



## SOLID GROUP INC.

May 18, 2012

**PHILIPPINE STOCK EXCHANGE, INC.**

Disclosure Department  
4<sup>th</sup> 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

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: March 31, 2012
2. Commission Identification Number: 845
3. BIR Tax Identification No.: 321-000-508-536
4. Exact name of registrant as specified in its charter **SOLID GROUP INC.**
5. Province, Country or other jurisdiction  
of incorporation: Philippines
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. Address of principal office: Solid House, Postal Code: 1231  
2285 Don Chino Roces Avenue (formerly Pasong Tamo Ext.), Makati City,  
Philippines
8. Telephone No: (632) 843-15-11
9. Former name, former address and former fiscal year,  
if changed since last report: N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

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

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

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

Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

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

Yes [ X ]

No [ ]

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

Yes [ X ]

No [ ]

## **PART I. – FINANCIAL INFORMATION**

### **Item 1. Financial Statements**

The unaudited consolidated financial statements of the Company and its subsidiaries for the three (3) months period ended March 31, 2012 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 2012 and 2011 are as follows:

	<u>2012</u>	<u>2011</u>
Revenue growth	29%	45%
Asset turnover	37%	31%
Operating expense ratio	14%	19%
EBITDA	P126 million	P89 million
EPS	P0.04	P0.03
Current ratio	2.39 : 1	2.46 : 1
Debt to equity ratio	0.38 : 1	0.35 : 1

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

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

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

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

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

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

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

Revenue improved by 29% for the first quarter of 2012 vs. 45% for the same period in 2011 principally due to higher revenues of the distribution segment on digital product sales for the first quarter.

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

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

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

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

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

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

#### Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

### Financial Position

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trade and other payables amounted to P793 million as of March 31, 2012 against P592 million as of December 31, 2011, higher by 25% primarily due to higher trade payable, advances from customers and other payables.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The Company estimates capital expenditures for the year 2012 to amount to P650 million for the construction of Tower 2 of our condominium project, real estate development and upgrade of the

broadband infrastructure. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

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

On November 23, 2009, the Company's management disclosed in public its plan of phasing out its unprofitable plastic injection manufacturing business which includes Kita Corporation (Kita) and Solid Laguna Corporation (SLC). SLC ceased the operations of the plastic injection manufacturing business at the end of 2009. Also, Kita ceased the operations of its injected plastics manufacturing business in December 2010. Kita and SLC were expected to reduce about 1% and 5% of revenues, respectively.

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

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

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

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

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

## **PART II –OTHER INFORMATION**

None.

## SIGNATURES

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

**SOLID GROUP INC.**



**DAVID S. LIM**

President & Chief Executive Officer



**VINCENT S. LIM**

SVP & Chief Financial Officer

May 18, 2012

# **Solid Group Inc. and Subsidiaries**

Unaudited Consolidated Financial Statements

March 31, 2012 and December 31, 2011

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**MARCH 31, 2012 AND DECEMBER 31, 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	P 1,942,054,158	P 1,720,748,062
Trade and other receivables - net	7	1,240,584,133	1,137,152,304
Advances to related parties	28	60,227,080	128,543,399
Financial assets at fair value through profit or loss	8	88,323,094	70,272,991
Available-for-sale financial assets - net	9	55,096,269	51,994,367
Merchandise inventories and supplies - net	11	571,114,631	564,543,065
Real estate inventories - net	12	1,657,277,894	1,675,780,772
Other current assets	15	<u>258,988,593</u>	<u>267,196,925</u>
Total Current Assets		<u>5,873,665,852</u>	<u>5,616,231,885</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	660,142,802	669,885,531
Available-for-sale financial assets - net	9	8,229,402	7,881,527
Property, plant and equipment - net	13	1,392,386,200	1,386,934,809
Investment property - net	14	3,864,945,265	3,864,333,786
Retirement benefit asset	23	79,281,451	79,281,451
Deferred tax assets - net	24	69,982,489	69,982,489
Other non-current assets - net	15	<u>26,624,306</u>	<u>22,151,072</u>
Total Non-current Assets		<u>6,101,591,915</u>	<u>6,100,450,665</u>
<b>TOTAL ASSETS</b>		<u><b>P 11,975,257,767</b></u>	<u><b>P 11,716,682,550</b></u>

	Notes	2012	2011
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	16	P 769,354,821	P 779,398,755
Trade and other payables	17	792,904,901	592,432,973
Customers' deposits	12	681,378,801	686,313,646
Advances from related parties	28	89,938,989	107,495,231
Estimated liability for land and land development costs	12	68,304,647	68,304,647
Income tax payable		59,544,699	43,387,647
Total Current Liabilities		2,461,426,858	2,277,332,899
<b>NON-CURRENT LIABILITIES</b>			
Refundable deposits - net	18	17,620,995	15,611,010
Retirement benefit obligation	23	6,111,141	6,111,141
Deferred tax liabilities - net	24	861,145,243	861,145,243
Total Non-current Liabilities		884,877,379	882,867,394
Total Liabilities		3,346,304,237	3,160,200,293
<b>EQUITY</b>			
Equity attributable to the Parent Company's stockholders			
Capital stock	25	2,030,975,000	2,030,975,000
Additional paid-in capital		4,641,701,922	4,641,701,922
Treasury shares - at cost	25	( 115,614,380 )	( 115,614,380 )
Revaluation reserves	25	( 22,615,617 )	( 29,242,370 )
Retained earnings	25	1,689,110,225	1,623,289,267
Total equity attributable to the Parent Company's stockholders		8,223,557,150	8,151,109,439
Non-controlling interests		405,396,380	405,372,818
Total Equity		8,628,953,530	8,556,482,257
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 11,975,257,767</b>	<b>P 11,716,682,550</b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Notes	2012	2011
<b>REVENUES</b>	2		
Sale of goods		P 840,999,724	P 599,094,955
Rendering of services		186,628,713	169,187,829
Sale of real estate		12,058,254	28,374,457
Rentals		36,646,828	37,353,791
Interests		11,221,408	10,111,369
		<u>1,087,554,927</u>	<u>844,122,401</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>			
Cost of sales	19	697,672,080	479,647,025
Cost of services	19	126,372,594	109,407,289
Cost of real estate sold	21	8,421,070	21,853,958
Cost of rentals	19	15,323,909	16,258,773
		<u>847,789,653</u>	<u>627,167,045</u>
<b>GROSS PROFIT</b>		<u>239,765,274</u>	<u>216,955,356</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>			
General and administrative expenses	21	90,832,721	89,263,603
Selling and distribution costs	21	63,853,621	67,925,104
Other operating income - net	20	( 11,079,400 )	( 12,416,772 )
		<u>143,606,942</u>	<u>144,771,935</u>
<b>OPERATING PROFIT</b>		<u>96,158,332</u>	<u>72,183,421</u>
<b>OTHER INCOME (CHARGES)</b>			
Finance costs	22	( 15,728,404 )	( 18,407,196 )
Finance income	22	22,281,578	13,880,223
Other gains - net		171,309	87,102
		<u>6,724,483</u>	<u>( 4,439,871 )</u>
<b>PROFIT BEFORE TAX</b>		102,882,815	67,743,550
<b>TAX EXPENSE</b>	24	<u>37,038,295</u>	<u>22,744,056</u>
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<u>65,844,520</u>	<u>P 44,999,494</u>
<b>Profit for the year attributable to the</b>			
Parent Company's stockholders		P 65,820,958	P 47,568,087
Non-controlling interests		<u>23,562</u>	<u>( 2,568,593 )</u>
		<u>P 65,844,520</u>	<u>P 44,999,494</u>
<b>Earnings per share attributable to the</b>			
Parent Company's stockholders - basic and diluted	26	<u>P 0.04</u>	<u>P 0.03</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>NET PROFIT FOR THE PERIOD</b>		<b>P 65,844,520</b>	P 44,999,494
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Reclassification adjustments for losses recognized in profit or loss		12,145,053	3,870,706
Fair value gains (losses) on available-for-sale financial assets, net of taxes	9	<b>P 6,701,485</b>	2,269,598
Currency exchange differences on translating balances of foreign operations	2	( 12,219,785 )	( 4,673,374 )
		<u>-</u>	<u>-</u>
		<u>6,626,753</u>	<u>1,466,930</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>P 72,471,273</b>	P 46,466,424
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		<b>P 72,447,711</b>	P 49,035,017
Non-controlling interests		<u>23,562</u>	( 2,568,593 )
		<b>P 72,471,273</b>	P 46,466,424

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	Note	2012	2011
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>			
<b>CAPITAL STOCK</b> - P1 par value			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares		P 2,030,975,000	P 2,030,975,000
<b>ADDITIONAL PAID-IN CAPITAL</b>		4,641,701,922	4,641,701,922
<b>TREASURY SHARES</b> - at cost			
Acquired at P0.5520 per share - 209,433,000 shares		( 115,614,380 )	( 115,614,380 )
<b>REVALUATION RESERVES</b>	25		
Balance at beginning of year		( 29,242,370 )	( 43,480,551 )
Other comprehensive income (loss) for the year		6,626,753	1,466,930
Balance at end of year		( 22,615,617 )	( 42,013,621 )
<b>RETAINED EARNINGS (DEFICIT)</b>			
Balance at beginning of year			
As previously reported		1,623,289,267	1,183,851,839
Prior period adjustments, net of tax		-	-
As restated		1,623,289,267	1,183,851,839
Profit (loss) for the year attributable to the Parent Company's stockholders		65,820,958	47,568,087
Balance at end of year		1,689,110,225	1,231,419,926
Total Equity Attributable to the Parent Company's stockholders		8,223,557,150	7,746,468,847
<b>NON-CONTROLLING INTERESTS</b>			
Balance at beginning of year		405,372,818	414,514,261
Additional non-controlling interests on acquired subsidiary		-	-
Profit for the year attributable to non-controlling interests		23,562	( 2,568,593 )
Balance at end of year		405,396,380	411,945,668
<b>TOTAL EQUITY</b>		P 8,628,953,530	P 8,158,414,515
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		P 72,447,711	P 49,035,017
Non-controlling interests		23,562	( 2,568,593 )
		P 72,471,273	P 46,466,424

