



## **SOLID GROUP INC.**

November 14, 2013

**THE PHILIPPINE STOCK EXCHANGE, INC.**

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

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

Gentlemen:

We are submitting herewith the SEC Form 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: September 30, 2013
2. Commission Identification Number: 845
3. BIR Tax Identification No.: 321-000-508-536
4. Exact name of registrant as specified in its charter **SOLID GROUP INC.**
5. Province, Country or other jurisdiction  
of incorporation: Philippines
6. \_\_\_\_\_ (SEC Use Only)  
Industry Classification Code
7. Address of principal office: Solid House, Postal Code: 1231  
2285 Don Chino Roces Avenue (formerly Pasong Tamo Ext.), Makati City,  
Philippines
8. Telephone No: (632) 843-15-11
9. Former name, former address and former fiscal year,  
if changed since last report: N/A
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the  
RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
---------------------	--

Common Stock, P1 par value	1,821,542,000 shares
----------------------------	----------------------

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

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

Philippine Stock Exchange	Common
---------------------------	--------

12. Indicate by check mark whether the registrant:

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

Yes [ X ]

No [ ]

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

Yes [ X ]

No [ ]

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

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

The unaudited consolidated financial statements of the Company and its subsidiaries for the nine (9) months period ended September 30, 2013 are attached to this report.

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

#### Key Performance Indicators

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

Key performance indicators for 2013 and 2012 are as follows:

	<u>2013</u>	<u>2012</u>
Revenue growth(decline)	(11%)	13%
Asset turnover	30%	37%
Operating expense ratio	18%	15%
EBITDA	P198 million	P1,113 million
EPS	P0.06	P0.51
Current ratio	2.76 : 1	3.14 : 1
Debt to equity ratio	0.37 : 1	0.33 : 1

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

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

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

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

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

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

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

Revenue declined by 11% for the first nine months of 2013 vs.13% increase for the same period in 2012 principally due to lower revenues of the distribution segment on digital product sales for the first nine months and lower broadband revenues due to sale of its assets in May 2012 offset by increase in revenue of the real estate segment.

Asset turnover stood lower at 30% for the first nine months of 2013 from 37% for the same period in 2012 as a result of lower revenues for the period.

Operating expense ratio was 18% and 15% for the first nine months of 2013 and 2012, respectively due to higher operating expenses and lower revenues for the period.

EBITDA amounted to P198 million for the first nine months of 2013 against P1,113 million for the same period in 2012. The decrease was mainly due to lower operating profit for the period.

Earnings per share amounted to P0.06 in 2013 versus P0.51 in 2012 (P0.13 excluding the one-time gain from broadband asset sale in 2012) mainly from lower net income for the period.

Current ratio stood at 2.76:1 as of September 30, 2013 and 3.14 : 1 as of December 31, 2012 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.37: 1 as of September 30, 2013 from 0.33: 1 as of December 31, 2012 primarily due to higher liabilities.

### **Results of Operations**

Revenues declined by 11% in the first nine months of 2013 reaching P2,989 million from P3,347 million for the same period in 2012 principally from lower revenues of the distribution segment from digital product sales and broadband lower revenue due to sale of its assets in May 2012.

Sale of goods amounted to P2,439 million for the first nine months of 2013, lower by 9% from P2,671 million for the same period in 2012 mainly due lower volume of sales of the digital products.

Service revenue went down to P297 million for the first nine months of 2013, decreasing by 40% for the same period in 2012 of P493 million principally due to sale of assets of broadband segment.

Rental income amounted to P116 million for the first nine months of 2013, up by 11% from P104 million for the same period in 2012 mainly due to higher occupancy in 2013.

Sale of real estate amounted to P106 million for the first nine months of 2013, up by 239% from P31 million for the same period in 2012. This was principally due to higher condominium sales.

Interest income amounted to P29 million for the first nine months of 2013, lower by 38% from P47 million for the same period in 2012 mainly from lower yield on placements as compared with previous year.

Cost of sales, services and rentals amounted to P2,324 million for the first nine months of 2013, or a decrease of 9% from P2,565 million for the same period in 2012 as discussed below.

Cost of sales amounted to P2,003 million for the first nine months of 2013, lower by 6%, from P2,136 million for the same period of last year in relation to the decrease in sales.

Cost of services amounted to P225 million for the first nine months of 2013 from P376 million for the same period of 2012, down by 40% mainly in relation to lower service revenue for the period.

Cost of rentals amounted to P29 million for the first nine months of 2013 and 2012. There was no material change for this account.

Cost of real estate sold amounted to P65 million for the first nine months of 2013, up by 191% from P22 million for the same period of 2012. The increase was mainly in relation to higher sale of real estate.

Gross profit amounted to P664 million for the first nine months of 2013 from P781 million for the same period in 2012. The 15% decrease was principally due to lower revenues and cost of sales and services.

Other operating expenses (income) amounted to P515 million for the first nine months of 2013 against P193 million for the same period in 2012 as explained below.

General and administrative expenses amounted to P212 million for the first nine months of 2013 from P253 million for the same period of 2012. Expenses went down after the broadband assets were sold in May 2012.

Selling and distribution costs amounted to P323 million for the first nine months of 2013, up by 34% from P241 million for the same period of 2012 mainly from higher advertising costs for the distribution segment.

Other operating income amounted to P19 million for the first nine months of 2013, down by 93% from P 301 million for the same period in 2012 principally due to gain on sale of broadband assets in 2012 (none in 2013).

Operating profit amounted to P149 million for the first nine months of 2013 from P588 million for the same period in 2012, declining by 75% from lower gross profit and other operating income as discussed above.

Other income (charges) amounted to P9 million loss for the first nine months of 2013 against P480 million gain for the same period in 2012 mainly from the following:

Finance income was lower at P47 million for the first nine months of 2013 compared with P525 million for the same period of last year. It went down because in 2012 there were reversals of impairment on PPE and trade receivables due to sale of broadband assets in May 2012.

Finance costs increased to P56 million for the first nine months of 2013 compared with P46 million in 2012 primarily due to interest cost for our Golden Hill project.

Other gains was P199 thousand for the first nine months of 2013 versus P1 million in 2012.

Income before tax reached P139 million for the first nine months of 2013, decreasing by 87% from P1,068 million for the same period in 2012 mainly due to lower operating profit as explained above.

Tax expense amounted to P49 million for the first nine months of 2013 from P144 million in 2012 due to lower pre-tax income.

Net income amounted to P90 million for the first nine months of 2013 against P924 million (P239 million excluding one-time gain from broadband asset sale in 2012) for the same period in 2012 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P114 million for the first nine months of 2013 against P926 million in for the same period of 2012 as discussed above.

Net income attributable to minority interest amounted to P24 million loss for the first nine months of 2013 compared with P1.8 million loss in 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

#### Financial Position

Cash and cash equivalents amounted to P 2,842 million as of September 30, 2013 down by 6% from P3,019 million as of December 31, 2012. Cash was mostly used for investing activities mainly for additions to property and equipment and for operating activities mainly for increase in inventories.

Trade and other receivables reached P1,094 million as of September 30, 2013 against P1,287 million as of December 31, 2012, or a decrease of 15% principally due to collection of receivables of the distribution segment. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P6 million as of September 30, 2013 and P21 million as of December 31, 2012, a decrease of 69% due to collection of advances.

Merchandise inventories and supplies - net amounted to P955 million as of September 30, 2013, compared with P391 million as of December 31, 2012, an increase of 144% due to buildup of inventories of the myphone business.

Real estate inventories amounted to P2,121 million as of September 30, 2013 from P2,011 million as of December 31, 2012, an increase of 5% due to the ongoing Fil-Dragon's project in Nanning, China.

Other current assets amounted to P382 million as of September 30, 2013 compared with P252 million as of December 31, 2012, an increase of 52% due to higher input VAT of the distribution segment and prepaid business taxes of the real estate segment.

Total current assets reached P 7,403 million as of September 30, 2013 from P6,984 million as of December 31, 2012 as mainly from higher merchandise inventories as discussed above.

Non-current trade and other receivable amounted to P699 million as of September 30, 2013 from P630 million as of December 31, 2012, higher by 11% due to increase in cash surrender value of life insurance and finance receivables.

Non-current available-for-sale financial assets stood at P8 million as of September 30, 2013 against P9 million as of December 31, 2012. The decrease was due to lower club shares.

Property, plant and equipment amounted to P1,146 million as of September 30, 2013 from P1,048 million as of December 31, 2012, an increase of 9% due to the ongoing construction of Green Sun hotel project (formerly Solid House Building).

Investment property amounted to P4,014 million as of September 30, 2013 from P4,017 as of December 31, 2012. There was no material variance for this account.

Retirement benefit assets amounted to P73 million as of September 30, 2013 and December 31, 2012.

Deferred tax assets - net amounted to P66 million and P63 million as of September 30, 2013 and December 31, 2012 respectively. There was no material variance for this account.

Other non-current assets amounted to P17 million as of September 30, 2013 or a decrease of 20% from P22 million as of December 31, 2012 primarily due to lower refundable deposits, prepaid insurance and other non-current assets.

