Solid Group Inc.

Annual Report 2008

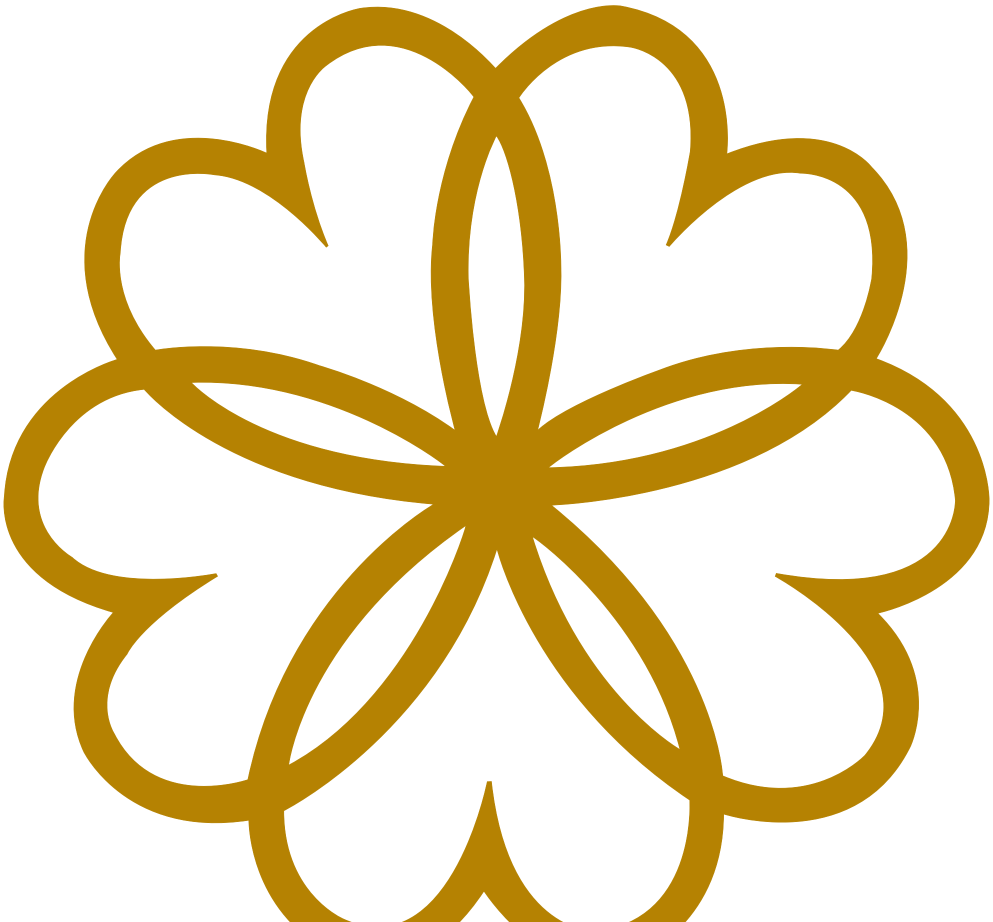
Broadband · Real Estate · Digital Devices

Empowering

the

now

generation



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Dear Fellow Shareholders

To our Shareholders,

I am pleased to report the results of fiscal year 2008 as well SGI's future growth prospects and plans. Fiscal year 2008's positive results are a result of our programs aimed at offering a wider portfolio of products and services that are more responsive to our customers' needs. As a result, SGI's total group revenue grew by 24% to P1.76 Billion in 2008 from P1.42 Billion in 2007. We also implemented management initiatives to improve our operational efficiency even as we grew our total business which helped us achieve a P350.84 Million Net Income, a significant turnaround from our previous year's loss of P25.54 Million.

Our positive business performance came from successes in many of our businesses. Notably, our brand building work and aggressive distribution efforts for MyPhone, our own brand of mobile phones, has resulted in nationwide market penetration and general acceptance by the mobile phone service operators. This success was driven by MyPhone models' innovative competitive features including the groundbreaking dual sim feature, AM/FM tuners and affordable touch screen functions. We will further strengthen the MyPhone brand equity with the introduction of more relevant and affordable functions such as free-to-air television reception and qwerty keypad functions – both proven growth drivers in Asian markets.

Our Broadband business held its own versus the aggressive and big budget marketing efforts of our telecommunication industry competitors and still achieved growth in both carriage fees from the cable television service company as well as in broadband internet subscribers. While we intend to make strategic investments in our metro wide broadband network to maintain continuous service quality improvement, we are committed to enhancing our operations efficiency and cost control. We will further maximize the business and industrial use of our extensive fiber backbone to build higher value businesses with professional and corporate clients.

Our real estate leasing business revenue was our main growth contributor in our total real estate business as both rentable space and rental rates increased. The economic slowdown continued to weaken our industrial and residential property sales. Despite the delay, we are hopeful that sales will pick up in the succeeding year. We will continue to study the commercial viability of our real estate inventories and we are particularly confident in our cross-border development project in the People's Republic Of China (PRC) which is scheduled to be completed in 2010.

SGI will continue to develop brands such as MyPhone to communicate to its customers our excellence and commitment in making products that develop relevant, affordable and supported for Filipinos everywhere. We will continue to invest in real estate development projects that will maximize the value for the company while creating real value for our customers. We will invest in upgrading our broadband network to improve the quality of both our video delivery and our internet access services. In all these and all our businesses, we will build in a way that strengthens the positive Filipino family and community values.

Thank you very much.

David S. Lim
Director, President and
Chief Executive Officer

Review of Operations

The most serious financial crises in recent memory virtually swept the entire business landscape in 2008. However, the company virtually defied the odds in 2008 as it achieved a significant breakthrough with the dramatic turnaround in the results of its operations and improvement in its financial position built upon the foundations laid out in the preceding fiscal periods. SGI's balance sheet at the end of 2008 is significantly better than it was at the end of 2007, highlighting a stable financial position, from which the company is poised to pursue its future directions.

Brand-building and Distribution : In 2008, management aggressively pursued the development and promotion of its own brand of digital devices, through the Digital Devices Division of Solid Broadband Corporation. Brand-building is a core marketing activity, leveraging on the company's traditional strengths in distribution, customer support, and promotions.

These efforts have already delivered positive results, with this business segment regaining its premier position as the top revenue contributor, accounting for 43% of gross revenues (29% in 2007). The business grew 81% in 2008 on sales of P759 million compared to the previous years sales of P418 million. This major improvement came from a 273% increase in the revenue of the Digital Devices Division of Solid Broadband Corporation. The company aggressively pushed the sales of its own mobile phone brand ("My/Phone"). While 2008 represented a full year's operation (5 months in 2007), the company succeeded in introducing more models during the year (17 models in 2008; 8 in 2007), and selling to the three leading mobile phone services companies in the country. In the last quarter of 2008, the company introduced its own brand of LCD television sets ("My/Screen") generating sales of P11 million.

As new products and models are introduced and as brand equity continues to grow, the company expects robust growth in this business segment in the future. This strategic direction is consistent with the company's conscious effort to continue leveraging on its historical core competence in consumer electronics and similar products. The promising results shown by this business segment in just one short year is early confirmation that the company has retained its long-established business strengths in sourcing, marketing, and distribution.

Broadband : Revenues from Broadband services went up by 34% in 2008 or P71 million because of higher revenues from the carriage of cable TV signal through the company's broadband infrastructure, and an increase in the number of broadband Internet subscribers.

