MOBILE PHONES

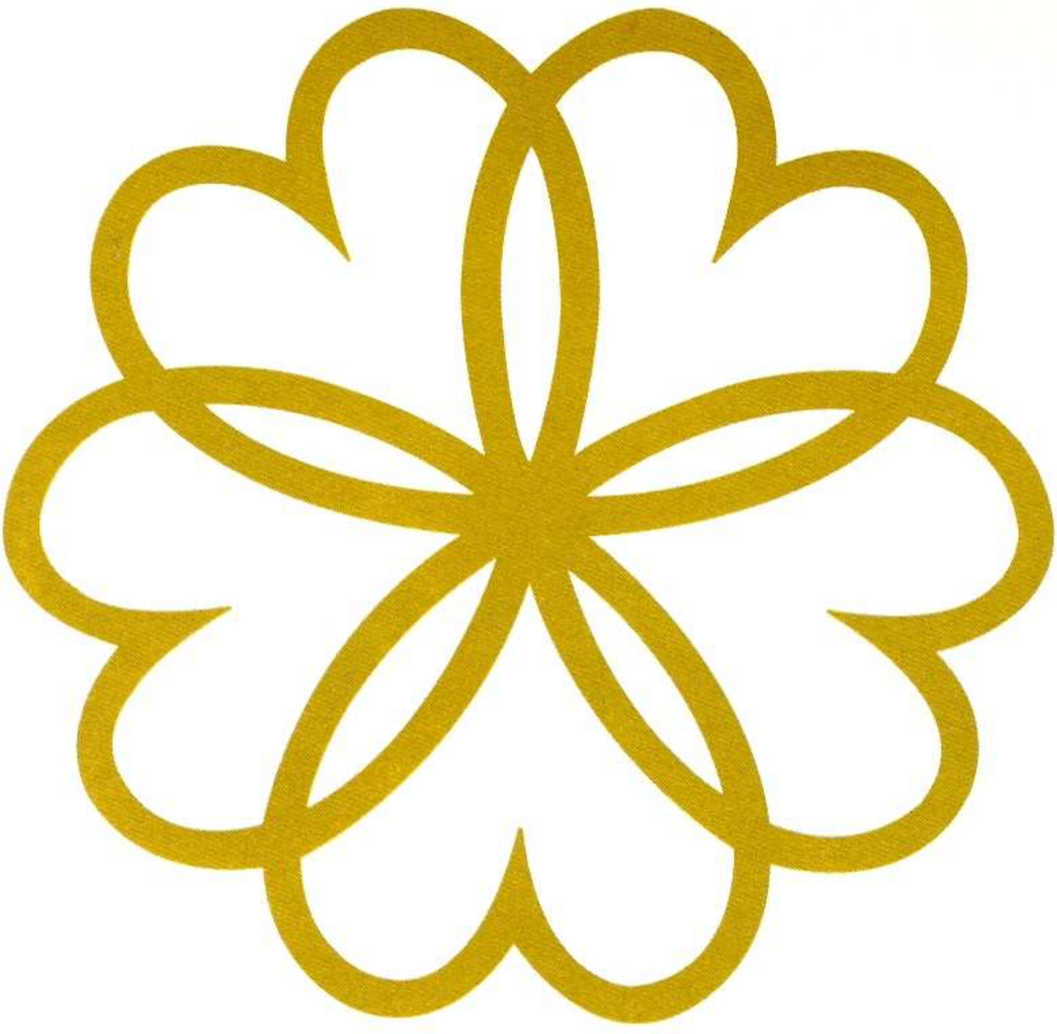
BROADBAND

REAL ESTATE

SOLID GROUP INC.

07 ANNUAL REPORT

MOVING TOWARDS BIGGER OPPORTUNITIES



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CHAIRMAN'S MESSAGE

Dear Fellow Shareholders

In 2007, Solid took important steps to define and strengthen the key strategic businesses that will rebuild its long-term revenue growth. In the coming year, we are confident that these directions will further mature and achieve sustainable growth.

The Real Estate Division's revenue grew by 99% versus the previous year and 22% of 2007's real estate revenue was contributed by our first high rise building project – Zen Towers. Ideally located in highly populated downtown Manila and right beside a major shopping area and an LRT station, we expect the market for Zen Towers to build up and create the demand for the next stage of development. We are also currently studying possible investments in cross border development projects with high growth potentials in countries such as China. We believe that Solid has significant strength to undertake such projects successfully.

Our Broadband Division reported a 6% revenue growth from the previous year. This growth was supported by an increase in carriage fees from our cable television operator and third party service providers leasing broadband network capacity, our satellite service operations and our own MyDestiny High Speed Internet services. With the exception of our satellite uplink services, our services operate on our Metro Manila wide cable broadband network – the only Hybrid Fiber/Coaxial Cable network of its kind in the country designed to support data, video and voice services.

But it is the rise of our Digital Devices business that highlights Solid's return to its historical core competence in consumer electronics products. The successful launch of its own line of mobile phones branded as MyPhone was based on the same business strengths that established it many years – international sourcing capabilities, product design, nationwide servicing and a strong business relationship with the major local retailers. We realigned the resources and capabilities that we used to build countless other brands to launch our own brand in a market that was thought to be completely dominated by multinational brands. Along with our strong product differentiation and competitive pricing strategies, we are now studying new strategic options that will enable us to offer even greater value to our customers in the form of product and service bundles.

Since our launch, we have achieved a number of Philippine market breakthroughs in the mobile phone dealer and retail sector as well as the mobile phone service operators. In a short period of time, we have gained significant consumer brand acceptance and will nurture this with strategic media campaigns. We believe that this is a strong platform for us to proceed with our next phase of product offerings that will further enhance our position in the market.

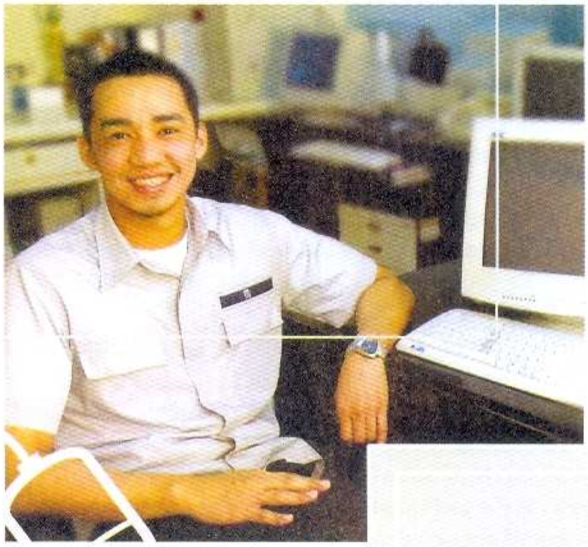
We are very pleased to report to you the very many exciting developments in the company and we know that the coming year will deliver even greater value for all of us.

Thank you very much for your support.

David S. Lim
Director, President and
Chief Executive Officer

Broadband

The broadband internet market is concentrated primarily in Metro Manila and is likely to keep on growing beyond the one million mark as broadband becomes more accessible and lower priced. Social Networking sites, instant messaging, online gaming, and e-commerce are still the main growth drivers for subscription growth for the next few years; small and medium sized internet cafes also provide cost effective consumer options for access to broadband services. As part of our efforts to expand availability to this market and to establish a greater social presence, we sponsored the 1st Annual MyDestiny CosPlay Competition, MyDestiny Badminton Competition, 2nd Annual Cyber Press Badminton Tournament, Bar Tours, and ICT School Road show. These events are particularly geared towards our target markets in order to increase market awareness. A net increase of 2,000 new subscribers from all three service categories: i-cafes, SDSL and consumer/residential users allowed us to achieve a 6% increase in revenues in 2007 over the previous year.



Our company that pioneered in offering broadband internet still operates the largest contiguous broadband cable network in the country, covering the greater Manila area. The network also provides cable network access to Metro Manila's fastest growing cable television service – Global Destiny Cable.

REVIEW OF OPERATIONS

Real Estate

Revenues for 2007 surpassed 2006 figures by 99%, mainly due to the sale of several industrial estate lots of Starworld and the sale of 34 condo units of Zen Towers. Zen Towers major construction was finished in December 2007, although final turnover is expected in early 2008.

Manufacturing and Support Services

The business operations of this segment performed very well, growing revenues by 13 % in 2007 from 2006 levels. The most noteworthy being the Plastics Division of Solid Laguna Corp. which increased its revenues by 24 % and further streamlined its operations to bring down operational expenses and cut loses. Solid Electronics Corporation (SEC) contributed almost 40 % of the total revenue of this segment coming from revenues from high value services due to the increasing popularity of SONY LCD TV products which are being serviced by SEC.

Trading and Distribution

The year saw the launch of the country's first dual active SIM phone, the MylPhone T22Duo, on September 14, 2007. Despite the last quarter launch in the market, the brand garnered enough support from the various mobile phone dealers and retailers to establish a significant market presence by end of 2007. The MylPhone brand provides considerable value for money by making new technology available to consumers at a reasonable price. The brand is managed by the Digital Products Division of SBC and is serviced by SEC branches nationwide.

The strong performance of our MylPhone brand of mobile phones exceeded expectations by more than 90%.

The ASEAN Summit which went underway in January 2007 after being postponed in December 2006 enabled Solid Video to realize revenues for providing broadcast capabilities, establishing the international media center, the link up of the venue, as well as manpower and certain equipment to the event.

These significant events enabled this business segment to turn around its operations and report a segment net income of P89.6 million in 2007 from a segment net income of P10 million in 2006.

REVIEW OF OPERATIONS

Financing, Investments & Others

Interest and finance income for 2007 decreased by 23 % over 2006 due to decreasing yields on short-term placements and fixed income securities. Also the aggregate amount of investible funds in 2007 were lower than 2006 as funds were used for investing in certain businesses of the company (e.g. real estate)

Finance cost in 2007 increased by 33% over 2006 due mainly to realized foreign currency losses from the liquidation of the US dollar denominated short-term placements into pesos to avoid further losses from the weakening peso.

On the overall, the improvement in the operating performance of the other segments in 2007 was not sufficient to offset the losses that were realized in this segment. As a result, the company reported a net loss of P53.6 million in 2007. This was, however, 39 % lower than the net loss reported in 2006.

BOARD OF DIRECTORS

Quintin Chua
Director

Elena S. Lim
Chairman Emeritus

Susan L. Tan
Director
Chairman of the Board

David S. Lim
Director
President
and Chief Executive Officer

CORPORATE OFFICERS

Vincent S. Lim
Director
Senior Vice President
for Finance and Investment

Lita L. Joaquin
Treasurer

Jason S. Lim
Director
Senior Vice President
and Chief Operating Officer

Ireneo D. Tubio, Jr.
Senior Vice-President
and Chief Financial Officer

Roberto V. San Jose
Corporate Secretary

Mellina T. Corpuz
Chief Accounting Officer

Danilo M. Reig
Chief, Internal Audit

STATEMENT OF MANAGEMENT'S RESPONSIBILITY AND FINANCIAL STATEMENTS

The management of Solid Group, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

Punongbayan and Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following;

SUSAN L. TAN
Chairman of the Board

DAVID S. LIM
President

IRENEO D. TUBIO, JR.
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this April 29, 2008 day of__ affiants exhibiting to me their Community Tax Certificates as follows:

Name	CTC No.	Date Issued	Place Issued
Susan L. Tan	19496764	January 22, 2008	Makati City
David S. Lim	19596765	January 22, 2008	Makati City
Irineo D. Tubio	10620133	February 13, 2008	Manila

Doc. No. 451;
Page No. 91;
Book No. XXI;
Series of 2008.

