financial statements. To comply with the provisions of PAS 19, *Employee Benefits*, SE Corp. recognized the limit on the retirement benefit asset previously recognized. A prior period adjustment was also made to recognize the related deferred tax liability on the retirement benefit asset. The prior period adjustment resulted in a decrease in the Retirement Benefit Asset account by P8.0 million and an increase in Deferred Tax Liabilities by P3.4 million.

- Starworld restated the beginning balance of the Retained Earnings account as of January 1, 2009 to record unrecognized management fees amounting to P4.0 million relating to 2008 operations.

- As a result of the Starworld's availment of the tax amnesty under RA 9480, *Tax Amnesty Law*, which covers 2005 and prior taxable years, Starworld recorded a prior period adjustment to the balance of Retained Earnings as of January 1, 2008 and 2007 to reverse long-outstanding liabilities amounting to P9.0 million. The prior period adjustment resulted in an increase in Starworld's Retained Earnings as of January 1, 2008 and 2007 and a decrease in Estimated Liability for Land and Property Development Costs by the same amount. Also, as a result of this adjustment, additional tax expense recorded as part of Taxes and Licenses presented in 2008 consolidated statement of income, relating to the tax amnesty availment amounting to P500,000, was paid on March 5, 2008

24. EARNINGS (LOSS) PER SHARE

Basic and diluted earnings (loss) per share for profit (loss) attributable to the Parent Company's stockholders are computed as follows:

	2010	2009
Net income (loss) attributable to Equity holders of the parent company	**P 113,845,631**	P 86,563,063
Divided by weighted average shares outstanding:		
Number of shares issued	**2,030,975,000**	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)
	1,821,542,000	1,821,542,000
Earnings (loss) per share	**P 0.06**	P 0.05

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of June 30, 2010 and December 31, 2009, hence, diluted earnings (loss) per share is equal to the basic earnings (loss) per share.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Rendering Services

	Amount of Transactions	Outstanding Balances
	2009	2009
Sales of goods -		
Sale of mobile phones	P 540,219,872	P 209,161,769
Rendering of services:		
Use of cable infrastructure	145,891,071	73,234,838
Commissions	2,546,771	25,037,739
Management services	1,200,000	-
	P 689,857,714	P 307,434,346

In 2009, the SBC sold majority of its mobile phone inventories to Mytel. The outstanding receivable related to this transaction is shown as part of Trade Receivables under the Trade and Other Receivables account in the 2009 consolidated statement of financial position (see Note 6).

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 51% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivables arising from these transactions are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position.

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Parent Company's majority stockholders. SVC also earns commissions from the sales of Solid Trading Limited (STL), a company also owned by the Parent Company's majority stockholders, to customers in the Philippines (see Note 25.6).

The Parent Company provides general management advisory services to CPD Access Corporation (CPD), a company owned by SGI's majority stockholders. In consideration for such services, the Parent Company receives management fees on a monthly basis as determined based on a management contract mutually agreed upon by both parties. The outstanding balance of as of December 31, 2007 is presented as part of Trade Receivables under the Trade and Other Receivables account in the 2007 consolidated statement of financial position.

25.2 Purchase of Goods and Services

	Amount of Transactions
	2009
Purchase of goods	P 86,676,721
Availment of management services	-
	P 86,676,721

SE Corp. purchases parts and supplies from CPD while SMC avails of management services from AA Commercial Corp., a company owned by SGI's majority stockholders.

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note 17.2) and General and Administrative Expenses (see Note 19), respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions
	2009
Group as lessor	P 584,242
Group as lessee	P 600,000

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

SLC rents portion of a building of a company owned by the Parent Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated statements of income (see Note 19). There are no outstanding liabilities related to this lease in 2009, 2008 and 2007.