The company charges a carriage fee to the cable TV operator based on the number of its cable TV subscribers which increased to over 100.000 in 2008, from 72,000 in 2007.

Broadband Internet subscribers increased by 40%, to approximately 10,000 in 2008 from 6,700 in 2007. However, subscription revenue only increased by 16% as competitive pressure reduced the average monthly subscription rate per subscriber to P996 in 2008 (P1,233 in 2007).

The reported revenues for the Broadband segment in 2007 included a non-recurring revenue of P41 million for services rendered during the ASEAN Summit held in the country that year. Without reckoning this one-time transaction, revenue from regular operations actually increased by P111.9 Million or 66% in 2008

Management expects the revenue from Broadband business segment to grow by 10% to 15% annually from Internet subscriptions, data services, and transport fees. Introduction of other wireless broadband applications will contribute to the growth of this business segment.

Real Estate : Gross revenue from this segment dropped 30% in 2008 from the previous year. This decrease was caused mainly by a 71% reduction in real estate sales, offset by a 16% increase in rental income. No industrial estate lots were sold in 2008, pending approval by the Philippine Export Zone Authority of Phase 2 of the Company's Calamba industrial estate project. Buyers' deposits amounting to P162 Million were subsequently credited to revenue in the next accounting period upon such approval and receipt of the required Presidential Proclamation.

Sale of the company's residential condominium project sold 33% less space (in square meters) compared to 2007 (447 in 2008; 672 in 2007), although prices remained relatively flat at approximately P68,000 per square meter. While this pricing level is within the competitive range for similar properties, the slowdown in sales can arguably be attributed to the financial crises.

While the real estate segment accounted for only 8% of gross revenues in 2008 (15% in 2007), it accounted for 54% of total segment results, and the biggest contributor (65%) to 2008 net income. This was caused primarily by the recognition of P163 million in the segment's operating income, arising from the increase in the fair value of investment properties during the year.

The accounting change related to the above also restated the beginning balance of retained earnings in 2008 to P523 million, from the previously reported deficit of P349 million.

The conceptual foundation of the change in accounting policy addresses the need to reflect in the financial statements the fair market values of the investment properties, being fair representation of the assets' expected realizable values and consequently of the company's financial position. Management believes that these values are not only realizable, but are also fair estimates of the present values of the investment properties' future earnings over a reasonable period, based on the company's acceptable hurdle rates.

While the real estate revenues exhibit more volatility in a depressed business environment, the investment properties still represent the best use strategy for these assets, from which the company can expect substantial future cash flows. Management expects that 85% of real estate inventories (industrial estate lots and condominium units) will be sold out by end of 2009. Pre-selling of the 2nd tower of the residential condominium project will start by end 2009. The company has started construction activities for its China project and which is expected to be completed in 2010. Management expects the China project to be sold out within 12 months after completion date.

Property development studies for other significant properties in the Philippines are being undertaken, for eventual conversion of these properties into productive assets. Real estate will continue to be a significant value driver in the future, while it provides a significant hedge against possible downturns in the other business segments.

Manufacturing and Sales Support Services : The manufacturing and sales support services segment revenues remained virtually flat in the last couple of years, although the segment remained the second biggest contributor to gross revenues (27% and 34%, in 2008 and 2007, respectively).

In recent years, manufacturing services has been dependent on a few customers, whose volumes were not significantly beyond the break even capacities of the facilities. Revenue from manufacturing services alone decreased to 9% of total revenues in 2008 from 12% in 2007 and its net loss amounted to P7.33 million in 2008 (P10.34 million in 2007). Management has initiated a critical review of the viability of the company's manufacturing services business especially in the light of the present economic scenario.

The activities of the sales support services (service support and logistics) are evolving to become more diversified in both the services and clientele even with the non-renewal of agreements with some major clients. The company's network of 32 company-owned service centers nationwide provide critical support to the sales and marketing of the company's own brand of digital devices and products.

Investing, Financing and Others : Investing and Financing segment reported a decline in revenues by 8% to P98 million in 2008 from P107 million in 2007 as invested assets also went down by about 8%. The global financial meltdown affected the market value of the company's investments in foreign currency denominated bonds which have been provided with unrealized fair value loss of P92 Million and unrealized foreign currency translation loss of P305 Million as of end 2008 which were recognized as direct charges to equity. To cushion future operations from any further loss in fair value of these investments because of the abnormal economic condition, management decided to classify most of these bonds as held to maturity investments as of September 30, 2008 to be valued at amortized cost instead of at their fair value.

Board of Directors and Corporate Officers

L to R:

David S. Lim
Director
President and
Chief Executive Officer

Elena S. Lim
Chairman Emeritus
Director

Quintin Chua
Independent Director

Susan L. Tan
Director
Chairman of the Board

L to R:

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

Luis Maria L. Zabaljauregui
Independent Director

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

L to R:

Danilo M. Reig
Chief, Internal Audit

Lita L. Joaquin
Treasurer

Mellina T. Corpuz
Chief Accounting Officer

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

Roberto V. San Jose
Corporate Secretary

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, 2008 and 2007. 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 and
Chief Executive Officer

IRENEO D. TUBIO, JR.
Senior Vice President and
Chief Financial Officer

SUBSCRIBED AND SWORN to before me this APR 29 2008 day of ____________ affiants exhibiting to me their Community Tax Certificate as follows:

Name	CTC No.	Date Issued	Place Issued
Susan L. Tan	19496764	January 22, 2008	Makati City
David S. Lim	19496765	January 22, 2008	Makati City
Ireneo D. Tubio	10620133	February 13, 2008	Manila

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Page No. 91;
Book No. XXXI;
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

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

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated balance sheets as at December 31, 2008 and 2007, 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, 2008 and notes to consolidated financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Managements' Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair representation 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 consolidated 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 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, 2008 and 2007, and of their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

Dalisay B. Duque

By: Dalisay B. Duque
Partner
CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 1566056, January 5, 2009, Makati City
SEC Accreditation No. 0012-AR-2
BIR AN 08-002511-9-2008 (Nov. 25, 2008 to 2011)

March 30, 2009

Consolidated Balance Sheets

December 31, 2008 and 2007 (Amounts in Philippine Pesos)

	Notes	2008	2007
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 1,118,462,976**	P 1,206,991,793
Held-to-maturity investments	6	**-**	53,000,000
Trade and other receivables - net	7	**503,084,944**	450,789,857
Advances to related parties	25	**192,327,778**	130,091,376
Available-for-sale financial assets	8	**63,519,015**	388,448,319
Merchandise inventories and supplies - net	9	**208,984,237**	175,519,259
Real estate inventories - net	10	**1,036,949,872**	925,679,328
Other current assets	13	**196,657,886**	154,270,525
Total Current Assets		**3,319,986,708**	3,484,790,457
NON-CURRENT ASSETS			
Trade and other receivables	7	**546,107,912**	482,201,959
Available-for-sale financial assets - net	8	**7,461,527**	7,611,527
Held-to-maturity investments	6	**161,289,378**	-
Property, plant and equipment - net	11	**1,438,147,224**	1,455,438,969
Investment property - net	12	**3,789,334,875**	3,489,493,944
Retirement benefit asset	21	**44,678,755**	42,211,671
Deferred tax assets - net	22	**4,309,204**	13,220,460
Other non-current assets	13	**148,931,209**	30,632,386
Total Non-current Assets		**6,140,260,084**	5,520,810,916
TOTAL ASSETS		**P 9,460,246,792**	P 9,005,601,373