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2012 AND 2011**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		102,882,815	67,743,550
Adjustments for:			
Interest income		(26,185,229)	( 21,460,628 )
Depreciation and amortization		21,329,182	19,523,016
Losses (gain) on sale of financial assets		602,181	( 1,582,509 )
Impairment losses on financial assets		965,420	4,808,250
Interest expense		1,863,106	2,150,024
Fair value gains on financial assets at fair value through profit or loss		(6,629,089)	
Loss (Reversal) on inventory obsolescence		22,104,673	( 4,528,515 )
Unrealized foreign currency losses (gains) - net		(21,369)	( 79,952 )
Impairment losses on available-for-sale financial assets			4,808,250
Operating profit before working capital changes		116,911,690	71,381,486
Decrease (increase) in trade and other receivables		(93,689,100)	( 202,757,466 )
Decrease (increase) in available-for-sale financial assets		1,995,956	14,721,886
Decrease (increase) in financial assets at fair value through profit		(11,421,014)	( 24,570,472 )
Decrease (increase) in held-to-maturity investments			
Decrease (increase) in merchandise inventories and supplies		(28,676,239)	( 320,904,025 )
Increase in real estate inventories		18,502,878	( 67,042,310 )
Decrease (increase) in advances to related parties		68,316,319	65,010,159
Decrease (increase) in other current assets		8,208,332	( 54,895,572 )
Decrease in other non-current assets		(4,473,234)	1,976,089
Increase (decrease) in trade and other payables		200,471,928	471,173,509
Increase (decrease) in customers' deposits		(4,934,845)	-
Increase (decrease) in advances from related parties		(17,556,242)	( 20,718,583 )
Increase in deferred tax liabilities			-
Cash generated from (used in) operations		253,656,429	( 66,625,299 )
Interest received		11,221,408	10,111,369
Cash paid for income taxes		(20,881,243)	( 13,440,856 )
Net Cash From Operating Activities		243,996,594	( 69,954,786 )
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (Acquisitions) of property and equipment		(26,780,573)	( 5,869,970 )
Interest received		14,963,821	11,349,259
Decrease (Additions) to investment property		(611,479.00)	-
Net Cash Used in Investing Activities		( 12,428,231 )	5,479,289

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from (repayments) of interest-bearing loans - net		(10,043,934)	( 3,574,460 )
Interest paid		<u>(239,702)</u>	<u>( 113,656 )</u>
Net Cash From (Used in) Financing Activities		<u>(10,283,636)</u>	<u>( 3,688,116 )</u>
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>		<u>21,369</u>	<u>79,952</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		221,306,096	( 68,083,661 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		<u>1,720,748,062</u>	<u>1,620,114,468</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		<u>P 1,942,054,158</u>	<u>P 1,552,030,807</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**MARCH 31, 2012 AND DECEMBER 31, 2011**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Company Background**

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

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

Subsidiaries	Percentage of Ownership		Notes	Nature of Business
	2012	2011		
Brilliant Reach Limited (BRL)	100	100	(a)	Investment company
Kita Corporation (Kita)	100	100		Real estate and manufacturing of injected plastics
Omni Logistics Corporation (OLC)	-	100	(l)	Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	-	100	(k)	Real estate
Solid Group Technologies Corporation (SGTC)	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	100	100	(l)	Real estate
Solid Manila Corporation (SMC)	100	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI) [formerly Zen By The Park, Inc.]	100	100	(e), (g)	Real estate
Solid Manila Finance, Inc. (SMFI)	100	100		Financing
Solid Video Corporation (SVC)	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	100	100	(c), (h)	Real estate
My Solid Technologies & Devices Corporation (My Solid)	100	100	(i)	Sale of mobile phones
Mytel Mobility Solutions, Inc. (Mytel)	100	100	(j)	Sale of mobile phones
Skyworld Corporation (Skyworld)	75	75	(c), (e)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	51	51	(h)	Real estate
Starworld Corporation (Starworld)	50	50	(e), (f)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	50	50	(b), (d)	Real estate

Notes:

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

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

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

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

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

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

On November 23, 2009, the Parent Company's management disclosed to the public its plan of phasing-out its unprofitable manufacturing business and related services, which include the plastic injection molding parts operations of Kita and SLC, with the expectation that this will positively impact the overall financial performance of the Group. Kita and SLC have ceased their plastic injection manufacturing business as of December 31, 2011 (see Note 5).

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

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

### **1.3 Other Corporate Information**

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

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

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

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

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

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

### **2.1 Basis of Preparation of Consolidated Financial Statements**

#### **(a) Statement of Compliance with Philippine Financial Reporting Standards**

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

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

(b) *Presentation of Consolidated Financial Statements*

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

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

(c) *Functional and Presentation Currency*

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

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

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

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

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

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

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

- (i) PAS 24 (Amendment), *Related Party Disclosures* (effective from January 1, 2011). The amendment simplifies and clarifies the definition of a related party by eliminating inconsistencies in determining related party relationships. The amendment also provides partial exemption from the disclosure requirements for government-related entities to disclose details of all transactions with the government and other government-related entities. The adoption of this amendment did not result in any change on the Group's disclosures of related parties in its consolidated financial statements.
- (ii) Philippine Interpretation IFRIC 14 (Amendment), *Prepayment of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to a surplus for defined benefit plans based on PAS 19, *Employee Benefits*, that are subject to a minimum funding requirement. The Group is not subject to minimum funding requirements, hence, the adoption of the revised standard has no material effect on its consolidated financial statements.
- (iii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). This interpretation clarifies the accounting when an entity renegotiates the terms of a financial liability through issuance of equity instruments to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
  - the issue of equity instruments to a creditor to extinguish all or part of a financial liability is consideration paid in accordance with PAS 39, *Financial Instruments: Recognition and Measurement*;
  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1 (Amendment), *Presentation of Financial Statements: Clarification of Statement of Changes in Equity* (effective from July 1, 2010). The amendment clarifies that, for each component of equity, an entity may present an analysis of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements. The Group has elected to continue presenting each item of other comprehensive income in the notes to the financial statements.
- Amendments to PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investments in Associates* and PAS 31, *Interests in Joint Ventures* (effective from July 1, 2010). These amendments clarify that the consequential amendments made to PAS 21, PAS 28 and PAS 31 arising from the amendment to PAS 27 (2008), *Consolidated and Separate Financial Statements* apply prospectively, to be consistent with the related PAS 27 transition requirements. These amendments have no impact on the Group's consolidated financial statements since there is no disposal of foreign operations, loss of significant influence over an associate and loss of control over a jointly controlled entity at the time of the adoption of the amendment on PAS 27.
- PAS 34 (Amendment), *Interim Financial Reporting – Significant Events and Transactions* (effective from January 1, 2011). The amendment provides further guidance to illustrate how to apply disclosure principles under PAS 34 for significant events and transactions to improve interim financial reporting. It requires additional disclosure covering significant changes to fair value measurement and classification of financial instruments, and to update relevant information from the most recent annual report.
- PFRS 3 (Amendments), *Business Combinations* (effective from July 1, 2010). The amendment clarifies that contingent consideration arrangement and balances arising from business combinations with acquisition dates prior to the entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances. It further clarifies that the choice of measuring non-controlling interest at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, applies only to instruments that represent ownership present ownership interests and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation. All other components of non-controlling interests (NCI) are measured at fair value unless PFRS requires another measurement basis. This amendment also clarifies accounting for all share-based payment transactions that are part of a business combination, including unreplaced and voluntary replaced share-based payment awards. Specifically, this provides guidance for situations where the acquirer does not have an obligation to replace an award but replaces an existing acquiree award that would otherwise have continued unchanged after the

acquisition, thus resulting to the accounting for these awards being the same as for the awards that the acquirer is obliged to replace.

- PFRS 7 (Amendment), *Financial Instruments: Clarification of Disclosures* (effective from January 1, 2011). The amendment clarifies the disclosure requirements which emphasize the interaction between quantitative and qualitative disclosures about the nature and extent of risks arising from financial instruments. It also amends the required disclosure of financial assets including the financial effect of collateral held as security. The Group already provides adequate information in its consolidated financial statements in compliance with the disclosure requirements.

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

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

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

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

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

- PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets* (effective from July 1, 2011). The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group does not usually enter into this type of arrangement with regard to transfer of financial asset, hence, the amendment may not significantly change the Group's disclosures in its consolidated financial statements.
- PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the

measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standing Interpretations Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn. The Group is currently evaluating the impact of this amendment on its consolidated financial statements as its investment property includes buildings and improvements.

- (iii) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in Other Comprehensive Income into those that, in accordance with other PFRSs: (i) will not be reclassified subsequently to profit or loss and (ii) will be reclassified subsequently to profit or loss when specific conditions are met. The Group's management expects that this will not affect the presentation of items in other comprehensive income, since most of the Group's other comprehensive income, which includes unrealized fair value gains and losses on available-for-sale (AFS) financial assets, can be reclassified to profit or loss when specified conditions are met.
- (iv) PAS 19 (Amendment), *Employee Benefits* (effective from January 1, 2013). The amendment made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
  - eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
  - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

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

- (v) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by

removing the requirement to consider whether or not they are closely related and, in most arrangements, does not require separation from the host contract.