MARIO B. ESPIRITU, JR.
Commission No. M-58
Notary Public for City of Makati
Until December 31, 2009
4th Floor MMP Bldg.
2283 Pasong Tamo Ext, Makati City
PTR No. 6749851 01-02-08 Kawit, Cavite
IBP No. 700246 12-20-07 Cavite Chapter
Roll No.39509

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
Solid Group Inc. and Subsidiaries
2285 Don Chino Roces Avenue Extension
Makati City

Punongbayan & Araullo

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2007 and 2006, and the consolidated income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2007 and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and subsidiaries as of December 31, 2007 and 2006, and of their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

Punongbayan & Araullo

March 31, 2008

By: Mailene Sigue-Bisnar
Partner
CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 0986665, January 4, 2008, Makati City
SEC Accreditation No. 0396-A
BIR AN 08-002511-20-2006 (Sept. 8, 2006 to 2009)

March 31, 2008

CONSOLIDATED BALANCE SHEETS

	Notes		2007		2006
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	5	P	**1,206,991,793**	P	1,373,706,187
Financial assets at fair value through profit or loss	6		**-**		147,159,284
Held-to-maturity investments	6		**53,000,000**		-
Trade and other receivables - net	7		**453,501,305**		384,746,648
Advances to related parties	25		**130,091,376**		46,820,938
Available-for-sale financial assets	8		**388,448,319**		514,904,785
Merchandise inventories and supplies - net	9		**190,167,830**		73,206,232
Real estate inventories - net	10		**925,679,328**		815,860,191
Other current assets	13		**175,006,123**		151,245,393
Total Current Assets			**3,522,886,074**		3,507,649,658
NON-CURRENT ASSETS					
Trade and other receivables	7		**482,201,959**		547,900,179
Available-for-sale financial assets - net	8		**7,611,527**		14,509,980
Property, plant and equipment - net	11		**1,456,897,277**		1,506,406,919
Investment property - net	12		**1,719,903,430**		1,741,044,416
Retirement benefit asset	21		**42,211,671**		45,998,327
Deferred tax assets - net	22		**13,220,460**		36,112,069
Other non-current assets	13		**30,632,386**		44,545,607
Total Non-current Assets			**3,752,678,710**		3,936,517,497
TOTAL ASSETS		P	**7,275,564,784**	P	7,444,167,155

See Notes to Consolidated Financial Statements.

	Notes	2007	2006
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	P **409,435,521**	P 446,885,511
Trade and other payables	15	**377,220,679**	385,482,194
Advances from related parties	25	**179,997,931**	98,483,666
Estimated liability for land and land development costs		**36,886,345**	17,249,351
Income tax payable		**7,721,316**	5,490,654
Total Current Liabilities		**1,011,261,792**	953,591,376
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**8,445,041**	7,349,795
Retirement benefit obligation	21	**3,247,908**	3,503,995
Deferred tax liabilities - net	22	**760,140**	35,000
Total Non-current Liabilities		**12,453,089**	10,888,790
Total Liabilities		**1,023,714,881**	964,480,166
EQUITY			
Equity attributable to parent company			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital	23	**4,641,701,922**	4,641,701,922
Treasury shares - at cost		**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**(210,977,374)**	(36,819,816)
Deficit		**(349,027,740)**	(294,597,294)
Equity attributable to equity holders of the parent company		**5,997,057,428**	6,225,645,432
Minority interest		**254,792,475**	254,041,557
Total Equity		**6,251,849,903**	6,479,686,989
TOTAL LIABILITIES AND EQUITY		P **7,275,564,784**	P 7,444,167,155

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

	Notes	2007	2006	2005
REVENUES				
Rendering of services		P **641,626,011**	P 493,657,814	P 506,272,144
Sale of goods		**474,458,952**	439,186,300	489,899,827
Rentals		**117,992,418**	107,189,748	117,194,101
Sale of land		**102,422,478**	11,952,900	6,459,750
Interest income		**89,331,444**	105,083,755	97,037,376
		1,425,831,303	1,157,070,517	1,216,863,198
COSTS OF SALES, SERVICES AND RENTALS				
Cost of services	17	**484,311,361**	460,167,153	482,367,187
Cost of sales	17	**405,481,865**	409,141,037	433,661,630
Cost of rentals	17	**69,651,729**	62,990,373	65,717,411
Cost of land sold	19	**61,997,555**	8,481,841	5,925,376
		1,021,442,510	940,780,404	987,671,604
GROSS PROFIT		**404,388,793**	216,290,113	229,191,594
OTHER OPERATING EXPENSES (INCOME)				
General and administrative expenses	19	**270,070,987**	213,572,741	223,466,217
Selling and distribution costs	19	**30,747,984**	22,180,132	27,070,089
Other operating income	18	(**25,548,205**)	(29,627,550)	(26,379,627)
		275,270,766	206,125,323	224,156,679
OPERATING PROFIT (LOSS)		**129,118,027**	10,164,790	5,034,915
OTHER INCOME (CHARGES)				
Finance income	20	**33,051,608**	52,542,582	101,797,191
Finance costs	20	(**165,269,830**)	(124,927,423)	(90,242,805)
Other gains (losses) - net	20	**4,738,417**	(20,647,820)	37,590,366
		(**127,479,805**)	(93,032,661)	49,144,752
INCOME (LOSS) BEFORE TAX		**1,638,222**	(82,867,871)	54,179,667
TAX EXPENSE	22	**55,317,750**	5,292,838	9,891,432
NET INCOME (LOSS)		(P **53,679,528**)	(P 88,160,709)	P 44,288,235
Attributable to:				
Equity holders of the parent company		(P **54,430,446**)	(P 84,435,882)	P 49,954,975
Minority interest		**750,918**	(3,724,827)	(5,666,740)
		(P **53,679,528**)	(P 88,160,709)	P 44,288,235
Earnings (Loss) per share for net income (loss) attributable to equity holders of the parent company	24	(P **0.03**)	(P 0.05)	P 0.03

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Notes	2007	2006	2005
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
CAPITAL STOCK - P1 par value				
Authorized - 5,000,000,000 shares"				
Subscribed, issued and outstanding - 2,030,975,000 shares		**P 2,030,975,000**	P 2,030,975,000	P 2,030,975,000
ADDITIONAL PAID - IN CAPITAL		**4,641,701,922**	4,641,701,922	4,641,701,922
TREASURY SHARES - At cost		**(115,614,380)**	(115,614,380)	(115,614,380)
REVALUATION RESERVES	23			
Balance at beginning of year		**(36,819,816)**	(4,099,860)	14,425,419
Currency differences on translating balances of foreign operations		**(171,427,558)**	(34,195,400)	(18,329,519)
Fair value gains (losses) on available-for-sale financial assets, net of taxes		**(2,730,000)**	1,475,444	(195,760)
Balance at end of year		**(210,977,374)**	(36,819,816)	(4,099,860)
DEFICIT				
Balance at beginning of year				
As previously reported		**(297,194,160)**	(211,400,057)	(260,116,387)
Prior period adjustments	23	**2,596,866**	1,238,645	-
As restated		**(294,597,294)**	(210,161,412)	(260,116,387)
Net income (loss) attributable to equity holders of the parent company		**(54,430,446)**	(84,435,882)	49,954,975
Balance at end of year		**(349,027,740)**	(294,597,294)	(210,161,412)
Total Equity Attributable to Equity Holders of the Parent Company		**5,997,057,428**	6,225,645,432	6,342,801,270
MINORITY INTEREST				
Balance at beginning of year		**254,041,557**	257,766,384	263,433,124
Net income (loss) attributable to minority interest		**750,918**	(3,724,827)	(5,666,740)
Balance at end of year		**254,792,475**	254,041,557	257,766,384
TOTAL EQUITY		**P 6,251,849,903**	P 6,479,686,989	P 6,600,567,654
Net Losses Recognized Directly in Equity		**(P 174,157,558)**	(P 32,719,956)	(P 18,525,279)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax	**P 1,638,222**	(P82,867,871)	P54,179,667
Adjustments for:			
Depreciation and amortization	**119,997,921**	118,277,074	129,054,878
Finance costs	**165,269,830**	124,927,423	90,242,805
Unrealized foreign currency losses (gains) - net	**119,446,635**	39,805,739	50,667,757
Impairment loss on investment property	-	21,103,136	-
Gain on sale of property and equipment	**(174,168)**	(184,209)	(663,779)
Fair value gains on financial assets at fair value through profit or loss	-	(29,821,299)	(32,691,738)
Interest income	**(108,804,388)**	(118,875,323)	(123,603,700)
Gain from insurance proceeds	-	-	(45,448,725)
Gain on sale of financial assets	**(2,595,101)**	(7,508,465)	(15,465,100)
Gain on sale of investment property	-	-	(4,953,667)
Operating income before working capital changes	**294,778,951**	64,856,205	101,318,398
Decrease (increase) in trade and other receivables	**(3,056,437)**	143,947,590	(249,999,079)
Decrease (increase) in inventories	**(116,961,598)**	22,352,195	24,879,621
Decrease (increase) in financial assets at fair value through profit or loss	**149,754,385**	378,462,063	(127,297,279)
Increase in available-for-sale financial assets	**(40,413,832)**	(40,499,318)	(80,880,228)
Increase in real estate inventories	**(109,819,137)**	(265,101,612)	(103,013,949)
Increase in investment held-to-maturity	**(53,000,000)**	-	-
Decrease (increase) in other current assets	**(23,760,730)**	(52,154,247)	(16,707,959)
Decrease in retirement benefit asset	**3,786,656**	(2,232,250)	(5,489,516)
Decrease (increase) in other non-current assets	**13,913,221**	(3,358,960)	3,999,427
Increase (decrease) in trade and other payables	**(12,386,163)**	63,609,612	(66,425,841)
Increase (decrease) in estimated liability for land and land development costs	**19,636,994**	(2,684,947)	117,850
Increase in refundable deposits	**1,095,246**	1,854,279	742,083
Increase (decrease) in retirement benefit obligation	**(256,087)**	167,267	669,306
Cash generated from (used in) operations	**123,311,469**	309,217,877	(518,087,166)
Interest received	**108,804,388**	118,875,323	123,603,700
Cash paid for income taxes	**(27,262,280)**	(26,077,234)	(39,230,692)
Net Cash From (Used in) Operating Activities	**204,853,577**	402,015,966	(433,714,158)
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease in advances to related parties	**(78,165,018)**	5,903,282	25,660,543
Proceeds from sale of property, plant and equipment	**864,864**	2,175,568	7,929,521
Acquisitions of investment property	**(12,902,483)**	(19,959,231)	(2,585,175)
Acquisitions of property, plant and equipment	**(37,135,506)**	(81,661,308)	(92,535,636)
Proceeds from insurance claims	-	-	48,321,580
Proceeds from sale of investment property	-	-	6,795,455
Net Cash From (Used in) Investing Activities	**(127,338,143)**	(93,541,689)	(6,413,712)
	77,515,434	308,474,277	(440,127,870)
Balance Carried Forward			

	2007	2006	2005
Balance Brought Forward	**77,515,434**	308,474,277	(440,127,870)
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	**(168,847,468)**	(128,505,061)	(82,334,336)
Proceeds (payments) of interest-bearing loans - net	**(37,449,990)**	(149,698,103)	334,171,009
Increase in advances from related parties	**81,514,265**	390,010	1,396,171
Net Cash From (Used in) Financing Activities	**(124,783,193)**	(277,813,154)	253,232,844
Effect of Currency Rate Changes on Cash and Cash Equivalents	**(119,446,635)**	(39,805,739)	(49,467,744)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(166,714,394)**	(9,144,616)	(236,362,770)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,373,706,187**	1,382,850,803	1,619,213,573
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P1,206,991,793**	P1,373,706,187	P1,382,850,803

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. **CORPORATE INFORMATION**

1.1 Company Background

Solid Group Inc. (SGI or the Company) and its subsidiaries (collectively referred to hereinafter as the Group), are incorporated in the Philippines, except for Brilliant Reach Limited which was incorporated in the British Virgin Islands (BVI).

The Company holds ownership interests in the following subsidiaries:

Subsidiaries	Percentage of Ownership 2007	2006	2005	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100%**	100%	100%		Investment company
Kita Corporation (Kita)	**100**	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	**100**	100	100		Logistics and assembly of color televisions
Solid Broadband Corporation (SBC)	**100**	100	100	1.2	Broadband cable and satellite services
Solid Corporation (SC)	**100**	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	**100**	100	100	1.2, b	Information and communications technology systems
Precos, Inc. (Precos)	**100**	100	100	b 1.3	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	**100**	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	**100**	100	100		Real estate
Zen by the Park, Inc. (ZPI)	**100**	-	-	f	Real estate
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100	1.3, g	Real estate
Skyworld Corporation (Skyworld)	**75**	75	75	1.2, d	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	1.2, a, b	Investment holding company
Starworld Corporation (Starworld)	**50**	50	50	d, e	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	50	a, c	Real estate

Notes:
- a Indirectly owned through SC
- b Pre-operating or non-operating
- c LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- d Indirectly owned through SMC
- e Starworld is 20% owned by SMC and 40% owned by Skyworld
- f Incorporated in 2007 and had not yet started commercial operations; indirectly owned through SMC.
- g In 2005, ZTC was incorporated and took over the development of the Tri-Tower Condominium Project from SMC.

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

The Group has continuously incurred losses amounting to P53.7 million in 2007 and P88.2 million in 2006 that resulted in significant deficits amounting to P349.0 million, P294.6 million and P210.2 million as of December 31, 2007, 2006 and 2005, respectively. Such losses resulted mainly from operations of SBC, Skyworld, LIIP, Interstar and SGTC. In spite of these results, management strongly affirms the Group's ability to continue as a going concern since its total current assets of P3.42 billion far exceeds its total current assets of P1.01 billion, for a current ratio of 3.43 : 1. Also, the total financial assets of the Group amount to P1.66 billion against total financial liabilities, trade and other payables of P0.79 billion and its has total inventories which could be liquidated amounted to P1.12 billion.

