



# SOLID GROUP INC.

May 23, 2011

**PHILIPPINE STOCK EXCHANGE, INC.**

Disclosure Department  
4<sup>th</sup> Floor, Philippine Stock Exchange Centre,  
Exchange Road, Ortigas Center  
Pasig City

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

Gentlemen:

We are submitting herewith the SEC Form 17-Q Quarterly Report as of March 31, 2011.

We trust that you will find everything in order.

Very truly yours,

MELLINA T. CORPUZ  
Corporate Information Officer

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended: March 31, 2011
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
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Common Stock, P1 pa r value	1,821,542,000 shares
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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
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12. Indicate by check mark whether the registrant:

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

Yes [ X ]

No [ ]

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

Yes [ X ]

No [ ]

## PART I. – FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the three (3) months period ended March 31, 2011 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 2011 and 2010 are as follows:

	<u>2011</u>	<u>2010</u>
Revenue growth	45%	(11%)
Asset turnover	31%	23%
Operating expense ratio	19%	19%
EBITDA	P109 million	P66 million
EPS	P0.03	P0.01
Current ratio	2.46 : 1	2.81 : 1
Debt to equity ratio	0.35 : 1	0.29 : 1

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

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

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

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

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

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

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

Revenue improved by 45% for the first quarter of 2011 vs. revenue decline of 11% for the same period in 2010. Revenue improved by 45% in 2011 principally due to higher revenues of the trading on digital product sales and broadband segments for the first quarter.

Asset turnover was 31% for the first quarter of 2011 from 23% for the same period in 2010 driven by higher revenues for the period.

Operating expense ratio stood the same at 19% for the first quarter of 2011 and 2010.

EBITDA amounted to P109 million for the first quarter of 2011 against P66 million for the same period in 2010. The increase was mainly due to higher operating profit during the period from the trading segment.

Earnings per share amounted to P0.03 in 2011 versus P0.01 in 2010 mainly from higher net income for the period.

Current ratio stood at 2.46 :1 as of March 31, 2011 and 2.81 : 1 as of December 31, 2010 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.35 : 1 as of March 31, 2011 from 0.29 : 1 as of December 31, 2010 primarily due to higher liabilities.

### Results of Operations

Revenues reached P844 million for the first quarter of 2011, or higher by 45% from P582 million for the same period in 2010 as discussed below.

Sale of goods amounted to P599 million for the first quarter of 2011, improving by 91 % from P314 million for the same period in 2010 mainly due higher volume of sales of the digital products.

Service revenue amounted to P169 million for the first quarter of 2011 or higher by 3% for the same period in 2010 of P163 million.

Rental income amounted to P37 million for the first quarter of 2011 or higher by 21% from P30 million for the same period in 2010 principally due to more space rented out.

Sale of land amounted to P28 million for the first quarter of 2011, or lower by 52% from P58 million for the same period in 2010. This was principally due to there was no reported sale of industrial lot for 2011.

Interest income amounted to P10 million for the first quarter of 2011, or down by 32% from P14 million for the same period in 2010 mainly from lower investible funds as of March 31, 2011.

Cost of sales, services and rentals amounted to P627 million for the first quarter of 2011, or higher by 41% from P443 million for the same period in 2010 as discussed below.

Cost of sales went up to P479 million for the first quarter of 2011, or higher by 75%, from P273 million for the same period of last year in relation to the increase in sales.

Cost of services amounted to P109 million for the first quarter of 2011 from P107 million for the same period of 2009 or higher by 2%. There was no material variance for this account.

Cost of rentals amounted to P16 million for the first quarter of 2011 from P17 million for the same period in 2010 principally due to lower taxes and licenses.

Cost of land amounted to P21 million for the first quarter of 2011, or a decrease of 52% from P45 million for the same period of 2010. The decrease was mainly in relation to lower sale of real estate.

Gross profit amounted to P216 million for the first quarter of 2011 from P138 million for the same period in 2010. The increase was principally due to improvement in revenues and gross margins.

Other operating expenses (income) amounted to P144 million for the first quarter of 2011 against P97 million for the same period in 2010 as explained below.

General and administrative expenses amounted to P89 million for the first quarter of 2011, or up by 16% from P77 million for the same period of 2009 mainly due to higher personnel costs.

Selling and distribution costs amounted to P67 million for the first quarter of 2011, up by 107% from P32 million for the same period of 2009 mainly from higher advertising, manpower and delivery costs.

Other operating income amounted to P12 million for the first quarter of 2011 or the same level in 2010 of P12 million.

Operating profit amounted to P72 million for the first quarter of 2011 from P41 million for the same period in 2010, or higher by 74% from higher gross profit.

Other income (charges) amounted to P4 million loss for the first quarter of 2011 against P2 million loss for the same period in 2010 mainly from the following:

Finance income amounted to P13 million for the first quarter of 2011 compared with P6.9 million for the same period of last year. The increase was principally due to higher interest income from higher placements of the real estate segment.

Finance costs amounted to P18 million for the first quarter of 2011 compared with P8.9 million in 2010 primarily due to impairment loss on trade and other receivables.

Other gains amounted to 87 thousand for the first quarter of 2011 versus none in 2010 due to gain on sale of property.

Income before tax reached P67 million for the first quarter in 2011, or increasing by 72% from P39 million for the same period in 2010 mainly due to higher operating profit as explained above.

Tax expense amounted to P22 million for the first quarter of 2011 from P17 million in 2010 due to higher pre-tax income.

Net income amounted to P45 million for the first quarter of 2011 against P22 million for the same period in 2010 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P47 million for the first quarter of 2011 against P22 million in for the same period of 2010 as discussed above.

Net income attributable to minority interest amounted to P2.57 million loss for the first quarter of 2011 compared with P119 thousand loss in 2010 primarily due to expenses of the Golden Hill project in Nanning, China.

### Financial Position

Cash and cash equivalents amounted to P 1,552 million as of March 31, 2011, lower by 4% from P1,620 million as of December 31, 2010. Cash was mainly used for operating activities primarily for increase in trade and other receivables and merchandise inventories.

Financial assets at fair value through profit or loss amounted to P24 million as of March 31, 2011 versus none in 2010 principally from purchase made during the year.

Trade and other receivables reached P1,098 million as of March 31, 2011 against P890 million as of December 31, 2010, or higher by 23% principally due to higher receivable for digital products. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P136 million as of March 31, 2011 from P201 million as of December 31, 2010 principally due to payments received.

Available-for-sale financial assets amounted to P120 million as of March 31, 2011 from P138 million as of December 31, 2010 mainly due to disposals made for the period.

Merchandise inventories and supplies - net amounted to P713 million as of March 31, 2011, increasing by 82% compared with P392 million as of December 31, 2010 mainly from higher merchandise and finished goods for digital products.

Real estate inventories amounted to P1,395 million as of March 31, 2011 from P1,328 million as of December 31, 2010 or higher by 5%. The increase was mainly due to additions made during the period offset by real estate sold.

Other current assets amounted to P297 million as of March 31, 2011, higher by 23% compared with P242 million as of December 31, 2010 principally from higher input taxes.

Total current assets reached P5,338 million as of March 31, 2011 from P4,813 million as of December 31, 2010 as discussed above.

Non-current trade and other receivable amounted to P635 million as of March 31, 2011 from P640 million as of December 31, 2010. There was no material change for this account.

Non-current available-for-sale financial assets stood at P15 million as of March 31, 2011 against P12 million as of December 31, 2010 or an increase of 24% mainly from club shares and other investments.

Property, plant and equipment amounted to P1,381 million as of March 31, 2011 from P1,396 million as of December 31, 2008. There was no material variance for this account.

Investment property amounted to P3,646 million as of March 31, 2011 and December 31, 2010.

Retirement benefit assets amounted to P74 million as of March 31, 2011 and December 31, 2010.

Deferred tax assets - net amounted to P32 million as of March 31, 2011 and December 31, 2010.

Other non-current assets amounted to P22 million as of March 31, 2011 or a decline of 8% from P24 million as of December 31, 2010 from lower prepaid insurance offset by higher refundable deposits.

Total non-current assets amounted to P5,809 million as of March 31, 2011 from P5,828 million as of December 31, 2010 as discussed above.

Total assets reached P11,147 million as of March 31, 2011 from P10,642 million as of the December 31, 2010 as discussed above.

Interest-bearing loans amounted to P985 million as of March 31, 2011 from P989 million as of December 31, 2010. There was no material variance for this account.

Trade and other payables amounted to P915 million as of March 31, 2011 against P442 million as of December 31, 2010, up by 107% primarily due to higher trade payable, refundable deposits (on selling of real estate) and other payables.

Advances from related parties amounted to P148 million as of March 31, 2011 from P168 million as of December 31, 2010 due to payments made.

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

Income tax payable amounted to P53 million as of March 31, 2011 from P44 million as of December 31, 2010 mainly from due to higher tax expenses.

Total current liabilities stood at P2,171 million as of March 31, 2011, higher by 27% from P1,713 million as of December 31, 2010 as explained above mainly due to higher trade and other payables.

Non-current refundable deposits amounted to P15 million as of March 31, 2011 and December 31, 2010.

Retirement benefit obligation amounted to P3 million as of March 31, 2011 and December 31, 2010.

Deferred tax liabilities -net amounted to P798 million as of March 31, 2011 and December 31, 2010.

Total non-current liabilities amounted to P817.3 million as of March 31, 2011 from P817.1 million as of December 31, 2010.



Total liabilities amounted to P2,988 million as of March 31, 2011 from P2,530 million as of December 31, 2010 as discussed above.

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

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

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

Revaluation reserves amounted to P42 million loss as of March 31, 2011 from P43 million loss as of December 31, 2010 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale financial assets and reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P1,231 million as of March 31, 2011 from P1,183 million as of December 31, 2010 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P7,746 million as of March 31, 2011 from P7,697 million as of December 31, 2010 due to higher retained earnings.

Minority interest amounted to P411 million as of March 31, 2011 from P414 million in December 31, 2010 primarily from share of minority in net loss.

Total equity amounted to P8,158 million as of March 31, 2011 from P8,111 million as of December 31, 2010.

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

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

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

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

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

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

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

The Company estimates capital expenditures for the year 2011 to amount to P400 million for the construction of Tower 2 of our condominium project, real estate development and upgrade of the broadband infrastructure. The purchase and/or construction of these capital expenditures will be financed through the funds of the Company.