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

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

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

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

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

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

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.
- PFRS 11, *Joint Arrangements*. This standard provides a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form. This standard replaces the three categories under PAS 31, mainly, jointly controlled entities, jointly controlled operations and jointly controlled assets, with two new categories – joint operations and joint ventures. Moreover, this also eliminates the option of using proportionate consolidation for joint ventures.
- PFRS 12, *Disclosure of Interest in Other Entities*. This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure

requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements*. This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
  - PAS 28 (Revised), *Investments in Associate and Joint Venture*. This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11.
- (viii) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*. This Philippine interpretation is based on IFRIC interpretation issued by the IASB in July 2008 effective for annual periods beginning on or after January 1, 2009. The adoption of this interpretation in the Philippines, however, was deferred by the FRSC and Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's on-going revision of the Revenue Recognition standard. This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, *Revenue*, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at completion upon or after delivery. The Group is currently evaluating the impact of this interpretation on its consolidated financial statements in preparation for its adoption when this becomes mandatorily effective in the Philippines but does not expect it to have an impact on the Group's consolidated financial statements as it currently accounts for its real estate transactions using the full accrual method.

### **2.3 Basis of Consolidation**

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

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

The Parent Company accounts for its investments in subsidiaries and NCI as follows:

#### **(a) Investments in Subsidiaries**

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies. The Parent Company obtains and exercises control through more than one half of the voting rights. The existence and effect of potential

voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

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

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

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

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

*(b) Transactions with Non-controlling Interests*

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

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

## **2.4 Segment Reporting**

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

The Group accounts for intersegment sales and transfers as if the sales or transfers were to third parties at current market prices. In addition, corporate assets which are not directly attributable to any business segment are not allocated to a segment.

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

## **2.5 Financial Assets**

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

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

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

### **(a) Loans and Receivables**

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

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

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

(b) *Financial Asset at FVTPL*

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

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

(c) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the AFS Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of reporting period. The Group's financial assets include country club shares, golf club shares, listed equity securities, and corporate bonds.

All AFS financial assets within this category are subsequently measured at fair value. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Revaluation Reserve account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

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

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

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

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

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

## **2.6 Merchandise Inventories and Supplies**

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location and condition is determined as follows:

- (a) *Raw materials and service parts, supplies and others* – on a moving average method. The cost of raw materials, service parts, supplies and others include all costs directly attributable to the acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.
- (b) *Merchandise and finished goods, and work-in-process* – on a moving average method; cost includes direct materials and labor and a proportion of manufacturing overheads based on normal operating capacity.

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

## **2.7 Real Estate Inventories**

Real estate inventories consist of the following:

- (a) *Land and Land Development Costs*

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

- (b) *Property Development Costs*

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

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

## ***2.8 Property, Plant and Equipment***

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

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

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

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

Leasehold improvements are amortized over the estimated useful lives of the assets from 2 to 15 years or the term of the lease, whichever is shorter.

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

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

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

## **2.9 Investment Property**

Investment property, accounted for under the fair value model, is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs. At the end of the reporting period, investment property is accounted for at fair value as determined annually by independent appraisers (see Note 14).

The carrying amounts recognized in the consolidated statement of financial position reflect the prevailing market conditions at the end of the reporting period. Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains (losses) on investment property under Other Operating Income in the consolidated statement of income.

Investment property's carrying amount is written down immediately to its recoverable amount if its carrying amount is greater than its estimated recoverable amount (see Note 2.16).

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the profit or loss in the year of retirement or disposal.

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

## **2.10 Financial Liabilities**

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

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

Trade and Other Payables, Advances from Related Parties and Refundable Deposits with maturities beyond one year are initially recognized at their fair value and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability

for at least twelve months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

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

### ***2.11 Business Combination***

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

The acquisition method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they are recorded in the consolidated financial statements prior to acquisition. On initial recognition, the assets and liabilities of the acquired subsidiary are included in the consolidated financial position at their fair values, which are also used as the bases for the subsequent measurement in accordance with the Group's accounting policies.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.16).

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

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

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

## **2.12 Provisions and Contingencies**

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

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

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

## **2.13 Revenue and Expense Recognition**

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

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

- (a) *Rendering of services* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.
- (b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

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

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

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.
  - *Rendering of services and other income from internet subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
  - *Other income* – The allocated revenue is initially recorded as Unearned subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.14).
- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective in April 2009, network support fees is recorded at a fixed amount of P1.25 million per month.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

Subsequent cancellations of prior years' real estate sales are deducted from revenues and costs of real estate sold in the year in which such cancellations are made.

If the transaction does not yet qualify as sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statements of financial position.

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

- (f) *Interest income on loans receivables* – Revenue is recognized when earned using effective interest method.

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

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

- (g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.
- (h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.
- (i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.
- (j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

## **2.14 Leases**

The Group accounts for its leases as follows:

- (a) *Group as Lessee*

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

(b) *Group as Lessor*

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

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

**2.15 Foreign Currency Transactions**

(a) *Transactions and Balances*

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

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

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

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

- (i) Assets and liabilities presented for each reporting date are translated at the closing rate at the date of the consolidated statement of financial position;
- (ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

## ***2.16 Impairment of Non-financial Assets***

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

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

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

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

## ***2.17 Employee Benefits***

### ***(a) Post-employment Benefit***

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

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

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

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

*(b) Termination Benefits*

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

*(c) Compensated Absences*

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

## **2.18 Borrowing Costs**

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

## **2.19 Income Taxes**

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

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

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

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

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

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

## ***2.20 Related Party Transactions***

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group, (b) associates; and, (c) individuals owning directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## ***2.21 Equity***

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

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

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

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

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

## ***2.22 Earnings per Share***

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of March 31, 2012 and December 31, 2011, the Parent Company does not have potential dilutive shares.

## ***2.23 Events After the End of Reporting Period***

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

# **3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES**

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

## ***3.1 Critical Management Judgments in Applying Accounting Policies***

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

### ***(a) Determining Net Realizable Value of Real Estate Inventories***

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

The carrying amounts of the real estate inventories is disclosed in Note 12.

(b) *Impairment of AFS Financial Assets*

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are impaired as of March 31, 2012 and December 31, 2011. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Impairment losses recognized on AFS financial assets are disclosed in Note 9.

(c) *Costing of Merchandise Inventories and Supplies*

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

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

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

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

(e) *Operating and Finance Leases*

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

*(f) Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of provisions and contingencies are discussed in Note 2.12 and the relevant disclosures are presented in Note 30.

*(g) Principal Assumptions for Estimation of Fair Value of Investment Property*

The Group's investment property composed of parcels of land and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Note 14.

**3.2 Key Sources of Estimation Uncertainty**

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

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

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

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

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 13. Based on management's assessment as at December 31, 2011, no change in the estimated useful lives of property, plant and equipment during those years occurred. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 11). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

(d) *Fair Value of Financial Instruments*

Management apply valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

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

(e) *Estimated Liability for Land and Land Development Costs*

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of March 31, 2012 and December 31, 2011 is disclosed in Note 12.

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

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

(g) *Reserve for Warranty Costs*

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

Provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are discussed on Note 17.

(h) *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2011 and disclosed in Note 24.2.

(i) *Fair Value of Investment Property*

The Group's investment property composed of land and improvements and buildings and improvements are carried at revalued amount at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties. A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on certain investment property are disclosed in Notes 14.

(j) *Impairment of Non-financial Assets*

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

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-financial assets in 2011.

(k) *Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23.2 and include, among others, discount rates, expected return on plan assets, salary increase rate and employee turnover. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of estimated present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation are presented in Note 23.2.

## 4. SEGMENT INFORMATION

### 4.1 *Business Segments*

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

- (a) Broadband services segment is presently engaged in providing data transport services, including audio and video, and connectivity through its broadband cable infrastructure;
- (b) Related support services segment is engaged in the business of rendering after sales service operations as the recognized authorized Service Network for products of a third party and in manufacturing plastic injection molding parts (see Note 5);
- (c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties;
- (d) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones and LCD televisions, and prefabricated modular houses; and,
- (e) Investing, financing and others segment is presently engaged in the business of fund investments, automotive and consumer financing and credit extension.

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

### 4.2 *Segment Assets and Liabilities*

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

### 4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of March 31, 2012 and December 31, 2011 and the related revenue and profit information for the years then ended (in thousands).

		Broadband Services		Related Support Services		Real Estate		Distribution		Investing, Financing and Others		Elimination		Total
<b>2012</b>														
<b>SEGMENT RESULTS</b>														
Revenues	P	96,249	P	95,671	P	49,639	P	843,043	P	16,960	(P	14,007)	P	1,087,555
Net Profit (Loss)	P	<u>14,414</u>	P	<u>12,420</u>	P	<u>6,688</u>	P	<u>30,198</u>	P	<u>2,671</u>	P	<u>547</u>	P	<u>65,844</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>														
Total assets	P	<u>645,852</u>	P	<u>820,206</u>	P	<u>6,590,007</u>	P	<u>1,785,761</u>	P	<u>7,725,745</u>	(P	<u>5,592,313</u> )	P	<u>11,975,258</u>
Total liabilities	P	<u>555,199</u>	P	<u>749,217</u>	P	<u>3,024,423</u>	P	<u>1,340,372</u>	P	<u>599,943</u>	(P	<u>2,922,850</u> )	P	<u>3,346,304</u>
<b>2011</b>														
<b>SEGMENT RESULTS</b>														
Revenues	p	93,117	P	83,797	P	72,171	P	594,660	P	14,257	(P	13,880)	P	844,122
Net Profit (Loss)	P	<u>6,255</u>	P	<u>6,576</u>	P	<u>3,062</u>	P	<u>27,206</u>	P	<u>980</u>	P	<u>920</u>	P	<u>44,999</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>														
Total assets	P	<u>667,320</u>	P	<u>815,191</u>	P	<u>6,959,481</u>	P	<u>2,140,921</u>	P	<u>8,683,126</u>	(P	<u>7,610,860</u> )	P	<u>11,716,683</u>
Total liabilities	P	<u>567,828</u>	P	<u>680,818</u>	P	<u>3,392,086</u>	P	<u>1,814,943</u>	P	<u>606,576</u>	(P	<u>3,886,434</u> )	P	<u>3,160,200</u>

## 5. DISCONTINUED OPERATIONS

As mentioned in Note 1.2, Kita and SLC ceased the operations of their plastic injection manufacturing business as of December 31, 2010. Termination benefits paid to employees who accepted voluntary redundancy amounted to P0.7 million in 2011, P1.1 million in 2010 and P9.7 million in 2009 (see Note 23.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented in the consolidated statements of income under the Loss from Discontinued Operations account.