Total non-current assets amounted to P6,026 million as of September 30, 2013 from P5,863 million as of December 31, 2012 as discussed above.

Total assets reached P13,430 million as of September 30, 2013 from P12,848 million as of December 31, 2012 as discussed above.

Interest-bearing loans amounted to P700 million as of September 30, 2013 from P571 million as of December 31, 2012, up by 23% due to availment of loans.

Trade and other payables amounted to P719 million as of September 30, 2013 against P628 million as of December 31, 2012, higher by 14% primarily due to higher trade payables, accrued expenses, reserve for warranty costs and other payables.

Customers' deposits amounted to P1,166 million as of September 30, 2013 versus P881 million as of December 31, 2012. The increase of 32% was mainly additional deposits for real estate sales.

Advances from related parties amounted to P15 million as of September 30, 2013 and P11 million as of December 31, 2012 due to additional advances.

Estimated liability for land and land development costs amounted to P 68 million as of September 30, 2013 and December 31, 2012.

Income tax payable amounted to P10 million as of September 30, 2013 from P65 million as of December 31, 2012 mainly due to lower income tax expense for the first nine months of the year.

Total current liabilities stood at P2,680 million as of September 30, 2013, higher by 20% from P2,227 million as of December 31, 2012 as explained above mainly due to higher interest-bearing loans, trade and other payables, customers' deposits.

Non-current refundable deposits amounted to P20 million as of September 30, 2013 from P16 million as of December 31, 2012 from additional deposits.



Retirement benefit obligation amounted to P12 million as of September 30, 2013 and December 31, 2012.

Deferred tax liabilities -net amounted to P920 as of September 30, 2013 and December 31, 2012.

Total non-current liabilities amounted to P952 million as of September 30, 2013 from P948 million as of December 31, 2012.

Total liabilities amounted to P3,633 million as of September 30, 2013 from P3,176 million as of December 31, 2012.

Capital stock stood at P2,030 million as of September 30, 2013 and December 31, 2012.

Additional paid-in capital amounted to P4,641 million as of September 30, 2013 and December 31, 2012.

Treasury shares amounted to P115 million as of September 30, 2013 and December 31, 2012.

Revaluation reserves amounted to P11 million loss as of September 30, 2013 from P46 million loss as of December 31, 2012 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations.

Retained earnings amounted to P2,872 million as of September 30, 2013 from P2,758 million as of December 31, 2012 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P9,418 million as of September 30, 2013 from P9,269 million as of December 31, 2011 due to higher retained earnings.

Minority interest amounted to P378 million as of September 30, 2013 and P402 million as of December 31, 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Total equity amounted to P9,796 million as of September 30, 2013 from P9,671 million as of December 31, 2012.

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

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

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

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

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

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

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

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

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

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

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

- vi. Significant elements of Income or Loss that did not arise from Continuing Operations  
None.

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

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

As discussed above, SBC sold its assets to Sky Cable in May 2012. As a result, the Company reported in the first nine months of 2012 a one-time gain before tax of P735 million (P685 million after tax) from reversal of impairment provision on property and equipment and receivables and gain on sale of property and equipment and subscriber base.

- 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.**

A large, stylized handwritten signature in dark ink, consisting of a large loop followed by a horizontal stroke.

**DAVID S. LIM**

President & Chief Executive Officer

A smaller, more compact handwritten signature in dark ink, featuring a loop and a short horizontal stroke.

**VINCENT S. LIM**

SVP & Chief Financial Officer

November 14, 2013

# Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

September 30, 2013 and December 31, 2012

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

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	<b>P 2,842,517,004</b>	P 3,019,984,213
Trade and other receivables - net	6	<b>1,094,813,821</b>	1,287,469,305
Advances to related parties	25	<b>6,724,463</b>	21,633,388
Available-for-sale financial assets - net	8	<b>-</b>	-
Merchandise inventories and supplies - net	9	<b>955,591,894</b>	391,862,888
Real estate inventories - net	10	<b>2,121,480,527</b>	2,011,065,441
Other current assets	13	<b>382,629,529</b>	252,161,359
Total Current Assets		<b><u>7,403,757,238</u></b>	<u>6,984,176,594</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	6	<b>699,242,920</b>	630,458,102
Available-for-sale financial assets - net	8	<b>8,544,232</b>	9,076,527
Property, plant and equipment - net	11	<b>1,146,323,914</b>	1,048,407,834
Investment property - net	12	<b>4,014,986,008</b>	4,017,441,106
Retirement benefit asset	21	<b>73,164,772</b>	73,164,772
Deferred tax assets - net	22	<b>66,157,256</b>	63,135,755
Other non-current assets - net	13	<b>17,834,165</b>	22,231,704
Total Non-current Assets		<b><u>6,026,253,267</u></b>	<u>5,863,915,800</u>
<b>TOTAL ASSETS</b>		<b><u>P 13,430,010,505</u></b>	<u>P 12,848,092,394</u>

	Notes	2013	2012
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	14	P 700,386,643	P 571,666,922
Trade and other payables	15	719,356,058	628,902,651
Customers' deposits	10	1,166,246,202	881,899,665
Advances from related parties	25	15,492,304	11,629,819
Estimated liability for land and land development costs	10	68,304,647	68,304,647
Income tax payable		<u>10,948,601</u>	<u>65,207,807</u>
Total Current Liabilities		<u>2,680,734,455</u>	<u>2,227,611,511</u>
<b>NON-CURRENT LIABILITIES</b>			
Refundable deposits - net	16	20,145,410	16,045,396
Retirement benefit obligation	21	12,582,159	12,582,159
Deferred tax liabilities - net	22	<u>920,063,448</u>	<u>920,063,448</u>
Total Non-current Liabilities		<u>952,791,017</u>	<u>948,691,003</u>
Total Liabilities		<u>3,633,525,472</u>	<u>3,176,302,514</u>
<b>EQUITY</b>			
Equity attributable to the Parent Company's stockholders			
Capital stock	23	2,030,975,000	2,030,975,000
Additional paid-in capital		4,641,701,922	4,641,701,922
Treasury shares - at cost	23	( 115,614,380 )	( 115,614,380 )
Revaluation reserves	23	( 11,904,142 )	( 46,319,482 )
Retained earnings	23	<u>2,872,934,889</u>	<u>2,758,300,997</u>
Total equity attributable to the Parent Company's stockholders		9,418,093,289	9,269,044,057
Non-controlling interests		<u>378,391,744</u>	<u>402,745,823</u>
Total Equity		<u>9,796,485,033</u>	<u>9,671,789,880</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<u><b>P 13,430,010,505</b></u>	<u><b>P 12,848,092,394</b></u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
*(Amounts in Philippine Pesos)*

		2013		2012	
	Notes	3rd Quarter	Year to Date	3rd Quarter	Year to Date
<b>REVENUES</b>	2				
Sale of goods		P 936,696,229	P 2,439,780,767	P 883,189,768	P 2,671,368,353
Rendering of services		111,029,431	297,275,378	146,925,041	493,075,644
Sale of real estate		48,449,336	106,374,872	9,857,591	31,370,009
Rentals		38,521,464	116,421,581	33,785,367	104,479,222
Interests	20	8,758,440	29,172,405	19,010,832	47,109,511
		<u>1,143,454,900</u>	<u>2,989,025,003</u>	<u>1,092,768,599</u>	<u>3,347,402,739</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>					
Cost of sales	17	799,811,205	2,003,617,012	668,492,182	2,136,790,989
Cost of services	17	83,433,070	225,550,440	107,800,939	376,478,059
Cost of real estate sold	19	27,169,584	65,328,800	6,704,091	22,434,048
Cost of rentals	17	5,998,616	29,585,756	5,153,221	29,811,691
		<u>916,412,475</u>	<u>2,324,082,008</u>	<u>788,150,433</u>	<u>2,565,514,787</u>
<b>GROSS PROFIT</b>		<u>227,042,425</u>	<u>664,942,995</u>	<u>304,618,166</u>	<u>781,887,952</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>					
General and administrative expenses	19	72,690,419	212,426,068	83,274,638	253,638,893
Selling and distribution costs	19	114,150,253	323,166,180	87,999,861	241,386,204
Other operating income - net	18	( 678,280 )	( 19,665,292 )	4,104,905	( 301,224,336 )
		<u>186,162,392</u>	<u>515,926,956</u>	<u>175,379,404</u>	<u>193,800,761</u>
<b>OPERATING PROFIT</b>		<u>40,880,033</u>	<u>149,016,039</u>	<u>129,238,762</u>	<u>588,087,191</u>
<b>OTHER INCOME (CHARGES)</b>					
Finance costs	20	( 26,118,899 )	( 56,425,685 )	( 10,103,881 )	( 46,488,258 )
Finance income	20	6,636,926	47,110,378	32,237,196	525,836,111
Other gains - net		<u>199,263</u>	<u>199,263</u>	<u>253,391</u>	<u>1,424,700</u>
		<u>( 19,282,710 )</u>	<u>( 9,116,044 )</u>	<u>22,386,706</u>	<u>480,772,553</u>
<b>PROFIT BEFORE TAX</b>		<u>21,597,323</u>	<u>139,899,995</u>	<u>151,625,468</u>	<u>1,068,859,744</u>
<b>TAX EXPENSE</b>	22	<u>11,932,696</u>	<u>49,620,182</u>	<u>43,319,690</u>	<u>144,676,035</u>
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<u>9,664,627</u>	<u>90,279,813</u>	<u>P 108,305,778</u>	<u>P 924,183,709</u>
<b>Profit for the year attributable to the</b>					
Parent Company's stockholders		P 24,587,058	P 114,633,892	P 109,413,995	P 926,009,314
Non-controlling interests		( 14,922,431 )	( 24,354,079 )	( 1,108,217 )	( 1,825,605 )
		<u>P 9,664,627</u>	<u>P 90,279,813</u>	<u>P 108,305,778</u>	<u>P 924,183,709</u>
<b>Earnings per share attributable to the</b>					
Parent Company's stockholders - basic and diluted	24	<u>P 0.01</u>	<u>P 0.06</u>	<u>P 0.06</u>	<u>P 0.51</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
*(Amounts in Philippine Pesos)*