25.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 8.0% in 2009 and 2008 and 9.0% in 2007. Total interests earned from these loans amounted to P10.2 million in 2009, P13.3 million in 2008 and P14.1 million in 2007, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

The outstanding receivables as of December 31, 2009 are as follows:

	2009
Business loans:	
AA Export and Import Corporation	P 77,061,004
Avid Sales Corporation	46,000,000
	123,061,004
Car loans:	
TCL Sun, Inc.	-
	P 123,061,004

The business loan to AA Export and Import Corporation is originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. These business loans are secured by shares of stock of the borrowing companies which are owned by a related party (see Note 6). Total principal repayments received on the loans amounted to P13,130,401 in 2009 and P15,223,799 in 2008 P5,824,784 in 2007.

SMFI also granted unsecured business loan to Avid Sales Corporation amounting to P80.0 million. There were no principal repayments made in 2009 related to the business loan.

25.5 Advances to and from Related Parties

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

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P2.5 million in 2009, P1.5 million in 2008 and P1.6 million in 2007 is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding balances arising from these transactions amounted to P25.0 million, P37.8 million and P31.3 million as of December 31, 2009, 2008 and 2007, respectively, and are included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 25.1).

25.7 Transactions with Solid Company Limited (Hongkong)

SBC purchases mobile phones from Solid Company Limited (Hongkong), a related party owned by the Parent Company's majority stockholders. Total purchases amounted to P547.6 million in 2009 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 17.1). There are no outstanding liabilities relating to these purchases as of December 31, 2009

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hongkong) amounting to P120.8 million which will mature on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollars.

The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account in the 2009 and 2008 consolidated statements of financial position (see Note 6).

25.8 Financial Guarantees

In 2009, Fil-Dragon obtained a secured interest-bearing loan amounting to RMB 20.0 million (P135.7 million) from a local bank in the People's Republic of China to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract will continue in effect until the end of two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon.

25.9 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2009 are as follows (see Note 21.1):

	2009
Short-term benefits	P 23,959,255
Post-employment benefit	1,447,878
	P 25,407,133

26. SIGNIFICANT CONTRACTS AND AGREEMENTS

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

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony and Aiwa products. Under the MOU, Sony authorized the SE Corp. to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee equivalent to a certain percentage of Sony's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by Sony. Also, Sony agrees to pay the SE Corp. network support fees equal to 1% of net sales for Sony products and 1% or P50,000 per month whichever is higher for Aiwa products. In the first quarter of 2009, SE Corp. and Sony agreed to lower the network support fees to 0.45% of Sony's net sales. Subsequently, SE Corp. and Sony agreed that network support fees shall be fixed at P1.25 million per month effective April 2009. Management believes that the MOU continues to be effective unless revoked by any of the parties.

The breakdown of network support fees and in-warranty service fees are shown below.

	Amount of Transactions	Outstanding Balances
	2009	2009
SONY Products	P 37,536,329	P 3,180,606
AIWA Products	601,080	-
	P 38,137,409	P 3,180,606

Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. The outstanding receivables arising from these transactions are included as part of Trade and Other Receivables in the consolidated statements of financial position.

26.2 Distributorship Agreement with Sony Corporation

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 15). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

27. COMMITMENTS AND CONTINGENCIES

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

27.1 Planned Acquisition of Investments

(a) Mytel Mobility Solutions, Inc.

In 2009, the Parent Company's BOD approved the acquisition of 100% ownership interest in Mytel for a total acquisition price of P500,000 (see Note 1). The acquisition was approved since Mytel's primary purpose is related to the primary businesses of certain subsidiaries. The Company's acquisition of Mytel was consummated on January 10, 2010. The aggregate amount of assets, liabilities as of December 31, 2009 and aggregate amounts of revenues and loss of Mytel for the period July 6, 2009 to December 31, 2009 are as follows:

Assets	P	497,075,396
Liabilities		544,879,192
Revenues		168,220,640
Loss for the period		48,303,796

(b) Land Registration Authority Systems, Inc.