Forward

	Notes	2008	2007
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 458,760,609**	P 409,435,521
Trade and other payables	15	**347,451,497**	368,992,429
Advances from related parties	25	**111,704,972**	179,997,931
Estimated liability for land and land development costs	2	**68,304,647**	36,886,345
Income tax payable		**6,782,075**	7,721,316
Total Current Liabilities		**993,003,800**	1,003,033,542
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**9,710,038**	8,445,041
Retirement benefit obligation	21	**7,362,600**	3,247,908
Deferred tax liabilities - net	22	**838,237,171**	866,677,474
Total Non-current Liabilities		**855,309,809**	878,370,423
		1,848,313,609	1,881,403,965
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	**(213,026,395)**	(210,977,374)
Retained earnings		**873,760,668**	523,319,765
Equity attributable to equity holders of the parent company		**7,217,796,815**	6,869,404,933
Minority interest		**394,136,368**	254,792,475
		7,611,933,183	7,124,197,408
TOTAL LIABILITIES AND EQUITY		**P 9,460,246,792**	P 9,005,601,373

See Notes to Consolidated Financial Statements.

Consolidated Statements of Income

December 31, 2008 and 2007 (Amounts in Philippine Pesos)

	Notes	2008	2007	2006
REVENUES				
Rendering of services	25	**P 605,932,811**	P 641,626,011	P 493,657,814
Sale of goods	25	**911,965,255**	474,458,952	439,186,300
Rentals	25	**136,222,127**	117,992,418	107,189,748
Interest income	20	**81,213,713**	89,331,444	105,083,755
Sale of real estate		**30,625,359**	102,422,478	11,952,900
		1,765,959,265	1,425,831,303	1,157,070,517
COST OF SALES, SERVICES AND RENTALS				
Cost of services	17	**435,837,110**	482,833,414	460,167,153
Cost of sales	17	**782,109,746**	405,481,865	409,141,037
Cost of rentals	17	**39,533,580**	37,254,917	62,990,373
Cost of real estate sold	19	**22,470,496**	61,997,555	8,481,841
		1,279,950,932	987,567,751	940,780,404
GROSS PROFIT		**486,008,333**	438,263,552	216,290,113
OTHER OPERATING EXPENSES (INCOME)				
General and administrative expenses	19	**267,072,584**	270,070,987	213,572,741
Selling and distribution costs	19	**74,413,111**	30,747,984	22,180,132
Other operating income - net	18	**(192,406,669)**	(25,548,205)	(29,627,550)
		149,079,026	275,270,766	206,125,323
OPERATING PROFIT		**336,929,307**	162,992,786	10,164,790
OTHER INCOME (CHARGES)				
Finance income	20	**77,013,074**	33,051,608	52,542,582
Finance costs	20	**(50,359,180)**	(165,269,830)	(124,927,423)
Other gains (losses) -net	20	**5,503,312**	4,738,417	(20,647,820)
		32,157,206	(127,479,805)	(93,032,661)
INCOME (LOSS) BEFORE TAX		**369,086,513**	35,512,981	(82,867,871)
TAX EXPENSE	22	**18,238,717**	61,057,359	5,292,838
NET INCOME (LOSS)		**P 350,847,796**	(P 25,544,378)	(P 88,160,709)
Attributable to:				
Equity holders of the parent company		**P 350,440,903**	(P 26,295,296)	(P 84,435,882)
Minority interest		**406,893**	750,918	(3,724,827)
		P 350,847,796	(P 25,544,378)	(P 88,160,709)
Earnings (Loss) Per Share for net income (loss) attributable to equity holders of the parent company	24	**P 0.19**	(P 0.01)	(P 0.05)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Changes in Equity

December 31, 2008 and 2007 (Amounts in Philippine Pesos)

	Notes	2008	2007	2006
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		**(210,977,374)**	(36,819,816)	(4,099,860)
Currency differences on translating balances of foreign operations		**305,787,998**	(171,427,558)	(34,195,400)
Fair value gains (losses) on available-for-sale financial assets, net of taxes		**(307,837,019)**	(2,730,000)	1,475,444
Balance at end of year		**(213,026,395)**	(210,977,374)	(36,819,816)
RETAINED EARNINGS (DEFICIT)				
Balance at beginning of year				
As previously reported		**(349,027,740)**	(294,597,294)	(210,161,412)
Effects of change in accounting policy	12	**886,363,403**	860,541,871	—
Prior period adjustments	23	**(14,015,898)**	(16,329,516)	—
As restated		**523,319,765**	549,615,061	(210,161,412)
Net income (loss) attributable to equity holders of the parent company		**350,440,903**	(26,295,296)	(84,435,882)
Balance at end of year		**873,760,668**	523,319,765	(294,597,294)
Total Equity Attributable to Equity Holders of the Parent Company		**7,217,796,815**	6,869,404,933	6,225,645,432
MINORITY INTEREST				
Balance at beginning of year		**254,792,475**	254,041,557	257,766,384
Purchase by the Group of minority interest	1	**138,937,000**	—	—
Net income (loss) attributable to minority interest		**406,893**	750,918	(3,724,827)
Balance at end of year		**394,136,368**	254,792,475	254,041,557
TOTAL EQUITY		**P 7,611,933,183**	P 7,124,197,408	P 6,479,686,989
Net Losses Recognized Directly in Equity		**(P 2,049,021)**	(P 174,157,558)	(P 32,719,956)

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flow

December 31, 2008 and 2007 (Amounts in Philippine Pesos)

	Notes	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before tax		**P 369,086,513**	P 35,512,981	(P 82,867,871)
Adjustments for:				
Fair value gains on investment properties		**(163,144,009)**	—	—
Depreciation and amortization	19	**79,372,652**	86,123,162	118,277,074
Finance costs	20	**38,764,554**	165,269,830	124,927,423
Unrealized foreign currency losses - net		**32,484,953**	119,446,635	39,805,739
Interest income	20	**(112,404,575)**	(108,804,388)	(118,875,323)
Gain on sale of property and equipment	20	**(945,857)**	(174,168)	(184,209)
Impairment loss in investment property	20	—	—	21,103,136
Fair value gains on financial assets at fair value through profit or loss	20	—	—	(29,821,299)
Gain on sale of financial assets	20	—	(2,595,101)	(7,508,465)
Operating income before working capital changes		**243,214,231**	294,778,951	64,856,205
Decrease (increase) in trade and other receivables		**(133,304,327)**	(3,056,437)	143,947,590
Decrease (increase) in inventories		**(33,464,978)**	(116,961,598)	22,352,195
Decrease in financial assets at fair value through profit or loss		—	149,754,385	378,462,063
Decrease (increase) in available-for-sale financial assets		**161,740,905**	(40,413,832)	(40,499,318)
Increase in real estate inventories		**(140,652,893)**	(109,819,137)	(265,101,612)
Decrease (increase) in held-to-maturity investment		**53,000,000**	(53,000,000)	—
Increase in other current assets		**(55,100,004)**	(23,760,730)	(52,154,247)
Decrease (increase) in retirement benefit asset		**(2,467,084)**	3,786,656	(2,232,250)
Decrease (increase) in other non-current assets	1	**4,190,415**	13,913,221	(3,358,960)
Increase (decrease) in trade and other payables		**17,949,357**	(12,386,163)	63,609,612
Increase (decrease) in estimated liability for land and land development costs		**31,418,302**	19,636,994	(2,684,947)
Increase in refundable deposits		**1,264,997**	1,095,246	1,854,279
Increase (decrease) in retirement benefit obligation		**4,114,692**	(256,087)	167,267
Cash generated from operations		**151,903,613**	123,311,469	309,217,877
Interest received		**112,404,575**	108,804,388	118,875,323
Cash paid for income taxes		**(16,279,016)**	(27,262,280)	(26,077,234)
Net Cash From Operating Activities		**248,029,172**	204,853,577	402,015,966
CASH FLOWS FROM INVESTING ACTIVITIES				
Loans granted to a related party	25	**(120,783,064)**	—	—
Decrease in advances to related parties		**(62,236,404)**	(78,165,018)	5,903,282
Proceeds from sale of property, plant and equipment		**1,269,817**	864,864	2,175,568
Acquisitions of investment property	12	**(19,789,527)**	(12,902,483)	(19,959,231)
Acquisitions of property, plant and equipment	11	**(62,404,867)**	(37,135,506)	(81,661,308)
Net cash used in investing activities		**(263,944,045)**	(127,338,143)	(93,541,689)
		(15,914,873)	77,515,434	308,474,277