	Notes	2013		2012	
		3rd Quarter	Year to Date	3rd Quarter	Year to Date
<b>NET PROFIT FOR THE PERIOD</b>		<b>P 9,664,627</b>	<b>P 90,279,813</b>	P 108,305,778	P 924,183,709
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>					
Reclassification adjustments for losses recognized in profit or loss			-		12,145,053
Fair value gains (losses) on available-for-sale financial assets, net of taxes	8		-	1,060,360 (	1,993,830 )
Currency exchange differences on translating balances of foreign operations	2	8,144,077	34,415,340	3,001,756 (	21,357,290 )
		-	-	-	-
		<u>8,144,077</u>	<u>34,415,340</u>	<u>4,062,116 (</u>	<u>11,206,067 )</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>P 17,808,704</b>	<b>P 124,695,153</b>	P 112,367,894	P 912,977,642
<b>Total comprehensive income (loss) for the year attributable to:</b>					
Parent Company's stockholders		P 32,731,135	P 149,049,232	P 113,476,111	P 914,803,247
Non-controlling interests		( 14,922,431 )	( 24,354,079 )	( 1,108,217 )	( 1,825,605 )
		<u>P 17,808,704</u>	<u>P 124,695,153</u>	<u>P 112,367,894</u>	<u>P 912,977,642</u>

*See Notes to Consolidated Financial Statements.*



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
*(Amounts in Philippine Pesos)*

	Note	2013	2012
<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		<b>P 2,030,975,000</b>	P 2,030,975,000
<b>ADDITIONAL PAID-IN CAPITAL</b>		<b>4,641,701,922</b>	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>	23		
Balance at beginning of year		( 46,319,482 )	( 29,242,370 )
Other comprehensive income (loss) for the year		<b>34,415,340</b>	( 11,206,067 )
Balance at end of year		( 11,904,142 )	( 40,448,437 )
<b>RETAINED EARNINGS (DEFICIT)</b>			
Balance at beginning of year			
As previously reported		2,758,300,997	1,623,289,267
Prior period adjustments, net of tax		-	-
As restated		2,758,300,997	1,623,289,267
Profit (loss) for the year attributable to the Parent Company's stockholders		114,633,892	926,009,314
Cash dividends		-	-
Balance at end of year		<b>2,872,934,889</b>	2,549,298,581
Total Equity Attributable to the Parent Company's stockholders		<b>9,418,093,289</b>	9,065,912,686
<b>NON-CONTROLLING INTERESTS</b>			
Balance at beginning of year		402,745,823	405,372,818
Additional non-controlling interests on acquired subsidiary		-	
Profit for the year attributable to non-controlling interests		( 24,354,079 )	( 1,825,605 )
Balance at end of year		<b>378,391,744</b>	403,547,213
<b>TOTAL EQUITY</b>		<b>P 9,796,485,033</b>	P 9,469,459,899
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		<b>P 149,049,232</b>	P 914,803,247
Non-controlling interests		( 24,354,079 )	( 1,825,605 )
		<b>P 124,695,153</b>	P 912,977,642

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2013 AND 2012**  
*(Amounts in Philippine Pesos)*

	Notes	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		139,899,995	1,068,859,744
Adjustments for:			
Interest income	(	66,774,093 )	( 93,960,981 )
Depreciation and amortization		22,880,422	39,738,684
Impairment losses on financial assets		-	874,702
Impairment losses on trade and other receivables			-
Interest expense		35,726,686	5,032,466
Fair value gains on financial assets at fair value through profit or loss		-	( 6,012,546 )
Loss (reversal) on inventory obsolescence	(	1,879,944 )	56,467,981
Unrealized foreign currency losses (gains) - net		12,455,398	( 1,448,835 )
Fair value gains on investment property - net			
Reversals of impairment losses on trade and other receivables	(	3,210,377 )	( 108,743,948 )
Reversals of allowance for inventory obsolescence			
Gain on sale of property and equipment		-	( 185,266,307 )
Reversal of impairment loss on property, plant & equipment		-	( 350,000,000 )
Impairment (reversal) losses on available-for-sale financial assets		-	-
Operating profit before working capital changes		139,098,087	425,540,960
Decrease (increase) in trade and other receivables		121,391,904	170,015,400
Decrease (increase) in available-for-sale financial assets		532,296	39,570,723
Decrease (increase) in financial assets at fair value through profit or loss		-	70,140,613
Decrease (increase) in merchandise inventories and supplies	(	561,849,062 )	( 145,898,199 )
Decrease (increase) in real estate inventories	(	75,999,747 )	( 24,283,961 )
Decrease (increase) in advances to related parties		14,908,925	128,543,399
Decrease (increase) in other current assets	(	130,468,170 )	34,969,368
Decrease (increase) in retirement benefit asset		-	-
Increase in deferred tax assets	(	3,021,501 )	( 16,850,515 )
Decrease (increase) in other non-current assets		4,397,539	4,527,649
Increase (decrease) in trade and other payables		94,059,462	100,558,903
Increase (decrease) in customers' deposits		284,346,537	59,534,012
Increase (decrease) in advances from related parties		3,862,485	( 35,541,127 )
Increase (decrease) in refundable deposits		4,100,014	2,424,025
Increase in deferred tax liabilities		-	-
Cash generated from (used in) operations	(	104,641,231 )	813,251,250
Interest received		29,172,405	47,109,511
Cash paid for income taxes	(	103,879,388 )	( 123,264,975 )
Net Cash From Operating Activities	(	179,348,214 )	737,095,786
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (Acquisitions) of property and equipment	(	120,796,502 )	893,688,624
Interest received		43,290,827	52,540,609
Decrease (Additions) to investment property		2,455,098	( 12,219,064 )
Net Cash Used in Investing Activities	(	75,050,577 )	934,010,169

	Notes	2013	2012
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from (repayments) of interest-bearing loans - net		128,719,721	( 190,488,496 )
Interest paid		( 39,332,741 )	( 7,829,631 )
Net Cash From (Used in) Financing Activities		89,386,980	( 198,318,127 )
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>			
		( 12,455,398 )	1,448,835
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		( 177,467,209 )	1,474,236,663
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>			
		3,019,984,213	1,720,748,062
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>			
		P 2,842,517,004	P 3,194,984,725

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2013 AND DECEMBER 31, 2012**  
*(Amounts in Philippine Pesos)*

**1. CORPORATE INFORMATION**

**1.1 Company Background**

Solid Group Inc. (SGI or the Parent Company) was registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1933. The Parent Company currently conducts business as an investment holding company. On September 4, 1996, SGI listed its shares in the Philippine Stock Exchange (PSE).

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

Subsidiaries	Percentage of Ownership		Notes	Nature of Business
	2013	2012		
Brilliant Reach Limited (BRL)	100	100	(a)	Investment company
Kita Corporation (Kita)	100	100		Real estate and manufacturing of injected plastics
Solid Broadband Corporation (SBC)	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Group Technologies Corporation (SGTC)	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	100	100		Repair services for audio and video products and mobile phones
Solid Corporation (SC)	-	-	(k)	Real estate
Solid Manila Corporation (SMC)	100	100	(k)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)	100	100	(e)	Real estate
Solid Manila Finance, Inc. (SMFI)	100	100		Financing
Solid Video Corporation (SVC)	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	100	100	(c), (g)	Real estate
Mytel Mobility Solutions, Inc. (Mytel)	-	-	(j), (m)	Sale of mobile phones
My Solid Technologies & Devices Corporation (My Solid)	100	100	(i), (m)	Sale of mobile phones
Omni Logistics Corporation (OLC)	-	-	(l)	Logistics and assembly of consumer electronics products
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)]	100	100	(l)	Logistics and assembly of consumer electronics products
Skyworld Corporation (Skyworld)	75	75	(c), (e)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	51	51	(h)	Real estate
Starworld Corporation (Starworld)	50	50	(e), (f)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	50	50	(b), (d)	Real estate

Notes:

- (a) Incorporated and domiciled in the British Virgin Islands
- (b) Indirectly owned through SC
- (c) Pre-operating or non-operating
- (d) LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- (e) Indirectly owned through SMC
- (f) Starworld is 20% owned by SMC and 40% owned by Skyworld
- (g) Indirectly owned through Precos
- (h) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC)
- (i) Incorporated in 2009 and started commercial operations in January 2010
- (j) Acquired in 2010
- (k) Merged; with SMC as the surviving company, effective January 1, 2012
- (l) Merged; with SLC as the surviving company, effective January 1, 2012. On March 19, 2012, the Securities and Exchange Commission (SEC) approved the change in corporate name of SLC to OSSI.
- (m) Merged; with My Solid as the surviving company, effective June 1, 2012

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

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

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

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

### **(a) Sale of SBC's Assets**

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

*(b) Mergers of Certain Subsidiaries*

On December 26, 2011 and January 10, 2012, the SEC approved the mergers of SC and SMC; OLC and OSSI; respectively, whereby SMC and OSSI will be the surviving entities. Both mergers became effective on January 1, 2012; hence, starting that date, SC started to operate under the corporate name of SMC and OLC under the corporate name of OSSI (see Note 1.1).