In 2005, SGI, together with other investors, entered into a negotiation with LARES, a company engaged in computerizing and modernizing the land registration system of LRA. Under the negotiation plan, the Group, through SGTC, will acquire 51% interest in LARES. Realization of the planned acquisition depends on several conditions, including government's approval for LARES to continue the project.

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P2.0 million in 2006 and P0.9 million in 2005. The amount was paid in full by LARES in

2008. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6.0 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

(i) P3.0 million shall be used for expenses pertaining to LARES arbitration proceedings with the LRA; and,

(ii) The balance of P3.0 million shall be used for working capital and operating expenses of LARES.

In September 2008, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements. As of December 31, 2009, the amount of P6.0 million was fully collected (see Note 6).

27.2 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease various properties for a period of 1 to 10 years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum rentals receivable under these non-cancellable operating leases as of December 31 are as follows:

	2009
Within one year	P 53,682,958
After one year but not more than five years	91,966,581
More than five years	1,810,700
	P 147,460,239

27.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2008, these leases have a remaining term of 11 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2009
Within one year	P 6,664,895
After one year but not more than five years	29,065,715
More than five years	52,122,286
	P 87,852,896

Total rental expense from these operating leases amounted to P7,415,493 each in 2009, are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Note 17.2 and 19).

27.4 Legal Claims

Certain subsidiaries are involved in various litigations, which arose in the normal course of business, described as follows:

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

   (i) A portion of land in Pililla, Rizal, with a carrying value of P55.7 million, subject to expropriation coverage under the Agrarian Reform Act; and,

   (ii) A piece of land, with a carrying value of P309.0 million, subject to claims by third parties who filed court cases against SMC.

(b) SC is involved in litigation and is subject to certain claims by third parties. Also, a portion of SC's land located in Pamaldan, Cabanatuan City, with a carrying amount of P7.6 million, is subject to expropriation coverage under the Agrarian Reform Act.

(c) SLC is charged for alleged infringement of copyrights and sound recording by a third party.

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

27.5 Estimated Liability for Land and Property Development

As of June 30, 2010 and December 31, 2009, the Group has commitment of about P68.3 million for the fulfillment of projects in the development and marketing of CPIP (see Note 10).

27.6 Purchase Commitments

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 10). The construction of Tower 1 was fully completed in 2008 while the construction of Towers 2 and 3 has not yet started as of December 31, 2009.

27.7 Possible Impact of Government Project

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

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

27.8 Others

There are commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the accompanying financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

28. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

28.1 Foreign Currency Sensitivity

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables, interest-bearing loans and trade and other payables, which are primarily denominated in U.S. dollars and Chinese yuan renminbi. The Group also holds U.S dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

	2010		2009	
	US Dollar	**Chinese Yuan Renminbi**	US Dollar	Chinese Yuan Renminbi
Financial assets	**P 649,288,116**	**P 89,774,666**	P 637,642,672	P 106,121,412
Financial liabilities	**(423,908,280)**	**(331,104,161)**	(430,290,137)	(215,074,453)
Total net exposure	**P 225,379,836**	**(P 241,329,495)**	P 207,352,535	(P108,953,041)

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in the Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined on the average market volatility in exchange rates, using standard deviation, in the previous 6 months and 12 months at a 99% confidence level.

	2010		2009	
	Reasonably possible change in rate	**Effect in profit before tax**	Reasonably possible change in rates	Effect in profit before tax
Php - USD	**14.89%**	**P 33.5 million**	20.17%	P 41.8 million
Php - RMB	**14.86%**	**(35.8 million)**	19.97%	(21.7 million)
		(P 2.3 million)		P 20.1 million

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

28.2 Interest Rate Sensitivity

At June 30, 2010 and December 31, 2009, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5). All other financial assets and liabilities have fixed rates.