1.3 Merger of SBC and Destiny, Inc. (DI) and its Subsidiaries

On November 5, 2003, the stockholders of SBC and DI and its subsidiaries approved the merger of the companies. The merger dissolved DI and its subsidiaries and transferred all their operations, assets and liabilities to SBC, the surviving company. The Securities and Exchange Commission (SEC) approved the merger on August 26, 2005. Prior to the merger, the companies were wholly-owned subsidiaries of SGI. The merger was accounted for at historical cost in a manner similar to that of pooling of interest method. The combined net assets of SBC and DI after the merger amounted to P724.3 million as of December 31, 2005. In 2005, the combined net loss of SBC and DI amounted to P87.2 million.

1.4 Other Corporate Information

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

BRL	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands (registered office and principal place of business)
Kita	-	7170 Clark Special Economic Zone, Clarkfield, Pampanga (registered office and principal place of business)
OLC	-	Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna (registered office and principal place of business)
Precos	-	26F Tower I, The Enterprise Center, 6766 Ayala Avenue corner Paseo de Roxas, Makati City (registered office)
SC	-	17 A. Fernando St., Marulas, Valenzuela, Metro Manila (registered office and principal place of business)
SMC	-	1000 J. Bocobo St., Ermita, Manila (registered office and principal place of business)
SGTC and SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City (registered office and principal place of business)
Starworld	-	Bo. Prinza, Calamba City (registered office and principal place of business)
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila (registered office and principal place of business)

The Group mainly operates within the Philippines, except for BRL which operates in the BVI.

1.5 Approval for Release of Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2007 (including comparatives for the years ended December 31, 2006 and 2005) were authorized for issue by the Board of Directors (BOD) on March 31, 2008.

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. The policies have been consistently applied to all 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 (PFRSs). PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

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

(b) Functional and Presentation Currency

These consolidated financial statements are presented in Philippine pesos, the Group's functional currency (except for BRL whose functional currency is U.S. Dollars), and all values represent absolute amounts except when otherwise indicated (see Note 2.15).

(c) Reclassifications of Accounts

Certain accounts in the 2006 and 2005 consolidated financial statements were reclassified to conform to the 2007 consolidated financial statement presentation.

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) Effective in 2007 that are relevant to the Company

In 2007, the Group adopted for the first time the following new and amended PFRS which are mandatory for accounting periods beginning on or after January 1, 2007.

PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures
Philippine Interpretation IFRIC 10	:	Interim Financial Reporting and Impairment

Discussed below are the impact on the financial statements of these new accounting standards.

(i) Philippine Accounting Standards (PAS) 1 (Amendment), *Presentation of Financial Statements.* PAS 1 introduces new disclosures on the Group's capital management objectives, policies and procedures in each annual financial report. The amendments to PAS 1 were introduced to complement the adoption of PFRS 7. The new disclosures that become necessary due to this change in PAS 1 can be found on Note 31.

(ii) PFRS 7, *Financial Instruments: Disclosures.* PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, particularly:

- a sensitivity analysis, to explain the Group's market risk exposure in regards to its financial instruments; and,

- a maturity analysis that shows the remaining contractual maturities of financial liabilities.

PFRS 7 replaced PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation.* The new disclosures under PFRS 7 are required to be made for all periods presented. However, the Company availed of the transitional relief granted by the FRSC and presented only the relevant new disclosures required by the PFRS 7 for 2007 (see Note 30).

(iii) Philippines Interpretation IFRIC 10, *Interim Financial Reporting and Impairment.* This Philippine Interpretation prohibits the reversal through profit and loss at a subsequent balance sheet date of any impairment losses recognized on goodwill and financial assets carried at cost at an interim period. The Group did not recognize impairment losses on its interim consolidated financial statements. Accordingly, adoption of this Philippine Interpretation has no impact on the Group's consolidated financial statements.

The first time application of these standard, amendment and interpretation has not resulted in any prior period adjustments of cash flows, net income or balance sheet line items.

(b) Effective in 2007 but not relevant to the Group

PFRS 4 (Amendment)	:	Insurance Contracts
Philippine Interpretation IFRIC 7	:	Applying the Restatement Approach under PAS 29, *Financial Reporting in Hyper Inflationary Economies*
Philippine Interpretation IFRIC 8	:	Scope of PFRS 2
Philippine Interpretation IFRIC 9	:	Re-assessment of Embedded Derivatives

(c) Effective subsequent to 2007

There are new and amended standards and Philippine Interpretations that are effective for periods subsequent to 2007. The following new standards are relevant to the Group and which the Group will apply in accordance with their transitional provisions.

2008:		
Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
2009:		
PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PFRS 8	:	Operating Segments

Below is a discussion of the possible impact of these accounting standards.

(i) Philippine Interpretation IFRIC 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, *Employee Benefits*, on the amount of the surplus that can be recognized as an asset. It standardizes the practice and ensures that entities recognize an asset in relation to a surplus on a consistent basis. As any excess of the asset over the obligation is fully refundable to the Group based on the set-up of the pension trust fund, the Group determined that adoption of this Philippine Interpretation will not materially affect its financial statements.

(ii) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (or balance sheet) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 2009 consolidated financial statements.

(iii) PFRS 8, Operating Segments (effective for annual periods beginning on or after January 1, 2009). Under this new standard, a reportable operating segment is identified based on the information about the components of the entity that management uses to make decisions about operating matters. In addition, segment assets, liabilities and performance, as well as certain disclosures, are to be measured and presented based on the internal reports prepared for and reviewed by the chief decision makers. The Group identifies operating segments and reports on segment assets, liabilities and performance based on internal management reports, adoption of this new standard will not have a material impact on the Group's consolidated financial statements.

2.3 Basis of Consolidation

The Company obtains and exercises control through voting rights. The Group's consolidated financial statements comprise the accounts of the 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 Company, using consistent accounting principles.

The Company accounts for its investments in subsidiaries, and minority interest as follows:

(a) Investments in Subsidiaries

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

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

In addition, acquired subsidiaries are subject to the application of the purchase method for acquisitions. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated balance sheet at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

Positive goodwill 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 Company's share in the fair value of identifiable net assets of the subsidiary at date of acquisition over acquisition cost (see Note 2.11).

(b) Transactions with Minority Interests

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

2.4 Segment Reporting

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

Inter-segment reporting is demined in an arm's length basis.

2.5 Financial Assets

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

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.

Regular purchase 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 transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value and transaction costs are expensed in the consolidated income statement.

The foregoing categories of financial assets are mor e fully described below.

(a) Financial Assets at Fair Value through Profit or Loss

This category includes financial assets that are either classified as held for trading or are designated by the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the balance sheet date.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at fair value through profit or loss may not be subsequently reclassified.

(b) 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 balance sheet date which are classified as non-current assets.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less any impairment losses. 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 loans and receivables are presented as Trade and Other Receivables and Advances to Related Parties in the consolidated balance sheet.

(c) Held-to-maturity Investments

This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification. They are included in non-current assets under Held-to-maturity Investments in the consolidated balance sheet, except those maturing within 12 months of the balance sheet date.

Held-to-maturity investments are measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment are recognized in profit or loss.

(d) 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 section of the consolidated balance sheet unless management intends to dispose of the investment within 12 months from the balance sheet date.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the consolidated income statement when they are sold or when the investment is impaired.

In the case of impairment, the cumulative loss previously recognized directly in equity is transferred to the consolidated income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the consolidated income statement. On the other hand, if in a subsequent period the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the consolidated income statement, the impairment loss is reversed through the consolidated income statement.

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 balance sheet date. 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 (such as dividend income) of the underlying net asset base of the investment.

Non-compounding interest, dividend income 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. All income and expense relating to financial assets recognized in profit or loss are presented in the consolidated income statement line item Finance Income and Finance Costs, respectively.

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 Inventories

At the balance sheet date, 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 accounted for as follows:

(a) Merchandise inventories, raw materials, and supplies – purchase cost on a moving average method; and,

(b) Finished goods and work-in-process – determined 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 for finished goods and work-in-process 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 for raw materials and supplies is the current replacement cost.

2.7 Real Estate Inventories

Real estate inventories include land and land development costs and property development costs.

(a) Land and Land Development Costs (Starworld and LIIP)

Acquisition costs 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 (ZTC)

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 stated at cost less accumulated depreciation and amortization and any impairment in value. Land is valued at cost less accumulated impairment loss.

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.

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

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

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

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

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 life and depreciation and amortization method are reviewed and adjusted, if appropriate, at each balance sheet date (see Note 3.2).

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 income statement in the year the item is derecognized.

2.9 Investment Property

Investment property consists of land and/or building held for rentals, capital appreciation or for unspecified purposes. Investment property is stated at cost less accumulated depreciation and any impairment in value. The cost of investment property comprises its purchase price and directly attributable costs.

Depreciation on buildings and improvements classified as investment property is computed using the straight-line method over the estimated useful lives of the asset of 10 to 25 years.

The carrying amount of investment property 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).

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

2.10 Financial Liabilities

Financial liabilities include interest-bearing loans, trade and other payables, advances from related parties and refundable deposits, which are measured at amortized cost using the effective interest rate method.

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

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 recognized initially at their fair values and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BOD.

Financial liabilities are derecognized from the consolidated balance sheet only when the obligations are extinguished either through discharge, cancellation or expiration.

2.11 Business Combination

Business acquisitions are accounted for using the purchase method of accounting. Goodwill (shown as part of Non-current Assets) acquired in a business combination is initially measured at cost being the excess of the cost a business combination over the Group's interest in the net fair value of identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.16).

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

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

2.12 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the balance sheet date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. 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. In addition, where the 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.

A reserve for warranty based on a certain percentage of sales of equipment (net of consumable items) is maintained for expected warranty claims on products sold during the year. Sales of equipment are covered by one year warranty on services. The sufficiency of reserve is assessed annually based on the Group's past experience of the level of repairs and returns. Any excess provision over the actual claims is reversed on the year following the recognition of provision for warranty.

Provisions are reviewed at each balance sheet date 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.

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the consolidated financial statements.

2.13 Revenue and Expense Recognition

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

(a) *Rendering of services* – Revenue is recognized when services are rendered.

(b) *Sale of goods (other than sale of land)* – 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.

(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 Sony Philippines, Inc. (Sony).

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

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

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Company 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) *Service charges and penalties* – are generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.

(i) *Other interest income* – Revenue is recognized as the interest accrues (taking into account the effective yield on the asset).

Revenue is measured by reference to the fair value of consideration received or receivable by the Group for goods supplied and services provided, excluding value added tax (VAT) and trade discounts.

Cost and expenses are recognized in the consolidated income statement upon the consumption of goods and/or utilization of the services 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 on an accrual basis.

2.14 Leases

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments or receipts are recognized as expense or income in the consolidated income statements 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 fulfilment 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 Functional Currency and Foreign Currency Transactions

(a) *Functional and Presentation Currency*

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in Philippine pesos, which is the Group's functional currency.

(b) *Transactions and Balances*

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

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

(c) *Translation of Financial Statements of a Foreign Subsidiary*

The operating results and financial position of BRL, which are measured using the U.S. dollar, BRL's functional currency, are translated to Philippine Pesos, the Group's functional currency as follows:

(i) Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) Income and expenses for each income statement 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 dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

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

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

2.16 Impairment of Non-financial Assets

The Group's property, plant and equipment, investment property and other non-financial assets, except for goodwill (see Note 2.11), are subject to impairment testing 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, some assets are tested individually for impairment and some are tested at cash-generating unit level.

An impairment loss is recognized for the amount by which the asset 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 the other assets in the cash-generating unit.

Except for goodwill, 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 or reduction of the impairment loss.

2.17 Employee Benefits

(a) Retirement Benefit Asset and Obligation

Pension benefits are provided to employees through a defined benefit plan.

A defined benefit plan is a pension plan that defines an amount of pension 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 pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, wholly-funded, noncontributory and administered by a trustee.

The liability recognized in the consolidated balance sheets for defined benefit pension plans is the present value of the defined benefit obligation (DBO) at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated every two years 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 pension liability.

Actuarial gains and losses are not recognized as an 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 the consolidated income statements, unless the changes to the pension 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 balance sheet date 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 balance sheet date. They are included in the Trade and Other Payables account at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.18 Income Taxes

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 balance sheet date. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement.

Deferred tax is provided, using the balance sheet liability method on temporary differences at the balance sheet date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the balance sheet 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 each balance sheet date 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, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the consolidated income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to equity are charged or credited directly to equity.