Forward

	2008	2007	2006
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid	**(21,161,120)**	(168,847,468)	(128,505,061)
Proceeds (payments) of interest-bearing loans - net	**49,325,088**	(37,449,990)	(149,698,103)
Increase (decrease) in advances from related parties	**(68,292,959)**	81,514,265	390,010
Net Cash Used in Financing Activities	**(40,128,991)**	(124,783,193)	(277,813,154)
Effect of Currency Rate Changes on Cash and Cash Equivalents	**(32,484,953)**	(119,446,635)	(39,805,739)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(88,528,817)**	(166,714,394)	(9,144,616)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**1,206,991,793**	1,373,706,187	1,382,850,803
CASH AND CASH EQUIVALENTS AT END OF YEAR	**P 1,118,462,976**	P 1,206,991,793	P 1,373,706,187

See Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

December 31, 2008 and 2007 (Amounts in Philippine Pesos)

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) and Fil-Dragon Real Estate Development, Ltd. Which was incorporated in China.

The Company holds ownership interests in the following subsidiaries:

	Percentage of Ownership				
Subsidiaries	2008	2007	2006	Notes	Nature of Business
Brilliant Reach Limited (BRL)	100%	100%	100%	a	Investment company
Kita Corporation (Kita)	100	100	100		Manufacturing of injected plastics
Omni Logistics Corporation (OLC)	100	100	100		Logistics and assembly of colored televisions
Solid Broadband Corporation (SBC)	100	100	100	1.2	Broadband cable and satellite services, sale of mobile phones and LCD televisions
Solid Corporation (SC)	100	100	100		Real estate
SolidGroup Technologies Corporation (SGTC)	100	100	100	1.2, c	Information and communications and technology systems
Precos, Inc. (Precos)	100	100	100	c	Real estate
Solid Electronics Corporation (SE Corp.)	100	100	100		Repair services for audio and video products
Solid Laguna Corporation (SLC)	100	100	100		Manufacturing of injected plastics and trading of plastic resins
Solid Manila Corporation (SMC)	100	100	100		Real estate
Zen by the Park, Inc. (ZPI)	100	100	-	e, g	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		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	100	-	-	h	Real estate
Skyworld Corporation (Skyworld)	75	75	75	1.2, c, e	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	73	73	73	1.2, b, c	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	51	-	-	i, c	Real Estate
Starworld Corporation (Starworld)	50	50	50	e, f	Real estate
Laguna International Industrial Park, Inc. (LIIP)	50	50	50	b, d	Real estate

Notes:
- a Incorporated and domiciled in the British Virgin Islands
- b Indirectly owned through SC
- c Pre-operating or non-operating
- d LIIP is 22.5% owned by SC and 37.5% owned by Interstar
- e Indirectly owned through SMC
- f Starworld is 20% owned by SMC and 40% owned by Skyworld
- g Incorporated in 2007 and started commercial operations in August 2008
- h Acquired in 2008; indirectly owned through Precos
- i Acquired in 2008; indirectly owned through PNCI; constitutes an insignificant subsidiary as of December 31, 2008

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 Acquisition of PNCI

On February 15, 2008, Precos acquired 12,750 shares of stocks of PNCI at par value for a total acquisition price of P1.275 million. The Company became the parent company of PNCI after the acquisition. PNCI is registered with the SEC on December 31, 2005 and has not yet started commercial operations as of December 31, 2008. PNCI, in turn, has a subsidiary organized and operating in China as a real estate developer.

1.3 Status of Operations

Prior to revaluation of the Group's investment property, the Group incurred net losses in 2007, 2006 and prior years that resulted in significant deficits amounting to P349.0 million and P294.6 million as of December 31, 2007 and 2006, respectively. Such losses resulted mainly from the operations of SBC, Skyworld, LIIP, Interstar and SGTC. In 2008 the Group reported net income of P336.4 million, which together with the effects of the change in the remeasurement of investment property (see Note 12), reduced the balance of the Deficit account by a significant amount allowing the Group to present Retained Earnings as of December 31, 2008. Management strongly believes that the Group will continue to report positive results and better financial position in the future.

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
Kita	- 7175 Gil Puyat Ave. cor Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OLC	- Ganado Street, Laguna International Industrial Park, Mamplasan, Biñan, Laguna
SC	- 17 A. Fernando St., Marulas, Valenzuela, Metro Manila
SMC and ZPI	- 1000 J. Bocobo St., Ermita, Manila (registered office and principal place of business)
SE Corp.	- 1172 E. delos Santos Avenue, Balintawak, Quezon City
SLC	- Solid St., LIIP, Mamplasan, Biñan, Laguna
Starworld	- Bo. Prinza, Calamba City
ZTC	- 1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	- 139 Joy St. Balingasa, Quezon City
Fil-Dragon	- Room 1913B, Oriental Manhattan, Nanning City, Guanxi Province, China

1.5 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2008 (including comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by the Board of Directors (BOD) on March 30, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

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

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

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

(b) *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 the U.S. Dollars and Fil-Dragon whose functional currency is the Chinese Yuan Renminbi), and all values represent absolute amounts except when otherwise indicated (see Note 2.15).

(c) *Reclassification of Accounts*

Certain accounts in the 2007 and 2006 consolidated financial statements were reclassified to conform to the 2008 consolidated financial statement presentation and classification.

2.2 Impact of New Amendments and Interpretations to Existing Standards

(a) *Effective in 2008 that are relevant to the Group*

In 2008, the Group adopted for the first time the following new interpretation and amended standards which are mandatory in 2008.

Philippine Interpretation IFRIC 14	:	PAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction
PAS 39 and PFRS 7 (Amendments)	:	PAS 39, Financial Instruments: Recognition and Measurements and PFRS 7, Financial Instruments: Disclosures

Discussed below are the effects on the consolidated financial statements of these new interpretation and amended 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 also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. 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 did not materially affect its consolidated financial statements.

(ii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement* and *PFRS 7 (Amendment), Financial Instruments: Disclosures* (effective from July 1, 2008). The amendments permit an entity to:

- Reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of fair value through profit or loss category in particular circumstances; and,

- Transfer from the available-for-sale category to the loans and receivable category those financial assets that would have met the definition of loans and receivables, provided that the entity has the intention and the ability to hold those financial assets for the foreseeable future.