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of and +/+-0.6% in 2010 and -7.21% in 2009. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 6 months and 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 0.6% and 7.21%, profit before tax in 2010 and 2009 would have increased by P8 million and P68.1 million, , respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

28.3 Credit Risk

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated balance sheets (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below:

	Notes	**2010**	2009
Cash and cash equivalents	5	**P 1,624,437,053**	P 1,263,142,145
Trade and other receivables - net	6	**1,206,443,867**	1,181,048,096
Available-for-sale financial assets	7	**333,372,627**	313,805,880
Advances to related parties	25	**136,183,248**	504,328,415
		P 3,164,253,547	P 3,262,324,536

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(a) Cash and Cash Equivalents, Held-to-maturity Investments and Available-for-sale Financial Assets

The credit risk for cash and cash equivalents and investments in foreign currency denominated bonds, classified as held-to-maturity investments and available-for-sale financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) Trade and Other Receivables

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or other credit enhancements. Trade receivables are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

Some of the unimpaired trade receivables are past due at the end of the reporting period. Trade receivables past due but not impaired can be shown as follows:

	2009
Not more than 3 months	P 296,399,509
More than 3 months but not more than one year	33,817,343
More than one year	96,345
	P 330,313,197

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

28.4 Liquidity Risk

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

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

As at June 30, 2010 and December 31, 2009, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans and trade and other payables which have contractual maturities of within six months and advances from related parties which have contractual maturities of 6 to 12 months. These contractual maturities reflect the gross cash flows, which is equal to the carrying values of the liabilities at the end of the reporting period.

29. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

29.1 Comparison of Carrying Values and Fair Values

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

		2010		2009	
	Notes	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**P 1,624,437,053**	**P 1,624,437,053**	P 1,263,142,145	P 1,263,142,145
Trade and other receivables - net	6	**1,206,443,867**	**1,206,443,867**	1,181,048,096	1,181,048,096
Advances to related parties	25	**136,183,248**	**136,183,248**	504,328,415	504,328,415
Available-for-sale financial assets –	7				
Investments in bonds		**322,203,820**	**322,203,820**	305,804,353	305,804,353
Golf club shares – net		**2,994,921**	**2,994,921**	6,605,009	6,785,009
Others		**5,583,798**	**5,583,798**	1,396,518	1,396,518
		P 3,297,846,707	**P 3,297,846,707**	P 3,262,324,536	P 3,262,324,536
Financial liabilities					
At amortized cost:					
Interest-bearing loans	14	**P 685,003,814**	**P 685,003,814**	P 554,948,324	P 554,948,324
Trade and other payables	15	**466,912,987**	**466,912,987**	322,604,948	322,604,948
Advances from related parties	25	**161,328,863**	**161,328,863**	201,439,920	201,439,920
Refundable deposits	16	**11,096,849**	**11,096,849**	11,096,848	11,096,848
		P 1,324,342,513	**P 1324,342,513**	P 1,090,090,040	P 1,090,090,040

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 28.

29.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of June 30, 2010 and December 31, 2009.

	Level 1	Level 2	Level 3	Total
June 30, 2010:				
Available-for-sale financial assets	**P 333,372,627**	**P -**	**P -**	**P 333,362,637**
December 31, 2009:				
Available-for-sale financial assets	P 312,409,362	P -	P 1,396,518	P 313,805,880

The different levels have been defined as follows:

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

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

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

30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	2010	2009
Total liabilities (excluding amounts due to related parties)	**P 2,107,977,492**	P 1,989,675,552
Total equity	**7,936,437,319**	7,663,821,949
Debt-to-equity ratio	**P 0.27 : 1**	P 0.26 : 1

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

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	Current	1-30 days	31-60 days	61-90 days	91 days & over	**Total**
Trade	293,705,790	53,413,619	30,451,950	36,688,148	132,460,514	**546,720,021**
Finance receivables	12,566,230				3,166,936	**15,733,166**
Others	24,896,559	527,944	548,781	495,864	68,932,228	**95,401,376**
Total	331,168,579	53,941,563	31,000,731	37,184,012	204,559,678	**657,854,563**
Allowance for impairment						**(157,626,022)**
Trade and other receivables-net						**500,228,541**