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

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

**1.3 Other Corporate Information**

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

BRL	-	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
OSSI	-	Ganado Street, Laguna International Industrial Park, Mamlasan, Biñan, Laguna
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC.
My Solid and SGTC	-	2000 East Service Road Bicutan, Parañaque City

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

The consolidated financial statements of the Group for the year ended December 31, 2012 (including the comparatives for the years ended December 31, 2011 and 2010) were authorized for issue by the Parent Company's BOD on April 8, 2013.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

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

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

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

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

### *(b) Presentation of Consolidated Financial Statements*

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

### *(c) Functional and Presentation Currency*

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

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

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

### *(a) Effective in 2013 that are Relevant to the Group*

In 2013, the Group adopted the following new PFRS, amendments and improvements to PFRS that are relevant to the Group and effective for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 10	:	Consolidated Financial Statements Offsetting Financial Assets and

PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosures of Interest in Other Entities
PAS 27 (Amendment)	:	Separate Financial Statements
PAS 28 (Amendment)	:	Investments in Associates and Joint Ventures
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 13	:	Fair Value Measurement
Various Standards	:	Annual Improvements to PFRS (2009-2011 Cycle)

Discussed below are the relevant information about these new and amended standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has no significant impact on the Group's financial statements since the Group does not have any transactions requiring the recognition of other comprehensive income.
- (ii) PAS 19 (Revised), *Employee Benefits* (effective January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:
- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;
  - streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
  - enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

This revision resulted to the retrospective adjustment of retirement benefit obligation to record the previously unrecognized actuarial gains in other comprehensive income and to effect remeasurement of the retirement benefit obligation.

- (iii) Consolidation Standards (effective January 1, 2013)



The Group's management has assessed that the following consolidation standards will not have significant impact on the Group's consolidated financial statements:

- 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 (Amendment), *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 PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.
- PAS 28 (Amendment), *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, *Joint Arrangement*.

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

structured entities for any period before the first annual period for which PFRS 12 is applied.

- (iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The Group has assessed that the adoption of the amendment will not have a significant impact on its financial statements.
- (v) PFRS 13, *Fair Value Measurement* (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. Management has assessed that this standard will not have a significant impact on the Group's financial statements.
- (vi) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:
- (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

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

Other than disclosure of certain specified information, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information.

Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

- (b) PAS 16 (Amendment), *Property, Plant and Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.
- (c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distribution to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

Management has assessed that the improvement will not have a material impact on the Group's consolidated financial statements.

(b) *Effective in 2013 but not Relevant to the Group*

The following new PFRS, amendments, interpretation and improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Group's consolidated financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loans
Philippine Interpretations International Financial Reporting Interpretations Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine

Annual Improvement 2009-2011 Cycle PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs
---	---	--

(c) *Effective Subsequent to 2013 but not Adopted Early*

There are new PFRS, amendments and interpretations to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Company will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business; in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.
- (ii) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it 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 arrangement, 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.

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

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

(iii) 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 the Philippine SEC after giving due considerations on various application issues and the implication on this interpretation of the IASB's ongoing 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, *Revenues*, 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 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 a material impact on the Group's consolidated financial statements as it currently accounts for its real estate transactions using the full accrual method.

(d) *Effective in 2012 that are Relevant to the Group*

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

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

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

- (i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment did not result in any significant change in the Group's disclosures in its financial statements.
- (ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretations Committee, 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring deferred tax on depreciable asset that are measured using revaluation model in PAS 16, *Property, Plant and Equipment*, should always be assumed on a sale basis of the asset. The amendment has no significant impact on the Group's consolidated financial statements because the Group's investment properties that are measured at fair value are taxable with the same rate regardless of whether these assets will be sold or used in operation.

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

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

### **2.3 Basis of Consolidation**

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

Intercompany losses that indicate an impairment are recognized in the consolidated financial statements.

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

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

(a) *Investments in Subsidiaries*

Subsidiaries are all entities over which the Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Group obtains control, direct or indirect, until such time that such control ceases.

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

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

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

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

(b) *Transactions with NCI*

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration

paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI interests result in gains and losses for the Group that are also recognized in equity.

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

## **2.4 Segment Reporting**

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

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

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

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

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

## **2.5 Financial Assets**

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at FVTPL are initially recognized at fair value plus



any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

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

(a) *Loans and Receivables*

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

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

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

(b) *Financial Asset at FVTPL*

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

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

(c) *AFS Financial Assets*

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

account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of reporting period. The Group's financial assets include country club shares, golf club shares, listed equity securities, and corporate bonds.

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

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

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

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

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

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

## ***2.6 Merchandise Inventories and Supplies***

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

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

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

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

## **2.7 Real Estate Inventories**

Real estate inventories consist of the following:

- (a) *Land and Land Development Costs*

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

- (b) *Property Development Costs*

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

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

## **2.8 Other Assets**

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

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

## **2.9 Property, Plant and Equipment**

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

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

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

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

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

The residual values and estimated useful lives of property and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

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

## ***2.10 Investment Property***

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

Investment property is accounted for under the fair value model. It is revalued annually and is included in the statement of financial position at its market value. Fair value is

supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property.

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

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

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

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

## ***2.11 Financial Liabilities***

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

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

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

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

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

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

### ***2.12 Offsetting Financial Instruments***

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

### ***2.13 Business Combination***

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

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

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

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that

is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

## ***2.14 Provisions and Contingencies***

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

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

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

## ***2.15 Revenue and Expense Recognition***

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

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

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

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

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

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.
  - *Rendering of services and other income from internet subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
  - *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.16).
- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by Sony Philippines, Inc. (Sony). Effective April 2009, network support fees is recorded at a fixed amount of P1.25 million per month.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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



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

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

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

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

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

Cost and expenses are recognized in the consolidated statement of income upon consumption of the goods and/or utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20), on an accrual basis.

## **2.16 Leases**

The Group accounts for its leases as follows:

### *(a) Group as Lessee*

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

### *(b) Group as Lessor*

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

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

## **2.17 Foreign Currency Transactions and Translation**

### *(a) Transactions and Balances*

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

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

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

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

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

- (ii) Income and expenses for each profit or loss account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

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

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

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

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

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

### ***2.19 Employee Benefits***

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

(a) *Defined Benefit Plan*

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

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

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

(b) *Defined Contribution Plans*

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

(c) *Termination Benefits*

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

benefits when it is demonstrably committed to either: (a) terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or (b) providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

*(d) Compensated Absences*

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

**2.20 Borrowing Costs**

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

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

**2.21 Income Taxes**

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

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

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

period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

## ***2.22 Related Party Transactions and Relationships***

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Group, (b) associates; and, (c) individuals owning directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual. In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

## ***2.23 Equity***

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

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

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

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

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

#### ***2.24 Earnings per Share***

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

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

#### ***2.25 Events After the Reporting Period***

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

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

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

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

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

##### ***(a) Impairment of AFS Financial Assets***

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

information and circumstance might significantly affect the carrying amount of the assets.

Impairment losses recognized on AFS financial assets are disclosed in Note 8.

(b) *Determining Net Realizable Value of Real Estate Inventories*

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

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

(c) *Costing of Merchandise Inventories and Supplies*

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

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

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

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



(e) *Fair Value Measurement of Investment Property*

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

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Note 12.

(f) *Distinction Between Operating and Finance Leases*

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

(g) *Recognition of Provisions and Contingencies*

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

**3.2 Key Sources of Estimation Uncertainty**

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

(a) *Impairment of Trade and Other Receivables*

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 6.

(b) *Fair Value Measurement of Financial Instruments*

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

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 7 and 8, respectively.

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipment and accessories (see Note 9). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

(d) *Estimating Useful Lives of Property, Plant and Equipment*

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2012, and 2011, no change in the estimated useful lives of property, plant and equipment during those years occurred. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Determining Net Realizable Value of Properties Under Development*

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including

price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2012 is disclosed in Note 22.2.

(g) *Impairment of Non-financial Assets*

The Group's policy on estimating the impairment of non-financial assets is discussed in Note 2.18. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on other non-financial assets in 2012.

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

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of September 30, 2013 and December 31, 2012 are disclosed in Note 10.

(i) *Estimating Reserve for Warranty Costs*

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

Provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are discussed on Note 15.