  The amendments are applicable in a partially retrospective manner up to July 1, 2008 provided that the reclassification is made on or before November 15, 2008, the cut-off date set by the FRSC. After the cut-off date, all reclassifications will only take effect prospectively. On October 31, 2008, BRL exercised the option to reclassify its investments in bonds from the available-for-sale category to held-to-maturity investments but opted not to retrospectively restate its books as of July 1, 2008, hence, the Group determined that the adoption of these amendments has no material impact on the 2008 consolidated financial statements. The fair values of investments in bonds classified as held-to-maturity investments as of December 31, 2008 amounted to P59.5 million.

(b) *Effective in 2008 but not relevant to the Group*

The following interpretations to published standards are mandatory for accounting periods beginning on or after January 1, 2008 but are not relevant to the Group's operations:

Philippine Interpretation IFRIC 11	:	PFRS 2 – Group and Treasury Share Transactions
Philippine Interpretation IFRIC 12	:	Service Concession Arrangements

(c) *Effective subsequent to 2008*

There are new and amended standards and Philippine Interpretations that are effective for periods subsequent to 2008. The following new amendments, effective for annual periods beginning on or after January 1, 2009, are relevant to the Group and which the Group will apply in accordance with their transitional provisions.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation and Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation
Various Standards	:	2008 Annual Improvements to PFRS

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

(i) 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 consolidated income statement and a consolidated statement of comprehensive income. The consolidated income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The consolidated 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 consolidated 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.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation* and PAS 1 (Amendment), *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective from January 1, 2009). The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions. The Group does not expect any impact on its consolidated financial statements when it applies the amendments in 2009.

(iii) 2008 Annual Improvements to PFRS. The FRSC has issued the *Improvements to Philippine Financial Reporting Standards 2008*. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Group expects the amendments to the following standards to be relevant to the Group's accounting policies:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. Management does not expect any adjustment to the consolidated financial statements as a result of the adoption of this amendment since the Group has no financial instruments classified as held for trading.

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

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

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

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

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

The Group's management assessed that this amendment to PAS 19 will have no impact on its 2009 consolidated financial statements.

- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

Minor amendments are made to several other standards; however, those amendments are not expected to 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.

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 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 segments are determined based on the Group's management and internal reporting structure.

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

2.5 Financial Assets

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

Regular purchases and sales of financial assets are recognized on their trade date. All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus 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 instruments are more fully described below.

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

This category include 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. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the 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 (except derivatives and financial instruments originally designated as financial assets at fair value through profit or loss) may be reclassified out of fair value through profit or loss category if they are no longer held for the purpose of being sold or repurchased in the near term.

(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 financial assets categorized as loans and receivables include cash and cash equivalents, trade and other receivables, advances to related parties and refundable deposits (presented as part of Other Current Assets accounts) in the consolidated balance sheet.

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.

(c) *Held-to-maturity Investments*

This category 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. Held-to-maturity investments are classified in non-current assets 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 in 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 income statement. If circumstances change, impairment losses on available-for-sale equity instruments are not reversed through the 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 consolidated income statement, the impairment loss is reversed through the consolidated income statement.

Impairment losses recognized on financial assets are presented as part of Finance Costs in 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 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 Merchandise Inventories, Services Parts, Supplies and Others

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 determined as follows:

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

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

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

2.7 Real Estate Inventories

(a) *Land and Land Development Costs*

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*

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
Cable system equipment	2 - 20 years
Machinery and equipment	5 - 10 years
Furniture, fixtures and office equipment	2 - 5 years
Transportation equipment	5 years
Computer system	5 years
Tools and equipment	2 -3 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 lives 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, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is measured initially at acquisition cost, including transaction costs. Starting 2008, investment property is stated at fair value as determined by independent appraisers (see Note 12).The carrying amounts recognized in the balance sheet reflect the prevailing market conditions at the balance sheet date.

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in the income statement as Fair Value Gains from Investment Property and Gain on Sale of Investment Property, respectively, under Other Operating Income account.

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.

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

2.10 Financial Liabilities

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

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

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

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

2.12 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the 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 time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation.

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

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

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

For LCD televisions, customers pay the bundle amount, which includes LCD, internet and/or cable subscriptions. Total selling price will be allocated among and/or between the items included in the bundle based on the relative fair values of these separately identifiable components.

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

- *LCD televisions* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully as part of Sale of Goods in the consolidated income statement.
- *Internet subscription income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the balance sheet at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.
- *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the balance sheet at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

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

(d) *Warranty and network support fee (shown as part of rendering of services)* – Revenue from warranty is recognized within 30 days after the actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly as a percentage of sales made by a third party of its products (see Note 27).

(e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, income is recognized when it is probable that the economic benefits from the sale will flow to the Group and collectibility of the sales price is reasonably assured. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated 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 Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

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

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

(i) *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 consumption of the goods and/or utilization of the service or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported 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 statement 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 Company's functional currency.

(b) *Transactions and Balances*

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

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

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

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

(i) Assets and liabilities for each balance sheet date presented are translated at the closing rate at the date of the consolidated 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 and Fil-Dragon 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 of the investment.

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 nonfinancial 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, fully-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 annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related 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 income 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 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.

Retained earnings (deficit) includes all current and prior period results as reported in the consolidated income statement.

2.20 Earnings (Loss) Per Share

Basic earnings (loss) per share is computed by dividing net income (loss) 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.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of December 31, 2008, 2007 and 2006, the Company does not have potential dilutive shares.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The Group's consolidated financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect amounts reported in the 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 Management Judgments in Applying Accounting Policies

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

(a) Held-to-maturity Investments

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

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

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

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

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If this portion can be sold separately (or leased out separately under finance lease), the Group accounts for the portion 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.

(d) Operating and Finance Leases

The Group has entered into various lease agreements as either a lessor or a 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. As of December 31, 2008 and 2007, management determined that all leases are operating leases.

(e) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision and disclosure of contingencies are discussed in Notes 2.12 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 Merchandise 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 (P209.0 million and P175.5 million as of December 31, 2008 and 2007, respectively) is affected by price changes. Changes on these may cause significant adjustments to the Group's inventories within the next financial year.

(b) Costing of Inventories Other Than Real Estate Inventories

The Group's inventory costing policies and procedures were based on a careful evaluation of production operations. Review of the benchmarks set by management necessary for the determination of standard inventory costs and allocation of overhead is being done regularly. Actual data are being compared to the related benchmarks and critical judgment is exercised to assess reasonableness of the costing policies and procedures which are currently in place.

(c) Useful Lives of Property, Plant and Equipment

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

(d) 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.

Impairment losses provided in 2008, 2007 and 2006 amounted to P17.6 million, P11.6 million, and P25.7 million, respectively. Allowance for impairment as of the end of 2008 and 2007 totaled P115.1 million and P120.5 million, respectively (see Note 7).

(e) Valuation of Financial Assets Other than Trade and Other Receivables

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

Fair value losses on available-for-sale financial assets amounted to P152.5 million in 2008 and P80,000 in 2007 and recognized in the equity section of the consolidated balance sheets (see Note 8).