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of December 31:

	2012	2011
Cash on hand and in bank	P 367,331,642	P 396,965,149
Short-term placements	<u>1,574,722,516</u>	<u>1,323,782,913</u>
	<u>P1,942,054,158</u>	<u>P 1,720,748,062</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 96 days and earn effective interest ranging from 0.5% to 6.0% per annum in 2011.

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Current:			
Trade receivables		<b>P 778,773,849</b>	P 759,929,905
Due from related parties	28.1	<b>86,376,088</b>	75,770,473
Advances to suppliers		<b>313,317,565</b>	277,211,254
Finance receivables	28.4	<b>59,857,018</b>	64,831,149
Other receivables		<b>119,301,907</b>	76,425,196
		<b>1,357,626,427</b>	1,254,167,977
Allowance for impairment		<b>( 117,042,294)</b>	( 117,015,673)
		<b><u>1,240,584,133</u></b>	<u>1,137,152,304</u>
Non-current:			
Trade receivables		<b>46,026,983</b>	47,852,284
Finance receivables		<b>149,450,607</b>	151,801,578
Cash surrender value of investment in life insurance	16	<b>464,665,212</b>	470,231,669
		<b><u>660,142,802</u></b>	<u>669,885,531</u>
		<b><u>P 1,900,726,935</u></b>	<u>P 1,807,037,835</u>

Advances to suppliers mainly pertain to the advance payments received by Solid Company Limited (Hong Kong) for Mytel's future purchase of inventories (see Note 28.8), various contractors for the construction of ZTC's Tri Towers (see Note 12) and various suppliers for CBHI's acquisition of supplies.

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

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

Interest rates on finance receivables range from 7.5% to 30.0% in 2011. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 28.4).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated

statements of income (see Note 20). The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 15).

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 16).

The net carrying amounts of trade and other receivables are considered a reasonable approximation of their fair values (see Note 32.1).

## 8. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2011, BRL acquired additional investments which are classified as financial assets at FVTPL upon initial recognition, while Fil-Dragon's investments are primarily held for trading. The carrying amounts of financial assets at FVTPL are presented as follows:

	<u>2012</u>	<u>2011</u>
Designated as at fair value through profit or loss	<b>P 82,017,357</b>	P 63,846,668
Held-for-trading	<u>6,305,737</u>	<u>6,426,323</u>
	<b><u>88,323,094</u></b>	<b><u>70,272,991</u></b>

This account consists of the following financial assets as of March 31, 2012:

	<u>2012</u>	<u>2011</u>
Debt securities	<b>P 77,296,009</b>	P 60,382,332
Held-for-trading	<u>11,027,085</u>	<u>9,890,659</u>
	<b><u>88,323,094</u></b>	<b><u>70,272,991</u></b>

Debt securities pertain to investments in corporate bonds with interest rates ranging from 5.3% to 12.0% in 2011. On the other hand, equity securities pertain to shares of entities listed in China, Hong Kong and the United States. The fair values of financial assets presented above have been determined directly by reference to published prices quoted in active markets.

In March 31 2012 and 2011, the Group recognized the gain in value of financial assets designated at fair value through profit or loss of P6.6 million and P179 thousand as part of Finance Income in the consolidated statement of income (see Note 22).

The Group's foreign debt securities are used as collateral for interest-bearing loans obtained by BRL (see Note 16).

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	<u>2012</u>	<u>2011</u>
Current:		
Investments in foreign currency-denominated bonds	<b>P 94,452,063</b>	P 104,647,592
Allowance for impairment	<b>( 39,355,793)</b>	( 52,653,225)
	<u><b>55,096,269</b></u>	<u>51,994,367</u>
Non-current:		
Club shares	<b>20,772,400</b>	8,832,400
Equity securities	<b>8,580,000</b>	8,580,000
Others	<u><b>987,002</b></u>	<u>1,474,118</u>
	<b>30,339,402</b>	18,886,518
Allowance for impairment	<b>( 22,110,000)</b>	( 11,004,991)
	<u><b>8,229,402</b></u>	<u>7,881,527</u>
	<u><b>P 63,325,671</b></u>	<u>P 59,875,894</u>

Investments in foreign currency-denominated bonds were used as collateral for the interest-bearing loans of BRL (see Note 16).

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 on which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent Company reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2011.

Impairment losses recognized on the Group's AFS Financial Assets are presented as part of Finance Costs in the 2011 consolidated statement of income (see Note 22.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2011 have been determined directly by reference to published prices in active markets (see Note 32).

## 10. HELD-TO-MATURITY INVESTMENTS

In 2009, the Group disposed of a significant portion of its HTM investments which consisted of investments in foreign currency-denominated bonds. Accordingly, management reclassified the remaining HTM investments with total carrying amount of P125.2 million to AFS Financial Assets to comply with PFRS. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153.4 million. The reclassification resulted in a gain of P28.2 million, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

## 11. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Note 19.1).

	<u>2012</u>	<u>2011</u>
Merchandise and finished goods	<b>P 641,042,868</b>	P 621,292,896
Work-in-process	-	-
Raw materials	<b>362,856</b>	362,856
Service parts, supplies and others	<b><u>48,037,133</u></b>	<u>46,719,660</u>
	<b>689,442,857</b>	668,375,412
Allowance for inventory obsolescence	<b>( <u>118,328,226</u> )</b>	<b>( <u>103,832,347</u> )</b>
Balance at end of year	<b><u>P 571,114,631</u></b>	<b><u>P 564,543,065</u></b>

The allowance for inventory obsolescence carried from newly acquired subsidiary in 2010 pertains to the beginning balance of the allowance for inventory obsolescence of Mytel, a subsidiary acquired in 2010.

## 12. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2012</u>	<u>2011</u>
Land and land development costs:		
Land	<b>P 36,112,467</b>	P 36,112,467
Land development costs	<b><u>17,883,041</u></b>	<u>17,883,041</u>
	<b>53,995,508</b>	53,995,508
Allowance for impairment	<b>( <u>2,022,800</u> )</b>	<b>( <u>2,022,800</u> )</b>
	<b>51,972,708</b>	51,972,708
Property development costs -		
Construction in progress		
and development costs	<b><u>1,605,305,186</u></b>	<u>1,623,808,064</u>
	<b><u>P1,657,277,894</u></b>	<b><u>P 1,675,780,772</u></b>

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

The allowance for impairment was the amount recognized in 2005 pertaining to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2011.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2011, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. As of December 31, 2011, 2010 and 2009, the construction of Tower 1, which started in 2007, is fully completed. The construction of Tower 2 started in 2011 while the construction of Tower 3 has not yet started as of December 31, 2011.

In October 2007, ZTC obtained its permit to sell that would allow pre-selling of condominium units, and has entered into several construction contracts with various contractors for the construction of the other towers (see Note 30.5). Advances made to contractors are shown as part of the Other Current Assets account in the consolidated statements of financial position (see Note 15).

In addition, the balances of Property Development Costs as of December 31, 2011 and 2010 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Pre-sale of the condominium units has been commenced for two of the residential towers in December 2010. Customer deposits received relating to the pre-selling activities in March 31, 2012 and December 31, 2011 amounting to P681.3 million and P686.3 million respectively, are shown as Customers' Deposits in the consolidated statement of financial position

Fil-Dragon's right to use the land, included as part of the Property Development Costs account, with a carrying amount of RMB15.2 million (P103.3 million) as of December 31, 2010, is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009. The interest-bearing loans were paid in full in 2011 (see Note 16).

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2011 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 30.4).

### 13. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of March 31, 2012 and December 31, 2011 are shown below.

		Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
March 31, 2012													
Cost	P	897,854,682	P 100,092,451	P 29,822,119	P 133,617,744	P 86,080,570	P 1,343,514,026	P 152,107,998	P 73,467,724	P 50,777,064	P 15,231,829	P -	P 2,882,566,207
Accumulated depreciation and amortization		-	( 44,398,228)	( 17,226,226)	( 112,501,108)	( 72,057,219)	( 631,143,069)	( 99,554,466)	( 69,050,290)	( 46,192,578)	( 13,056,823)	-	( 1,105,180,007)
Accumulated impairment loss		-	( 35,000,000)	-	-	-	( 350,000,000)	-	-	-	-	-	( 385,000,000)
Net carrying amount		<u>P 897,854,682</u>	<u>P 20,694,223</u>	<u>P 12,595,893</u>	<u>P 21,116,636</u>	<u>P 14,023,351</u>	<u>P 362,370,957</u>	<u>P 52,553,532</u>	<u>P 4,417,434</u>	<u>P 4,584,486</u>	<u>P 2,175,000</u>	<u>P -</u>	<u>P 1,392,386,200</u>
December 31, 2011													
Cost	P	897,854,682	P 107,157,571	P 30,124,265	P 132,342,425	P 94,388,131	P 1,337,286,751	P 153,787,380	P 68,446,028	P 56,557,182	P 25,169,630	P -	P 2,903,114,045
Accumulated depreciation and amortization		-	( 64,546,364)	( 24,762,932)	( 115,711,989)	( 76,436,056)	( 621,928,012)	( 96,970,837)	( 65,369,216)	( 45,470,846)	( 19,982,984)	-	( 1,131,179,236)
Accumulated impairment loss		-	( 35,000,000)	-	-	-	( 350,000,000)	-	-	-	-	-	( 385,000,000)
Net carrying amount		<u>P 897,854,682</u>	<u>P 7,611,207</u>	<u>P 5,361,333</u>	<u>P 16,630,436</u>	<u>P 17,952,075</u>	<u>P 365,358,739</u>	<u>P 56,816,543</u>	<u>P 3,076,812</u>	<u>P 11,086,336</u>	<u>P 5,186,646</u>	<u>P -</u>	<u>P 1,386,934,809</u>

No additional impairment losses were recognized in 2011 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2011, the fair values of the Group's land and building and improvements amounted to P203.1 million. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of December 31, 2011.