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

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among

others, discount rates, expected return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The amounts of estimated present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation are presented in Note 21.2.

#### **4. SEGMENT INFORMATION**

##### ***4.1 Business Segments***

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

- (a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones and LCD televisions, and prefabricated modular houses; and,
- (b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties.
- (c) Support services and other segment is engaged in the business of rendering after sales service operations as the recognized authorized Service Network for products of a third party and in the business of fund investments, automotive and consumer financing and credit extension and broadband services.

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

##### ***4.2 Segment Assets and Liabilities***

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

##### ***4.3 Intersegment Transactions***

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

The following tables present certain assets and liability information regarding business segments as of September 30, 2013 and December 31, 2012 and the revenue and profit for the nine months ended September 30, 2013 and 2012 (in thousands).

	<u>Distribution</u>	<u>Real Estate</u>	<u>Support Services and Others</u>	<u>Elimination</u>	<u>Total</u>
<b>2013</b>					
<b>SEGMENT RESULTS</b>					
Total revenues	P 2,454,573	P 243,197	P 337,337	(P 46,082)	P 2,989,025
Net profit (loss)	<u>P 33,756</u>	<u>P 16,374</u>	<u>P 47,004</u>	<u>(P 6,854)</u>	<u>P 90,280</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Total assets	<u>P 2,002,835</u>	<u>P 7,705,073</u>	<u>P 9,323,117</u>	<u>(P 5,601,014)</u>	<u>P 13,430,011</u>
Total liabilities	<u>P 1,348,678</u>	<u>P 4,265,865</u>	<u>P 595,469</u>	<u>(P 2,576,486)</u>	<u>P 3,633,526</u>
<b>2012</b>					
<b>SEGMENT RESULTS</b>					
Total revenues	P 2,676,611	P 157,385	P 553,799	(P 40,392)	P 3,347,403
Net profit (loss)	<u>P 148,207</u>	<u>P 39,604</u>	<u>P 737,283</u>	<u>(P 911)</u>	<u>P 924,183</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Total assets	<u>P 1,866,902</u>	<u>P 7,373,405</u>	<u>P 11,150,200</u>	<u>(P 7,542,415)</u>	<u>P 12,848,092</u>
Total liabilities	<u>P 1,246,501</u>	<u>P 3,961,994</u>	<u>P 568,502</u>	<u>(P 2,600,694)</u>	<u>P 3,176,303</u>

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of September 30, 2013 and December 31, 2012:

	<u>2013</u>	<u>2012</u>
Cash on hand and in bank	<b>P 335,509,558</b>	P 274,888,192
Short-term placements	<u><b>2,507,007,446</b></u>	<u>2,745,096,021</u>
	<u><b>P2,842,517,004</b></u>	<u>P 3,019,984,213</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 90 days and earn annual effective interest ranging from 0.8% to 4.7% in 2013 and 2012.

## 6. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Current:			
Trade receivables	25	<b>P 731,024,190</b>	P 980,564,213
Advances to suppliers	25	<b>241,800,784</b>	223,559,332

Loans receivables	25	<b>43,584,497</b>	45,836,453
Due from related parties	25	-	2,734,223
Other receivables		<u><b>105,643,053</b></u>	<u>66,287,945</u>
		<b>1,122,052,524</b>	1,318,982,166
Allowance for impairment		<u>( <b>27,238,703</b> )</u>	<u>( 31,512,861 )</u>
		<u><b>1,094,813,821</b></u>	<u>1,287,469,305</u>
Non-current:			
Trade receivables		<b>30,626,850</b>	26,168,353
Loans receivables	25	<b>177,278,094</b>	145,381,293
Cash surrender value of investment in life insurance		<u><b>491,337,976</b></u>	<u>458,908,456</u>
		<u><b>699,242,920</b></u>	<u>630,458,102</u>
		<b>P 1,794,056,741</b>	<b>P 1,917,927,407</b>

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

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

Interest rates on loans receivables range from 5.0% to 30.0% in 2012 and 2011. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 25).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 18.1). The difference between the initial cash surrender value and the premiums paid amounting to nil in 2013 and P1.2 million in 2012 represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 13).

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

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

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are mostly due from small business

customers, were found to be impaired, hence, adequate amount of allowance for impairment has been recognized.

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

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

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

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

In 2011, BRL acquired additional investments which are classified as financial assets at FVTPL upon initial recognition, while Fil-Dragon's investments are primarily held for trading. In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL.

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	<u>2013</u>	<u>2012</u>
Current:		
Investments in foreign currency-denominated bonds	P 13,165,124	P 52,237,573
Allowance for impairment	( <u>13,165,124</u> )	( <u>52,237,573</u> )
	<u>-</u>	<u>-</u>
Non-current:		
Club shares	20,072,400	10,292,400
Equity securities	8,580,000	8,580,000
Others	<u>861,832</u>	<u>634,127</u>
	29,514,232	19,506,527
Allowance for impairment	( <u>20,970,000</u> )	( <u>10,430,000</u> )
	<u>8,544,232</u>	<u>9,076,527</u>
	<u>P 8,544,232</u>	<u>P 9,076,527</u>

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

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

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

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

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

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 on which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent Company reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2012.

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2012 have been determined directly by reference to published prices in active markets (see Note 29.1).



## 9. MERCHANDISE INVENTORIES AND SUPPLIES

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

	<u>2013</u>	<u>2012</u>
Merchandise and finished goods	<b>P 962,263,036</b>	P 406,495,008
Raw materials	<b>362,856</b>	362,856
Service parts, supplies and others	<b><u>34,227,431</u></b>	<u>26,589,434</u>
	<b>996,853,323</b>	433,447,298
Allowance for inventory obsolescence	<b>( <u>41,261,429</u> )</b>	<b>( <u>41,584,410</u> )</b>
Balance at end of year	<b><u>P 955,591,894</u></b>	<b><u>P 391,862,888</u></b>

The movements in allowance for inventory obsolescence are as follows:

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

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

## 10. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2013</u>	<u>2012</u>
Land and land development costs:		
Land	<b>P 9,725,593</b>	P 9,725,593
Land development costs	<b><u>17,695,475</u></b>	<u>17,695,475</u>
	<b>27,421,068</b>	27,421,068
Allowance for impairment	<b>( <u>2,022,800</u> )</b>	<b>( <u>2,022,800</u> )</b>
	<b><u>25,398,268</u></b>	<u>25,398,268</u>
Property development costs – Construction in progress and development costs	<b><u>2,096,082,259</u></b>	<u>1,985,667,173</u>
	<b><u>P 2,121,480,527</u></b>	<b><u>P 2,011,065,441</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.

Borrowing costs incurred from loans availed by Fil-Dragon were capitalized as part of its Property development costs. Borrowing cost incurred in 2012 relating to these loans amounted to RMB5.0million (P32.9 million), and are capitalized as part of Real Estate Inventories (see Notes 14 and 25.8).

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

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2012, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2012.

In addition, the balances of Property Development Costs as of September 30, 2013 and December 31, 2012 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. Customer deposits received as of September 30, 2013 and December 31, 2012 amounting to P1,083 million and P840.1 million, respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

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

## 11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at September 30, 2013 and December 31, 2012 are shown below.

		<u>Land</u>	<u>Buildings and Improvements</u>	<u>Machinery and Equipment</u>	<u>Furniture, Fixtures and Office Equipment</u>	<u>Transportation Equipment</u>	<u>Test, Communication and Other Equipment</u>	<u>Computer System</u>	<u>Leasehold Improvements</u>	<u>Tools and Equipment</u>	<u>Construction in Progress</u>	<u>Total</u>
September 30, 2013												
Cost	P	897,854,682	P 38,184,710	P 36,413,034	P 131,185,790	P 79,204,723	P 6,056,392	P 12,507,853	P 68,908,459	P 22,500,833	P 145,325,588	P 1,438,142,064
Accumulated depreciation and amortization		-	( 25,093,038)	( 21,175,238)	( 99,306,602)	( 73,343,182)	( 6,027,208)	( 9,486,267)	( 39,448,014)	( 17,938,601)	-	( 291,818,150)
Net carrying amount		<u>P 897,854,682</u>	<u>P 13,091,672</u>	<u>P 15,237,796</u>	<u>P 31,879,188</u>	<u>P 5,861,541</u>	<u>P 29,184</u>	<u>P 3,021,586</u>	<u>P 29,460,445</u>	<u>P 4,562,232</u>	<u>P 145,325,588</u>	<u>P 1,146,323,914</u>
December 31, 2012												
Cost	P	897,854,682	P 38,195,726	P 29,916,266	p 136,048,761	P 83,554,950	P 8,525,595	P 7,003,937	P 50,148,179	P 24,551,023	P 57,155,448	P 1,332,954,567
Accumulated depreciation and amortization		-	( 24,749,504)	( 14,305,764)	( 116,881,738)	( 62,694,698)	( 6,717,422)	( 5,694,879)	( 33,536,071)	( 19,966,657)	-	( 284,546,733)
Net carrying amount		<u>P 897,854,682</u>	<u>P 13,446,222</u>	<u>P 15,610,502</u>	<u>P 19,167,023</u>	<u>P 20,860,252</u>	<u>P 1,808,173</u>	<u>P 1,309,058</u>	<u>P 16,612,108</u>	<u>P 4,584,366</u>	<u>P 57,155,448</u>	<u>P 1,048,407,834</u>

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

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

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

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of September 30, 2013 and December 31, 2012.