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

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

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

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

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

vii. Causes for any Material Changes from Period to Period

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

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

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

## **PART II –OTHER INFORMATION**

None.0

## SIGNATURES

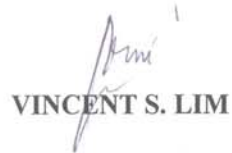
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**SOLID GROUP INC.**



**JASON S. LIM**

SVP & Chief Operating Officer



**VINCENT S. LIM**

SVP & Chief Financial Officer

May 23, 2011

# **Solid Group Inc. and Subsidiaries**

Unaudited Consolidated Financial Statements

March 31, 2011 and December 31, 2010

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

	Notes	2011	2010
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	<b>P 1,552,030,807</b>	1,620,114,468
Financial asset at fair value through profit or loss	7	<b>24,570,472</b>	-
Trade and other receivables - net	8	<b>1,098,802,275</b>	890,983,646
Available-for-sale financial assets	9	<b>120,934,267</b>	138,606,153
Merchandise inventories and supplies - net	10	<b>713,613,269</b>	392,709,244
Real estate inventories - net	11	<b>1,395,045,140</b>	1,328,002,830
Advances to related parties	26	<b>136,183,250</b>	201,193,407
Other current assets	14	<b>297,022,451</b>	242,126,879
		<b>5,338,201,931</b>	4,813,736,627
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	<b>635,850,038</b>	640,911,201
Available-for-sale financial assets - net	8	<b>15,056,527</b>	12,106,527
Property, plant and equipment - net	12	<b>1,381,404,507</b>	1,396,868,972
Investment property - net	13	<b>3,646,518,637</b>	3,646,518,637
Retirement benefit asset	22	<b>74,917,955</b>	74,917,955
Deferred tax assets - net	23	<b>32,807,044</b>	32,807,044
Other non-current assets - net	14	<b>22,602,579</b>	24,578,668
		<b>5,809,157,287</b>	5,828,709,004
<b>TOTAL ASSETS</b>		<b>P 11,147,359,218</b>	P 10,642,445,631

	Notes	2011		2010
<b><u>LIABILITIES AND EQUITY</u></b>				
<b>CURRENT LIABILITIES</b>				
Interest-bearing loans	15	<b>P 985,928,099</b>	P	989,502,559
Trade and other payables	16	<b>915,873,427</b>		442,663,550
Advances from related parties	26	<b>148,193,026</b>		168,911,611
Estimated liability for land and land development costs	11	<b>68,304,647</b>		68,304,647
Income tax payable		<b>53,323,802</b>		44,020,603
Total Current Liabilities		<b>2,171,623,001</b>		1,713,402,970
<b>NON-CURRENT LIABILITIES</b>				
Interest-bearing loans		-		-
Refundable deposits - net	17	<b>15,479,665</b>		15,252,534
Retirement benefit obligation	22	<b>3,121,593</b>		3,121,593
Deferred tax liabilities - net	23	<b>798,720,444</b>		798,720,443
Total Non-current Liabilities		<b>817,321,702</b>		817,094,570
Total Liabilities		<b>2,988,944,703</b>		2,530,497,540
<b>EQUITY</b>				
Equity attributable to the Parent Company's stockholders				
Capital stock	24	2,030,975,000		2,030,975,000
Additional paid-in capital		4,641,701,922		4,641,701,922
Treasury shares - at cost	24	( 115,614,380 )	(	115,614,380 )
Revaluation reserves	24	( 42,013,621 )	(	43,480,551 )
Retained earnings	24	<b>1,231,419,926</b>		1,183,851,839
Total equity attributable to the Parent Company's stockholders		<b>7,746,468,847</b>		7,697,433,830
Non-controlling interests		<b>411,945,668</b>		414,514,261
Total Equity		<b>8,158,414,515</b>		8,111,948,091
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 11,147,359,218</b>	P	10,642,445,631

*See Notes to Consolidated Financial Statements.*

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

	Notes	<u>2011</u>	<u>2010</u>
<b>REVENUES</b>			
Sale of goods	2	P 599,094,955	P 314,161,666
Rendering of services	2	169,187,829	163,212,531
Rentals	2	37,353,791	30,821,285
Sale of real estate	2	28,374,457	58,932,607
Interest income	2	<u>10,111,369</u>	<u>14,922,208</u>
		<u>844,122,401</u>	<u>582,050,297</u>
<b>COST OF SALES, SERVICES AND RENTALS</b>			
Cost of sales	18	479,647,025	273,759,688
Cost of services	18	109,407,289	107,032,782
Cost of rentals	20	16,258,773	17,145,927
Cost of real estate sold	18	<u>21,853,958</u>	<u>45,534,197</u>
		<u>627,167,045</u>	<u>443,472,594</u>
		<u>216,955,356</u>	<u>138,577,703</u>
<b>GROSS PROFIT</b>			
<b>OTHER OPERATING EXPENSES (INCOME)</b>			
General and administrative expenses	20	89,263,603	77,010,112
Selling and distribution costs	20	67,925,104	32,774,833
Other operating income - net	19	( <u>12,416,772</u> )	( <u>12,654,268</u> )
		<u>144,771,935</u>	<u>97,130,677</u>
		<u>72,183,421</u>	<u>41,447,026</u>
<b>OPERATING PROFIT</b>			
<b>OTHER INCOME (CHARGES)</b>			
Finance income	21	13,880,223	6,946,746
Finance costs	21	( <u>18,407,196</u> )	( <u>8,952,538</u> )
Other gains - net		<u>87,102</u>	<u>-</u>
		( <u>4,439,871</u> )	( <u>2,005,792</u> )
		<u>67,743,550</u>	<u>39,441,234</u>
<b>PROFIT BEFORE TAX</b>			
<b>TAX EXPENSE</b>	23	<u>22,744,056</u>	<u>17,161,937</u>
		<u>P 44,999,494</u>	<u>P 22,279,297</u>
<b>Profit (loss) for the year attributable to:</b>			
Parent Company's stockholders		P 47,568,087	P 22,398,676
Non-controlling interests		( <u>2,568,593</u> )	( <u>119,379</u> )
		<u>P 44,999,494</u>	<u>P 22,279,297</u>
<b>Earnings (loss) per share attributable to the</b>			
Parent Company's stockholders - Basic and Diluted	25	<u>P 0.03</u>	<u>P 0.01</u>

*See Notes to Consolidated Financial Statements.*

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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<b><u>P 44,999,494</u></b>	<b><u>P 22,279,297</u></b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Fair value gains (losses) on available-for-sale financial assets, net of taxes	8	2,269,598	21,446,461
Reclassification adjustments for losses recognized in profit or loss		3,870,706	236,477
Currency exchange differences on translating balances of foreign operations	2	( <u>4,673,374</u> )	( <u>46,064,393</u> )
		<u>1,466,930</u>	( <u>24,381,455</u> )
<b>TOTAL COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD</b>		<b><u>P 46,466,424</u></b>	<b>( <u>P 2,102,158</u> )</b>
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		<b><u>P 49,035,017</u></b>	<b>( <u>P 1,982,779</u> )</b>
Non-controlling interests		<b>( <u>2,568,593</u> )</b>	<b>( <u>119,379</u> )</b>
		<b><u>P 46,466,424</u></b>	<b>( <u>P 2,102,158</u> )</b>

*See Notes to Consolidated Financial Statements.*



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS ENDED MARCH 31, 2011 AND 2010**  
*(Amounts in Philippine Pesos)*

	Note	2011	2010
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>			
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares		<b><u>P 2,030,975,000</u></b>	<b><u>P 2,030,975,000</u></b>
<b>ADDITIONAL PAID-IN CAPITAL</b>		<b><u>4,641,701,922</u></b>	<b><u>4,641,701,922</u></b>
<b>TREASURY SHARES - at cost</b>			
Acquired at P0.5520 per share - 209,433,000 shares		<b><u>( 115,614,380 )</u></b>	<b><u>( 115,614,380 )</u></b>
<b>REVALUATION RESERVES</b>			
	24		
Balance at beginning of year		<b><u>( 43,480,551 )</u></b>	<b><u>( 101,653,736 )</u></b>
Other comprehensive income (loss) for the year		<b><u>1,466,930</u></b>	<b><u>( 24,381,455 )</u></b>
Balance at end of year		<b><u>( 42,013,621 )</u></b>	<b><u>( 126,035,191 )</u></b>
<b>RETAINED EARNINGS (DEFICIT)</b>			
Balance at beginning of year			
As previously reported		<b>1,183,851,839</b>	1,065,972,835
Prior period adjustments, net of tax	24	<b><u>-</u></b>	<b><u>( 111,467,306 )</u></b>
As restated		<b>1,183,851,839</b>	954,505,529
Profit (loss) for the year attributable to the Parent Company's stockholders		<b><u>47,568,087</u></b>	<b><u>22,398,676</u></b>
Balance at end of year		<b><u>1,231,419,926</u></b>	<b><u>976,904,205</u></b>
Total Equity Attributable to the Parent Company's stockholders		<b><u>7,746,468,847</u></b>	<b><u>7,407,931,556</u></b>
<b>NON-CONTROLLING INTERESTS</b>			
Balance at beginning of year		<b>414,514,261</b>	417,157,836
Additional non-controlling interests on acquired subsidiary		<b>-</b>	
Profit for the year attributable to non-controlling interests		<b><u>( 2,568,593 )</u></b>	<b><u>( 119,379 )</u></b>
Balance at end of year		<b><u>411,945,668</u></b>	<b><u>417,038,457</u></b>
<b>TOTAL EQUITY</b>		<b><u>P 8,158,414,515</u></b>	<b><u>P 7,824,970,013</u></b>
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		<b><u>P 49,035,017</u></b>	<b><u>( P 1,982,779 )</u></b>
Non-controlling interests		<b><u>( 2,568,593 )</u></b>	<b><u>( 119,379 )</u></b>
		<b><u>P 46,466,424</u></b>	<b><u>( P 2,102,158 )</u></b>