#### 14. INVESTMENT PROPERTY

The Group's investment property, which assets are accounted for under the fair value method, consists mainly of land and improvements, and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income, and have direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 19.3).

The fair values of the Group's investment property as of December 31, 2011 were determined based on appraisal reports dated February 29, 2012. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position can be summarized as follows as of March 31, 2012:

		<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
2012:				
Balance at beginning of year	P	3,047,677,774	P 816,656,012	P 3,864,333,786
Fair value gains on investment property				
Additions		-	611,479	611,479
Disposals	(	)	-	( )
Reclassification		-		
Balance at end of year	<u>P</u>	<u>3,047,677,774</u>	<u>P 817,267,491</u>	<u>P 3,864,945,265</u>
2011:				
Balance at beginning of year	P	2,885,328,774	P 761,189,863	P 3,646,518,637
Fair value gains on investment property		171,420,000	20,224,597	191,644,597
Additions		-	6,927,455	6,927,455
Disposals	(	9,071,000)	-	( 9,071,000)
Reclassification		-	28,314,097	28,314,097
Balance at end of year	<u>P</u>	<u>3,047,677,774</u>	<u>P 816,656,012</u>	<u>P 3,864,333,786</u>

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 30.3).

In 2010, SMC entered to a contract to sell three parcels of land to a customer under an installment sales scheme. The contract price of the land amounting to P30.0 million,

inclusive of VAT, is payable within 29 months. SMC recorded the collections from customer in 2010 as Advances from customers as part of Trade and Other Payables in the 2010 consolidated statement of financial position (see Note 17).

## 15. OTHER ASSETS

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

	<u>Note</u>	<u>2012</u>	<u>2011</u>
Current:			
Input VAT - net		<b>P 103,589,947</b>	P 92,707,110
Creditable withholding taxes		<b>69,561,994</b>	71,855,887
Prepaid expenses		<b>54,584,494</b>	63,998,425
Advances to suppliers and contractors	12	<b>22,966,206</b>	27,879,694
Refundable deposits		<b>3,419,223</b>	3,368,991
Others		<b>4,866,729</b>	7,386,818
		<b><u>P 258,988,593</u></b>	<b><u>P 267,196,925</u></b>
Non-current:			
Refundable deposits - net		<b>P 12,169,799</b>	P 9,836,045
Prepaid insurance	7	<b>4,667,104</b>	5,294,251
Land under litigation	30.3	<b>3,258,220</b>	3,258,220
Investment in shares		<b>1,303,591</b>	1,303,591
Cash bond		<b>568,234</b>	568,234
Others		<b>4,657,358</b>	1,890,731
		<b><u>P 26,624,306</u></b>	<b><u>P 22,151,072</u></b>

## 16. INTEREST-BEARING LOANS

The Group's short-term interest-bearing loans as of March 31, 2012 and December 31, 2011 amounting to P769 million and P779 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, are currently due within 12 months after the end of reporting period and are classified as part of the Group's current liabilities in the consolidated statements of financial position. This is composed of US\$8.3 million and RMB58.1 million as of December 31, 2011 and US\$8.3 million and RMB92.9 million as of December 31, 2010.

In 2011, BRL extended the terms of various loans it obtained from Bank of Singapore in prior years totaling US\$8.3 million. The loans are extended for one year up to June 30, 2012.

The loans of BRL are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 7, 8 and 9). The loans bear interest at prevailing market rates per annum ranging from and 2.0% to 2.3% in 2011. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 22.2).

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited, a shareholder owning 19% of the total shares of Fil-Dragon, amounting to RMB58.1 million (P404.1 million). The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2011 (see Note 28.8).

In 2009, Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the PRC amounting to RMB92.9 million (P615.7 million). These loans are secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million) as of December 31, 2010. Certain real estate properties of Fil-Dragon are used as collaterals for the secured interest-bearing loans (see Note 12). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5:1. As of December 31, 2010, Fil-Dragon has complied with such loan covenant.

As of December 31, 2010, the Group's interest-bearing loans pertains to the RMB92.9 million loan by Fil-Dragon from China Construction Bank Corporation Shenzhen Shang Zhi Branch and Nanning Yuan Hu Branch. The loan was paid in full in 2011.

Total borrowing costs incurred from these interest-bearing loans amounting to RMB6.4 million (P43.2 million) in 2011 and RMB4.6 million (P31.1 million) in 2010 are capitalized as part of Real Estate Inventories at capitalization rates ranging from 6% to 10%.

Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 28.9). None of the companies under the Group, including the Parent Company, are included in the guarantee contract.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 32.1).

## 17. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2012	2011
Trade payables	28.7	<b>P 321,220,315</b>	P 304,917,931
Accrued expenses		<b>116,017,449</b>	109,325,527
Output VAT		<b>44,063,391</b>	37,328,219
Refundable deposits	18	<b>21,756,105</b>	24,769,241
Advances from customers	12	<b>56,865,780</b>	22,623,706
Reserve for warranty costs		<b>28,172,098</b>	18,354,383
Unearned subscription income		<b>9,288,051</b>	9,167,511
Retention payable		<b>4,817,646</b>	4,872,185
Other payables		<b>190,704,066</b>	61,074,270
		<b><u>P 792,904,901</u></b>	<b><u>P 592,432,973</u></b>

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

Starting October 2011, the obligation to provide warranties was transferred by My Solid to Mytel when the latter was handed over the ownership of the brand and consequently

became importer of the inventories from Mytel's supplier. As a result, Mytel derecognized the outstanding balance of provision for warranty claims from previous year amounting to P10.8 million. The income arising from the derecognition of this liability is presented as Reversal of provision of warranty under Other Operating Income in the 2011 consolidated statement of income (see Note 20).

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

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered to be a reasonable approximation of their fair values (see Note 32.1).

## 18. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P9.8 million as of December 31, 2011. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception of the lease terms. The fair value of the non-current refundable deposits amounting to P15.6 million as of December 31, 2011 is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

## 19. COST OF SALES, SERVICES AND RENTALS

### 19.1 Cost of Sales

The details of this account are shown below.

	Notes	2012	2011
Merchandise and finished goods at beginning of year	11	<u>P 621,292,896</u>	<u>P 412,507,056</u>
Net purchases of merchandise during the year	21, 28.7	<u>695,317,379</u>	<u>793,721,884</u>
Cost of goods manufactured:			
Raw materials at beginning of year	11	362,856	10,757,863
Work-in-process at beginning of year	11	-	2,256,191
Net purchases of raw materials during the year		-	8,588,261
Direct labor		-	-
Manufacturing overhead	13		2,233,061
Raw materials at end of year	11	( 362,856)	( 9,261,321)
Work-in-process at end of year	11	<u>-</u>	<u>( 760,825)</u>
		<u>-</u>	<u>13,813,230</u>
Goods available for sale		1,316,610,275	1,220,042,170
Merchandise and finished goods at end of year	11	( 641,042,868)	( 735,866,630)
Net provision (reversal) on inventory obsolescence	11	<u>22,104,673</u>	<u>( 4,528,515)</u>
	21	<u>P 697,672,080</u>	<u>P 479,647,025</u>

## 19.2 Cost of Services

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

	Notes	2012	2011
Salaries and employee benefits		<b>P 19,537,060</b>	P 27,906,979
Materials and other consumables		<b>21,304,491</b>	22,591,345
Depreciation and amortization	13	<b>15,109,329</b>	12,571,337
Communication, light and water		<b>13,324,229</b>	9,771,604
Transponder rental and leased line		<b>10,192,056</b>	10,501,536
Outside services		<b>15,173,096</b>	2,754,758
Rentals	30.2	<b>7,875,340</b>	6,275,812
Repairs and maintenance		<b>7,460,971</b>	3,090,557
Transportation and travel		<b>1,635,255</b>	43,781
Cable services		<b>135,815</b>	-
Others		<b>14,624,952</b>	13,899,580
	21	<b><u>P 126,372,594</u></b>	<u>P 109,407,289</u>

## 19.3 Cost of Rentals

The details of this account are as follows:

	Notes	2012	2011
Rentals		<b>P 1,235,916</b>	P 1,596,823
Depreciation & amortization		<b>1,290,993</b>	1,055,830
Taxes and licenses	14	<b>9,583,233</b>	9,502,523
Outside services		<b>1,680,308</b>	1,257,235
Repairs and maintenance	14	<b>276,710</b>	913,811
Utilities and communication	14	<b>-</b>	681,090
Salaries and employee benefits		<b>332,963</b>	221,942
Others		<b>923,786</b>	1,029,519
	21	<b><u>P 15,323,909</u></b>	<u>P 16,258,773</u>