2.19 Equity

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock, as well as equity adjustments as a result of uniting of interest of companies under common control. Any transaction costs associated with the issuing of shares are deducted from additional paid-in capital, net of any related income tax benefits.

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

Revaluation reserves comprise accumulated gains and losses from remeasurement of the foreign subsidiary balances and transactions into the Group's functional currency, and gains and losses due to revaluation of certain financial assets.

Deficit includes all current and prior period results as reported in the consolidated income statement.

2.20 Earnings Per Share

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the 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 circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Judgments in Applying Accounting Policies

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

(a) Held-to-maturity Investments

The Group follows guidance of PAS 39, Financial Instruments: Recognition and Measurements, in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held to maturity. This classification requires significant judgment. In making the judgment, the Group evaluates its intention and ability to hold its investments in bonds up to maturity.

If the Group fails to keep these investments to maturity other than for specific circumstances explained in PAS 39, it will be required to reclassify the whole class as available-for-sale. In such a case, the investments would therefore be measured at fair value, not at amortized cost.

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

(c) The Group follows the guidance of PAS 39 in determining when an investment is other-than-temporarily impaired. This determination 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 flow.

(d) Distinction Between Investment Property and Owner-occupied Property

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portion 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.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and contingencies are discussed in Note 2.12 and relevant disclosures are presented in Notes 15 and 29.

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 balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Determining Net Realizable Value of Inventories

In determining the net realizable value of inventories, management takes into account the most reliable evidence available at the times the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes. Changes on these may cause significant adjustments to the Group's inventories within the next financial year.

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

The Group estimates the useful lives of depreciable property, plant and equipment and investment property based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment and investment property 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. In addition, estimation of the useful lives of property, plant and equipment and investment property is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of these non-financial assets would increase recorded operating expenses and decrease non-current assets.

(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 third party credit reports and known market forces, average age of accounts, collection experience and historical loss experience.

(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. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, 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 and loss and equity.

(e) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at each balance sheet date 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 assets to be utilized.

(f) Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail 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.

(g) Retirement Benefits

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

4. SEGMENT INFORMATION

4.1 Business Segments

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

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

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

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

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

(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.

4.2 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. Segment assets and liabilities do not include deferred income taxes.

4.3 Intersegment Transactions

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

The following tables present certain assets and liability information regarding business segments as of December 31, 2007, 2006 and 2005 and the related revenue and profit information for the years then ended (in thousands).

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing Financing and Others	Eliminations	Consolidated
2007							
REVENUES							
Sales to external customers	P 210,616	P 481,549	P 208,197	P 418,500	P 17,637	P -	P 1,336,500
Intersegment sales	17,000	10,591	14,619	-	10,194	(52,404)	-
Total revenues	P 227,616	P 492,140	P 222,816	P 418,500	P 27,831	(P 52,404)	P 1,336,500
RESULTS							
Segment results	(P 16,022)	P 14,037	P 38,421	P 88,971	P 216	(P 301,688)	P 39,787
Finance income	2,662	5,719	9,385	4,389	42,749	57,480	122,383
Finance costs	(13,128)	(7,239)	(1,447)	(181)	(155,389)	12,115	(165,270)
Other gains (losses) – net	-	(2,036)	(743)	(724)	22,275	(14,033)	4,738
Income (loss) before tax	(26,488)	10,481	45,616	92,455	125,701	(246,126)	1,638
Tax expense	1,597	(9,034)	(17,669)	(2,859)	(24,158)	-	(55,318)
Net income (loss)	(P 28,085)	P 1,446	P 27,947	P 89,596	P 101,542	(P 246,126)	(P 53,680)
ASSETS AND LIABILITIES							
Segment assets	P 718,506	P 534,999	P 2,210,066	P 308,004	P 1,768,559	P 1,436,075	P 6,976,209
Investments in subsidiaries – at cost	-	-	262,387	-	5,282,419	(5,544,806)	-
Advances to related parties	241,662	-	535,321	-	455,975	(933,602)	299,356
Total assets	P 960,168	P 534,999	P 3,007,774	P 308,004	P 7,506,953	(P 5,042,333)	P 7,275,565
Segment liabilities	P 87,647	P 129,021	P 317,768	P 39,113	P 545,440	(P 193,758)	P 925,231
Advances from related parties	119,282	909	545,548	133,940	200,494	(901,690)	98,484
Total liabilities	P 206,929	P 129,930	P 863,316	P 173,054	P 745,934	(P 1,095,448)	P 1,023,715
OTHER SEGMENT INFORMATION							
Capital expenditures	P 22,107	P 8,797	P 27,237	P 1,683	P 311	P -	P 60,045
Depreciation and amortization	55,613	22,477	14,705	1,533	131	-	94,458
Impairment losses	-	2,209	1,400	-	1,430	-	5,039
Other non-cash expenses	-	-	-	4,457	(12,612)	-	(8,155)

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2006							
REVENUES							
Sales to external customers	P 198,187	P 427,988	P 104,398	P 302,071	P 19,343	P -	P 1,051,987
Intersegment sales	-	2,651	13,113	-	5,040	(20,804)	-
Total revenues	P 198,187	P 430,639	P 117,511	P 302,071	P 24,383	(P 20,804)	P 1,051,987
RESULTS							
Segment results	(P 101,359)	(P 16,305)	P 1,230	P 13,540	(P 72,308)	P 80,283	(P 94,919)
Finance costs	-	(85)	-	-	(29,491)	62,275	32,699
Other gains (losses) – net	-	695	(29,975)	32	-	8,600	(20,648)
Income (loss) before tax	(101,359)	(15,695)	(28,745)	13,572	(101,799)	151,157	(82,868)
Tax expense	45	9,584	6,178	3,560	(14,074)	-	5,293
Net income (loss)	(P 101,404)	(P 25,279)	(P 34,923)	P 10,012	(P 87,725)	P 149,800	(P 88,161)
ASSETS AND LIABILITIES							
Segment assets	P 798,806	P 536,742	P 3,992,000	P 126,981	P 2,232,447	(P 289,630)	P 7,397,346
Investments in subsidiaries – at cost	-	-	421,389	-	4,520,469	(4,941,858)	-
Advances to related parties	104,169	-	(7,175)	-	104,169	(154,342)	46,821
Total assets	P 902,975	P 536,742	P 4,406,214	P 126,981	P 6,857,085	(P 5,385,830)	P 7,444,167
Segment liabilities	P 104,083	P 116,355	P 187,459	P 22,684	P 467,942	(P 32,527)	P 865,996
Advances from related parties	100,472	263	99,958	236	1,951	(104,396)	98,484
Total liabilities	P 204,555	P 116,618	P 287,417	P 22,920	P 469,893	(P 129,220)	P 964,480
OTHER SEGMENT INFORMATION							
Capital expenditures	P 59,725	P 21,926	P 20,229	P 286	P 65	P -	P 102,231
Depreciation and amortization	56,833	28,034	32,571	2,021	176	-	119,635
Impairment losses	12,442	88	29,703	311	154,557	(140,295)	56,806
Other non-cash expenses	-	-	-	2,057	(13,111)	-	(11,054)

	Broadband Services	Manufacturing and related Support Services	Real Estate	Trading	Investing, Financing and Others	Eliminations	Consolidated
2005							
REVENUES							
Sales to external customers	P 192,575	P 570,715	P 110,594	P 223,525	P 22,417	P -	P 1,119,826
Intersegment sales	9,900	-	6,012	-	8,092	(24,004)	-
Total revenues	P 202,475	P 570.715	P 116,606	P 223,525	P 30,509	(P 24,004)	P 1,119,826
RESULTS							
Segment results	(P 87,109)	P 6,266	P 120,385	P 24,028	P 81,040	(P 236,612)	(P 92,002)
Finance costs	-	(107)	(106)	-	(20,045)	128,850	108,592
Other gains (losses) – net	-	45,890	(5,860)	(651)	(37,452)	35,663	37,590
Income (loss) before tax	(87,109)	52,049	114,419	23,377	23,544	(72,100)	54,180
Tax expense (income)	65	18,018	(8,914)	1,322	(600)	-	9,891
Net income (loss)	(P 87,174)	P 34,031	P 123,333	P 22,055	P 24,144	(P 73,339)	P 44,288
ASSETS AND LIABILITIES							
Segment assets	P 819,170	P 568,478	P 3,812,177	P 143,544	P 2,264,541	P -	P 7,607,910
Investments in subsidiaries – at cost	-	-	142,687	-	4,126,078	(4,268,765)	-
Advances to related parties	117,163	-	557,226	717	480,049	(1,102,431)	52,724
Total assets	P 936,333	P 568,478	P 4,512,090	P 144,261	P 6,870,668	(P 5,371,196)	P 7,660,634
Segment liabilities	P 105,325	P 123,421	P 187,934	P 18,534	P 527,997	P -	P 963,211
Advances from related parties	106,756	53,156	780,193	26,807	135,603	(1,004,423)	98,094
Total liabilities	P 212,081	P 176,577	P 968,127	P 45,341	P 663,600	(P 1,004,421)	P 1,061,305
OTHER SEGMENT INFORMATION							
Capital expenditures	P 43,392	P 35,416	P 16,057	P 164	P 92	P -	P 95,121
Depreciation and amortization	60,852	29,147	36,795	1,615	646	-	129,055
Impairment losses	11,701	88	6,339	-	8,338	(12,106)	14,360
Other non-cash expenses	-	-	742	2,192	2,360	-	5,294

5. **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents are as follows as of December 31:

	2007	2006
Cash on hand and in banks	**P 315,167,358**	P 205,235,912
Short-term placements	**891,824,435**	1,168,470,275
	P 1,206,991,793	P 1,373,706,187

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 30 to 60 days and earn interest at the respective short-term placement rates ranging from 3% to 9% per annum in 2007 and 2006.

6. **FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS AND HELD-TO-MATURITY INVESTMENTS**

6.1 Financial Assets

This account consists of mutual funds amounting to P147.2 million as of December 31, 2006.

In 2007, the Company recognized a gain from the disposal of its financial assets designated at fair value through profit or loss amounting to P2.6 million. The gain from disposal is presented as part of Finance Income account in the 2007 consolidated income statement (see Note 20.1).

The amounts for mutual funds have been determined directly by reference to net asset value per share quoted in the mutual fund statements.

The Group recognized the net increase in value of financial assets at fair value through profit or loss of P29.8 million in 2006 and P32.7 million in 2005, which were included in the Finance Income account in the 2006 and 2005 consolidated income statements (see Note 20.1).

6.2 Held-to-Maturity Investments

This account consists of various short-term money market placements which the Company intends to hold until maturity. These investments have maturity periods of 185 days and have interest rates at 8.00% per annum.

Management believes that the carrying amounts of held-to-maturity investments are a reasonable approximation of their fair values.

7. **TRADE AND OTHER RECEIVABLES**

This account includes the following as of December 31:

	Notes	2007	2006
Current:			
Trade receivables	25	**P 374,930,974**	P 304,071,086
Finance receivables		**75,903,392**	77,218,963
Advances to contractors	10	**22,512,690**	39,793,183
Other receivables		**100,686,819**	82,904,980
		574,033,875	503,988,212
Allowance for impairment losses		**(120,532,570)**	(119,241,564)
		P 453,501,305	P 384,746,648
Non-current:			
Cash surrender value of life insurance		**P 381,677,516**	P 439,953,477
Finance receivables – net of current portion		**100,524,443**	107,946,702
		P 482,201,959	P 547,900,179

Trade and other receivables are usually collected within 30 to 90 days and are noninterest-bearing. All trade and other receivables are subject to credit risk exposure. However, the Group does not identify specific concentrations of credit risk with regard to trade and other receivables, as the amounts recognized resemble a large number of receivables from various customers and third parties.

Advances to contractors pertain to downpayments made by ZTC in relation to the construction of the Tri-Towers condominium building, which is 99% completed in 2007 (see Note 10).

Interest rates per annum on finance receivables range from 9% to 18% in 2007 and 2006. Certain business loans of SMFI are secured by land and shares of stock of companies which are owned by certain stockholders of the Company.

Investment in cash surrender value of life insurance pertains to insurance policies purchased by BRL for its directors. The beneficiary of the insurance policies is SGI and the investment is accounted for under the Cash Surrender Value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately by BRL. The difference between the initial cash surrender value and the premiums paid represents insurance service fees which are recorded as Prepaid Insurance under Other Non-Current Assets and is amortized over 10 years (see Note 13). The investment in cash surrender value of life insurance is used as collateral for interest-bearing loans of BRL (see Note 14).