(f) Allocation of Income Among LCD Television, Internet Subscription and Other Income

The Company allocates the income coming from its bundled sales, which compose of LCD television, internet and/or cable subscriptions based on the estimated selling price of each revenue component. Management believes that the estimated selling price represents the relative fair value of each component.

(g) Warranty Costs

The Company offers a one-year warranty for each consumer electronic product sold. Management estimates the related provision for future warranty costs based on a certain percentage of sales. Warranty costs also include the actual cost of materials used in repairing the electronic products.

(h) 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 asset to be utilized. The carrying value of deferred tax assets as of December 31, 2008 and 2007 is disclosed in Note 22.

(i) 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 nonfinancial 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.

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-current assets in 2008, 2007 and 2006.

(j) Retirement and Other 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.

The estimated present value of the retirement benefit obligation amounted to P74.6 million and P96.1 million as of December 31, 2008 and 2007, respectively, while the fair value of plan assets as of those dates amounted to P171.5 million and P152.5 million, respectively (see Note 21.2).

4. SEGMENT INFORMATION

4.1 Business Segments

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

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

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

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

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

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

Segment accounting policies are the same as the policies described in Note 2.

4.2 Segment Assets and Liabilities

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

4.3 Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments, which are eliminated in the consolidation. The following tables present certain assets and liability information regarding business segments as of December 31, 2008, 2007 and 2006 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
2008							
REVENUES							
Sales to external customers	P 281,534	P 480,402	P 146,298	P 759,326	P 98,399	P -	P 1,765,959
Intersegment sales	-	3,201	18,035	-	16,592	(37,828)	-
Total revenues	P 281,534	P 483,603	P 164,333	P 759,326	P 114,991	(P 37,828)	P 1,765,959
RESULTS							
Segment results	(P 9,814)	P 32,826	P 181,648	P 60,126	P 90,852	(P 18,533)	P 337,105
Finance income	1,901	7,675	33,022	2,149	32,226	-	77,013
Finance costs	(4,318)	(14,189)	(4,515)	(862)	(26,473)	-	(50,359)
Other gains (losses) –net	-	271	4,037	-	568	452	5,328
Income (loss) before tax	(12,231)	26,583	214,192	61,417	97,213	(18,081)	369,087
Tax expense	(3,408)	(17,138)	13,756	(6,626)	(8,699)	3,876	(18,239)
Net income (loss)	(P 15,639)	P 9,444	P 227,948	P 54,791	P 88,514	(P 14,205)	(P 350,848)
ASSETS AND LIABILITIES							
Segment assets	P 685,158	P 767,019	P 5,391,899	P 357,129	P 3,471,190	(P 1,404,475)	P 9,267,920
Investments in subsidiaries – at cost	-	-	87,931	-	3,190,971	(3,278,902)	-
Advances to related parties	171,447	37,158	452,888	7	854,603	(1,323,776)	192,327
Total assets	P 856,605	P 804,177	P 5,932,718	P 357,136	P 7,516,764	(P 6,007,153)	P 9,460,247
Segment liabilities	P 84,787	P 188,443	P 1,083,424	P 34,960	P 417,715	(P 72,720)	P 1,736,609
Advances from related parties	224,806	22,863	869,923	143,278	153,738	(1,302,903)	111,705
Total liabilities	P 309,593	P 211,306	P 1,953,347	P 178,238	P 571,453	(P 1,375,623)	P 1,848,314
OTHER SEGMENT INFORMATION							
Capital expenditures	P 35,775	P 11,024	P 18,196	P 1,834	P 40	P -	P 66,870
Depreciation and amortization	48,457	18,293	5,744	1,613	149	5,117	79,373
Impairment losses	-	14,052	-	14	-	-	14,066
Other non-cash expenses	-	319	-	1,729	-	-	2,048

	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 106,969	P -	P 1,425,831
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 117,163	(P 52,404)	P 1,425,831
RESULTS							
Segment results	(P 16,022)	P 15,515	P 72,225	P 88,971	P 216	P 2,088	P 162,993
Finance income	2,662	5,719	9,385	4,389	42,749	(31,852)	33,052
Finance costs	(13,128)	(7,239)	(1,447)	(182)	(155,389)	12,115	(165,270)
Other gains (losses) – net	-	(2,036)	(743)	(725)	22,275	(14,033)	4,738
Income (loss) before tax	(26,488)	11,959	79,420	92,453	(90,149)	(31,682)	35,513
Tax expense	1,597	(9,034)	(17,669)	(2,859)	(24,158)	(8,934)	(61,057)
Net income (loss)	(P 24,891)	P 2,925	P 61,751	P 89,594	(P 114,307)	(P 40,616)	(P 25,544)
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	-	-	87,930	-	3,182,336	(3,270,266)	-
Advances to related parties	171,454	37,158	452,888	-	854,603	(1,386,012)	130,091
Total assets	P 960,168	P 534,999	P 4,737,810	P 308,004	P 7,506,953	(P 5,042,333)	P 9,005,601
Segment liabilities	P 87,647	P 171,715	P 1,132,763	P 39,113	P 545,440	(P 193,758)	P 1,782,920
Advances from related parties	119,282	910	545,548	133,940	200,494	(901,690)	98,484
Total liabilities	P 206,929	P 172,625	P 1,678,311	P 173,054	P 745,934	(P 1,095,448)	P 1,881,404
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)

5. CASH AND CASH EQUIVALENTS

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

	2008	2007
Cash on hand and in banks	P 259,919,934	P 315,167,358
Short-term placements	858,543,042	891,824,435
	P 1,118,462,976	P 1,206,991,793

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 7 to 96 days and earn interest at the respective short-term placement rates ranging from 3% to 9% per annum in 2008 and 2007.

6. HELD-TO-MATURITY INVESTMENTS

In 2008, the Company reclassified its investments in foreign currency denominated bonds (previously classified as available-for-sale financial assets in the 2007 balance sheet) as held-to-maturity investments (see Note 8). These investments in bonds have fair values of P165,185,417 when the reclassification was made on October 31, 2008. The Company opted not to restate the financial statements in a partially retrospective manner as permitted by the amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, Financial Statement Disclosures. As of December 31, 2008, these investments have carrying amounts of P161,289,378 and are presented under the non-current assets section of the 2008 balance sheet. As of December 31, 2008, the investment in bonds have maturities ranging from 6 to 493 months and bears nominal rates of ranging from 8.00% to 11.75%.

The amount of held-to-maturity investments amounting to P53,000,000, presented under the current asset section of the 2007 balance sheet pertained to various short-term money market placements which the Company intended to hold until maturity. As of December 31, 2007, these investments have maturity periods of 185 days and have interest rates at 8.00% per annum.

The Group's held-to-maturity investments as of December 31, 2008 are used as collateral as security for the payment of the Group's interest-bearing loans (see Note 14).

Management believes that the carrying amounts of held-to-maturity investments are a reasonable approximation of their fair values. As of December 31, 2008, the fair value of investment in bonds classified as held-to-maturity investments amounted to P59.5 million.

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2008	2007
Current:			
Trade receivables	25.2, 25.3	P 282,072,386	P 372,219,526
Advances to suppliers		185,034,131	-
Finance receivables	25.4	67,509,623	75,903,392
Advances to contractors	10	4,845,709	22,512,690
Others		78,691,599	100,686,819
		618,153,448	571,322,427
Allowance for impairment		(115,068,504)	(120,532,570)
		P 503,084,944	P 450,789,857
Non-current:			
Cash surrender value of life insurance		P 452,684,719	P 381,677,516
Finance receivables – net of current portion	25.4	81,508,170	100,524,443
Trade receivables		11,915,023	-
		P 546,107,912	P 482,201,959

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

A reconciliation of the allowance for impairment at beginning and end of 2008 and 2007 is shown below.