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

## 12. INVESTMENT PROPERTY

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

The fair values of the Group's investment property as of December 31, 2012 were determined based on appraisal reports dated February 5, 2013. Management obtains annual appraisal reports on its investment property from independent appraisers.

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

	<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 (losses) on investment property – net	242,054,661	( 92,485,479)	149,569,182
Additions	-	5,153,524	5,153,524
Reclassification	( 1,615,386)	-	( 1,615,386)
Balance at end of year	<u>P 3,288,117,049</u>	<u>P 729,324,057</u>	<u>P 4,017,441,106</u>

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

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

### 13. OTHER ASSETS

The composition of these accounts as of September 30, 2013 and December 31, 2012 are shown below.

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Current:			
Input VAT - net		<b>P 122,611,795</b>	P 73,056,951
Creditable withholding taxes		<b>44,410,889</b>	50,378,018
Prepaid business taxes		<b>180,640,493</b>	61,116,160
Other prepayments		<b>8,819,567</b>	16,103,292
Advances to suppliers and contractors		<b>3,368,991</b>	33,632,728
Refundable deposits		<b>9,652,680</b>	10,988,982
Restricted cash		<b>5,507,605</b>	5,141,100
Others		<b><u>7,617,509</u></b>	<u>1,744,128</u>
		<b><u>382,629,529</u></b>	<u>252,161,359</u>
Non-current:			
Refundable deposits - net		<b>9,337,464</b>	10,765,679
Prepaid insurance	6	<b>-</b>	1,225,956
Land under litigation	27.3	<b>5,226,018</b>	4,935,606
Investment in shares		<b>1,303,591</b>	1,375,290
Cash bond		<b>568,234</b>	568,234
Others		<b><u>1,398,858</u></b>	<u>3,360,939</u>
		<b><u>17,834,165</u></b>	<u>22,231,704</u>
		<b><u>P 400,463,694</u></b>	<u>P 274,393,063</u>

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

### 14. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of September 30, 2013 and December 31, 2012 are broken down as follows:

	<u>2013</u>			<u>2012</u>		
	<u>USD</u>	<u>RMB</u>	<u>PHP</u>	<u>USD</u>	<u>RMB</u>	<u>PHP</u>
BRL	\$ 5,200,639	¥ -	P 225,234,477	\$ 5,155,223	¥ -	P 212,353,946
Fil-Dragon	-	67,146,030	475,152,166	-	54,396,030	359,312,976

\$ 5,200,639 ¥ 67,146,030 P 700,386,643 \$ 5,155,223 ¥ 54,396,030 P 571,666,922

The Group's short-term interest-bearing loans as of September 30, 2013 and December 31, 2012 amounting to P700.4 million and P571.7 million, respectively, are denominated in U.S. Dollar and Chinese yuan renminbi, and are currently due within 12 months after the end of reporting period; hence classified as part of the Group's current liabilities in the consolidated statements of financial position.

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

(a) *Loans of BRL*

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 6). The loans bear interest at prevailing market rates per annum ranging is 1.25% in 2013 and 2.0% to 2.3% in 2012.

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

(b) *2011 Loans of Fil-Dragon*

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan renminbi from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance from the loan amounted to RMB67.1 million (P475.2 million) and RMB54.4 million (P359.3 million) as of September 30, 2013 and December 31, 2012 respectively. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2013 and 2012.

Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 25.8). 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 29.1). As of December 31, 2012, the Group is not subjected to any covenants relating to the above loans.

## 15. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Trade payables	25	<b>P 423,041,678</b>	P 335,534,348
Output VAT		<b>6,535,798</b>	48,843,309
Rental payable		<b>17,692,163</b>	17,671,797
Refundable deposits	16	<b>14,377,945</b>	16,181,595
Retention payable		<b>2,807,873</b>	16,061,269
Reserve for warranty costs		<b>19,760,365</b>	14,545,332
Accrued municipal taxes		<b>10,767,863</b>	14,357,151
Advances from customers		<b>11,016,210</b>	9,542,619
Deferred output VAT		<b>4,558,505</b>	1,505,635
Other accrued expenses		<b>153,015,623</b>	119,649,509
Other payables		<b>55,782,035</b>	35,010,087
		<b><u>P 719,356,058</u></b>	<b><u>P 628,902,651</u></b>

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

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

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

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

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

## 16. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P16.0 million as at December 31, 2012, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception

of the lease terms. The interest expense recognized amounting to P1.4 million in 2012 is presented as part of Finance Costs in the annual consolidated statements of income. The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

## 17. COST OF SALES, SERVICES AND RENTALS

### 17.1 Cost of Sales

The details of this account are shown below.

	Notes	2013	2012
Merchandise and finished goods at beginning of year	9	<u>P 406,495,008</u>	<u>P 621,292,896</u>
Net purchases of merchandise during the year	19	<u>2,561,264,984</u>	<u>2,219,215,410</u>
Cost of goods manufactured:			
Raw materials at beginning of year	9	362,856	362,856
Raw materials at end of the period	9	( 362,856)	( 362,856)
		<u>-</u>	<u>-</u>
Goods available for sale		2,967,759,992	2,840,508,306
Merchandise and finished goods at end of year	9	( 962,263,036)	( 760,185,298)
Net provision (reversal) on inventory obsolescence	9	( 1,879,944)	56,467,981
	9	<u>P 2,003,617,012</u>	<u>P 2,136,790,989</u>

### 17.2 Cost of Services

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

	Notes	2013	2012
Materials, supplies and other consumables		<b>P 42,376,923</b>	P 69,488,260
Salaries and employee benefits		36,478,537	58,982,160
Subcontracting services		30,918,973	28,378,640
Rentals		18,281	11,041,870
Communication, light and water		12,579,237	29,323,516
Depreciation and amortization	11	7,861,469	24,010,711
Transponder rental and leased line		-	15,280,863
Outside services		23,619,638	24,467,710
Transportation and travel		1,611,422	8,956,596
Repairs and maintenance		394,530	13,098,429
Broadband reimbursement cost		42,633,177	66,061,754
Cable services		376,731	360,791
Others		<u>26,681,522</u>	<u>27,026,759</u>
	19	<u>P 225,550,440</u>	<u>P 376,478,059</u>



### 17.3 Cost of Rentals

The details of this account are as follows:

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Taxes and licenses	P	9,248,899	P 9,796,603
Rentals		5,514,977	5,757,160
Outside services		5,547,422	5,592,035
Repairs and maintenance		3,281,147	1,996,011
Utilities and communication		-	1,027,406
Salaries and employee benefits		1,640,255	1,368,595
Depreciation & amortization		2,374,501	2,768,352
Others		<u>1,978,555</u>	<u>1,505,529</u>
	19	<u>P 29,585,756</u>	<u>P 29,811,691</u>

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

## 18. OTHER INCOME

### 18.1 Other Operating Income

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Increase in cash surrender value of investment in life insurance	6	P 8,358,647	P 12,729,726
Gain on sale of subscriber base			90,273,693
Gain on sale of PPE			185,266,307
Gain on insurance settlement		1,546,124	
Miscellaneous		<u>9,760,521</u>	<u>12,954,610</u>
		<u>P 19,665,292</u>	<u>P 301,224,336</u>

## 19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Net purchases of merchandise inventories	17.1	P 2,561,264,984	P 2,219,215,410
Salaries and employee benefits	21.1	184,497,981	210,526,319
Outside services		99,724,000	95,606,808
Subcontracting services		30,918,973	28,378,640
Materials, supplies and other consumables		48,114,992	74,737,238
Rentals	25.3	29,976,801	41,924,892
Utilities and communication		28,407,135	45,916,868
Taxes and licenses		35,758,916	53,947,974
Depreciation and amortization	11	22,880,422	39,738,684

Net provision (reversal) on inventory obsolescence	17.1	( 1,879,944)	56,467,981
Cost of real estate sold		65,328,800	22,434,048
Transportation and travel		14,774,257	28,750,710
Provision for warranty	15		
Repairs and maintenance		11,263,715	22,903,783
Transponder rental and leased line		-	15,280,863
Broadband reimbursement cost		42,633,177	66,061,754
Change in merchandise, finished goods and work-in-process inventories		( 555,768,028)	( 138,892,402)
Miscellaneous		<u>241,778,075</u>	<u>177,540,314</u>
		<u>P 2,859,674,256</u>	<u>P 3,060,539,884</u>

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

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

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

	Notes	2013	2012
Cost of sales	17	P 2,003,617,012	P 2,136,790,989
Cost of services	17	225,550,440	376,478,059
Cost of real estate sales		65,328,800	22,434,048
Cost of rentals	17	29,585,756	29,811,691
General and administrative expenses		212,426,068	253,638,893
Selling and distribution costs		<u>323,166,180</u>	<u>241,386,204</u>
		<u>P 2,859,674,256</u>	<u>P 3,060,539,884</u>