## 20. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Notes	2012	2011
Increase in cash surrender value of investment in life insurance	7	<b>4,332,940</b>	4,416,773
Miscellaneous	5	<b>6,746,460</b>	7,999,999
		<b><u>P 11,079,400</u></b>	<u>P 12,416,772</u>

## 21. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Net purchases of merchandise inventories	19.1	<b>P 695,317,379</b>	P 793,721,884
Salaries and employee benefits	23.1	<b>65,391,738</b>	63,549,015
Outside services		<b>30,127,795</b>	23,735,083
Materials, supplies and other consumables		<b>23,592,385</b>	32,560,415
Cost of real estate sold		<b>8,421,070</b>	21,853,958
Depreciation and amortization	13	<b>21,329,182</b>	19,523,016
Utilities and communication		<b>18,439,499</b>	14,560,294
Taxes and licenses		<b>25,343,797</b>	26,007,625
Repairs and maintenance		<b>10,546,129</b>	6,306,230
Transponder rental and leased line		<b>10,192,056</b>	10,501,536
Transportation and travel		<b>7,833,100</b>	5,723,686
Rentals	28.3, 30.2	<b>11,615,239</b>	10,820,805
Net provision (reversal) on inventory obsolescence	19.1	<b>22,104,673</b>	( 4,528,515)
Change in merchandise, finished goods and work-in-process inventories		<b>( 19,749,972)</b>	( 320,367,666)
Miscellaneous		<b><u>71,971,925</u></b>	<u>78,888,377</u>
		<b><u>P 1,002,475,995</u></b>	<u>P 784,355,752</u>

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

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

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Cost of sales	19.1	<b>P 697,672,080</b>	P 479,647,025
Cost of services	19.2	<b>126,372,594</b>	109,407,289
Cost of real estate sold		<b>8,421,070</b>	21,853,958
Cost of rentals	19.3	<b>15,323,909</b>	16,258,773
General and administrative expenses		<b>90,832,721</b>	89,263,603
Selling and distribution costs		<b><u>63,853,621</u></b>	<u>67,925,104</u>
		<b><u>1,002,475,995</u></b>	<u>784,355,752</u>

## 22. OTHER INCOME (CHARGES)

### 22.1 Finance Income

This account consists of the following:

	Notes	2012	2011
Interest income from banks	6	P 14,963,821	P 11,349,258
Fair value gains of financial assets		-	-
at fair value through profit & loss		6,629,089	179,604
Reversal of impairment losses on financial assets	7	428,574	-
Gain on sale of financial assets		-	1,582,509
Foreign currency gains		260,094	768,852
Others		-	-
		<u>P 22,281,578</u>	<u>P 13,880,223</u>

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P11.2 million in March 31, 2012 and P10.1 million in March 31, 2011 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

### 22.2 Finance Costs

This account consists of the following:

	Notes	2012	2011
Foreign currency losses		P 126,060	P 1,230,769
Impairment losses on trade and other receivables	7	-	10,000,000
Impairment losses on AFS financial assets	9	13,104,579	4,808,250
Loss on Sale of Financial Asset		602,181	-
Interest expense arising from interest-bearing loans	16	1,863,106	2,150,024
Fair value loss on FVTPL	8	-	-
Others		32,478	218,153
		<u>P 15,728,404</u>	<u>P 18,407,196</u>

## 23. EMPLOYEE BENEFITS

### 23.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 21 and 28.10).

	Note	2011
Short-term benefits		P 249,752,464
Post-employment benefit	23.2	3,634,033
Termination benefits		764,785
		<u>P 254,151,282</u>

### 23.2 Post-employment Benefit

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

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

	<u>2011</u>
Fair value of plan assets	P 198,950,272
Present value of the obligation	<u>104,569,041</u>
Excess of plan assets	94,381,231
Withdrawal of fund*	( - )
Unrecognized actuarial gains (losses)	<u>( 15,099,780 )</u>
	<u><u>P 72,281,451</u></u>

*\*Withdrawal represents the amount pulled out by Kita and SLC from the plan assets.*

In 2010, Kita and SLC withdrew a portion of the plan assets amounting to P10.0 million out of the total excess retirement fund representing the benefits paid by Kita and SLC for terminated employees (see Note 5). Management assessed that the remaining value of plan assets is more than enough to cover the current and future current cost of Kita and SLC's remaining employees.

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

	<u>2011</u>
Fair value of plan assets	P 52,742,927
Present value of the obligation	<u>48,704,204</u>
Excess of plan assets	4,038,723
Unrecognized actuarial gains	<u>( 10,149,864 )</u>
Retirement benefit obligation	<u><u>P 6,111,141</u></u>

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

	<u>2011</u>
Fair value of plan assets	P 251,693,199
Present value of the obligation	<u>153,273,245</u>
Excess in the plan	<u><u>P 98,419,954</u></u>

Experience adjustments arising on plan assets amounted to P5.3 in 2011. Experience adjustments on plan liabilities amounted to P7.2 million in 2011.

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

	<u>2011</u>
Balance at beginning of year	P 91,208,751
Transfers	1,267,732
Current service and interest costs	20,067,558
Benefits paid	( 1,840,988)
Actuarial gains	<u>42,570,192</u>
Balance at end of year	<u>P 153,273,245</u>

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

	<u>2011</u>
Balance at beginning of year	P 239,409,688
Contributions paid into the plan	4,976,389
Benefits paid by the plan	( 1,840,988)
Expected return on plan assets	12,604,518
Actuarial gains (losses)	<u>( 3,456,408)</u>
Balance at end of year	<u>P 251,693,199</u>

Actual returns on plan assets amounted to P9.15 million. The Group expects to contribute a total of P8.9 million to the post-employment defined benefit plan in 2011.

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

	<u>2011</u>
Government securities	P 234,845,476
Mutual and trust funds	<u>16,847,723</u>
	<u>P 251,693,199</u>

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

	<u>2011</u>
Current service cost	P 13,004,057
Interest cost	7,063,501
Expected return on plan assets	( 12,604,518)
Net actuarial gains (loss) recognized during the year	<u>( 3,829,007)</u>
	<u>P 3,634,033</u>

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

	<u>2011</u>
Discount rates	6% - 7%
Expected rate of return on plan assets	8%
Expected rate of salary increases	10%

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

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

## 24. TAXES

### ***24.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation***

#### *(a) Registration with Clark Development Corporation (CDC)*

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

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

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

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

#### *(c) Fil-Dragon Taxation*

Pursuant to the relevant law and regulations in the PRC, the Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as the Fil-Dragon did not generate any assessable profits during the year.

## 24.2 Current and Deferred Taxes

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

	<u>2011</u>
<i>Consolidated statements of income</i>	
Current tax expense:	
RCIT at 30%	P 105,566,741
Final taxes at 20% and 7.5%	9,686,979
Preferential taxes at 5%	1,165,853
Minimum corporate income tax (MCIT) at 2%	<u>784,751</u>
	117,204,324
Deferred tax expense relating to origination and reversal of temporary differences	<u>22,508,829</u>
	<u><b>P 139,713,153</b></u>
<i>Consolidated statements of comprehensive income –</i>	
Deferred tax income on changes in fair value of AFS financial assets (see Note 25.2)	<u><b>(P 1,458,000)</b></u>

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

	<u>2011</u>
Tax on pretax profit at 30%	P 171,602,741
Adjustment for income subject to lower tax rates	( 6,615,150)
Tax effects of:	
Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets	( 26,314,832)
Reversal of previously recognized DTL	( 11,409,417)
Nontaxable income	( 11,209,655)
Income (loss) of foreign subsidiary not subject to taxes	9,739,812
Derecognized and unrecognized deductible temporary differences	7,975,800
Nondeductible expenses and losses	5,437,096
Unrecognized deferred taxes from NOLCO and MCIT	1,430,215
Others	( 923,457)
	<u><b>P 139,713,153</b></u>

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

	<u>2011</u>
Deferred tax assets:	
Fair value adjustments on investment property	P 23,831,400
Allowance for inventory obsolescence	20,630,203
Accrued municipal taxes	9,026,376
Provision for warranty	7,288,866
Retirement benefit obligation	6,094,079
Allowance for impairment on trade and other receivables	3,776,335
Unamortized past service costs	1,156,422
Unamortized pre-operating expenses	112,648
Unrealized foreign currency loss – net	165,867
Deferred tax liabilities:	
Retirement benefit asset	( 2,099,707)
Unrealized foreign currency gain	<u>-</u>
Deferred tax assets – net	<u><b>P 69,982,489</b></u>

The net deferred tax liabilities of the other subsidiaries which have a net deferred tax liability position as of December 31 relate to the following:

	<u>2011</u>
Deferred tax assets:	
Allowance for impairment on trade and other receivables	P 7,500,210
Unamortized past service costs	675,055
Deferred rent expense – PAS 17	609,324
Allowance for inventory obsolescence	-
NOLCO	-
Deferred tax liabilities:	
Fair value gains on investment property	( 722,756,790)
Accumulated depreciation on investment property	( 129,743,498)
Retirement benefit asset	( 14,115,622)
Deferred rent income – PAS 17	( 3,523,866)
Changes in fair value of AFS	246,000
Unrealized foreign currency gains	<u>( 36,056)</u>
Deferred tax liabilities – net	<u><b>(P 861,145,243)</b></u>

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

	<u>2011</u>
Fair value gains on investment property	P 54,506,870
Allowance for inventory obsolescence	( 19,956,486)
Accrued municipal taxes	( 6,702,344)
Accumulated depreciation on investment property	6,651,556
Retirement benefit obligation	( 5,830,938)
Allowance for impairment on trade and other receivables	( 2,896,526)
Deferred rent income – PAS 17	( 1,752,527)
Reserve for warranty costs	( 1,214,422)
Unamortized past service costs	344,910
Unamortized preoperating expenses	50,164
Benefits from previously unrecognized MCIT	( 47,888)
Deferred rent expense – PAS 17	34,412
Change in fair value of AFS NOLCO	-
Unrealized foreign currency losses	( 677,951)
	<u>P 22,508,829</u>