	Note	2008	2007
Balance at beginning of year		P 120,532,570	P 119,241,564
Impairment loss during the year	20.2	17,603,434	11,581,155
Write-off of receivables		(15,188,268)	-
Reversals of impairment losses	20.1	(7,879,232)	(10,290,149)
Balance at end of year		P 115,068,504	P 120,532,570

Trade and other receivables, except finance receivables, are usually collected within 30 to 90 days and are noninterest-bearing.

Advances to contractors pertain to downpayments made by ZTC in relation to the construction of the Tri-Towers condominium building, which is 99% completed as of December 31, 2008 and 2007 (see Note 10).

Interest rates on finance receivables range from 7.5% to 18% in 2008 and 9% to 18% both in 2007 and 2006. Certain business loans are secured by real properties and shares of stock of the borrowing companies which are owned by a related party (see Note 25.4).

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 amounting to P30.5 million 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, 2008. Management believes that the receivable is still recoverable as of December 31, 2008 and 2007.

The fair value of current trade and other receivables is not individually determined as the carrying amount is a reasonable approximation of fair value.

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

	2008	2007
Current –		
Investments in foreign currency denominated bonds	P 63,519,015	P 388,448,319
Non-current:		
Club shares	P 8,970,000	P 8,950,000
Equity securities	8,580,000	8,580,000
Others	1,216,518	1,216,518
	18,766,518	18,746,518
Allowance for impairment	(11,304,991)	(11,134,991)
	P 7,461,527	P 7,611,527

The movements in the allowance for impairment as of December 31, 2008 and 2007 are as follows:

	Note	2008	2007
Balance at beginning of year		P 11,134,991	P 9,734,991
Impairment losses during the year	20.2	170,000	1,400,000
Balance at end of year		P 11,304,991	P 11,134,991

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

	Notes	2008	2007
Balance at beginning of year		P 396,059,846	P 529,414,765
Fair value loss – net		(152,498,598)	(80,000)
Disposals		(7,225,289)	(131,874,919)
Reclassification to held-to-maturity investments	6	(165,185,417)	-
Impairment losses	20.2	(170,000)	(1,400,000)
Balance at end of year		P 70,980,542	P 396,059,846

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 Philippines, Inc. (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 INVENTORIES AND SUPPLIES

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

	2008	2007
Merchandise and finished goods	P 174,848,218	P 134,863,612
Work-in process	6,023,600	3,168,275
Raw materials	26,812,225	16,327,723
Service parts, supplies and others	49,504,835	61,833,763
	257,188,878	216,193,373
Allowance for inventory obsolescence	(48,204,641)	(40,674,114)
	P 208,984,237	P 175,519,259

The movements in allowance for inventory obsolescence are as follows:

	Note	2008	2007
Balance at beginning of year		P 40,674,114	P 42,695,939
Reversals of inventory obsolescence		(583,641)	(1,396,008)
Recovery of allowance for inventory obsolescence		-	(868,383)
Loss on inventory obsolescence	17.2	8,114,168	242,566
Balance at end of year		P 48,204,641	P 40,674,114

10. REAL ESTATE INVENTORIES

This account is composed of:

	2008	2007
Land and land development costs:		
Land	P 152,664,544	P 152,664,544
Land development costs	259,366,856	222,041,937
	412,031,400	374,706,481
Allowance for impairment	(2,022,800)	(2,022,800)
	410,008,600	372,683,681
Property development costs:		
Construction in progress and development costs	626,941,272	552,995,647
	P1,036,949,872	P 925,679,328

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 and Fil-Dragon which are for sale.

Allowance for impairment loss pertains to the estimated cost of parcels of land and development costs which management believed may not be fully realized as a result of the Group's long-outstanding claims against the seller. No additional impairment losses were recognized in 2008, 2007 and 2006.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land. As of December 31, 2008 and 2007, lot areas totalling 83 hectares were acquired, 65 hectares of which were fully developed and 18 hectares 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). As of December 31, 2008, 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 2008 and 2007 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, 2008												
Cost	P 897,854,682	P 241,233,694	P 143,244,219	P 121,627,714	P 76,863,644	P1,220,733,104	P 113,525,125	P 63,735,966	P 39,841,558	P 15,945,039	P 2,627	P 2,934,607,372
Accumulated depreciation and amortization	-	(133,384,040)	(130,585,662)	(102,273,939)	(57,521,708)	(499,677,089)	(77,504,658)	(59,431,327)	(36,523,222)	(14,558,503)	-	(1,111,460,148)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 72,849,654	P 12,658,557	P 19,353,775	P 19,341,936	P 371,056,015	P 36,020,467	P 4,304,639	P 3,318,336	P 1,386,536	P 2,627	P 1,438,147,224
December 31, 2007												
Cost	P 897,854,682	P 240,161,515	P 142,173,590	P 110,701,600	P 70,243,765	P1,187,347,152	P 111,482,648	P 61,929,213	P 38,221,392	P 14,759,461	P 2,627	P 2,874,877,645
Accumulated depreciation and amortization	-	(120,631,439)	(128,831,970)	(95,666,773)	(53,349,960)	(458,643,067)	(72,319,021)	(56,730,284)	(34,648,817)	(13,617,345)	-	(1,034,438,676)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 84,530,076	P 13,341,620	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 1,142,116	P 2,627	P 1,455,438,969
December 31, 2006												
Cost	P 897,854,682	P 220,140,212	P 137,999,219	P 107,098,955	P 65,662,047	P1,155,722,528	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)	(1 22,948,561)	(89,575,041)	(49,105,061)	(397,272,864)	(67,009,709)	(54,123,749)	(32,685,205)	(15,614,150)	-	(936,326,163)
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

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007 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, 2008, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 84,530,076	P 13,341,620	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 1,142,116	P 2,627	P 1,455,438,969
Balance at acquisition					2,082,624							2,082,624
Additions		1,072,179	1,070,629	10,926,114	7,212,395	33,385,952	2,042,477	1,806,753	1,620,166	1,185,578	-	60,322,243
Disposals	-	-	-		(323,960)	-	-	-	-	-	-	(323,960)
Depreciation and amortization charges for the year	-	(12,752,601)	(1,753,692)	(6,607,166)	(6,522,928)	(41,034,022)	(5,185,637)	(2,701,043)	(1,874,405)	(941,158)	-	(79,372,652)
Balance at December 31, 2008 net of accumulated depreciation, amortization and impairment losses	P 897,854,682	P 72,849,654	P 12,658,557	P 19,353,775	P 19,341,936	P 371,056,015	P 36,020,467	P 4,304,639	P 3,318,336	P 1,386,536	P 2,627	P 1,438,147,224
Balance at January 1, 2007, net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 76,231,773	P 15,050,658	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 1,745,289	P 18,630,474	P 1,504,948,611
Additions		1,390,829	820,007	3,665,961	8,616,226	16,976,051	2,196,621	2,640,133	72,665	754,386	2,627	37,135,506
Reclassification		18,630,474									(18,630,474)	-
Disposals	-	-	-	(31,668)	(659,028)	-	-	-	-	-	-	(690,696)
Depreciation and amortization charges for the year	-	(11,723,000)	(2,529,045)	(6,123,380)	(7,620,379)	(46,721,630)	(5,309,312)	(2,606,535)	(1,963,612)	(1,357,559)	-	(85,954,452)
Balance at December 31, 2007 net of accumulated depreciation, amortization and impairment losses	P 897,854,682	P 84,530,076	P 13,341,620	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 1,142,116	P 2,627	P 1,455,438,969