## 20. OTHER INCOME (CHARGES)

### 20.1 Finance Income

This account consists of the following:

	Notes	2013	2012
Interest income from banks	5	P 37,601,688	P 46,851,470
Fair value gains on financial assets at fair value through profit & loss		-	6,012,546
Reversal of impairment losses on financial assets		-	12,657,428
Reversal of impairment losses on trade & other receivables		3,210,377	108,743,948
Reversal of impairment losses on PPE		-	350,000,000

Gain on sale of financial assets

Foreign currency gains – net	5,411,622	1,448,835
Others	<u>886,691</u>	<u>121,884</u>
	<b><u>P 47,110,378</u></b>	<b><u>P 525,836,111</u></b>

Interest income earned by SGI, SMFI, BRL from cash and cash equivalents amounting to P29.2 million in 2013 and P47.1 million in 2012 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

## 20.2 Finance Costs

This account consists of the following:

	Notes	2013	2012
Foreign currency losses		<b>P 17,867,020</b>	P 17,509,702
Impairment losses on trade and other receivables	6	-	3,107,089
Interest expense arising from interest-bearing loans	14	<b>35,726,686</b>	5,032,466
Loss on sale of financial asset		-	3,703,532
Impairment losses on AFS financial assets	8	-	13,532,130
Fair value loss on FVTPL	7	-	-
Others		<u><b>2,831,979</b></u>	<u>3,603,339</u>
		<b><u>P 56,425,685</u></b>	<b><u>P 46,488,258</u></b>

## 21. EMPLOYEE BENEFITS

### 21.1 Salaries and Employee Benefits Expense

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

	Note	2013	2012
Short-term benefits		<b><u>P 184,497,981</u></b>	<b><u>P 210,526,319</u></b>

### 21.2 Post-employment Benefit

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

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

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

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

	<u>2012</u>
Fair value of plan assets	P 14,080,141
Present value of the obligation	<u>29,632,031</u>
Excess (deficiency) of plan assets	( 15,551,890)
Unrecognized actuarial gains	<u>( 2,969,731)</u>
Retirement benefit obligation	<u>P 12,582,159</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>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>
Fair value of plan assets	<b>P 209,414,355</b>	P 251,693,199	P 239,409,688	P 210,694,669	P 163,517,091
Present value of the obligation	<u><b>126,587,814</b></u>	<u>153,273,245</u>	<u>91,208,751</u>	<u>71,624,495</u>	<u>74,604,282</u>
Excess in the plan	<u><b>P 82,826,541</b></u>	<u>P 98,419,954</u>	<u>P 148,200,937</u>	<u>P 139,070,174</u>	<u>P 88,912,809</u>

Experience adjustments arising on plan assets amounted to P5.4 in 2012. Experience adjustments on plan liabilities amounted to P1.1 million in 2012.

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2011 and prior years, SBC maintained a wholly funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee covering all regular

full-time employees. As a result of the sale its business, SBC ceased operations immediately thereafter and requested the release of the remaining balance in the trust fund account under the multi-employer retirement plan. The retirement plan assets were withdrawn in 2012 since all of the employees were terminated during such year. Accordingly, SBC's plan assets had a nil balance as of December 31, 2012.

## 22. TAXES

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

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

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

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

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

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

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

Pursuant to the relevant law and regulations in the PRC, the Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as the Fil-Dragon did not generate any assessable profits in 2012.

### ***22.2 Deferred Taxes***

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

---

2012

Deferred tax assets:  
Fair value adjustments on

investment property	P	23,831,400
Accrued municipal taxes		14,721,085
Allowance for inventory obsolescence		11,462,608
Allowance for impairment on trade and other receivables		6,483,910
Retirement benefit obligation		3,066,967
Unrealized foreign currency loss – net		2,982,141
Provision for warranty		2,181,337
Unamortized pre-operating expenses		54,271
Unamortized past service costs		-
Deferred tax liability – Retirement benefit asset		( 1,647,964)
Deferred tax assets – net	P	<u>63,135,755</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>2012</u>
Deferred tax assets:		
Provision for warranty claims	P	2,012,749
Unamortized past service costs		1,657,651
Allowance for impairment on trade and other receivables		688,083
Deferred rent expense – PAS 17		408,033
Allowance for inventory obsolescence		324,678
Retirement benefit obligation		314,196
Unearned rent income		257,395
Deferred tax liabilities:		
Fair value gains on investment property	(	772,747,918)
Accumulated depreciation on investment property	(	132,666,733)
Retirement benefit asset	(	19,947,117)
Deferred rent income – PAS 17	(	213,056)
Changes in fair value of AFS	(	132,000)
Unrealized foreign currency gains	(	<u>19,409</u> )
Deferred tax liabilities – net	(P	<u>920,063,448</u> )

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

Year		Original Amount		Applied in Previous Years		Applied in Current Year		Expired Balance		Remaining Balance		Valid Until
NOLCO:												
2012	P	15,862,462	P	-	P	-	P	-	P	15,862,462		2015
2011		31,305,517		-		5,501,441		-		25,804,076		2014
2010		3,283,221		2,008,326		331,953		-		942,942		2013

2009	<u>29,179,579</u>	<u>15,006,564</u>	<u>7,473,992</u>	<u>6,699,023</u>	<u>-</u>	2012
	<u>P 79,630,779</u>	<u>P 17,014,890</u>	<u>P 13,307,386</u>	<u>P 6,699,023</u>	<u>P 42,609,480</u>	
<b>MCIT:</b>						
2012	P 222,424	P -	P 611,343	P -	P 222,424	2015
2011	832,637	-	1,368,240	-	221,294	2014
2010	4,774,835	-	594,109	-	3,406,595	2013
2009	<u>719,699</u>	<u>18,000</u>	<u>107,590</u>	<u>-</u>	<u>-</u>	2012
	<u>P 6,549,595</u>	<u>P 18,000</u>	<u>P 2,573,692</u>	<u>P 107,590</u>	<u>P 3,846,578</u>	

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

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

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

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

## 23. EQUITY

### 23.1 Capital Stock

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

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

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

### 23.2 Retained Earnings



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

On August 8, 2013, the BOD approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million, payable to stockholders of record as of August 30, 2013. The cash dividends were paid on September 24, 2013.

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

### 23.3 Revaluation Reserves

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

	<u>Notes</u>	<u>2013</u>	<u>2012</u>
Cumulative translation adjustments:			
Balance at beginning of year		(P 44,892,478)	P 77,477,390
Currency differences on translating financial statements of foreign operations	2	<u>34,415,340</u>	( <u>21,357,290</u> )
		( <u>10,477,138</u> )	<u>56,120,100</u>
Fair value losses on AFS financial assets:			
Balance at beginning of year		(P 1,427,004)	( 106,719,760)
Reclassification adjustments for losses recognized in profit or loss			12,145,053
Fair value gains (losses) – net	8	( )	( 1,993,830)
Deferred tax income on changes in fair value of AFS financial assets		( )	( )
		( <u>1,427,004</u> )	( <u>96,568,537</u> )
Other comprehensive income attributable to non-controlling interest		( )	( )
Balance at end of the period		(P <u>11,904,142</u> )	(P <u>40,448,437</u> )

## 24. EARNINGS PER SHARE

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

	<u>2013</u>	<u>2012</u>
Net profit for the period attributable to the Parent Company's stockholders	<u>P 114,633,892</u>	<u>P 926,009,314</u>
Divided by weighted average shares outstanding:		
Number of shares issued	<u>2,030,975,000</u>	<u>2,030,975,000</u>

Treasury shares	( <u>209,433,000</u> )	( <u>209,433,000</u> )
	<u>1,821,542,000</u>	<u>1,821,542,000</u>
EPS – basic and diluted	<u>P 0.06</u>	<u>P 0.51</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2013 and December 31, 2012, hence, diluted EPS is equal to the basic EPS.

## 25. RELATED PARTY TRANSACTIONS

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

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

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

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

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

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

### ***25.1 Sale of Goods and Rendering of Services***

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

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

### ***25.2 Purchase of Goods***

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P87.6 million in 2012 are recorded as part of Cost of Services (see Note 17.2). The outstanding balance from the above transactions amounted to net advances of P6.4 million as of December 31, 2012.

### ***25.3 Lease of Real Property***

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

### ***25.4 Granting of Loans***

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 9.0% in 2012. Total interests earned from these loans amounted to P6.3 million in 2012 and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6).

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

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

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until

December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2012.

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

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

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

Section 9 (d) of RA No. 8556 states that the total credit that a financing Company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of the Company decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of the company's net worth which is not in accordance with Section 9 (d) of RA No. 8556. In 2012, the Company has not extended credits to any debtor which exceeded such threshold.

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

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

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

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

#### ***25.6 Transactions with STL***

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

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

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

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

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

### ***25.7 Transactions with Solid Company Limited (SCL)***

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to P120.8 million which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

The loan amounting to P109.7 million and P104.4 million as of September 30, 2013 and December 31, 2012 is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 6). Total interests earned from these loans amounted to P5.8 million in 2012 and is presented as part of Interest Income under the Revenues account in the consolidated statements of income.