*See Notes to Consolidated Financial Statements.*

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

	Notes	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax		P 67,743,550	P 39,441,234
Adjustments for:			
Interest income	21	( 21,460,628 )	( 18,191,399 )
Depreciation and amortization	12	19,523,016	18,009,840
Losses (gain) on sale of financial assets		( 1,582,509 )	( 522,368 )
Impairment losses on financial assets	8	4,808,250	
Interest expense	21	2,150,024	2,641,175
Loss (Reversal) on inventory obsolescence	10	( 4,528,515 )	
Unrealized foreign currency losses (gains) - net		( 79,952 )	6,311,363
Gain on sale of property and equipment		-	
Write-off of investment property			
Impairment losses on available-for-sale financial assets		4,808,250	
Operating profit before working capital changes		71,381,486	47,689,845
Decrease (increase) in trade and other receivables		( 200,695,581 )	( 36,977,585 )
Decrease (increase) in available-for-sale financial assets		14,721,886	( 52,864,200 )
Decrease (increase) in financial assets at fair value through profit or loss		( 24,570,472 )	
Decrease (increase) in held-to-maturity investments			
Decrease (increase) in merchandise inventories and supplies		( 320,904,025 )	( 271,377,179 )
Increase in real estate inventories		( 67,042,310 )	( 6,677,546 )
Decrease (increase) in advances to related parties		65,010,159	368,085,053
Decrease (increase) in other current assets		( 54,895,572 )	( 63,323,033 )
Decrease (increase) in retirement benefit asset		-	
Decrease in other non-current assets		1,976,089	( 2,578,511 )
Increase (decrease) in trade and other payables		471,173,509	164,160,867
Increase (decrease) in advances from related parties		( 20,718,583 )	3,832,048
Increase in deferred tax liabilities			
Cash generated from (used in) operations		( 64,563,414 )	149,969,759
Interest received		19,398,743	14,413,320
Cash paid for income taxes		( 13,440,856 )	( 7,260,611 )
Net Cash From Operating Activities		( 58,605,527 )	157,122,468
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (Acquisitions) of property and equipment	12	( 5,869,970 )	( 27,538,211 )
Decrease (Additions) to investment property		-	
Net Cash Used in Investing Activities		( P 5,869,970 )	( P 27,538,211 )

*Forward*

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (repayments) of interest-bearing loans - net 21	( P 3,574,460 )	P 75,814,981
Interest paid	( 113,656 )	( 581,261 )
Net Cash From (Used in) Financing Activities	( 3,688,116 )	75,233,720
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>	<u>79,952</u>	( 6,311,363 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>( 68,083,661 )</b>	<b>198,506,614</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>1,620,114,468</u>	<u>1,263,142,145</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u><b>P 1,552,030,807</b></u>	<u><b>P 1,461,648,759</b></u>

**Supplement Information on Noncash Investing Activities**

In 2009, the Board of Directors of Solid Laguna Corporation, a subsidiary, approved the phasing out of its plastic injection manufacturing division. As a result, certain property, plant and equipment with a total carrying amount of P12,090,324 were reclassified as Non-current Assets Held for Sale (see Note 5). In 2010, the assets were subsequently sold to third parties.

*See Notes to Consolidated Financial Statements.*

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

**1. CORPORATE INFORMATION**

**1.1 Company Background**

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

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

Subsidiaries	Percentage of Ownership		Notes	Nature of Business
	2011	2010		
Brilliant Reach Limited (BRL)	100	100	(a)	Investment company
Kita Corporation (Kita)	100	100		Real estate and manufacturing of injected plastics
Omni Logistics Corporation (OLC)	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	100	100		Broadband, cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	100	100		Real estate
Solid Group Technologies Corporation (SGTC)	100	100	(c)	Information and communications and technology systems
Precos, Inc. (Precos)	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	100	100		Real estate
Solid Manila Corporation (SMC)	100	100		Real estate
Casa Bocobo Hotel, Inc. (CBHI) [formerly Zen By The Park, Inc.]	100	100	(e), (g)	Real estate
Solid Manila Finance, Inc. (SMFI)	100	100		Financing
Solid Video Corporation (SVC)	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	100	100	(c), (h)	Real estate
My Solid Technologies & Devices Corporation (My Solid)	100	100	- (j)	Sale of mobile phones
Mytel Mobility Solutions, Inc. (Mytel)	100	100	- (k)	Sale of mobile phones
Skyworld Corporation (Skyworld)	75	75	(c), (e)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	51	51	(c), (i)	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) Incorporated in 2007 and started commercial operations in August 2008
- (h) Acquired in 2008; indirectly owned through Precos
- (i) Acquired in 2008; indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China
- (j) Incorporated in 2009 and started commercial operations in January 2010
- (k) Incorporated in 2009 and acquired in 2010

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

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

## **1.2 Status of Operations**

### *(a) Revaluation of Investment Property*

Prior to the revaluation of the Group's investment property in 2008, the Group incurred net losses in prior years that resulted in significant deficits. In 2008, the Group reported net profit for the year of P268.7 million, which together with the effects of the change in the remeasurement of investment property (see Note 13), reduced the balance of the Deficit account by a significant amount allowing the Group to present Retained Earnings amounting to P226.7 million as of December 31, 2008. In 2010 and 2009, the Group showed much better results of operations reporting net profit for the years then ended of P229.3 million and P226.3 million, respectively. Management strongly believes that the Group will continue to report positive results and better financial position in the future.

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

On November 23, 2009, the Parent Company's management disclosed to the public its plan of phasing-out its unprofitable manufacturing business and related services, which include the plastic injection molding parts operations of Kita and SLC, with the expectation that this will positively impact the overall financial performance of the Group. Kita and SLC have ceased their plastic injection manufacturing business as of December 31, 2010 (see Note 5).

### **1.3 Other Corporate Information**

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

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

Starting March 3, 2011, My Solid's new principal place of business is located at 2000 East Service Road, Bicutan, Parañaque City; Omni's new principal place of business, starting January 5, 2011, is located at 17 A. Fernando St., Marulas, Valenzuela, Metro Manila.

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

The consolidated financial statements of the Group for the year ended December 31, 2010 were authorized for issue by the Parent Company's Board of Directors (BOD) on April 1, 2011.

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

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

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

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

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

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. 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 (Revised 2007), *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its 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 Company's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

**2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS**

(a) *Effective in 2010 that are Relevant to the Group*

In 2010, the Group adopted the following new revisions, interpretations and annual improvements that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after July 1, 2009 or January 1, 2010:

PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PFRS 3 (Revised 2008)	:	Business Combinations
Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 17	:	Distribution of Non-cash Assets to Owners
Various Standards	:	2009 Annual Improvements to PFRS

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

- (i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group's adoption of the standard did not result in any adjustment to its consolidated financial statements as there were no transactions covered under the standard during the year.
- (ii) PFRS 3 (Revised 2008), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group did not have any business acquisition during the year; hence, the adoption of the revised standard has no effect on the 2010 consolidated financial statements.
- (iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*. IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the consolidated financial statements since the Group did not distribute non-cash assets to its stockholders during the current year and in prior years.
- (iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not also have any material impact on its consolidated financial statements:
  - PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.
  - PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.



- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. The amendment has no significant impact on the Group's consolidated financial statements.
- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

(b) *Effective in 2010 that are not Relevant to the Group*

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

PAS 32 (Amendment)	:	Classification of Right Issues
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 1 (Amendment)	:	Additional Exemptions for First-time Adopters
PFRS 2 (Amendment)	:	Share-based Payment
Philippine Interpretations		
IFRIC 9	:	Embedded Derivatives – Amendments to IFRIC 9 and PAS 39
IFRIC 18	:	Transfers of Assets from Customers

(c) *Effective Subsequent to 2010*

There are new PFRS, revisions, amendments, interpretations and annual improvements to existing standards that are effective for periods subsequent to 2010. Among those, management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its consolidated financial statements:

- (i) PAS 12 (Amendment), *Income Taxes* (effective from January 1, 2013). An entity is required to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. However, when the asset is measured using the fair value model in PAS 40, *Investment Property*, it can be difficult and subjective to assess whether the recovery will be through use or through sale; accordingly, an amendment to PAS 12 was made.

As a practical solution to the problem, the amendment introduces a presumption that recovery of the carrying amount will be or normally be through sale. Consequently, SIC 21 *Income Taxes – Recovery of Revalued Non-depreciable Assets* would no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC 21, which is accordingly withdrawn.

Since the amendment is related to the issuance of PFRS 9 in 2009, management is still evaluating the effect of this amendment to the Group's consolidated financial statements in conjunction with its adoption of PFRS 9 in 2013 (see PFRS 9 below).

- (ii) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.
- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2011). The amendments will allow users of consolidated financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its consolidated financial statements as they only affect disclosures and the Group usually provides adequate information in its consolidated financial statements in compliance with disclosure requirements.
- (iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39, will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):
  - Phase 1: Classification and Measurement
  - Phase 2: Impairment Methodology
  - Phase 3: Hedge Accounting

To date, the chapters dealing with recognition, classification, measurement and derecognition of financial assets and liabilities have been issued. These chapters are effective for annual periods beginning January 1, 2013. Other chapters dealing with impairment methodology and hedge accounting are still being finalized.

Management is yet to assess the impact that this amendment is likely to have on the consolidated financial statements of the Group. However, it does not expect to implement the amendments until all chapters of PFRS 9 have been published at which time the Group expects it can comprehensively assess the impact of the revised standard.

- (v) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to PAS 19, *Employee Benefits*, surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually make substantial advance contribution to its retirement fund.
- (vi) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in its consolidated financial statements.
- (vii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as “debt for equity” exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:
- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is the consideration paid in accordance with PAS 39;
  - the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
  - if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
  - the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

(viii) 2010 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2010*. These amendments became effective for annual periods beginning on or after July 1, 2010, or January 1, 2011. The Group expects the amendments to the following standards to be relevant to the Group's accounting policies but does not expect any material effect on the Group's consolidated financial statements:

- PAS 1, *Presentation of Financial Statements – Clarification of Statement of Changes in Equity* (effective from July 1, 2010). Clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements.
- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, PAS 28, *Investment in Associates*, PAS 31, *Investments in Joint Ventures – Transition Requirements for Amendments Arising as a Result of PAS 27, Consolidated and Separate Financial Statements* (Revised 2008) (effective from July 1, 2010). This amends the transition requirements to apply certain consequential amendments arising from the 2008 PAS 27 amendments prospectively, to be consistent with the related PAS 27 transition requirements.
- PFRS 3, *Business Combinations* (effective from July 1, 2010). This clarifies that contingent consideration balances arising from business combinations that occurred before an entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances.

It further clarifies that the choice of measuring non-controlling interest at fair value or at the proportionate share in the recognized amounts of an acquiree's identifiable net assets, is now limited to non-controlling interest that are present ownership instruments and entitle their holders to a proportionate share of the acquiree's net assets in the event of liquidation.