Other receivables include cash advances granted by Starworld in 2004 to a third party which is secured by the third party's stockholdings in a certain company to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). Due to certain delays in the arbitration proceedings with the Land Registration Auhtority (LRA), LARES still has not resumed the implementation of its land titling project with the government as of December 31, 2007.

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain receivables were found to be impaired and losses have been recognized accordingly.

A reconciliation of the allowance for impairment at beginning and end of 2007 and 2006 is shown below.

	Note	2007	2006
Balance at beginning of year		**P 119,241,564**	P 93,556,047
Impairment loss during the year	20.2	**11,581,155**	25,685,517
Reversal of impairment loss on receivables	20.1	**(10,290,149)**	-
Balance at end of year		**P 120,532,570**	P 119,241,564

In addition to impaired receivables, some of the unimpaired trade receivables are past due as at the reporting date. The age of financial assets past due but not impaired as of December 31, 2007 is as follows:

Not more than 3 months	P 87,670,744
More than 3 months but not more than one year	17,321,570
More than one year	34,952,334
	P 139,944,648

8. **AVAILABLE-FOR-SALE FINANCIAL ASSETS**

The amounts in the consolidated balance sheets comprise the following available-for-sale financial assets:

	2007	2006
Current –		
Investment in foreign currency denominated bonds	**P 388,448,319**	P 514,904,785
Non-current:		
Club shares	**8,950,000**	14,230,000
Investment in equity securities	**8,580,000**	8,580,000
Others	**1,216,518**	2,634,971
	18,746,518	25,444,971
Allowance for impairment losses	**(11,134,991)**	(10,934,991)
	7,611,527	14,509,980
	P 396,059,846	P 529,414,765

A reconciliation of the carrying amounts of available-for-sale financial assets is shown below.

	Notes	2007	2006
Balance at beginning of year		**P 529,414,765**	P 521,649,403
Fair value gains (loss) – net		**(80,000)**	8,418,743
Additions		**-**	306,607,732
Disposals		**(131,874,919)**	(297,839,438)
Impairment losses	20.2	**(1,400,000)**	(8,600,000)
Foreign currency losses – net	23	**-**	(821,675)
Balance at end of year		**P 396,059,846**	P 529,414,765

The Group's management has determined that there is objective evidence that the decline in the values of certain equity securities and club shares is other than temporary. Accordingly, the Group recognized impairment losses amounting to P8.6 million in 2006. Impairment losses on permanent decline of value of available-for-sale financial assets are presented as Finance Costs in the 2006 consolidated income statements (see Note 20.2).

In 2007, the SMC sold two golf club shares with total carrying values of P8.3 million. No gain or loss has been recognized on the sale of these Available-for-sale financial assets.

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

Investment in equity securities include P8.6 million investment in shares of stock of Sony, which was reclassified from the Investment in an Associate account in 2005 since management believes that the Company no longer has significant influence over the investee company. The investment in Sony is fully provided with allowance for impairment loss.

The fair values of other available-for-sale financial assets have been determined directly by reference to published prices in active market.

9. MERCHANDISE AND SUPPLIES

The details of this account are shown below (see Note 17.2).

	2007	2006
Merchandise and finished goods	**P 134,863,612**	P 30,409,716
Work-in-process	**3,168,275**	2,459,891
Raw materials	**16,327,723**	13,193,852
Service parts, supplies and others	**76,482,334**	69,838,712
	230,841,944	115,902,171
Allowance for obsolescence	**(40,674,114)**	(42,695,939)
	P 190,167,830	P 73,206,232

The movement in allowance for obsolescence is as follows:

	Note	2007	2006
Balance at beginning of year		**P 42,695,939**	P 44,642,340
Reversal of inventory obsolescence	19	**(1,396,008)**	-
Recovery of allowance		**(868,383)**	(761,089)
Write-off of inventories previously provided with an allowance		**-**	(2,602,725)
Loss on inventory obsolescence		**242,566**	1,417,413
		P 40,674,114	P 42,695,939

10. REAL ESTATE INVENTORIES

This account is composed of:

	Notes	2007	2006
Land and land development costs:			
Land		**P 152,664,544**	P 183,925,699
Land development costs		**222,041,937**	146,976,115
		374,706,481	330,901,814
Allowance for impairment		**(2,022,800)**	(2,022,800)
		372,683,681	328,879,014
Property development costs:			
Land	12, 29.5	**-**	129,801,264
Construction in progress and development costs		**552,995,647**	357,179,913
		552,995,647	486,981,177
		P 925,679,328	P 815,860,191

Land and land development costs pertain to cost of land and related improvements held by Starworld and LIIP which are 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 which are for sale.

Allowance for impairment loss pertains to the estimated cost of parcels of land deemed unsaleable by management. No additional impairment was recognized in 2007 and 2006.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land. As of December 31, 2007 and 2006, lot areas totalling 82 hectares and 65 hectares, respectively, have been acquired and developed while 18 hectares of land already acquired are still under development.

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 (see Note 1.1 (g)). As of December 31, 2007, the construction of Tower 1 which started in 2007, is 99% complete.

In October 2007, ZTC obtained its permit to sell that would allow preselling of the 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 Trade and Other Receivables (see Note 7).

11. **PROPERTY, PLANT AND EQUIPMENT**

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2007 and 2006 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2007												
Cost	P 897,854,682	P 221,531,041	P 138,425,839	P 110,701,600	P 72,111,363	P 1,172,698,579	P 111,482,648	P 61,929,213	P 38,221,392	P 18,507,212	P 18,633,101	P 2,862,096,670
Accumulated depreciation and amortization	-	(120,631,439)	(123,902,361)	(95,666,773)	(55,217,558)	(443,994,494)	(72,319,021)	(56,730,284)	(34,648,817)	(17,088,646)	-	(1,020,199,393)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	**P 897,854,682**	**P 65,899,602**	**P 14,523,478**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,418,566**	**P 18,633,101**	**P 1,456,897,277**
December 31, 2006												
Cost	P 897,854,682	P 220,140,212	P 137,999,219	P 107,098,955	P 65,662,047	P 1,155,722,528	P 109,286,027	P 59,289,080	P 38,148,727	P 17,359,439	P 18,630,474	P 2,827,191,390
Accumulated depreciation and amortization	-	(108,908,439)	(121,571,205)	(89,575,041)	(49,105,061)	(397,272,864)	(67,009,709)	(54,123,749)	(32,685,205)	(15,533,198)	-	(935,784,471)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919
December 31, 2005												
Cost	P 121,200,000	P 167,852,827	P 133,514,998	P 106,593,820	P 94,965,188	P 1,098,340,889	P 105,844,521	P 56,307,766	P 37,512,249	P 17,528,200	P 21,849,707	P 1,961,510,165
Accumulated depreciation and amortization	-	(51,043,938)	(118,697,838)	(87,292,630)	(75,365,283)	(351,675,116)	(60,910,813)	(50,862,468)	(30,342,734)	(13,432,127)	-	(839,622,947)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 121,200,000	P 81,808,889	P 14,817,160	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 736,887,218

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of property, plant and equipment is shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919
Additions	-	1,390,829	426,620	3,665,961	8,616,226	16,976,051	2,196,621	2,640,133	72,665	1,147,773	2,627	37,135,506
Disposals	-	-	-	(31,668)	(659,028)	-	-	-	-	-	-	(690,696)
Depreciation and amortization charges for the year	-	(11,723,000)	(2,331,156)	(6,123,380)	(7,620,379)	(46,721,630)	(5,309,312)	(2,606,535)	(1,963,612)	(1,555,448)	-	(85,954,452)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment losses	**P 897,854,682**	**P 65,899,602**	**P 14,523,478**	**P 15,034,827**	**P 16,893,805**	**P 378,704,085**	**P 39,163,627**	**P 5,198,929**	**P 3,572,575**	**P 1,418,566**	**P 18,633,101**	**P 1,456,897,277**
Balance at January 1, 2006, net of accumulated depreciation, amortization and impairment loss	P 121,200,000	P 81,808,889	P 14,817,160	P 19,301,190	P 19,599,905	P 396,665,773	P 44,933,708	P 5,445,298	P 7,169,515	P 4,096,073	P 21,849,707	P 736,887,218
Additions	-	5,208,617	4,484,221	4,573,539	6,034,800	54,162,406	3,441,506	2,981,314	636,478	138,427	-	81,661,308
Reclassifications	-	-	-	2,151	-	3,219,233	-	(2,151)	-	-	(3,219,233)	-
Transfer from investment property (see Note 12)	776,654,682	-	-	-	-	-	-	-	-	-	-	776,654,682
Disposals	-	-	-	-	(1,722,569)	-	-	-	-	(268,790)	-	(1,991,359)
Depreciation and amortization charges for the year	-	(10,785,733)	(2,873,367)	(6,352,966)	(7,355,150)	(45,597,748)	(6,098,896)	(3,259,130)	(2,342,471)	(2,139,469)	-	(86,804,930)
Balance at December 31, 2006 net of accumulated depreciation, amortization and impairment losses	P 897,854,682	P 76,231,773	P 16,428,014	P 17,523,914	P 16,556,986	P 408,449,664	P 42,276,318	P 5,165,331	P 5,463,522	P 1,826,241	P 18,630,474	P 1,506,406,919

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and building and improvements amounts to P1.0 billion and P153.7 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer seller in an arm's length transaction as at the valuation date.

The amount of depreciation and amortization computed on property, plant and equipment is allocated as follows:

	Notes	2007	2006
Cost of services	17.1	P 61,967,044	P 57,102,390
Cost of sales	17.2	2,390,987	5,436,189
General and administrative expenses		19,749,524	18,355,968
Selling and distribution expenses		1,846,897	5,910,383
		P 85,954,452	P 86,804,930

12. INVESTMENT PROPERTY

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2007 and 2006 are shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
December 31, 2007				
Cost	P1,423,831,444	P 811,407,119	P 485,580	P2,235,724,143
Accumulated depreciation and amortization	(8,443,000)	(438,056,096)	-	(446,499,096)
Accumulated impairment loss	(64,578,500)	(4,743,117)	-	(69,321,617)
Net carrying amount	**P1,350,809,944**	**P 368,607,906**	**P 485,580**	**P1,719,903,430**
December 31, 2006				
Cost	P1,423,752,268	P 788,259,304	P 10,810,088	P2,222,821,660
Accumulated depreciation and amortization	(8,432,003)	(404,023,624)	-	(412,455,627)
Accumulated impairment loss	(64,578,500)	(4,743,117)	-	(69,321,617)
Net carrying amount	P1,350,741,765	P 379,492,563	P 10,810,088	P1,741,044,416
December 31, 2005				
Cost	P2,218,395,298	P 783,522,580	P -	P 3,001,917,878
Accumulated depreciation and amortization	(5,125,738)	(372,565,674)	-	(377,691,412)
Accumulated impairment loss	(43,475,364)	(4,743,117)	-	(48,218,481)
Net carrying amount	P2,169,794,196	P 406,213,789	P -	P2,576,007,985

A reconciliation of the carrying amounts at the beginning and end of 2007 and 2006 of Investment Property is shown below.

	Land and Improvements	Buildings and Improvements	Construction in Progress	Total
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P1,350,741,765	P 379,492,563	P10,810,088	P1,741,044,416
Additions	79,176	12, 823,307	-	12,902,483
Reclassification	-	10,324,508	(10,324,508)	-
Depreciation and amortization charges for the year (see Note 17.3)	(10,997)	(34,032,472)	-	(34,043,469)
Balance at December 31, 2007, net of accumulated depreciation, amortization and impairment loss	**P1,350,809,944**	**P 368,607,906**	**P 485,580**	**P 1,719,903,430**
Balance at January 1, 2006, net of accumulated depreciation, amortization and impairment loss	P2,169,794,196	P 406,213,789	P -	P 2,576,007,985
Additions	4,398,782	4,750,361	10,810,088	19,959,231
Transfer to property, plant and equipment (see Note 11)	(776,654,682)	-	-	(776,654,682)
Transfer to property development costs (see Note 11)	(25,692,838)	-	-	(25,692,838)
Impairment loss – net of recovery of impairment loss (see note 20.3)	(21,103,136)	-	-	(21,103,136)
Depreciation and amortization charges for the year (see Note 17.3)	(557)	(31,471,587)	-	(31,472,144)
Balance at December 31, 2006, net of accumulated depreciation, amortization and impairment loss	P1,350,741,765	P 379,492,563	P 10,810,088	P1,741,044,416

Based on a report of independent appraisers as of December 31, 2006, the fair value of the Company's land and improvements and buildings and improvements amounted to P1.91 billion and P530.5 million, respectively. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Based on this report, the Group recognized impairment losses amounting to P64.6 million on certain parcels of land and it reversed the P43.5 million impairment on the parcel of land held by Precos. Impairment loss, net of reversal, is recorded under the Other Gains (Losses) account in the 2006 consolidated income statement (see Note 20.3).