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

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

<u>Year</u>	<u>Original Amount</u>	<u>Applied in Previous Years</u>	<u>Applied in Current Year</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
<b>NOLCO:</b>						
2011	P 25,849,966	P -	P -	P -	P 25,849,966	2014
2010	3,120,173	1,991,003	17,323	-	1,111,847	2013
2009	29,179,579	11,884,333	3,122,231	-	14,173,015	2012
2008	<u>26,449,985</u>	<u>6,184,682</u>	<u>10,709,470</u>	<u>9,555,833</u>	<u>-</u>	2011
	<u>P 84,599,703</u>	<u>P 20,060,018</u>	<u>P 13,849,024</u>	<u>P 9,555,833</u>	<u>P 41,134,828</u>	
<b>MCIT:</b>						
2011	P 1,125,824	P -	P -	P -	P 1,125,824	2014
2010	4,301,987	-	-	-	4,301,987	2013
2009	868,871	18,000	-	-	850,871	2012
2008	<u>4,174,555</u>	<u>71,162</u>	<u>3,326,116</u>	<u>777,277</u>	<u>-</u>	2011
	<u>P 10,471,237</u>	<u>P 89,162</u>	<u>P 3,326,116</u>	<u>P 777,277</u>	<u>P 6,278,592</u>	

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

	2011	
	Amount	Tax Effect
Accumulated impairment losses on property, plant, and equipment	P 350,000,000	P 105,000,000
Allowance for impairment of financial assets classified as loans and receivables	113,897,224	34,169,167
NOLCO	41,027,061	12,308,119
Allowance for inventory obsolescence	15,504,733	4,651,420
Fair value loss in investment property	10,167,900	3,050,370
MCIT	5,545,272	5,545,272
Allowance for impairment loss on AFS financial assets	5,420,000	1,626,000
Unearned income	4,920,000	1,476,000
Unrealized foreign currency loss	1,606,837	506,431
Unamortized past service cost	976,947	293,084
Retirement benefit obligation	875,601	262,680
	<u>P 549,941,575</u>	<u>P 168,888,543</u>

In 2011, the Group opted to claim itemized deductions.

### ***24.3 Change in Applicable Tax Rates***

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

## **25. EQUITY**

### ***25.1 Capital Stock***

The Group has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares are composed of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2011, the Parent Company has issued capital stock of P2,030,975,000, of which, 1,821,542,000 shares, are outstanding and are listed in the PSE. There are 4,583 holders of the listed shares which closed at P1.16 per share on December 31, 2011.

Retained earnings is restricted in the amount of P115.6 million in 2011 equivalent to the 209,433,000 shares held in treasury.

## 25.2 Revaluation Reserves

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

	Notes	2012	2011
Cumulative translation adjustments:			
Balance at beginning of year		(P 19,459,760)	P 64,979,425
Currency differences on translating financial statements of foreign operations	2	( 12,219,785)	( 4,673,374)
		( 31,679,545 )	60,306,051
Fair value losses on AFS financial assets:			
Balance at beginning of year		( 9,782,610)	( 108,459,976)
Reclassification adjustments for losses recognized in profit or loss		12,145,053	3,870,706
Fair value gains (losses) – net	9	6,701,485	2,269,598
		9,063,928	( 102,319,672)
Balance at end of the year		(P 22,615,617)	(P 42,013,621)

## 26. EARNINGS PER SHARE

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

	2012	2011
Net profit for the year attributable to the Parent Company's stockholders	P 65,820,958	P 47,568,087
Divided by weighted average shares outstanding:		
Number of shares issued	2,030,975,000	2,030,975,000
Treasury shares	( 209,433,000)	( 209,433,000)
	1,821,542,000	1,821,542,000
EPS – basic and diluted	P 0.04	P 0.03

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2012 and December 31, 2011, hence, diluted EPS is equal to the basic EPS.

## 27. EVENTS AFTER THE REPORTING PERIOD

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; and OLC and SLC, respectively, whereby SMC and SLC will be the surviving entities. Consequently on the same dates, SEC issued the Certificates of Filing of the Articles and Plans of Merger. Both mergers became effective on January 1, 2012; hence, starting that date, SC started to operate under the corporate name of SMC; and OLC under the corporate name of SLC.

The merger documents related to the planned merger between Mytel and My Solid are yet to be submitted to SEC for its approval as of March 27, 2012, the date the consolidated financial statements were authorized for issue (see Note 1.2).

The Group expects that these mergers will result in efficiency in operations and management of the surviving entities, which will ultimately result positively in the overall financial performance of the Group.

## 28. RELATED PARTY TRANSACTIONS

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

### 28.1 Sale of Goods and Rendering Services

	<u>Amounts of Transactions</u> <u>2011</u>	<u>Outstanding Balances</u> <u>2011</u>
Rendering of services:		
Use of cable infrastructure	P 228,608,036	P 71,595,493
Commissions	2,498,762	1,132,958
Management services	<u>1,200,000</u>	<u>-</u>
	232,306,798	72,728,451
Sales of goods -		
Sale of mobile phones	<u>3,042,022</u>	<u>3,042,022</u>
	<u>P 235,348,820</u>	<u>P 75,770,473</u>

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 49% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivables arising from these transactions are presented as part of Due from related parties under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Parent Company's majority stockholders. SVC also earns commissions from the sales of Solid Trading Limited (STL), a company also owned by the Parent Company's majority stockholders, to customers in the Philippines (see Note 28.6).

The Parent Company provides general management advisory services to CPD Access Corporation (CPD), a company owned by SGI's majority stockholders. In consideration for such services, the Parent Company receives management fees on a monthly basis as determined based on a management contract mutually agreed upon by both parties.

In 2011, Mytel sold mobile phone inventories to STL. The outstanding receivables arising from these sales transactions are shown as part of Due from related parties under the Trade and Other Receivables account in the statements of financial position (see Note 7).

## 28.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P105.5 million in 2011 are recorded as part of Cost of Services (see Note 19.1). There were no outstanding payables arising from the transactions as of December 31, 2011 and 2010.

## 28.3 Lease of Real Property

	<u>Amount of Transactions</u> <u>2011</u>
Group as lessor	P <u>993,192</u>
Group as lessee	P <u>-</u>

SMC leases out certain land and buildings to Avid. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

In 2009, SLC rents portion of a building of a company owned by the Parent Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the 2009 consolidated statement of income (see Note 21). There are no outstanding liabilities related to this lease in 2011 and 2010.

## 28.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 30.0% in December 31, 2011. Total interests earned from these loans amounted to P7.6 million in 2011 and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from business loans as of December 31, 2011 are as follows:

	<u>2012</u>	<u>2011</u>
AA Export & Import Corporation	P <u>51,979,709</u>	P 51,979,709
Avid Sales Corporation	<u>37,121,075</u>	<u>37,121,075</u>
	P <u>89,100,784</u>	P <u>89,100,784</u>

The business loan to AA Export & Import Corporation is originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. These business loans are secured by shares of stock of the borrowing companies which are owned by a related party (see Note 7). Total principal repayments received on the loans amounted to P3.3 million in 2011, P10.4 million in 2010 and P13.1 million in 2009.

SMFI also granted unsecured business loan to Avid amounting to P80.0 million. Principal repayments in the amount of P2.9 million and P6.0 million were made in 2011 and 2010, respectively, related to the business loan. There were no principal repayments made in 2009 related to the business loan.

Section 9 (d) of RA No. 8556 states that the total credit that a financing Company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of SMFI decreased in 2011, the balance of business loan extended to Avid Sales as of December 31, 2011 exceeds thirty percent (30%) of SMFI's net worth which is not in accordance with Section 9 (d) of RA No. 8556.

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

Certain subsidiaries of the Group grants to and obtains unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances arising from these transactions amounting to P60.2 million and P89.9 million in March 31, 2012 and P128.5 million and P107.5 million in December 31, 2011, are presented as Advances to Related Parties and Advances from Related Parties, respectively, in the consolidated statements of financial position.

In 2011, the Advances to Related Parties had net repayments of P72.7 million while Advances from Related Parties had net repayments of P61.4 million.

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

### ***28.6 Transactions with STL***

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P2.5 million in 2011 is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding balances arising from these transactions amounted to P48.0 million as of December 31, 2011 and is included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 28.5).

### ***28.7 Transactions with Solid Company Limited (Hong Kong)***

Mytel, My Solid and SBC purchases mobile phones from Solid Company Limited (Hong Kong), a related party owned by the Parent Company's majority stockholders in 2011. Total purchases amounted to P2.5 billion in 2011 and is presented as part of Cost of Sales in the consolidated statements of income (see Note 19.1). Outstanding liabilities relating to these purchases amounted to P372.3 million as of December 31, 2011

In 2011, My Solid made advances to Solid Company Limited (Hong Kong) for its future purchase of mobile phones. The advances were later assigned to Mytel after it was issued by the Bureau of Customs (BOC) with a Certificate of Accreditation as Importer in July 2011. The outstanding advances amount to P219.4 million as of December 31, 2011 and is presented as part of Advances to supplier under Trade and Other Receivables account in the 2011 consolidated statement of financial position.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hong Kong) amounting to P120.8 million which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year.

The amount of loan amounting to P108.9 million and P111.3 million as of March 31, 2012 and December 31, 2011, respectively, are presented as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

### ***28.8 Loan Availments***

In 2011, Fil-Dragon obtained loans from companies that are owned by Solid Company Limited (Hong Kong) amounting to RMB58.1 million (P404.1 million). These bear interest at prevailing market rates per annum ranging from and 6.0% to 10.0% in 2011. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2011 consolidated statement of financial position. Borrowing cost incurred in 2011 relating to these loans amounted to RMB1.5 million (P9.7 million) and are capitalized as part of Real Estate Inventories (see Note 16).