The guidance for the accounting of share-based transactions of the acquiree that were voluntarily replaced by the acquirer and acquiree awards the acquirer chooses not to replace is clarified as well.

- PFRS 7, *Financial Instruments: Disclosures – Clarification of Disclosures* (effective from January 1, 2011). Clarifies that disclosure requirements of the standard to remove inconsistencies, duplicative disclosure requirements and specific disclosures that may be misleading.

### **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 as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies. The Parent Company obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Parent Company obtains control until such time that such control ceases.

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

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

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

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

(b) *Transactions with Non-controlling Interests*

The Group applies a policy of treating transactions with non-controlling interests as transactions with equity owners of the Group. Any difference between any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to non-controlling interests result in gains and losses that are also recognized in equity.

When the Group ceases to have control, any interest retained in the subsidiary is remeasured to its fair value, with the change in carrying amount recognized in profit or loss. The initial carrying amount for the purpose of subsequently accounting for the interest retained as an associate, joint venture or financial asset is the fair value. 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.

Upon adoption in 2010 of PAS 27 (Revised 2008), the Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control. It has applied the new policy prospectively as required by the standards beginning January 1, 2010. As a result, no adjustments were necessary to any of the amounts previously recognized and reported in the consolidated financial statements.

Before the adoption of the revised PAS 27, transactions with non-controlling interests were treated as transactions with parties external to the Group. As such, disposals of resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

#### ***2.4 Segment Reporting***

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

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

#### ***2.5 Financial Assets***

Financial assets 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, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

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

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

(a) *Loans and Receivables*

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

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

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

(b) *Financial Assets at Fair Value through Profit or Loss*

Financial assets at Fair Value through Profit or Loss (FVPL) include financial assets held for trading and financial assets designated upon initial recognition as at FVPL. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term.

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

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the reporting period.

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

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

All income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the 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 reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

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

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

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

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

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



## **2.7 Real Estate Inventories**

Real estate inventories consist of the following:

(a) *Land and Land Development Costs*

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

(b) *Property Development Costs*

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

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

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

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

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

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

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

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

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

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

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

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

## ***2.9 Investment Property***

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs. At the end of the reporting period, investment property is accounted for at fair value as determined annually by independent appraisers (see Note 13). The carrying amounts recognized in the consolidated statement of financial position reflect the prevailing market conditions at the end of the reporting period. Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair Value Gains (Losses) on Investment Property under Other Operating Income in the consolidated statement of income.

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

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

## ***2.10 Financial Liabilities***

Financial liabilities include Interest-bearing Loans, Trade and Other Payables (excluding Output Tax Payable and Unearned Subscription Income), Advances from Related Parties and Refundable Deposits, which are measured at amortized cost using the effective interest rate method.

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

Interest-bearing loans are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis using the effective interest method and are added

to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

### **2.11 Business Combination**

Business acquisitions are accounted for using the acquisition method of accounting (previously called “purchase method”).

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

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

Any excess of the Group’s interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to income.

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

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.

Prior to January 1, 2010, certain items are treated as follows as opposed to how they are now treated based on the changes in accounting policy of the Group as a result of the adoption of the revised PFRS 3 and PAS 27:

- (a) Transaction costs directly attributable to business acquisition formed part of the acquisition costs;
- (b) The non-controlling interest was measured at the proportionate share of the acquiree’s identifiable net assets;

- (c) Business combinations achieved in stages were accounted for as separate steps or acquisitions. Any additional shares acquired of interest did not affect previously recognized goodwill; and,
- (d) Contingent consideration was recognized if, and only if, payment was probable; i.e., the Group had a present obligation, the economic outflow was more likely than not, and a reliable estimate is determinable. Subsequent adjustment to the contingent consideration was recognized as an adjustment to goodwill.

## ***2.12 Provisions and Contingencies***

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

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

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

## ***2.13 Revenue and Expense Recognition***

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

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

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

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

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

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.
  - *Rendering of services and other income from internet subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
  - *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the lease term (see Note 2.14).
- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized within 30 days after the actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by a third party of its products.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, 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.

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

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

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

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

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

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

## **2.14 Leases**

The Group accounts for its leases as follows:

- (a) *Group as Lessee*

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

*(b) Group as Lessor*

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

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

**2.15 Foreign Currency Transactions**

*(a) Transactions and Balances*

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

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

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

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

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

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

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

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

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

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

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

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

### ***2.17 Employee Benefits***

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

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

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

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



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

*(b) Termination Benefits*

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

*(c) Compensated Absences*

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

**2.18 Borrowing Costs**

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

**2.19 Income Taxes**

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

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

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

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

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

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

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

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

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

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

## ***2.21 Equity***

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

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

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

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

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

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

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of December 31, 2010, the Parent Company does not have potential dilutive shares.

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

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

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

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

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

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

The carrying amount of the real estate inventories amounted to P1.4 billion and P1.3 billion as of March 31, 2011 and December 31, 2010 (see Note 11).

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

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

concluded that certain assets are impaired as of March 31, 2011 and December 31, 2010. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

(c) *Costing of Merchandise Inventories and Supplies*

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

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

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

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

(e) *Operating and Finance Leases*

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

(f) *Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and disclosure of contingencies are discussed in Notes 2.12 and 28.

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

The fair value of the Group's investment property was determined by an independent appraiser.

The independent appraiser's estimation of fair value is based on study and evaluation of all the physical, economic and other value factors relative to the appraised property. Local market conditions were investigated and the following factors were given careful consideration: extent, character and utility of the property; sales and holding prices of similar land; "highest and best use" of the land; depreciated replacement cost of the buildings and other land improvements; and all adverse internal and external factors that may tend to affect or influence the value of the property. Further, the appraisal was performed in accordance with generally accepted valuation principles and procedures and in conformity with the requirements of the Code of Ethics applying to the realty services in the Philippines.

### ***3.2 Key Sources of Estimation Uncertainty***

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

*(a) Determining Net Realizable Value of 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 P713.6 million and P392.7 million, as at March 31, 2011 and December 31, 2010 respectively, as presented in Note 10) is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipments and accessories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

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

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property, plant and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2010, there is no change in the estimated useful lives of property, plant and equipment during the year. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

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

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

The carrying value of trade and other receivables amounted to P 1.7 billion and P1.5 billion as at March 31, 2011 and December 31, 2010 respectively. (see Note 8). Accumulated impairment losses on trade and other receivables are as also shown in Note 8.

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

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

Fair value gains (losses) on Financial Assets at Fair Value through Profit or Loss were reported in the statement of income. Fair value gains (losses) Available-for-sale Financial Assets were reported in the other comprehensive income (see Note 8). The carrying values of the assets are disclosed in Note 7 and Note 8.

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

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The estimated liability for land and development costs amounted to P68.3 million as of March 31, 2011 and December 31, 2010 (see Note 11).

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

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

(g) *Reserve for Warranty Costs*

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

As of December 31, 2010 the outstanding balance of Reserve for Warranty Costs amounted to P23.4 million as of December 31, 2010 (see Note 16).

(b) *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, 2010 is disclosed in Note 23.2.

(i) *Impairment of Non-financial Assets*

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

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

(j) *Post-employment Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates, expected return on plan assets and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The estimated present value of the retirement benefit obligation amounted to P91.2 million as of December 31, 2010 while the fair value of plan assets as of those dates amounted to P239.4 million (see Note 22.2).

## 4. SEGMENT INFORMATION

### 4.1 *Business Segments*

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

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

- (b) Related support services segment is engaged in the business of rendering of after sales service operations as the recognized authorized Service Network for products of a third party and warehousing and distribution services (see Note 5);
- (c) Real estate segment activities include leasing and development and sale of industrial and other real estate properties;
- (d) Trading segment is involved in the sale of professional audio and video equipment and peripherals, and mobile phones and LCD televisions; and,
- (e) Investing, financing and others segment is presently engaged in the business of fund investments, automotive and consumer financing and credit extension.

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

#### 4.2 Segment Assets and Liabilities

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

#### 4.3 Intersegment Transactions

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

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

	Broadband Services	Related Support Services	Real Estate	Trading	Investing, Financing and Others	Elimination	Total
<b>2011</b>							
<b>SEGMENT RESULTS</b>							
Revenues	P 93,117	P 83,797	P 72,171	P 594,660	P 14,257	(P 13,880)	P 844,122
<b>Net Profit (Loss) for the period</b>	<b>P 6,255</b>	<b>P 6,576</b>	<b>P 3,062</b>	<b>P 27,206</b>	<b>P 980</b>	<b>P 920</b>	<b>P 44,999</b>
<b>SEGMENT ASSETS AND LIABILITIES</b>							
Total assets	<b>P 795,455</b>	<b>P 836,761</b>	<b>P 6,469,371</b>	<b>P 1,829,120</b>	<b>P 7,645,712</b>	<b>(P 6,429,060)</b>	<b>P 11,147,359</b>
Total liabilities	<b>P 219,146</b>	<b>P 228,645</b>	<b>P 2,533,522</b>	<b>P 1,591,208</b>	<b>P 633,572</b>	<b>(P 2,217,149)</b>	<b>P 2,988,944</b>
<b>2010</b>							
<b>SEGMENT RESULTS</b>							
Revenues	P 78,520	P 92,639	P 97,103	P 305,818	P 18,970	(P 11,000)	P 582,050
<b>Net profit (loss) for the period</b>	<b>P 10,293</b>	<b>P 3,351</b>	<b>P 4,260</b>	<b>(P 6,572)</b>	<b>P 8,800</b>	<b>P 2,147</b>	<b>P 22,279</b>
<b>SEGMENT ASSETS AND LIABILITIES</b>							
Total assets	<b>P 762,404</b>	<b>P 830,225</b>	<b>P 6,345,462</b>	<b>P 1,787,307</b>	<b>P 8,145,375</b>	<b>(P 7,228,324)</b>	<b>P 10,642,446</b>
Total liabilities	<b>P 211,242</b>	<b>P 215,015</b>	<b>P 2,340,528</b>	<b>P 1,562,209</b>	<b>P 642,037</b>	<b>(P 2,440,533)</b>	<b>P 2,530,498</b>



## 5. DISCONTINUED OPERATIONS

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

Machinery and equipment related to the discontinued operations of Kita are still presented as part of Property, Plant and Equipment account as of December 31, 2010 as their carrying values as of that date are not material (see Note 12).