In 2006, the Group transferred parcels of land costing P776,654,682 from Investment Property to Property, Plant and Equipment as management determined that these parcels of land were substantially used by the Group for its operations rather than held for rentals to third parties or held for capital appreciation (see Note 11).

Certain land properties of SMC and SC are a subject of an ongoing litigation brought up by third parties and expropriation coverage under the Agrarian Reform Act (see Note 29.4).

13. OTHER ASSETS

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

	Note	2007	2006
Current:			
Input VAT		P 93,679,325	P 80,493,583
Prepaid expenses		39,847,763	24,657,918
Creditable withholding taxes		38,401,058	37,166,283
Refundable deposits		-	5,986,172
Others		3,077,977	2,941,437
		P 175,006,123	P 151,245,393
Non-current:			
Prepaid insurance	7	P 13,580,149	P 19,047,346
Refundable deposits - net		12,602,393	13,290,150
Others		4,449,844	12,208,111
		P 30,632,386	P 44,545,607

14. INTEREST-BEARING LOANS

This account pertains to U.S. dollar denominated short-term loans obtained by BRL from ING Private Bank, which are secured by investment in cash surrender value of life insurance and all outstanding available-for-sale securities (see Notes 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.90% to 6.56% in 2007 and 1.98% to 6.56% in 2006. Interest expense arising from these loans are presented as Finance Costs in the consolidated income statements.

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at balance sheet date.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2007	2006
Trade payables	23.2, 25.2	P 130,982,514	P 103,945,818
Accrued expenses	29.4	87,981,559	90,731,084
Refundable deposits	16	7,804,080	6,519,560
Provisions for warranty	27.2	3,442,542	3,158,051
Other payables		147,009,984	181,127,681
		P 377,220,679	P 385,482,194

The fair values of trade and other payables, due to their short duration, have not been disclosed as management considers the carrying amounts recognized in the consolidated balance sheets to be a reasonable approximation of their fair values.

Provision is recognized for expected warranty claims on products sold, based on SVC's past experience of the level of repairs and returns. SVC accrues warranty costs for products sold to customers (see Note 27.2).

The changes in provisions for warranty, presented as part of Other Operating Expenses (see Note 19), are as follows:

	2007	2006
Balance at beginning of year	P 3,158,051	P 2,191,763
Estimated warranty claims during the year	501,384	1,611,699
Reversals during the year	(216,893)	(645,411)
Balance at end of year	P 3,442,542	P 3,158,051

16. REFUNDABLE DEPOSITS

Refundable deposits represents long-term rental deposits returnable to various tenants totalling P12,990,096 with respect to lease agreements expiring or terminating by 2009 to 2011. The refundable deposits were remeasured at amortized cost using the effective interest rate of 15.24% to 15.77% for nine and ten years, respectively, at the inception of the lease terms in 1999 and 2000. Interest expense recognized in 2007, 2006 and 2005 is presented under the Finance Costs account in the consolidated income statements (see Note 20.3). The present value of these non-current refundable deposits as of December 31, 2007 and 2006 amounted to P8,445,041 and P7,349,795, respectively.

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

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Services

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

	Notes	2007	2006	2005
Salaries and employee benefits		P 94,001,287	P101,967,249	P 83,000,184
Materials and other consumables		87,631,420	75,758,604	81,057,966
Outside services		62,269,844	31,484,728	45,253,042
Depreciation and amortization	11	61,967,044	57,102,390	64,127,872
Communication, light and water		43,447,018	41,819,591	38,869,506
Transponder rental and leased line		35,872,080	40,399,563	41,717,081
Rentals	29.3	26,692,873	38,857,726	40,156,870
Transportation and travel		18,782,539	19,236,662	15,162,679
Repairs and maintenance		14,975,052	25,940,717	47,063,406
Cable services		7,500,000	5,075,250	6,854,000
Others		31,172,204	22,524,673	19,104,581
	19	P484,311,361	P460,167,153	P482,367,187

17.2 Cost of Sales

The details of this account are shown below.

	Notes	2007	2006	2005
Merchandise and finished goods at beginning of year		P 30,409,716	P 36,601,637	P 27,383,375
Net purchases of merchandise during the year	19	355,957,936	272,764,218	202,964,214
Cost of goods manufactured:				
Raw materials at beginning of year		13,193,852	19,623,731	29,342,021
Work-in-process at beginning of year		2,459,891	6,645,348	3,051,116
Net purchases of raw materials during the year		101,507,096	56,818,184	132,697,920
Direct labor		18,890,315	22,741,002	19,565,284
Manufacturing overhead	11	37,422,669	40,010,376	81,528,416
Raw materials at end of year	9	(16,327,723)	(13,193,852)	(19,623,731)
Work-in-process at end of year	9	(3,168,275)	(2,459,891)	(6,645,348)
		184,387,541	166,786,535	267,299,053
Goods available for sale		540,345,477	439,550,753	470,263,267
Merchandise and finished goods at end of year	9	(134,863,612)	(30,409,716)	(36,601,637)
	20	P405,481,865	P409,141,037	P433,661,630

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2007	2006	2005
Depreciation and amortization	12	P 34,043,469	P 31,472,144	P 31,190,299
Taxes and licenses		11,580,592	13,639,389	11,179,677
Rental		9,230,693	2,285,640	3,056,981
Light and water		6,664,736	7,201,448	7,859,549
Security and janitorial services		4,306,696	3,596,262	3,789,026
Repairs and maintenance		1,569,342	2,035,839	2,903,871
Salaries and employee benefits		717,497	849,946	848,356
Others		1,538,704	1,909,705	4,889,652
	19	P 69,651,729	P 62,990,373	P 65,717,411

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Note	2007	2006	2005
Increase in cash surrender value of investment in life insurance	7	P 12,493,503	P 13,177,887	P 4,760,029
Others		13,054,702	16,449,663	21,619,627
		P 25,548,205	P 29,627,550	P 26,379,627

19. OPERATING EXPENSES BY NATURE

Operating expenses is composed of the following:

	Notes	2007	2006	2005
Net purchases of merchandise inventories	17.2	P355,957,936	P272,764,218	P202,964,214
Salaries and employee benefits	21	215,531,162	218,783,088	233,695,018
Materials, supplies and other consumables		188,169,656	149,222,433	239,949,730
Depreciation and amortization	11, 12	119,997,921	118,277,074	129,054,878
Manpower and other outside services		111,560,549	60,531,478	85,350,163
Communication, light and water		81,899,585	74,988,181	82,721,426
Cost of land sold		61,997,555	8,481,841	5,925,376
Rentals	25, 29	40,327,073	40,502,990	59,205,434
Transponder rental and leased line		35,872,080	39,186,031	41,717,081
Transportation and travel		32,261,048	34,418,432	30,473,630
Taxes and licenses		31,216,226	27,572,073	27,851,232
Repairs and maintenance		28,603,447	39,868,888	67,443,584
Loss on inventory obsolescence	9	242,566	1,417,413	1,902,649
Change in merchandise, finished goods and work-in-process inventories	15	(99,401,238)	10,377,378	(12,812,494)
Others		118,275,697	80,141,759	42,765,989
		P1,322,261,481	P1,176,533,277	P1,238,207,910

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

	Notes	2007	2006	2005
Cost of services	17.1	P484,311,361	P460,167,153	P482,367,187
Cost of sales	17.2	405,481,865	409,141,037	433,661,630
Cost of land sold		61,997,555	8,481,841	5,925,376
Cost of rentals	17.3	69,651,729	62,990,373	65,717,411
General and administrative expenses		270,070,987	213,572,741	223,466,217
Selling and distribution costs		30,747,984	22,180,132	27,070,089
		P1,322,261,481	P1,176,533,277	P1,238,207,910

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2007	2006	2005
Interest income from banks	4	P 108,804,388	P 118,875,323	P 123,603,700
Fair value gains on financial assets at fair value through profit or loss – net	6	-	29,821,299	32,691,738
Reversal of impairment on receivables	7	10,290,149	-	19,565,838
Gain on sale of financial assets	6, 8	2,595,101	7,508,465	15,465,100
Others		693,414	1,421,250	7,508,191
		P 122,383,052	P 157,626,337	P 198,834,567

Interest income of SGI and BRL are presented under Revenues in the income statement.

20.2 Finance Costs

This account consists of the following:

	Notes	2007	2006	2005
Foreign currency losses (gains) – net		P 119,446,635	P 61,065,963	P 50,418,973
Interest expense arising from loans	14	28,368,954	29,575,943	20,257,994
Impairment losses on trade and other receivables	7	11,581,155	25,685,517	19,565,838
Impairment losses on available-for-sale financial assets	8	1,400,000	8,600,000	-
Others		4,473,086	-	-
		P 165,269,830	P 124,927,423	P 90,242,805

20.3 Other Gains (Losses)

This account consists of the following:

	Notes	2007	2006	2005
Gain on sale of investments		P 2,011,066	P -	P -
Reversal of impairment of inventory		1,396,008	-	-
Gain on sale of property and equipment	11	174,168	184,209	663,779
Gain from insurance proceeds		-	-	45,448,725
Impairment of land and leasehold rights held as investment property - net	12	-	(21,103,136)	-
Others – net		1,157,175	271,107	(8,522,138)
		P 4,738,417	(P 20,647,820)	P 37,590,366

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expense recognized for salaries and employee benefits is summarized below (see Notes 19 and 25.7).

	2007	2006	2005
Salaries, wages and other short-term benefits	P 206,010,002	P 213,245,448	P 226,500,126
Retirement – defined benefit plan	9,447,660	5,059,243	3,354,766
Termination benefits	73,500	478,397	3,840,126
	P 215,531,162	P 218,783,088	P 233,695,018

21.2 Employee Retirement Benefit Obligation

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

The Group obtained an actuarial valuation to determine the retirement benefit obligation and asset as of December 31, 2005. The Company did not obtain an updated actuarial valuation report in 2006 since there were no significant movements or changes in the actuarial assumptions used in 2005. However, the Company was provided with additional plan information applicable in 2006 based on the same assumptions used in 2005. The latest actuarial valuation report obtained by the Company for the valuation of the Company's retirement benefit plan as of December 31, 2007 is dated March 18, 2008. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

The amounts of total retirement benefit asset of the subsidiaries that is recognized in the consolidated balance sheets are determined as follows:

	2007	2006
Fair value of plan assets	P 115,047,327	P 111,842,541
Present value of the obligation	73,028,736	47,482,490
Excess of plan assets	42,018,591	64,360,051
Unrecognized actuarial losses (gains)	193,080	(18,361,724)
Retirement benefit asset	P 42,211,671	P 45,998,327

The amounts of retirement benefit obligation of SGI that is recognized in the consolidated balance sheets are determined as follows:

	2007	2006
Fair value of plan assets	P 37,420,112	P 39,199,902
Present value of the obligation	23,114,304	31,074,244
Excess of plan assets	14,305,808	8,125,658
Unrecognized actuarial gains	(17,553,716)	(11,629,653)
Retirement benefit obligation	P 3,247,908	P 3,503,995

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

	2007	2006
Fair value of plan assets	P 152,467,439	P 151,042,443
Present value of the obligation	96,143,040	78,556,734
Net excess in the plan	P 56,324,399	P 72,485,709

Experience adjustments arising from the plan assets amounted to P2.5 million in 2007, P23.4 million in 2006 and P2.2 million in 2005. Management has determined that experience adjustments on plan liabilities are not material for all years presented.

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

	2007	2006
Balance at beginning of year	P 78,556,734	P 66,872,164
Current service and interest cost	19,355,460	14,201,770
Benefits paid	(11,051,415)	(2,517,200)
Actuarial losses	9,282,261	-
Balance at end of year	P 96,143,040	P 78,556,734

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

	2007	2006
Balance at beginning of year	P 151,042,443	P 113,584,009
Contributions paid into the plan	5,917,091	7,124,225
Benefits paid by the plan	(11,051,415)	(2,517,200)
Expected return on plan assets	9,062,547	9,115,264
Actuarial (losses) gains	(2,503,227)	23,736,145
Balance at end of year	P 152,467,439	P 151,042,443

Actual returns on plan assets amounted to P6.3 million and P32.8 million in 2007 and 2006, respectively. The Group expects to pay P6.7 million in contributions to retirement benefit plans in 2008.