### ***25.8 Loan Availments***

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted RMB67.1 million (P475.2 million) and RMB54.4 million (P359.3 million) as of September 30, 2013 and December 31, 2012. These loans bear interest at prevailing market rates per annum ranging from 6.0% to 10.0% in 2013 and 2012. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the 2013 and 2012 consolidated statement of financial position. Borrowing cost incurred in 2012 relating to these loans amounted to RMB5.0 million (P32.9 million) and are capitalized as part of Real Estate Inventories (see Notes 10 and 14).

### ***25.9 Key Management Personnel Compensation***

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

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

### ***25.10 Transactions with the Retirement Plans***

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

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

## **26. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***26.1 Memorandum of Understanding with SPI***

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

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

The breakdown of network support fees and in-warranty service fees amounted to P77,726,164 for the year ended December 31, 2012 respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P14,668,136 as of December 31, 2012 and are included as part of Trade and Other Receivables in the consolidated statements of financial position (see Note 6). No network support fees and in-warranty services relate to Aiwa products in 2012.

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

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of

Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses. Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

### ***26.3 Sale of SBC's Assets***

#### *(a) Agreement on Sale of Assets*

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

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

#### *(b) Management Agreement*

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

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

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

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

#### *(c) Option Agreement*

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

#### *(d) Gain on Sale of Assets*

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

## 27. COMMITMENTS AND CONTINGENCIES

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

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

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

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

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

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

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

Total rental expense from these operating leases amounted to P7.4 million each in 2012 and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 17.2 and 19).

### *27.3 Legal Claims*

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

- (i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million, subject to expropriation coverage under the Agrarian Reform Act; and,
- (ii) a piece of land, with a carrying value of P309.0 million, subject to claims by third parties who filed court cases against SMC.

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



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

The Group has commitment of about P68.3 million as of December 31, 2012 for the fulfillment of projects in the development and marketing of CPIP (see Note 10).

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

#### ***27.6 Possible Impact of Government Project***

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the 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.

#### ***27.7 Properties Under Development***

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

#### ***27.8 Option Agreement***

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

#### ***27.9 Others***

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

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

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

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's risk management is coordinated with its BOD and focuses on actively securing the

Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

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

### 28.1 Foreign Currency Sensitivity

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

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

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

	2013		2012	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	P335,057,755	P 74,443,615	P 342,359,128	P 48,982,187
Financial liabilities	( 689,150,621)	( 603,949,644)	( 512,512,383)	( 525,912,848)
Total net exposure	(P354,092,866)	(P529,506,029)	(P 170,153,255)	(P 476,930,661)

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 9 months at a 99% confidence level.

	2013		2012	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	20.51%	(P 72,607,310 )	13.83%	(P 23,532,195)
Php – RMB	25.35%	( 134,252,434)	11.52%	( 54,942,412)
		(P 206,859,744)		(P 78,474,607)

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

### 28.2 Interest Rate Sensitivity

At September 30, 2013 and December 31, 2012, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-5.52% in 2013 and +/-1.54% in 2012. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 6 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 +/-5.52% and +/-1.54% profit before tax in 2013 and 2012 would have increased by P432.8 million and P46.4 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

### 28.3 Credit Risk

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

	Notes	2013	2012
Cash and cash equivalents	5	<b>P 2,842,517,004</b>	P 3,019,984,213
Trade and other receivables - net	6	<b>1,794,056,741</b>	1,917,927,407
AFS financial assets- net	8	-	-
Advances to related parties	25	<b>6,724,463</b>	21,633,388
Refundable deposits - net	13	<b>18,990,144</b>	21,754,661
		<b><u>P 4,662,288,352</u></b>	<b><u>P 4,981,299,669</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 and AFS Financial Assets

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

#### (b) Trade and Other Receivables

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

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

	2012
Not more than 3 months	P 160,693,790
More than 3 months but	

not more than one year	77,870,120
More than one year	<u>131,075</u>
	<u>P 238,694,985</u>

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

## 28.4 Liquidity Risk

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

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

As of December 31, 2012, the Group's financial liabilities have contractual maturities which are presented below.

	Current	
	<u>1 to 6 months</u>	<u>6 to 12 months</u>
Interest-bearing loans	P 571,666,922	P -
Trade and other payables	536,510,356	-
Advances from related parties	<u>-</u>	<u>11,629,819</u>
	<u>P1,108,177,278</u>	<u>P 11,629,819</u>

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

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

### 29.1 Comparison of Carrying Values and Fair Values

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

Notes	2013		2012	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial assets</b>				
Loans and receivables:				
Cash and cash equivalents	5	P 2,842,517,004	P 2,842,517,004	P 3,019,984,213
Trade and other receivables - net	6	1,794,056,741	1,794,056,741	1,917,927,407
Advances to related parties	25	6,724,463	6,724,463	21,633,388
Refundable deposits	16	18,990,144	18,990,144	21,754,661
Available-for-sale financial assets:				
Investments in bonds	8	-	-	-
Golf club shares - net		7,682,400	7,682,400	8,442,400

Others		<u>861,832</u>	<u>861,832</u>	<u>634,127</u>	<u>634,127</u>
		<u>P 4,670,832,584</u>	<u>P 4,670,832,584</u>	<u>P 4,990,376,196</u>	<u>P 4,990,376,196</u>
<b>Financial liabilities</b>					
At amortized cost:					
Interest-bearing loans - net	14	P 700,386,643	P 700,386,643	P 571,666,922	P 571,666,922
Trade and other payables	15	704,978,113	704,978,113	563,429,613	563,429,613
Advances from related parties	25	15,492,304	15,492,304	11,629,819	11,629,819
Refundable deposits - net	16	<u>34,523,355</u>	<u>34,523,355</u>	<u>32,226,991</u>	<u>32,226,991</u>
		<u>P 1,455,380,415</u>	<u>P 1,455,380,415</u>	<u>P 1,178,953,345</u>	<u>P 1,178,953,345</u>

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 30.

## 29.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of September 30, 2013 and December 31, 2012.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2013				
Financial assets at FVTPL	P -	P -	P -	P -
AFS financial assets	<u>8,544,232</u>	<u>-</u>	<u>-</u>	<u>8,544,232</u>
	<u>P 8,544,232</u>	<u>P -</u>	<u>P -</u>	<u>P 8,544,232</u>
December 31, 2012				
Financial assets at FVTPL	P -	P -	P -	P -
AFS financial assets	<u>9,076,527</u>	<u>-</u>	<u>-</u>	<u>9,076,527</u>
	<u>P 9,076,527</u>	<u>P -</u>	<u>P -</u>	<u>P 9,076,527</u>

The different levels have been defined as follows:

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

## 30. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	<u>2013</u>	<u>2012</u>
Total liabilities (excluding advances		

from related parties)	<b>P3,618,033,168</b>	P 3,164,672,695
Total equity	<b>9,796,485,033</b>	9,671,789,880
Debt-to-equity ratio	<u><b>0.37: 1</b></u>	<u>0.33 : 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.

**SOLIDGROUP INC. AND SUBSIDIARIES**  
**SCHEDULE OF RELEVANT RATIOS**

<b>LIQUIDITY RATIOS</b>	<b>FORMULA</b>	<b>2013</b>	<b>2012</b>
<b>LIQUIDITY RATIOS</b>			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.76:1	3.14:1
Acid Test ratio	$\frac{\text{Cash + Marketable Securities + Accounts Receivable + Other Liquid Assets}}{\text{Current Liabilities}}$	1.47:1	1.93:1
<b>SOLVENCY RATIOS</b>			
Debt to Equity ratio	$\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$	0.37:1	0.33:1
Gearing Ratio	$\frac{\text{Financial Debt}}{\text{Total Equity + Financial Debt}}$	0.07:1	0.06:1
Asset to equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.37:1	1.33:1
Interest coverage ratio	$\frac{\text{EBIT}}{\text{Interest Expense}}$	4.92:1	213.39:1
<b>Profitability Ratios</b>			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total Revenues}}$	5%	18%
Net Profit Margin	$\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$	3%	28%
Return on Total Assets	$\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$	1%	8%
Return on Equity	$\frac{\text{Net Income after Tax}}{\text{Total Equity}}$	1%	10%

**SOLID GROUP INC. & SUBSIDIARIES**  
**AGING OF TRADE AND OTHER RECEIVABLES**  
**SEPTEMBER 30, 2013**

	<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	138,454,175	(52,530,734)	32,944,509	(11,903,998)	624,060,239	<b>731,024,190</b>
ADVANCES TO SUPPLIERS	225,830,813	42,519	2,773,128	2,547,055	10,607,269	<b>241,800,784</b>
LOANS RECEIVABLES	40,396,407	0	0	0	3,188,090	<b>43,584,497</b>
OTHER RECEIVABLES	86,559,701	673,079	2,903,700	685,955	14,820,619	<b>105,643,053</b>
TOTAL	<b>491,241,096</b>	<b>(51,815,136)</b>	<b>38,621,336</b>	<b>(8,670,989)</b>	<b>652,676,217</b>	<b>1,122,052,524</b>
ALLOWANCE FOR IMPAIRMENT						<b>27,238,703</b>
TRADE AND OTHER RECEIVABLES, NET						<b>1,094,813,821</b>