## 6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as of March 31, 2011 & December 31, 2010:

	<u>2011</u>	<u>2010</u>
Cash on hand and in banks	<b>P 469,459,903</b>	P 509,181,468
Short-term placements	<u><b>1,082,570,904</b></u>	<u>1,110,933,000</u>
	<u><b>P 1,552,030,807</b></u>	<u>P 1,620,114,468</u>

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 96 days and earn effective interest ranging from 0.8% to 6.0% per annum in 2011 and 2010.

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

This amount consists of:

	<u>2011</u>	<u>2010</u>
Investment in foreign currency denominated bonds	<u><b>P 24,570,472</b></u>	<u><b>P -</b></u>

## 8. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Current:			
Trade receivables	26.1	<b>P 791,509,818</b>	P 658,787,111
Advances to suppliers		<b>333,774,746</b>	216,493,690
Finance receivables	26.4	<b>62,625,780</b>	67,984,157
Other receivables		<u><b>71,629,758</b></u>	<u>77,375,904</u>
		<b>1,259,540,102</b>	1,020,640,862
Allowance for impairment		<u><b>( 160,737,827)</b></u>	<u>( 129,657,216)</u>
		<u><b>1,098,802,275</b></u>	<u>890,983,646</u>

Non-current:			
Trade receivables		<b>22,925,701</b>	26,579,435
Finance receivables		<b>162,789,716</b>	163,937,334
Cash surrender value of investment in life insurance	15	<u><b>450,134,621</b></u>	<u>450,394,432</u>
		<u><b>635,850,038</b></u>	<u>640,911,201</u>
		<u><b>P 1,734,652,313</b></u>	<u>P 1,531,894,847</u>

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 have been recognized.

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

Interest rates on finance receivables range from 7.5% to 30.0% in 2010. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 26.4).

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 19). The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 14).

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

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

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	<u>2011</u>	<u>2010</u>
Current:		
Investments in foreign currency-denominated bonds	<b>P 133,714,268</b>	P 172,263,491
Allowance for impairment	<u>(12,780,001)</u>	<u>(33,657,338)</u>
	<u><b>120,934,267</b></u>	<u>138,606,153</u>

Non-current:		
Club shares	20,173,591	13,095,000
Equity securities	8,580,000	8,580,000
Others	3,812,936	1,436,518
Allowance for impairment	( <u>17,510,000</u> )	( <u>11,004,991</u> )
	<u>15,056,527</u>	<u>12,106,527</u>
	<b><u>P 135,990,794</u></b>	<b><u>P 150,712,680</u></b>

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

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 in which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent Company reclassified its remaining investment in shares of stock of SPI with total cost of P8,580,000 to Available-for-sale Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2010.

Impairment losses recognized on the Group's Available-for-sale Financial Assets are presented as part of Finance Costs in the 2011 and 2010 consolidated statements of income (see Note 21.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of March 31, 2011 and December 31, 2010 have been determined directly by reference to published prices in active markets.

## 10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below.

	Note	2011	2010
Merchandise and finished goods	18.1	<b>P 735,866,630</b>	P 412,507,056
Work-in-process	18.1	<b>760,825</b>	2,256,191
Raw materials	18.1	<b>9,261,321</b>	10,757,863
Service parts, supplies and others		<u>60,569,947</u>	<u>57,097,648</u>
		<b>806,458,723</b>	482,618,758
Allowance for inventory obsolescence		( <u>92,845,454</u> )	( <u>89,909,514</u> )
		<b><u>P 713,613,269</u></b>	<b><u>P 392,709,244</u></b>

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

## 11. REAL ESTATE INVENTORIES

This account is composed of:

	<u>2011</u>	<u>2010</u>
Land and land development costs:		
Land	P 248,000	P 46,985,838
Land development costs	<u>82,784,589</u>	<u>36,046,751</u>
	83,032,589	83,032,589
Allowance for impairment	<u>( 2,022,800)</u>	<u>( 2,022,800)</u>
	<u>81,009,789</u>	<u>81,009,789</u>
Property development costs -		
Construction in progress		
and development costs	<u>1,314,035,351</u>	<u>1,246,993,041</u>
	<u>P 1,395,045,140</u>	<u>P 1,328,002,830</u>

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

The allowance for impairment was the amount recognized in 2005 pertaining to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2011 and 2010.

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

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

In October 2007, ZTC obtained its permit to sell that would allow pre-selling of condominium units, and has entered into several construction contracts with various contractors for the construction of the other towers. Advances made to contractors are shown as part of the Other Current Assets account in the consolidated statements of financial position (see Note 14).

In addition, the balances of Property Development Costs as of March 31, 2011 and December 31, 2010, include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, People's Republic of China. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the People's Republic of China. Pre-sale of the condominium units has been commenced for two of the residential towers in December 2010. Customer deposits relating to the pre-selling activities

in 2010 are shown as part Trade and Other Payables in the 2010 consolidated statement of financial position (see Note 16).

Fil-Dragon's land use right, included as part of the Property Development Costs account, with a carrying amount of RMB15.2 (P103.3 million) as of December 31, 2010 is pledged as collateral for interest-bearing loans obtained by Fil-Dragon in 2009 (see Note 15).

Presented below are the movements in the Estimated Liability for Land and Land Development Costs presented which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP.

	<u>2011</u>	<u>2010</u>
Balance at beginning of year	<b>P 68,304,647</b>	P 68,304,647
Additions	-	-
Payments made	<u>-</u>	<u>-</u>
Balance at end of year	<b><u>P 68,304,647</u></b>	<b><u>P 68,304,647</u></b>

## 12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses as of March 31, 2011 & December 30, 2010 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>Cable System 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>
March 31, 2011												
Cost	P 897,854,682	P 198,298,183	P 22,551,386	P 108,239,036	P 82,987,753	P 1,294,009,004	P 141,702,454	P 65,511,544	P 47,937,896	P 14,021,717	P	P 2,873,113,655
Accumulated depreciation and amortization	-	( 128,210,067)	( 16,507,651)	( 94,209,091)	( 70,370,513)	( 585,232,945)	( 91,566,030)	( 65,435,046)	( 43,088,395)	( 12,089,410)	-	( 1,106,709,148)
Accumulated impairment loss	-	( 35,000,000)	-	-	-	( 350,000,000)	-	-	-	-	-	( 385,000,000)
Net carrying amount	<u>P 897,854,682</u>	<u>P 35,088,116</u>	<u>P 6,043,735</u>	<u>P 14,029,945</u>	<u>P 12,617,240</u>	<u>P 358,776,059</u>	<u>P 50,136,424</u>	<u>P 76,498</u>	<u>P 4,849,501</u>	<u>P 1,932,307</u>	<u>P</u>	<u>P 1,381,404,508</u>
December 31, 2010												
Cost	P 897,854,682	P 227,896,093	P 54,731,671	P 126,509,662	P 86,920,710	P 1,281,118,081	P 145,693,981	P 66,396,464	P 46,690,676	P 18,292,269	P 1,090,679	P 2,953,194,968
Accumulated depreciation and amortization	-	( 153,016,433)	( 48,742,034)	( 109,698,115)	( 70,628,188)	( 578,531,307)	( 88,187,124)	( 63,558,745)	( 42,916,185)	( 16,047,865)	-	( 1,171,325,996)
Accumulated impairment loss	-	( 35,000,000)	-	-	-	( 350,000,000)	-	-	-	-	-	( 385,000,000)
Net carrying amount	<u>P 897,854,682</u>	<u>P 39,879,660</u>	<u>P 5,989,637</u>	<u>P 16,811,547</u>	<u>P 16,292,522</u>	<u>P 352,586,774</u>	<u>P 57,506,857</u>	<u>P 2,837,719</u>	<u>P 3,774,491</u>	<u>P 2,244,404</u>	<u>P 1,090,679</u>	<u>P 1,396,868,972</u>

No additional impairment losses were recognized in 2010, based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2010, the fair values of the Group's land and building and improvements amounted to P203.1 million. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

### 13. INVESTMENT PROPERTY

The Group's investment property consists mainly of land and improvements, and buildings and improvements under operating lease agreements. These properties earn rental income, presented as Rentals in the consolidated statements of income, and have direct costs such as real property taxes, repairs and maintenance and utilities which are presented as part of Cost of Rentals in the consolidated statements of income (see Note 18.3).

Prior to 2008, the Group measured its investment property at cost, less accumulated depreciation, amortization and any impairment loss. In 2008, the Parent Company's BOD approved the change in accounting policy for investment property from the cost model to the fair value model in order to present a more reliable and relevant information on the carrying amounts of investment property. The change in accounting policy was applied retrospectively, which resulted in an increase in the carrying amounts of investment property as of January 1, 2008 by P1.8 billion, and a decrease in the Deficit balance as of January 1, 2008 by P888.7 million (see Note 24.3).

Prior to 2008, ZTC's investment property was presented as part of Real Estate Inventories, which is stated at net realizable value as of December 31, 2007. In 2008, ZTC's BOD approved the reclassification of those assets as investment property measured using the fair value model. The remeasurement of the assets at fair value resulted in a gain of P61.4 million shown as part of Fair Value Gains on Investment Property under Other Operating Income in the 2008 consolidated statement of income (see Note 19).

The fair values of the Group's investment property as of December 31, 2010, 2009 and 2008 were determined based on appraisal reports dated January 4, 2011, January 11, 2010 and January 22, 2009, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers.

The changes in the carrying amounts of investment property (after the retrospective application of the change in measurement from the cost model to the fair value model) as presented in the consolidated statements of financial position can be summarized as follows as of March 31, 2011 & December 31, 2009:

	<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
2011:			
Balance at beginning of year	P 2,831,596,567	P 785,921,294	P 3,617,517,861
Fair value gains (losses) on investment property	53,175,228	( 25,527,147)	27,648,081
Additions	<u>556,979</u>	<u>795,716</u>	<u>1,352,695</u>
Balance at end of year	<u>P 2,885,328,774</u>	<u>P 761,189,863</u>	<u>P 3,646,518,637</u>

2010:						
Balance at beginning of year	P	2,831,596,567	P	785,921,294	P	3,617,517,861
Fair value gains (losses) on investment property		53,175,228	(	25,527,147)		27,648,081
Additions		<u>556,979</u>		<u>795,716</u>		<u>1,352,695</u>
Balance at end of year	P	<u>2,885,328,774</u>	P	<u>761,189,863</u>	P	<u>3,646,518,637</u>

Certain real estate properties owned by SMC and SC are the subject of litigations brought up by third parties against the subsidiaries (see Note 28.4).