### ***28.9 Financial Guarantees***

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract was terminated during the year as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 16).

### ***28.10 Key Management Personnel Compensation***

Salaries and other benefits given to key management personnel for 2011.

	<u>2011</u>
Short-term benefits	<b>P 33,992,630</b>
Post-employment benefit	<u>-</u>
	<b><u>P 33,992,630</u></b>

## **29. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***29.1 Memorandum of Understanding with SPI***

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

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

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

	<u>Amounts of Transactions</u> 2011	<u>Outstanding Balances</u> 2011
SPI Products	P 56,652,858	P 3,027,479
AIWA Products	-	-
	<u>P 56,652,858</u>	<u>P 3,027,479</u>

Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. The outstanding receivables arising from these transactions are included as part of Trade and Other Receivables in the consolidated statements of financial position (see Note 7).

### ***29.2 Distributorship Agreement with Sony Corporation of Hong Kong Limited (Sony HK)***

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 17). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

## **30. COMMITMENTS AND CONTINGENCIES**

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

### ***30.1 Operating Lease Commitments – Group as Lessor***

Certain subsidiaries lease various properties for a period of one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum rentals receivable under these non-cancellable operating leases as of December 31, 2011 is:

	<u>2011</u>
Within one year	P 85,906,404
After one year but not more than five years	137,864,538
More than five years	<u>806,905</u>
	<u>P 224,577,847</u>

### **30.2 Operating Lease Commitments – Group as Lessee**

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2009, these leases have a remaining term of 10 years, expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	<u>2011</u>
Within one year	<b>P 11,131,271</b>
After one year but not more than five years	<b>40,612,597</b>
More than five years	<u><b>25,977,359</b></u>
	<u><b>P 77,721,227</b></u>

Total rental expense from these operating leases amounted to P7.4 million each in 2011, and is shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 19.2 and 21).

### **30.3 Legal Claims**

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

- (a) SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:
  - (i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million, subject to expropriation coverage under the Agrarian Reform Act; and,
  - (ii) a piece of land, with a carrying value of P309.0 million, subject to claims by third parties who filed court cases against SMC.
- (b) SC is involved in litigation and is subject to certain claims by third parties. Also, a portion of SC's land located in Pamaldan, Cabanatuan City, with a carrying amount of P7.6 million, is subject to expropriation coverage under the Agrarian Reform Act.

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

### **30.4 Estimated Liability for Land and Land Development Cost**

The Group has commitment of about P68.3 million as of December 31, 2011, 2010 and 2009, for the fulfillment of projects in the development and marketing of CPIP (see Note 12).

### **30.5 Purchase Commitments**

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 12). The construction of

Tower 1 was fully completed in 2009; the construction of Tower 2 started in 2011 while the construction of Tower 3 has not yet started as of December 31, 2011.

### ***30.6 Possible Impact of Government Project***

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

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

### ***30.7 Others***

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

## **31. RISK MANAGEMENT OBJECTIVES AND POLICIES**

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

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

### ***31.1 Foreign Currency Sensitivity***

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

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

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

	2012		2011	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	P 555,020,501	P 100,605,778	P 476,601,716	P 75,339,059
Financial liabilities	( 402,691,813)	( 415,775,186)	( 379,197,829)	( 404,053,192)
Total net exposure	<u>P 152,328,688</u>	<u>(P 315,169,408)</u>	<u>P 97,403,887</u>	<u>(P 328,714,133)</u>

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 3 months at a 99% confidence level.

	2012		2011	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	8.25%	P 8,221,794	20.63%	P 6,939,858
Php – RMB	7.56%	( 40,038,438)	12.21%	( 43,337,150)
		<u>(P 31,816,644)</u>		<u>(P 36,397,292)</u>

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

### 31.2 Interest Rate Sensitivity

At March 31, 2012 and December 31, 2011 the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of 1.09% in March 31, 2012 and +/-1.17% in December 31, 2011. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 1.09% in March 31, 2012 and 1.17% profit before tax in 2011 would have increased by P14.1 million. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

### 31.3 Credit Risk

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

	Notes	2012	2011
Cash and cash equivalents	6	<b>P 1,942,054,158</b>	P 1,720,748,062
Trade and other receivables - net	7	<b>1,900,726,935</b>	1,807,037,835
Financial assets at FVTPL	8	<b>88,323,094</b>	70,272,991
AFS financial assets - net	9	<b>55,096,269</b>	51,994,367
Advances to related parties	28	<b>60,227,080</b>	128,543,399
Refundable deposits - net	15	<b>15,589,022</b>	13,205,036
		<b><u>P 4,062,016,558</u></b>	<b><u>P 3,791,801,690</u></b>

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

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

(a) *Cash and Cash Equivalents, FVTPL and AFS Financial Assets*

The credit risk for cash and cash equivalents, FVTPL and AFS financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) *Trade and Other Receivables*

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

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

	2011
Not more than 3 months	<b>P 69,088,088</b>
More than 3 months but not more than one year	<b>9,400,170</b>
More than one year	<b><u>66,597,236</u></b>
	<b><u>P 145,085,494</u></b>

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

rates, management consider the quality of trade receivables that are not past due or impaired to be good.

### 31.4 Liquidity Risk

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

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

As of December 31, 2011, the Group's financial liabilities have contractual maturities which are presented below.

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 404,053,192	P 375,345,563
Trade and other payables	552,072,387	-
Advances from related parties	-	107,495,231
	<b>P 956,125,579</b>	<b>P 482,840,794</b>

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

## 32. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

### 32.1 Comparison of Carrying Values and Fair Values

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

Notes	2012		2011	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>				
Loans and receivables:				
Cash and cash equivalents	6	P 1,942,054,158	1,942,054,158	P 1,720,748,062
Trade and other receivables - net	7	1,900,726,935	1,900,726,935	1,807,037,835
Advances to related parties	28	60,227,080	60,227,080	128,543,399
Financial assets at FVTPL				
Investments in bonds	8	88,323,094	88,323,094	70,272,991
Available-for-sale financial assets:	9			
Investments in bonds		55,096,269	55,096,269	51,994,367
Golf club shares - net		6,407,409	6,407,409	6,407,409
Others		987,002	987,002	1,474,118
Refundable deposits	15	15,589,022	15,589,022	13,651,421
		<b>P 4,069,410,969</b>	<b>P 4,069,410,969</b>	<b>P 3,800,129,602</b>
<b>Financial liabilities</b>				
At amortized cost:				
Interest-bearing loans - net	16	P 769,354,821	769,354,821	P 779,398,755
Trade and other payables	17	792,904,901	792,904,901	592,432,973
Advances from related parties	28	89,938,989	89,938,989	115,790,251
Refundable deposits - net	18	17,620,995	17,620,995	15,611,010
		<b>P 1,669,817,706</b>	<b>P 1,669,817,706</b>	<b>P 1,503,232,989</b>

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

### 32.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of March 31, 2012 and December 31, 2011.

	Level 1	Level 2	Level 3	Total
March 31, 2012				
Financial assets at FVTPL	P 88,323,094	P -	P -	P 88,323,094
AFS financial assets	<u>62,388,544</u>	<u>-</u>	<u>937,127</u>	<u>63,325,671</u>
	<b><u>P 150,711,638</u></b>	<b><u>P -</u></b>	<b><u>P 937,127</u></b>	<b><u>P 151,648,765</u></b>
December 31, 2011				
Financial assets at FVTPL	P 70,272,991	P -	P -	P 70,272,991
AFS financial assets	<u>58,938,767</u>	<u>-</u>	<u>937,127</u>	<u>59,875,894</u>
	<b><u>P 129,211,758</u></b>	<b><u>P -</u></b>	<b><u>P 937,127</u></b>	<b><u>P 130,148,885</u></b>

The different levels have been defined as follows:

- (a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- (b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- (c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

### 33. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	2012	2011
Total liabilities (excluding advances from related parties)	<b>P 3,256,365,248</b>	P 3,052,705,062
Total equity	<b>8,628,953,530</b>	8,556,482,257
Debt-to-equity ratio	<b><u>0.38:1</u></b>	<u>0.36 : 1</u>

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to

maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

**SOLID GROUP INC. & SUBSIDIARIES**  
**AGING OF TRADE AND OTHER RECEIVABLES**  
**MARCH 31, 2012**

	<u>Current</u>	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>91 days &amp; over</u>	<u>TOTAL</u>
TRADE	354,787,819	157,167,983	67,747,270	29,712,585	169,358,192	<b>778,773,849</b>
DUE FROM RELATED PARTIES	23,105,239	0	40,126,433	23,144,416	0	<b>86,376,088</b>
ADVANCES TO SUPPLIERS	267,790,265	0	0	0	45,527,300	<b>313,317,565</b>
FINANCE RECEIVABLES	56,571,003	0	0	0	3,286,015	<b>59,857,018</b>
OTHER RECEIVABLES	<u>104,242,428</u>	<u>1,129,079</u>	<u>942,978</u>	<u>1,864,459</u>	<u>11,122,963</u>	<u><b>119,301,907</b></u>
TOTAL	<u><b>806,496,754</b></u>	<u><b>158,297,062</b></u>	<u><b>108,816,681</b></u>	<u><b>54,721,460</b></u>	<u><b>229,294,470</b></u>	<b>1,357,626,427</b>
ALLOWANCE FOR IMPAIRMENT						<u><b>(117,042,294)</b></u>
<b>TRADE AND OTHER RECEIVABLES, NET</b>						<u><u><b>1,240,584,133</b></u></u>