The plan assets consist of the following:

	2007	2006
Government securities	P 146,834,608	P 138,005,262
Mutual and trust funds	5,059,044	11,147,047
Others	573,787	1,890,134
	P 152,467,439	P 151,042,443

The amount of retirement benefit expense recognized in the consolidated income statements is as follows:

	2007	2006	2005
Current service costs	P 13,187,011	P 6,707,541	P 4,046,206
Interest costs - net	6,168,449	7,494,229	6,929,702
Expected return on plan assets	(9,062,547)	(9,115,264)	(7,611,067)
Net actuarial gains recognized during the year	(845,253)	(27,263)	(10,075)
	P 9,447,660	P 5,059,243	P 3,354,76

For determination of the retirement benefit expense, the following actuarial assumptions were used:

	2007	2006	2005
Discount rates	7.0%-8.3%	10.2%-12.0%	11.6%-14.5%
Expected rate of return on plan assets	6%	8.0%	8.0%
Expected rate of salary increases	10%	10.0%	10.0%

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 27 years for both males and females.

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

22. TAXES

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

	2007	2006	2005
Consolidated income statements:			
Current tax expense:			
Regular corporate income tax (RCIT) at 35% in 2007 and 2006 and 35% and 32% in 2005	P 24,561,791	P 17,537,525	P 27,472,829
Final taxes at 20% and 7.5%	3,201,386	9,730,448	9,119,310
Preferential taxes at 5%	2,253,912	1,009,589	861,760
Minimum corporate income tax (MCIT) at 2%	1,579,012	10,909	77,640
	31,596,001	28,288,471	37,531,539
Deferred tax expense (income):			
Derecognition of deferred tax asset	16,227,675	-	-
Origination and reversal of temporary differences	7,084,977	(22,822,739)	(24,722,255)
Benefit from previously unrecognized MCIT and net operating loss carry over (NOLCO)	(258,513)	(172,894)	(2,378,627)
Increase in RCIT rate	667,610	-	(539,225)
	23,721,749	(22,995,633)	(27,640,107)
Tax expense reported in the consolidated income statements	P 55,317,750	P 5,292,838	P 9,891,432
Consolidated statements of changes in equity – Deferred tax on fair value gains of available-for-sale financial assets (see Note 23)	P 7,000	P 14,000	P 49,000

Kita is duly registered with Clark Development Corporation (CDC) while SMC and Starworld are registered with Philippine Economic Zone Authority (PEZA) which entitle them to tax and duty-free importation of goods and exemption from national and local taxes (see Note 26).

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

	2007	2006	2005
Tax on pre-tax income at 35%	P 573,37	(P 29,003,755)	P 18,962,883
Adjustment for income subject to lower tax rates	(28,240,626)	(21,889,935)	(19,573,976)
Tax effects of:			
Derecognized and unrecognized deductible temporary differences	70,931,081	54,296,279	35,959,535
Nondeductible expenses	13,827,777	14,392,256	38,845,693
Income of foreign subsidiary not subject to taxes	(10,607,463)	(12,851,202)	(11,475,971)
Amortization of goodwill attributable to property, plant and equipment	7,105,351	7,105,351	7,105,351
Loss on non-recoverable foreign exchange loss	4,687,071	-	-
Benefit from previously unrecognized deferred tax assets	(3,493,915)	-	(50,020,040)
Unrecognized MCIT	1,547,736	-	-
Non-taxable income	(923,653)	(51,597)	-
Fair value gains of financial assets at fair value through profit or loss	(908,285)	(10,460,762)	(11,465,831)
Decrease in deferred tax assets due to decrease in applicable tax rates	630,758	-	-
Deferred tax assets recognized	156,073	-	-
Others	32,468	3,756,203	1,553,788
Tax expense	P 55,317,750	P 5,292,838	P 9,891,432

The net deferred tax liabilities of companies which have a net deferred tax liability position as of December 31 relates to the following:

	Consolidated Balance Sheets		Consolidated Income Statements		
	2007	2006	2007	2006	2005
Deferred tax assets:					
Allowance for impairment of receivables	P 10,081,768	20,799,205	(P 10,717,437)	(P 4,746,649)	(P 14,483,830)
Unamortized past service costs	1,875,056	2,736,830	(861,774)	(1,473,486)	(885,754)
Accrued employee benefits	1,167,900	-	1,167,900	529,773	1,182,523
Advance rental	184,198	446,189	(261,991)	1,656,341	(1,681,704)
Accrued rent	65,436	-	65,436	-	-
Allowance for inventory obsolescence	36,033	610,289	(574,256)	(260,289)	(30,000)
NOLCO	12,170	-	12,170	-	-
Unrealized foreign currency losses	-	16,935,656	(16,935,656)	(16,935,656)	
Provisions for warranty	-	1,105,318	(1,105,318)	(1,105,318)	-
Deferred rent expense – PAS 17	-	755,335	(755,335)	(755,335)	-
	13,422,561	43,388,822	(29,966,261)	(23,090,619)	(15,898,765)
Deferred tax liabilities:					
Deferred rent income – PAS 17	(202,101)	(4,290,974)	4,088,873	1,179,403	3,111,571
Retirement benefits	-	(2,985,779)	2,985,779	296,299	2,689,480
Benefit from previously unrecognized MCIT	-	-	-	-	(2,378,627)
	(202,101)	(7,276,753)	7,074,652	(1,475,702)	(3,422,424)
Deferred Tax Income			(P 22,891,609)	(P 21,614,917)	(P 12,476,341)
Net Deferred Tax Assets	P 13,220,460	P 36,112,069			

The net deferred tax liabilities of companies which have a net deferred tax liability position as of December 31 relates to the following:

	Consolidated Balance Sheets		Consolidated Income Statements and Statements of Changes in Equity		
	2007	2006	2007	2006	2005
Deferred tax assets:					
Allowance for impairment of receivables	P 6,898,681	P -	P 6,898,681	P 406,108	(P 406,108)
Provision for warranty	1,204,889	-	1,204,889	767,117	(767,117)
Unamortized past service costs	886,123	-	886,123	2,231,362	(224,773)
Allowance for inventory obsolescence	355,220	-	355,220	338,429	(338,429)
Deferred revenue	94,837	-	94,837	1,590,909	(1,590,909)
Accrued employee benefits	-	-	-	1,167,855	(1,167,855)
Allowance for impairment of prepayments	-	-	-	231,056	(231,056)
NOLCO	-	-	-	-	5,275,176
MCIT	-	-	-	-	145,329
	9,439,750	-	9,439,750	6,732,836	694,258
Deferred tax liabilities:					
Deferred rent income – PAS 17	(4,778,726)	-	(4,778,726)	(-)	(1,193,814)
Retirement benefits	(4,214,392)	-	(4,214,392)	(1,400,875)	(107,193)
Unrealized foreign currency gains	(1,221,845)	-	(1,221,845)	(5,395,010)	(15,874,684)
Accrued rent income	(54,927)		(54,927)		
Deferred costs	-	-	-	1,317,667	1,317,667
	(10,269,890)	-	(10,269,890)	(8,113,552)	(15,858,024)
Deferred Tax Income recognized in consolidated income statements			(P 830,140)	(P 1,380,716)	(P 15,163,766)
Deferred tax liability on change in fair value of available-for-sale financial assets and tax expense recognized directly in equity (see Note 23.6)	70,000	(77,000)	(P 7,000)	P 14,000	P 49,000
	70,000	(77,000)			
Net Deferred Tax Liabilities	(P 760,140)	(P 77,000)			

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2007	P 162,723,032	P	P -	P -	P 167,591,098	2010
2006	106,624,420	-	639,776	-	105,984,644	2009
2005	120,750,609	-	98,833	-	115,783,710	2008
2004	142,025,018	-	9,305,475	132,719,543	-	2007
	P 532,123,079	P -	P 10,044,084	P 132,719,543	P 389,359,452	
MCIT:						
2007	P 1,579,012	P -	P -	P -	P 1,579,012	2010
2006	56,553	-	-	-	56,553	2009
2005	21,087	-	-	-	21,087	2008
2004	38,281	-	-	38,281	-	2007
	P 1,688,878.00	P -	P -	P 38,821	P 1,656,652	

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

	2007		2006	
	Amount	Tax Effect	Amount	Tax Effect
NOLCO	P 389,359,452	P 136,275,808	P 398,155,310	P 139,354,359
Unrealized foreign currency gains	59,619,781	20,866,923	5,790,654	2,026,729
Allowance for impairment of trade and other receivables	96,360,678	33,726,237	86,643,649	30,325,277
Allowance for impairment loss on available for-sale financial assets	5,220,000	1,827,000	5,220,000	1,827,000
Unrecognized retirement benefit expense	3,447,679	1,206,688	-	-
MCIT	1,656,652	1,656,652	126,327	126,327
Allowance for impairment of property, plant and equipment	385,000,000	134,750,000	350,000,000	122,500,000
Allowance for inventory obsolescence	37,804,064	13,231,422	37,804,063	13,231,422
Unamortized past service cost	3,443,603	1,205,261	4,126,560	1,444,296
	P 981,911,909	P 344,745,991	P 887,866,563	P 310,835,410

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

	Notes	2007	2006	2005
Fair value gains on available-for-sale financial assets:				
Balance at beginning of year		P 12,336,169	P 10,860,725	P 11,056,485
Foreign currency gains (losses)	8	-	(821,675)	1,016,404
Fair value gains (losses) for the year – net of fair value gains recognized in consolidated income statements		(2,723,000)	2,311,119	869,644
Tax expense on fair value gains	22	(7,000)	(14,000)	(49,000)
Balance at end of year		9,606,169	12,336,169	10,860,725
Foreign currency difference:				
Balance at beginning of year		(49,155,985)	(4,960,585)	3,368,934
Currency differences on translating financial statements of foreign operations		(138,270,028)	(26,786,679)	(18,329,519)
Unrealized foreign currency loss on equity advances of SGI to BRL		(33,157,530)	(7,408,721)	-
Balance at end of year		(220,583,543)	(49,155,985)	(14,960,585)
		(P 210,977,374)	(P 36,819,816)	P 4,099,860

23.2 Prior Period Adjustments

In 2007, as a result of the SBC, SMC, SVC and SLC's availment of the tax amnesty under R.A. 9480 or the Tax Amnesty Law which covers 2005 and prior taxable years, these subsidiaries restated their trade and other payables in 2005 and prior years to reverse long outstanding liabilities amounting to P3.4 million. In addition, Kita made prior period adjustments to correct the overstatement of depreciation expense. These prior period adjustments resulted in an increase in net income in 2006 and 2005 by P1.4 million and P3.4 million, respectively; and a decrease in deficit as of January 1, 2007 and 2006 by P2.6 million and P1.2 million, respectively.

24. EARNINGS (LOSS) PER SHARE

Basic earnings (loss) per share for net income (loss) attributable to equity holders of the parent company were computed as follows:

	2007	2006	2005
Net income (loss) (a):	(P 54,430,446)	(P 84,435,882)	P 49,954,975
Weighted average shares outstanding (b):			
Number of shares issued	2,030,975,000	2,030,975,000	2,030,975,000
Treasury shares	(209,433,000)	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
Earnings (loss) per share (a/b)	(P 0.03)	(P 0.05)	P 0.03

There were no outstanding potentially dilutive instruments as of December 31, 2007, 2006 and 2005, hence, no information on diluted earnings (loss) per share is presented.

25. RELATED PARTY TRANSACTIONS

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

25.1 Sale of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	2007	2006
Sale of goods –					
Professional equipment, accessories and tapes	P -	P -	P 354,041	P -	P -
Sale of services:					
Use of cable infrastructure	85,392,857	65,096,591	43,008,182	59,967,007	234,260,547
Commissions	1,591,100	1,895,244	4,157,050	31,371,160	-
Management services	1,200,000	1,200,000	1,200,000	97,000	-
	88,183,957	68,191,835	48,365,232	91,435,167	234,260,547
	P 88,183,957	P 68,191,835	P 48,719,273	P 91,435,167	P 234,260,547

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Company's majority stockholders. SVC also earns commissions from the sales of a company owned by the ultimate majority stockholders, to customers in the Philippines.

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company also owned by SGI's majority stockholders. Billings were based on a fixed fee per subscriber and per type of service.

SGI provides management services to CPD Access Corporation (CPD), a company also owned by SGI's majority stockholders, in accordance with a management contract.

Revenue from Sale of Goods and Services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables (see Note 7).

25.2 Purchase of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	2007	2006
Purchase of goods	P 79,097,937	P 72,099,355	P 76,070,918	P -	P 25,800
Availment of management services	2,318,182	4,370,370	3,344,498	-	-
	P 81,416,119	P 76,469,725	P 79,415,416	P -	P 25,800

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

Purchases of goods and availment of management services are recorded as part of Cost of Services (see Note17.1) and General and Administrative Expenses, respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	2007	2006
Group as lessor	P 571,973	P 593,333	P 826,213	P 53,384	P 18,211
Group as lessee	P 190,26 9	P 90,269	P 190,269	P -	P -

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rental in the consolidated income statements. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

SLC rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated income statements (see Note 19). There are no outstanding liabilities related to this lease in both 2007 and 2006.