#### 14. OTHER ASSETS

The composition of these accounts as of March 31, 2011 and December 31, 2010 is shown below.

	Notes	2011	2010
Current:			
Input VAT		P 171,733,169	P 108,582,573
Creditable withholding taxes		67,740,304	66,263,869
Prepaid expenses		21,524,721	28,770,446
Advances to suppliers and contractors	11	7,395,340	3,815,376
Refundable deposits		2,160,766	2,650,877
Others		<u>26,468,151</u>	<u>32,043,738</u>
		<u>P 297,022,451</u>	<u>P 242,126,879</u>
Non-current:			
Refundable deposits - net		P 11,746,188	P 9,735,153
Prepaid insurance	7	5,825,797	7,907,839
Others		<u>5,030,594</u>	<u>6,935,676</u>
		<u>P 22,602,579</u>	<u>P 24,578,668</u>

#### 15. INTEREST-BEARING LOANS

The details of the Group's short-term and long-term interest-bearing loans as of March 31, 2011 & December 31, 2010 are as follows:

	2011	2010
Current	<u>P 985,928,099</u>	<u>P 989,502,559</u>
Non-current	<u>P -</u>	<u>P -</u>

The current portion of the Group's interest-bearing loans pertains to the RMB92.9 million loan by Fil-Dragon from China Construction Bank Corporation Shenzhen Shang Zhi Branch and Nanning Yuan Hu Branch and the following U.S. dollar-denominated loans obtained by BRL from Bank of Singapore:



<u>Date Obtained</u>	<u>Original U.S. Dollar Amount</u>	<u>Term</u>
July 2, 2010	\$ 3,078,989	One year
July 2, 2010	1,995,635	One year
July 2, 2010	1,297,574	One year
July 2, 2010	1,882,014	One year
July 2, 2010	<u>80,934</u>	One year
	<b><u>\$ 8,335,146</u></b>	

The loans are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 7, 8, 9 and 11). The loans bear interest at prevailing market rates per annum ranging 2.30% in 2011 and 1.75% to 4.62% in 2010. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2).

Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the People's Republic of China amounting to RMB92.9 million (P615.7 million). These loans are secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million). Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 26.8). None of the companies under the Group, including the Parent Company, are included in the guarantee contract.

Certain real estate properties of Fil-Dragon are used as collaterals for the secured interest-bearing loans (see Note 11). In addition, the creditor bank requires Fil-Dragon to maintain a debt-to-equity ratio of not higher than 1.5:1. As of December 31, 2010, Fil-Dragon has complied with such loan covenant.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 30.1).

## 16. TRADE AND OTHER PAYABLES

This account consists of:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Trade payables	26.2	<b>P 223,520,476</b>	P 125,426,944
Accrued expenses		<b>86,769,084</b>	100,379,580
Refundable deposits	17	<b>213,835,703</b>	56,544,740
Advances from customers	11	<b>63,261,770</b>	47,918,246
Output tax payable		<b>76,399,952</b>	44,661,218
Reserve for warranty costs		<b>16,471,067</b>	23,359,511
Unearned subscription income		<b>7,884,337</b>	7,884,337
Other payables		<b><u>227,731,038</u></b>	<u>36,488,974</u>
		<b><u>P 915,873,427</u></b>	<u>P 442,663,550</u>

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 also includes the amounts recognized by OLC for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders.

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

The carrying amounts of trade and other payables recognized in the consolidated statements of financial position are considered to be a reasonable approximation of their fair values (see Note 30.1).

## 17. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P13.0 million as at December 31, 2010 that pertain to leases with terms ending in 2010 to 2012. 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 amortized cost of the refundable deposits amounting to P15.3 million, as of December 31, 2010, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position. The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 16).

## 18. COST OF SALES, SERVICES AND RENTALS

### 18.1 Cost of Sales

The details of this account are shown below.

	Notes	2011	2010
Merchandise and finished goods at beginning of year	10	<b><u>P 412,507,056</u></b>	<u>P 458,644,314</u>
Net purchases of merchandise during the year	20, 26.2	<b><u>793,721,884</u></b>	<u>198,443,779</u>
Cost of goods manufactured:			
Raw materials at beginning of year	10	<b>10,757,863</b>	20,252,525
Work- in-process at beginning of year	10	<b>2,256,191</b>	1,665,047
Net purchases of raw materials during the year		<b>8,588,261</b>	(12,437,106)
Direct labor			263,151
Manufacturing overhead	12	<b>2,233,061</b>	5,332,618
Raw materials at end of year	10	<b>( 9,261,321)</b>	( 18,836,874)
Work-in-process at end of year	10	<b>( 760,825)</b>	( 984,932)
		<b><u>13,813,230</u></b>	<u>( 4,745,571)</u>
Goods available for sale		<b>1,220,042,170</b>	652,342,522
Merchandise and finished goods at end of year	10	<b>( 735,866,630)</b>	( 378,582,834)
Net provision (reversal) on inventory obsolescence	10, 18.1	<b>( 4,528,515)</b>	
Cost of disposed inventories		<u>-</u>	<u>-</u>
	20	<b><u>P 479,647,025</u></b>	<u>P 273,759,688</u>

### 18.2 *Cost of Services*

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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Salaries and employee benefits		<b>P 27,906,979</b>	P 11,847,807
Materials and other consumables		<b>22,591,345</b>	22,081,608
Depreciation and amortization	12	<b>12,571,337</b>	10,401,603
Transponder rental and leased line		<b>10,501,536</b>	3,368,223
Communication, light and water		<b>9,771,604</b>	9,540,377
Rentals	28	<b>6,275,812</b>	7,753,300
Outside services		<b>2,754,758</b>	20,877,472
Transportation and travel		<b>43,781</b>	6,449
Cable services		-	1,674,107
Repairs and maintenance		<b>3,090,557</b>	5,096,562
Others		<b>13,899,580</b>	14,385,274
	20	<b><u>P 109,407,289</u></b>	<b><u>P 107,032,782</u></b>

### 18.3 *Cost of Rentals*

The details of this account are as follows:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Rentals		<b>P 1,596,823</b>	P 2,368,573
Depreciation & amortization		<b>1,055,830</b>	813,502
Outside services		<b>1,257,235</b>	1,208,657
Taxes and licenses	13	<b>9,502,523</b>	10,404,700
Utilities and communication	13	<b>681,090</b>	-
Repairs and maintenance	13	<b>913,811</b>	859,704
Salaries and employee benefits		<b>221,942</b>	223,110
Others		<b>1,029,519</b>	1,267,681
	20	<b><u>P 16,258,773</u></b>	<b><u>P 17,145,927</u></b>

## 19. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Increase in cash surrender value of investment in life insurance	7	<b>P 4,416,773</b>	P 4,786,826
Gain on insurance settlement		-	-
Miscellaneous	5	<b>7,999,999</b>	7,867,442
		<b><u>P 12,416,772</u></b>	<b><u>P 12,654,268</u></b>

## 20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Net purchases of merchandise inventories	18.1	<b>P 793,721,884</b>	P 198,443,779
Salaries and employee benefits	22.1	<b>63,549,015</b>	54,710,618
Cost of real estate sold		<b>21,853,958</b>	45,534,197
Materials, supplies and other consumables		<b>32,560,415</b>	10,991,190
Outside services		<b>23,735,083</b>	24,998,271
Depreciation and amortization	12	<b>19,523,016</b>	18,009,840
Utilities and communication		<b>14,560,294</b>	14,514,591
Taxes and licenses		<b>26,007,625</b>	24,301,260
Transponder rental and leased line		<b>10,501,536</b>	3,368,223
Rentals	26.3, 28	<b>10,820,805</b>	13,007,581
Provision for warranty	16		
Transportation and travel		<b>5,723,686</b>	3,666,043
Repairs and maintenance		<b>6,306,230</b>	7,541,380
Net provision (reversal) on inventory obsolescence	18.1	<b>(45,285,515)</b>	
Change in merchandise, finished goods and work-in-process inventories		<b>( 320,367,666)</b>	(315,440,032)
Miscellaneous		<b>78,888,377</b>	52,006,920
		<b><u>P 784,355,753</u></b>	<b><u>P 155,653,861</u></b>

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

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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cost of sales	18.1	<b>P 479,647,025</b>	P 273,759,688
Cost of services	18.2	<b>109,407,289</b>	107,032,782
Cost of real estate sold		<b>21,853,958</b>	45,534,197
Cost of rentals	18.3	<b>16,258,773</b>	17,145,927
General and administrative expenses		<b>89,263,603</b>	77,010,112
Selling and distribution costs		<b>67,925,104</b>	32,774,833
		<b><u>785,855,752</u></b>	<b><u>553,257,539</u></b>

## 21. OTHER INCOME (CHARGES)

### 21.1 Finance Income

This account consists of the following:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Interest income from banks	6	<b>P 11,349,258</b>	P 6,424,378
Fair value gains of financial assets at fair value through profit & loss		179,604	-
Foreign currency gains		768,852	-
Gain of sale of financial assets		1,582,509	522,368
Others			
		<b><u>P 13,880,223</u></b>	<b><u>P 6,946,746</u></b>

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P10.1 million in 2011, and P14.9 million in 2010 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

### 21.2 Finance Costs

This account consists of the following:

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Impairment losses on available-for-sale financial assets	8	<b>P 4,808,250</b>	P -
Foreign currency losses		1,230,769	6,311,363
Interest expense arising from loans	15	2,150,024	2,641,175
Impairment losses on trade and other receivables	7	10,000,000	-
Others		218,153	
		<b><u>P 18,407,196</u></b>	<b><u>P 8,952,538</u></b>

## 22. EMPLOYEE BENEFITS

### 22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 20 and 26.9).

	<u>Note</u>	<u>2011</u>	<u>2010</u>
Short-term benefits		<b>P 62,839,560</b>	P 53,673,484
Retirement benefits		709,455	1,037,134
		<b><u>P 63,549,015</u></b>	<b><u>P 43,790,182</u></b>

## 22.2 Post-employment Benefit

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

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

	<u>2010</u>
Fair value of plan assets	<b>P 191,634,637</b>
Present value of the obligation	<u>55,578,427</u>
Excess of plan assets	136,056,210
Withdrawal of fund*	( 10,015,049)
Unrecognized actuarial losses (gains)	<u>( 51,123,206)</u>
	<b><u>P 74,917,955</u></b>

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

In 2010, Kita and SLC withdrew a portion of the plan assets amounting to P10.0 million out of the total excess retirement fund representing the benefits paid by Kita and SLC for terminated employees (see Note 4). Management assessed that the remaining value of plan assets is more than enough to cover the current and future current cost of Kita and SLC's remaining employees.

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

	<u>2010</u>
Fair value of plan assets	<b>P 47,775,051</b>
Present value of the obligation	<u>35,630,324</u>
Excess of plan assets	12,144,727
Unrecognized actuarial gains	<u>( 15,266,320)</u>
Retirement benefit obligation	<b><u>P 3,121,593</u></b>

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>2010</u>
Fair value of plan assets	<b>P 239,409,688</b>
Present value of the obligation	<u>91,208,751</u>
Excess in the plan	<b><u>P 148,200,937</u></b>

Experience adjustments arising on plan assets amounted to P6.2 million in 2010. Experience adjustments on plan liabilities amounted to P5.9 million in 2010. Management has determined that the experience adjustments on plan liabilities in 2007 and 2006 are not significant.

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

	<u>2010</u>
Balance at beginning of year	P 71,624,495
Current service and interest costs	9,397,601
Benefits paid	( 3,700,345)
Actuarial gains (losses)	<u>6,300,611</u>
Balance at end of year	<u>P 91,208,751</u>

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

	<u>2010</u>
Balance at beginning of year	P 210,694,669
Contributions paid into the plan	6,703,890
Benefits paid by the plan	( 3,700,345)
Expected return on plan assets	( 4,222,401)
Actuarial gains (losses)	<u>29,933,875</u>
Balance at end of year	<u>P 239,409,688</u>

Actual returns on plan assets amounted to P17.2 million in 2010. The Group expects to contribute a total of P11.6 million to the post-employment defined benefit plan in 2011.

The plan assets consist of the following as of December 31, 2010:

	<u>2010</u>
Government securities	P 229,286,632
Mutual and trust funds	<u>10,123,056</u>
	<u>P 239,409,688</u>

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

	<u>2010</u>
Current service cost	P 6,120,469
Interest cost	3,277,132
Expected return on plan assets	( 4,222,401)
Net actuarial gains recognized during the year	( 581,009)
Effect of asset limit	<u>-</u>
	<u>P 4,594,191</u>

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

	<u>2010</u>
Discount rates	8% - 9%
Expected rate of return on plan assets	6%
Expected rate of salary increases	9%

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

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

## 23. TAXES

### ***23.1 Registration with Economic Zone Authorities***

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

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



### 23.2 Current and Deferred Taxes

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

	<u>2010</u>
<i>Consolidated statements of income</i>	
Current tax expense:	
RCIT at 30% in 2010 and 2009 and 35% in 2008	P 91,903,929
Final taxes at 20% and 7.5%	8,917,838
Preferential taxes at 5%	2,718,628
Minimum corporate income tax (MCIT) at 2%	<u>4,269,350</u>
	107,809,744
 Deferred tax expense (income) relating to origination and reversal of temporary differences	 <u>15,457,073</u>
	 <b><u>P 123,266,818</u></b>
 <i>Consolidated statements of comprehensive income –</i>	
Deferred tax income on changes in fair value of available-for-sale financial assets (see Note 24.1)	 <b><u>(P 1,110,000)</u></b>

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

	<u>2010</u>
Deferred tax assets:	
Fair value adjustments on investment property	P 23,831,400
Provision for warranty	4,264,982
Accrued municipal taxes	2,324,032
Allowance for impairment on trade and other receivables	1,826,984
Reserve for warranty costs	1,809,462
Retirement benefit obligation	1,370,393
Allowance for inventory obsolescence	376,648
Unamortized past service costs	264,916
Unamortized pre-operating expenses	162,812
NOLCO	-
Accrued rentals – PAS 17	-
 Deferred tax liabilities:	
Retirement benefit asset	( 2,886,905)
Unrealized foreign currency gain	<u>(537,680)</u>
 Deferred Tax Assets – net	 <b><u>P 32,807,044</u></b>

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>2010</u>
Deferred tax assets:	
Allowance for impairment on trade and other receivables	P 6,770,160
Reserve for warranty costs	
Unamortized past service costs	742,179
Deferred rent expense – PAS 17	577,137
Allowance for inventory obsolescence	297,069
NOLCO	-
Deferred tax liabilities:	
Fair value gains on investment property	( 667,813,336)
Accumulated depreciation on investment property	( 119,456,850)
Retirement benefit asset	( 13,265,423)
Deferred rent income – PAS 17	( 5,348,917)
Changes in fair value of available-for-sale	( 1,212,000)
Unrealized foreign currency gains	( <u>10,462</u> )
Deferred Tax Liabilities – net	<u>(P 798,720,443)</u>

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

<u>Year</u>	<u>Original Amount</u>	<u>Applied in Previous Years</u>	<u>Applied in Current Year</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
<b>NOLCO:</b>						
2010	P 3,120,173	P 75,250	P -	P 75,250	P 2,969,673	2013
2009	29,179,579	69,500	5,834,420	69,500	23,206,159	2012
2008	26,449,985	6,062,745	71,437	50,500	20,265,303	2011
2007	<u>176,380,795</u>	<u>23,700</u>	<u>151,131,268</u>	<u>25,225,827</u>	<u>-</u>	2010
	<u>P 235,130,532</u>	<u>P 6,231,195</u>	<u>P 157,037,125</u>	<u>P 25,421,077</u>	<u>P 46,441,135</u>	
<b>MCIT:</b>						
2010	P 4,095,361	P -	P -	P -	P 4,095,361	2013
2009	868,871	-	-	-	868,871	2012
2008	4,174,555	71,162	3,326,116	-	777,277	2011
2007	<u>1,875,456</u>	<u>6,055</u>	<u>-</u>	<u>1,869,401</u>	<u>-</u>	2010
	<u>P 11,014,243</u>	<u>P 77,217</u>	<u>P 3,326,116</u>	<u>P 1,869,401</u>	<u>P 5,741,509</u>	

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

	2010	
	Amount	Tax Effect
Accumulated impairment losses on property, plant, and equipment	P 350,000,000	P 105,000,000
Allowance for impairment of financial assets classified as loans and receivables	120,021,728	36,006,518
NOLCO	44,866,357	14,239,113
Allowance for inventory obsolescence	29,729,592	8,918,877
Unrealized foreign currency loss (gain)	22,322,126	6,696,638
Accrued municipal taxes	10,607,331	3,182,199
Retirement benefit obligation	( 10,207,044)	( 3,062,114)
Other accrued expenses	7,119,287	2,135,786
Fair value loss in investment properties	6,586,000	1,975,800
MCIT	5,911,763	4,620,878
Allowance for impairment loss on AFS financial assets	5,420,000	1,626,000
Unamortized past service cost	1,496,952	449,086
Day-one gain	( 372,906)	( 111,872)
Amortization of pre-operating expenses	( 5,135)	( 1,541)
	<u>P 593,496,051</u>	<u>P 181,675,368</u>

### ***23.2 Optional Standard Deductions***

In July 2008, RA 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross sales. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. In 2010, 2009, and 2008, the Group opted to claim itemized deductions.

### ***23.3 Change in Applicable Tax Rates***

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

## **24. EQUITY**

### ***24.1 Capital Stock***

The Group has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value. As of March 31, 2011 and December 31, 2010, the Company's issued capital stock amounted to P2,030,975,000.

## 24.2 Revaluation Reserves

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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cumulative translation adjustments:			
Balance at beginning of year		P 64,979,425	P 70,778,455
Currency differences on translating financial statements of foreign operations	2	( 4,673,374)	( 5,799,030)
		<u>60,306,051</u>	<u>64,979,425</u>
Fair value gains (losses) on available-for-sale financial assets:			
Balance at beginning of year		( 108,459,976)	( 172,432,191)
Reclassification adjustments for losses recognized in profit or loss		3,870,706	49,498,034
Fair value gains (losses) – net	8	2,269,598	14,474,181
Gain on reclassification of financial assets	9	-	-
Deferred tax income on changes in fair value of available-for-sale financial assets	23	-	-
		<u>( 102,319,672)</u>	<u>( 108,459,976)</u>
Balance at end of the year		<u>(P 42,013,621)</u>	<u>(P 43,480,551)</u>

## 24.3 Prior Period Adjustments

The Retained Earnings (Deficit) balances as of January 1, 2010 were restated to reflect the retrospective effects of a change in the Group's accounting policy on investment property and to correct certain misstatements in the consolidated financial statements.

The details of the Group's prior period adjustments are discussed as follows:

### (a) Retrospective Effects of Change in Accounting Policy

The balances of Retained Earnings (Deficit) as of January 1, 2010 were restated to reflect the effects of the change in accounting policy for investment property (see Note 13) made in 2008, as well as the adjustment made in 2010 to reduce the fair value gains as initially reported in 2008 by certain subsidiaries, as summarized in the succeeding section.

	<u>January 1, 2010</u>
Adjustment to previously recognized fair value gains	(P 110,510,000)
Deferred tax effect on fair value gains/adjustment	33,153,000
Fair value gains – as restated	-
Reversal of accumulated depreciation based on cost	-
Reversal of accumulated impairment losses	-
Deferred tax effect on accumulated depreciation based on cost	<u>-</u>
Total adjustment to equity arising from change in accounting policy	<u>(P 62,738,298)</u>

The accounting change also resulted in an increase in the Investment property account by P1.8 billion as of January 1, 2008. On the other hand, the adjustments resulted in a decrease of P110.5 million in the Investment property account as of December 31, 2009 (see Note 13).

(b) *Correction of Misstatements*

In 2010, the Group restated the balance of the Retained Earnings account as of January 1, 2010 to correct certain misstatement as discussed below.

- As mentioned in Note 28.4, a portion of the SMC's land in Pililla, Rizal, is subject to expropriation coverage under Agrarian Reform; hence, all fair value gains on investment property previously recognized from such portion of land were accordingly reversed by SMC as the land no longer qualifies as Investment Property. In addition, the remaining cost of the portion of land amounting to P3.3 million was reclassified to other non-current assets account.