SMC leases out certain land and buildings to Avid. Income from these leases is shown as part of Rental in the consolidated income statements. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated balance sheets
(see Note 7).

SLC rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under Operating Expenses in the consolidated income statements (see Note 19). There are no outstanding liabilities related to this lease in both 2007 and 2006.

25.4 Granting of Loans

	Business Loans	Car Loans	Total
Amount of transactions:			
2007	P -	P -	P -
2006	-	-	-
2005	35,000,000	4,294,650	64,294,650
Interest income earned:			
2007	4,140,000	122,375	4,262,375
2006	4,388,339	321,629	4,709,968
2005	4,179,533	837,720	5,017,253
Outstanding balances:			
2007	46,000,000	168,902	46,168,902
2006	46,000,000	1,490,594	47,490,594

SMFI grants interest-bearing business and other loans to companies owned by the majority stockholders of SGI. Interest rates range from 9% to 12% for 2007, 2006 and 2005. Interest earned on these loans are presented as part of Interest Income under Other Operating Income in the consolidated income statements (see Note 18) while outstanding balances are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

25.5 Advances to and from Related Parties

Certain subsidiaries of the Company grants to and obtains advances from the other companies owned by the Group's majority stockholders for working capital, acquisition of property and equipment and other purposes. Outstanding balances arising from these transactions are presented as Advances to Related Parties and Advances from Related Parties in the consolidated balance sheets.

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by the parent company's majority stockholders, to customers in the Philippines. Commission revenue amounted to P1,591,100 and P1,895,244 in 2007 and 2006, respectively, and are presented as part of Rendering of Services account in the income statements. SVC also advances funds to STL to pay foreign suppliers. The outstanding balance of these advances amounted to P31,371,160 and P7,395,781 as of December 31, 2007 and 2006, respectively, and are included as part of Trade Receivables under Trade and Other Receivables account in the balance sheets (see Note 7).

25.7 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2007, 2006 and 2005 are as follows (see Note 21.1):

	2007	2006	2005
Salaries, professional fees and other short-term benefits	**P 25,890,580**	P 24,577,115	P 23,635,258
Retirement benefit expense	**1,613,830**	1,243,537	1,243,537
Termination benefits	**-**	-	1,500,000
	P27,504,410	P 25,820,652	P 26,378,795

26. REGISTRATION WITH ECONOMIC ZONE AUTHORITIES

26.1 Registration with the Clark Development Corporation (CDC)

Kita 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 (see Note 22). In lieu of said taxes, the Company is subject to a 5% preferential tax rate on its registered activities. However, the 35% RCIT rate is applied to income which comes from sources other than the Company's registered activities.

26.2 Registration with the 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 (see Note 22).

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.

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with Sony

SE Corp. entered into a Memorandum of Understanding (MOU) with Sony for Network Support for AIWA products in July 2003. Under the MOU, SPH authorized the Company to perform in-warranty and out-of-warranty services to customers in the Philippines for a fee calculated as a percentage of Sony's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by Sony. Also, Sony agrees to pay the Company network support fee equal to 1% of net sales for SONY products and 1% or P50,000 per month whichever is higher for AIWA products. The MOU is effective unless revoked by any party.

The breakdown of network support fees is shown below.

	Amount of Transactions			Outstanding Balances	
	2007	2006	2005	**2007**	2006
SONY Products	**P 32,030,215**	P 29,903,703	P 27,074,743	**P 13,409,249**	P 9,878,105
AIWA Products	**600,000**	600,000	600,000	**-**	-
	P 32,630,215	P 30,503,703	P 27,674,743	**P 13,409,249**	P 9,878,105

Network support fees earned are presented as part of Rendering of Services in the consolidated income statements. Outstanding receivables arising from this transaction are included in the Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

27.3 Contract Agreement with RTVM

In October 2006, SVC entered into an agreement with RTVM. Under the agreement, SVC will provide integration services, equipments, labor and rental of materials and equipment for the full turn key implementation of the International Media Center to be used in the 12th ASEAN summit which originally was scheduled in December 2006. However, due to certain events beyond SVC's control, the summit was rescheduled to January 2007. The Company recognized revenue of P99.6 million relating to this transaction, of which P44 million is recognized as part of Sale of Goods account in 2006 while P55.5 million is recorded as part of Rendering of Services account in 2007.

28. EVENT AFTER BALANCE SHEET DATE

On February 15, 2008, the Company acquired 12,750 shares of stocks of Phil-Nanning Consortium, Inc. (PNCI) for a total acquisition price of P1.275 million (equivalent to the par value of the PNCI shares purchased). The Company became the parent company of PNCI after the acquisition. PNCI is registered with the SEC on December 31, 2005 to engage in the business of real estate development but has not yet started commercial operations since its registration.

Under the terms of the purchase agreements, the Company shall pay the sellers the amount of P318,750 upon closing of the purchase transaction and assume seller's liability for the unpaid portion of their respective subscriptions in PNCI shares in the aggregate amount of P956,250.

29. COMMITMENTS AND CONTINGENCIES

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

29.1 Planned Acquisition of LARES

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

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P2.0 million in 2006 and P0.9 million in 2005. The amount is still unpaid as of December 31, 2007. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6.0 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

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

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

As of December 31, 2007, LARES has already obtained a portion of the loan amounting to P3.9 million.

In September 2007, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements.

29.2 Operating Lease Commitments – Group as Lessor

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

	2007	2006	2005
Within one year	**P12,041,244**	P 71,857,133	P 75,138,776
After one year but not more than five years	**9,556,733**	156,753,601	173,991,314
More than five years	**3,613,297**	8,005,451	17,879,714
	P 25,211,274	P236,616,185	P267,009,804

29.3 Operating Lease Commitments – Group as Lessee

The Group is a lessee to non-cancellable operating leases on land. As of December 31, 2007, these leases have a remaining term of 12 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%.

	2007	2006	2005
Within one year	**P 5,196,03 5**	P 4,747,016	P 4,544,560
After one year but not more than five years	**27,054,655**	24,157,140	22,345,582
More than five years	**63,387,324**	70,753,956	77,794,530
	P 95,638,014	P 99,658,112	P104,684,672

Total rental expense from these operating leases amounted to P8,280,347 in 2007, P7,415,493 in 2006 and P4,747,033 in 2005, and are shown as part of Rental under Cost of Services in the consolidated income statements (see Note 17.1).

29.4 Legal Claims

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

(a) SMC is involved in a number of litigation and is subject to certain claims such as:

(i) Portion of land in Pililla, Rizal, with a carrying value of P3.5 million, subject to expropriation coverage under the Agrarian Reform Act; and,

(ii) Land, with a carrying value of P59 million, subject to claims by third parties who filed court cases against SMC.

(b) Certain parcels of land owned by SC are being subject to expropriation coverage under the Agrarian Reform Act and claims by third parties.

As of December 31, 2007, the outcome of these legal claims cannot be ascertained by the Group.

In previous years, the SC was involved in a litigation with a local bank concerning letters of credit issued in connection with shipments of electronic parts to the SC. On January 8, 2007, the Company and the bank's assignor agreed to a full settlement of the case for P50 million (which was paid in full during 2007). No additional expense was recognized by the Company in 2007 as the Company had enough provision accrued in prior years (see Note 15).

As a result of the settlement, cash in bank accounts under garnishment totaling P1.0 million as of December 31, 2006, was released to the Company in 2007. Garnished cash in bank accounts are presented as Other Non-current Assets in the consolidated balance sheets (see Note 13).

29.5 Purchase Commitments

In December 2007, ZTC has entered into several construction contracts with various suppliers for the construction of the "Tri-Towers" condominium building (see Note 9).

29.6 Possible Impact of Government Project

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

The Group decided to continue the Tri-towers condominium building project despite the notification received from the DPWH because management believes that the likelihood of a possible expropriation of the land is remote given the current status of the government project (see Note 10).

29.7 Others

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

30. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating and investing activities. The Group's risk management is coordinated by its BOD, and focuses on actively securing the Group's short- to medium-term cash flows by minimizing the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes. The more significant financial risks to which the Group is exposed to are described below.

30.1 Foreign Currency Sensitivity

The Group's net exposure to foreign currency risk as of December 31, 2007 is as follows:

	Notes	In U.S. Dollars	In Philippine Pesos
Assets:			
Cash and cash equivalents	5	$ 3,372,937	P 139,642,980
Trade and other receivables	7	828,891	34,316,911
		4,201,828	173,959,891
Liabilities:			
Interest-bearing loans	14	9,889,508	409,435,521
Trade and other payables	15	115,939	4,800,000
		10,005,447	414,235,521
Net liabilities exposure to foreign currency risk that will directly impact profit and loss		$ 5,803,619	P 240,275,630
Net assets exposure that will be taken directly to equity		$ 6,224,002	P 285,397,379

Net asset exposure that will be taken directly to equity pertains to the net asset position of BRL. Changes in foreign currency rates will increase or decrease the total assets and equity of the Group but will not affect the Group's consolidated income or loss.

The following illustrates the sensitivity of the net result for the year as regards to the Company's financial assets and financial liabilities and the U.S. dollar – Philippine peso exchange rate. It assumes a +/-20.72% change of the Philippine peso/ U.S. dollar exchange rate for the year ended December 31, 2007. This percentage has been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's foreign currency financial instruments held at each balance sheet date, with effect estimated from the beginning of the year.

If the Philippine peso had strengthened against the U.S. dollar, income before tax for the year would have increased by P18.4 million. Conversely, if the Philippine had weakened against the U.S. dollars, income before tax in 2007 would have decreased by the same amount.

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 Company's currency risk.

30.2 Credit Risk

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

	Notes	
Cash and cash equivalents	5	P 1,206,991,793
Trade and other receivables – net	7	766,438,473
Advances to related parties	25	299,356,167
Available-for-sale financial assets	8	396,059,846
		P 2,668,846,279

Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

Credit risk, therefore, is only disclosed in circumstances where the maximum potential loss differs significantly from the financial asset's carrying amount.

The Group has no significant concentrations of credit risk. The Group's trade and other receivables are actively monitored to avoid significant concentrations of credit risk. Majority of SMFI's finance receivables are made to related parties and for a significant proportion of the receivables, collaterals are received to mitigate the credit risk. The Group has adopted a no-business policy with customers and tenants lacking an appropriate credit history where credit records are available.

30.3 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 are invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As at December 31, 2007, the Group's maximum liquidity risk is the carrying amount of interest-bearing loans, trade and other payables which have contractual maturities of within six months and advances from related parties which have contractual maturities of 6 to 12 months. These contractual maturities reflect the gross cash flows, which may differ from the carrying values of the liabilities at the balance sheet dates.

30.4 Interest Rate Sensitivity

At December 31, 2007, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates. All other financial assets have fixed rates (see Note 4).

The Philippine peso-denominated cash in bank and cash equivalents are tested on a reasonably possible change of +/-4.46% in 2007. On the other hand, U.S. dollar-denominated cash in bank are tested on reasonably possible changes of +/-1.79% in 2007. The calculations are based on Philippine peso-denominated and U.S. dollar-denominated financial instruments held at balance sheet, estimated at 99% level of confidence.

All other variables held constant, if the interest rate these financial assets increased by 4.46% for peso-denominated financial assets and 1.79% for U.S. dollar-denominated financial assets, income before tax in 2007 would have increased by P8.1 million. Conversely, if the interest rate decreased by same percentage, income before tax would have been lower by the same amount.

30.5 Cash Flow and Fair Value Interest Rate Risks

The Group's interest rate risk arises from the cash equivalents of SGI and its subsidiaries and from the short-term borrowings of BRL. Market interest rate risk generally changes every 30 days. The Group is exposed to changes in market interest rate through its cash and cash equivalents and interest bearing loan.

As of December 31, 2007, the Group has P877.4 million cash equivalents which is subject to fluctuations in market interest rate. Market interest rate for 2007 ranged from 3.0% to 9.0% for peso cash equivalents and 4.3% to 5.0% for U.S. dollar cash equivalents.

As of December 31, 2007, bank borrowings at floating interest rates amounted to P409.4 million. Market interest rate for borrowings for 2007 ranged from 1.9% to 6.6%.

The Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on its financial position and cash flows. Interest income and expense may increase as a result of such changes. They may reduce or create losses in the event that unexpected movements arise.

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 balance sheet. 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 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.

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

		2007		2006
Total liabilities (excluding amounts due to related parties)	P	**843,716,950**	P	865,996,500
Total equity		**6,251,849,903**		6,479,686,989
Debt-to-equity ratio		**0.13 : 1**		0.13 : 1

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