(c) *Summary of Prior Period Adjustments from Change in Accounting Policy and Correction of Misstatements*

The restatements of certain line items in the consolidated statement of financial position as of January 1, 2010 are summarized below.

	<u>Notes</u>	<u>As Previously Reported</u>	<u>Prior Period Adjustments</u>	<u>As Restated</u>
<i>Changes in assets -</i>				
Property, plant and Equipment - net	12	P 1,508,254,432	(P 110,510,000)	P 1,397,744,432
Investment property - net	13	3,666,246,869	( 48,729,008)	3,617,517,861
<i>Changes in liabilities -</i>				
Deferred tax liabilities - net	23	<u>777,692,311</u>	<u>47,771,702</u>	<u>825,464,013</u>
		<u>P 5,952,193,612</u>		<u>P 5,840,726,306</u>
Total adjustment to equity as at January 1, 2010			<u>(P 111,467,306)</u>	

## 25. EARNINGS PER SHARE

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

	<u>2011</u>	<u>2010</u>
Net profit for the year attributable to the Parent Company's stockholders	<b><u>P 47,568,087</u></b>	<u>P 22,398,676</u>
Divided by weighted average shares outstanding:		
Number of shares issued	<b>2,030,975,000</b>	2,030,975,000
Treasury shares	<b><u>(209,433,000)</u></b>	<u>(209,433,000)</u>
	<b><u>1,821,542,000</u></b>	<u>1,821,542,000</u>
EPS – basic and diluted	<b><u>P 0.03</u></b>	<u>P 0.1</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2011 and 2010, hence, diluted EPS is equal to the basic EPS.

## 26. RELATED PARTY TRANSACTIONS

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

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

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 49% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivables arising from these transactions are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Parent Company's majority stockholders. SVC also earns commissions from the sales of Solid Trading Limited (STL), a company also owned by the Parent Company's majority stockholders, to customers in the Philippines (see Note 26.6).

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

### *26.2 Purchase of Goods and Services*

SE Corp. purchases parts and supplies from CPD. Purchases of goods recorded as part of Cost of Services (see Note 18.1) and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 16).

### ***26.3 Lease of Real Property***

SMC leases out certain land and buildings to Avid. Also, SE Corp. leases out its office space to CPD. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

SLC rents portion of a building of a company owned by the Parent Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated statements of income (see Note 20). There are no outstanding liabilities related to this lease in 2010.

### ***26.4 Granting of Loans***

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 30% in 2010 and 7.5% to 18.0% in 2009 and 2008. Total interests earned from these loans amounted to P8.8 million in 2010, P10.2 million in 2009 and P13.3 million in 2008, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

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

SMFI also granted unsecured business loan to Avid amounting to P80.0 million. Principal repayment in the amount of P6.0 million was made in 2010 related to the business loan.

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

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

### ***26.6 Transactions with STL***

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. SVC also advances funds to STL to pay foreign suppliers. The outstanding balances arising from these transactions amounted to P48.0 million as of December 31, 2010 and are included as part of Advances from Related Parties in the consolidated statements of financial position.

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

My Solid and SBC purchases mobile phones from Solid Company Limited (Hong Kong), a related party owned by the Parent Company's majority stockholders in 2010. Outstanding liabilities relating to this purchases amounted to P1.0 million as of December 31, 2010.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to Solid Company Limited (Hong Kong) amounting to P120.8 million which will mature on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to extend the maturity date on March 1, 2012 and adjusted the interest rate to 5% per annum.

The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

### ***26.8 Financial Guarantees***

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of December 31, 2010 from a local bank in the People's Republic of China to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract will continue in effect until the end of two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 15).

## **27. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***27.1 Memorandum of Understanding with SPI***

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

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



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

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

SVC has a non-exclusive Distributorship Agreement (the Agreement) with Sony HK, a corporation organized and existing under and by virtue of the laws of Hong Kong. Under the Agreement, SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month-warranty period at its own costs and expenses (see Note 16). Management believes that the Agreement continuous to be effective although no formal renewal has been made since 2007.

**28. COMMITMENTS AND CONTINGENCIES**

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

***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>2010</u>
Within one year	<b>P 84,506,562</b>
After one year but not more than five years	<b>159,674,701</b>
More than five years	<u><b>865,866</b></u>
	<u><b>P 245,047,129</b></u>

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

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

	<u>2010</u>
Within one year	<b>P 6,984,946</b>
After one year but not more than five years	<b>33,500,497</b>
More than five years	<u><b>36,195,820</b></u>
	<u><b>P 76,681,263</b></u>

### ***Legal Claims***

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

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

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

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

The Group has commitment of about P68.3 million as of December 31, 2010 for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

### ***Purchase Commitments***

In 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 10). The construction of Tower 1 was fully completed in 2008 while the construction of Towers 2 and 3 has not yet started as of December 31, 2010.

### ***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.

### *Others*

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

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### *29.1 Foreign Currency Sensitivity*

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

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

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

	2011		2010	
	U.S. Dollar	Chinese Yuan Renminbi	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	P 435,362,303	P 210,364,052	P 429,590,753	P 129,100,783
Financial liabilities	( 378,076,030)	( 823,397,467)	( 8,929,698)	( 706,843,136)
Total net exposure	<u>P 57,286,272</u>	<u>(P 613,033,416)</u>	<u>P 420,661,055</u>	<u>(P 577,742,353)</u>

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

	2011		2010	
	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	3.75%	P 2,148,155	20.63%	P 86,782,376
Php – RMB	4.82%	( 29,553,751)	12.21%	( 70,542,341)
		<u>(P 27,405,596)</u>		<u>P 16,240,035</u>

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

### 29.2 Interest Rate Sensitivity

At March 31, 2011 and December 31, 2010, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/- 1.08 in 2011 and +/-1.19% in 2010. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 3 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 1.08 and 1.19%, profit before tax in 2011 and 2010 would have increased by P11.7 million and P7.5 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

### 29.3 Credit Risk

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

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents	6	<b>P 1,552,030,807</b>	P 1,620,114,468
Trade and other receivables - net	8	<b>1,734,652,313</b>	1,531,894,847
Financial assets at fair value through profit and loss	7	<b>24,570,472</b>	
Available-for-sale financial assets- net	9	<b>135,990,794</b>	150,712,680
Advances to related parties	26	<b>136,183,250</b>	201,193,407
Refundable deposits - net	14	<b>13,906,954</b>	12,386,030
		<b><u>P 3,597,334,590</u></b>	<b><u>P 3,516,301,432</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, Held-to-maturity Investments and Available-for-sale Financial Assets

The credit risk for cash and cash equivalents and investments in foreign currency denominated bonds, classified as held-to-maturity investments and available-for-sale

financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

*(b) Trade and Other Receivables*

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

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

	<u>2010</u>
Not more than 3 months	<b>P 162,017,197</b>
More than 3 months but not more than one year	<b>68,330,159</b>
More than one year	<u><b>294,468,345</b></u>
	<u><b>P 524,815,701</b></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.

**29.4 Liquidity Risk**

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

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

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

#### 30.1 Comparison of Carrying Values and Fair Values

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

Notes	2011		2010		
	Carrying Values	Fair Values	Carrying Values	Fair Values	
<b>Financial assets</b>					
Loans and receivables:					
	6	P 1,552,030,807	P 1,552,030,807	P 1,620,114,468	P 1,620,114,468
	7	1,098,802,275	1,098,802,275	1,531,894,847	1,531,894,847
	26	136,183,250	136,183,250	201,193,407	201,193,407
	7	24,570,472	24,570,472	-	-
Available-for-sale financial assets:					
	9	120,934,267	120,934,267	138,606,153	138,606,353
		6,476,527	6,476,527	10,670,009	10,670,009
		3,182,936	3,812,936	1,436,518	1,436,518
	14	13,906,954	13,906,954	12,386,030	12,386,030
		<u>P 2,956,717,488</u>	<u>P 2,956,717,488</u>	<u>P 3,516,301,432</u>	<u>P 3,516,301,432</u>
<b>Financial liabilities</b>					
At amortized cost:					
	15	P 985,928,099	P 985,928,099	P 989,502,559	P 959,502,559
	16	915,873,427	915,873,427	442,663,550	442,663,550
	26	148,193,026	148,193,026	168,911,611	168,911,611
	17	15,479,665	15,479,665	15,252,534	15,252,534
		<u>P 2,065,474,217</u>	<u>P 2,065,474,217</u>	<u>P 1,616,330,254</u>	<u>P 1,616,330,254</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 29.

#### 30.2 Fair Value Hierarchy

The table below presents the hierarchy of fair value measurements used by the Group as of March 31, 2011 and December 31, 2010,

	Level 1	Level 2	Level 3	Total
March 31, 2011				
Financial asset at fair value through profit or loss	<u>P 24,570,472</u>	<u>P -</u>	<u>P -</u>	<u>P 24,570,472</u>
Available-for-sale financial assets	<u>P 134,554,275</u>	<u>P -</u>	<u>P 1,436,518</u>	<u>P 135,990,793</u>
December 31, 2010				
Available-for-sale financial assets	<u>P 149,276,174</u>	<u>P -</u>	<u>P 1,436,518</u>	<u>P 150,712,692</u>

The different levels have been defined as follows:

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

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

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

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

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

	<u>2011</u>	<u>2010</u>
Total liabilities (excluding advances from related parties)	P 2,840,751,677	P 2,361,585,929
Total equity	8,158,414,515	8,111,948,091
Debt-to-equity ratio	<u><b>0.35 : 1</b></u>	<u>0.29 : 1</u>

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

**SOLID GROUP INC. & SUBSIDIARIES**  
**AGING OF TRADE AND OTHER RECEIVABLES**  
**MARCH 31, 2011**

	<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	436,976,663	74,122,735	21,446,020	159,838,051	99,126,349	<b>791,509,818</b>
Finance receivables	59,625,780				3,000,000	<b>62,625,780</b>
Advances to suppliers	333,774,746					<b>333,774,746</b>
Others	<u>20,315,531</u>	<u>1,481,278</u>	<u>526,772</u>	<u>7,286,433</u>	<u>42,019,744</u>	<b><u>71,629,758</u></b>
Total	<u>850,692,720</u>	<u>75,604,013</u>	<u>21,972,792</u>	<u>167,124,484</u>	<u>144,146,093</u>	<b>1,259,540,102</b>
Allowance for impairment						<b><u>(160,737,827)</u></b>
<b>Trade and other receivables-net</b>						<b><u>1,098,802,275</u></b>