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 and 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	2008	2007
Cost of services	17.1	P 52,499,225	P 60,489,097
Cost of sales	17.2	5,037,009	2,390,987
General and administrative expenses		18,394,317	21,227,471
Selling and distribution costs		3,442,101	1,846,897
	19	P 79,372,652	P 85,954,452

12. INVESTMENT PROPERTY

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

Prior to 2008, the Group measured its investment property at cost, less accumulated depreciation and amortization. In 2008, the Group's BOD approved the change in accounting policy for investment property from the cost model to the fair value model in order to present reliable and more relevant information on the carrying amounts of investment property. The change in accounting policy was applied retrospectively to January 1, 2007, which resulted in an increase in the carrying amounts of investment property as of January 1, 2008 and 2007 by P1.8 billion and P1.7 billion, respectively, and decreases the balances of Deficit as of January 1, 2008 and 2007 by P886.3 million and P860.5 million, respectively (see Note 23.3). The 2007 consolidated financial statements were accordingly restated as a result of the accounting change. The effects of the change in fair value of investment on years prior to 2007 are not practicable to determine, hence, the 2006 consolidated financial statements have not been restated.

The fair values of the Group's investment property as of January 1, 2007 were determined based on the appraisal report obtained by the Company dated February 21, 2007. There were no new appraisal reports obtained until December 31, 2008; management, however, believes that the fair values as of January 1, 2007 still approximate the fair values of these assets as of December 31, 2007. The fair values of the Company's investment property as of December 31, 2008 were determined based on appraisal report obtained by the Group in 2009.

Prior to 2008, ZTC's investment property were presented as part of Real Estate Inventories, thus, remeasured at net realizable value. In 2008, ZTC's BOD approved the reclassification of assets as investment property remeasured using the fair value model. The remeasurement of the assets at fair value resulted in a gain of P15.1 million shown as part of Fair Value Gains on Investment Property under Other Operating Income in the 2008 consolidated income statement (see Note 18). The fair values of the Company's investment property as of December 31, 2008 were determined based on appraisal report obtained by ZTC in April 2009.

The changes to the carrying amounts of investment property (after the retrospective application of the change in measurement to the fair value model) as presented in the consolidated balance sheets can be summarized as follows as of December 31:

	Land and Improvements	Buildings and Improvements	Total
2008:			
Balance at beginning of year	P 2,814,954,380	P 674,539,564	P 3,489,493,944
Additions	6,371,249	130,325,673	136,696,922
Unrealized gain on fair value adjustment of investment properties	17,825,022	145,318,987	163,144,009
Balance at end of year	P 2,839,150,651	P 950,184,224	P 3,789,334,875
2007:			
Balance at beginning of year	P 2,814,875,204	P 665,090,462	P 3,479,965,666
Additions	79,176	9,449,102	9,528,278
Balance at end of year	P 2,814,954,380	P 674,539,564	P 3,489,493,944

Management plans to obtain annual appraisal report on its investment property from independent appraisers.

Certain land properties owned by SMC and SC are the subject of litigations brought about by third parties against the Company (see Note 29.4).

13. OTHER ASSETS

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

	Notes	2008	2007
Current:			
Input VAT		P 101,273,524	P 93,679,325
Creditable withholding taxes		76,631,574	38,401,058
Refundable deposits		3,368,991	-
Prepaid expenses		2,412,969	19,024,776
Others		12,970,828	3,165,366
		P 196,657,886	P 154,270,525
Non-current:			
Investment in notes	25.7	P 120,783,064	P -
Prepaid insurance	7	12,742,696	13,580,149
Refundable deposits - net		12,147,733	12,602,393
Others		3,257,716	4,449,844
		P 148,931,209	P 30,632,386

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 financial assets and held-to-maturity investments (see Notes 6, 7 and 8). The loans bear interest at prevailing market rates per annum ranging from 1.90% to 6.56% in 2008 and 2007. Interest expense arising from these loans are presented as part of Finance Costs in the consolidated income statements (see Note 20.2).

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	2008	2007
Trade payables	25.2	P 98,424,639	P 130,982,514
Refundable deposits	16	65,597,071	7,804,080
Accrued expenses	29.4	49,012,203	87,981,559
Provision for warranty	27.2	12,828,388	9,367,443
Other payables		121,589,196	132,856,833
		P 347,451,497	P 368,992,429

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

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

	2008	2007
Balance at beginning of year	P 9,367,443	P 6,374,558
Estimated warranty claims during the year	11,405,645	6,733,724
Actual warranty claims during the year	(3,744,676)	(3,523,946)
Reversals during the year	(4,200,024)	(216,893)
Balance at end of year	P 12,828,388	P 9,367,443

Other payables primarily consist of output taxes payable and unearned revenues resulting from advances received from customers for various services provided by the Group. Other payables also include deposits received by Starworld amounting to P49.6 million from a buyer of parcels of land.

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.

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 2008, 2007 and 2006 is presented under the Finance Costs account in the consolidated income statements (see Note 20.2).There were no interest expense recognized on refundable deposits in 2006.The present value of these non-current refundable deposits as of December 31, 2008 and 2007 amounted to P9.7 million and P8.4 million, 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	2008	2007	2006
Salaries and employee benefits		P 92,915,737	P 94,001,287	P 101,967,249
Materials and other consumables		79,959,938	87,631,420	75,758,604
Depreciation and amortization	11	52,499,225	60,489,097	57,102,390
Communication, light and water		43,057,252	43,447,018	41,819,591
Transponder rental and leased line		36,221,655	35,872,080	40,399,563
Outside services		32,707,889	62,269,844	31,484,728
Rentals	29.3	31,401,566	26,692,873	38,857,726
Transportation and travel		18,912,913	18,782,539	19,236,662
Repairs and maintenance		16,898,043	14,975,052	25,940,717
Cable services		7,232,143	7,500,000	5,075,250
Others		24,030,749	31,172,204	22,524,673
	19	P 435,837,110	P 482,833,414	P 460,167,153

Others primarily consist of subcontracting services, insurance and provision for warranty services recognized by OLC.

17.2 Cost of Sales

The details of this account are shown below.

	Notes	2008	2007	2006
Merchandise and finished goods at beginning of year	9	P 134,863,612	P 30,409,716	P 36,601,637
Net purchases of merchandise during the year	19, 25.2	669,532,022	355,957,936	272,764,218
		P 804,395,634	386,367,652	309,365,855
Cost of goods manufactured:				
Raw materials at beginning of year		16,327,723	13,193,852	19,623,731
Work- in-process at beginning of year		3,168,275	2,459,891	6,645,348
Net purchases of raw materials during the year		90,124,352	101,264,530	56,818,184
Direct labor		27,375,112	18,890,315	22,741,002
Manufacturing overhead	11	39,845,604	37,422,669	40,010,376
Raw materials at end of year	9	(26,812,225)	(16,327,723)	(13,193,852)
Work-in-process at end of year	9	(6,023,600)	(3,168,275)	(2,459,891)
		144,005,241	153,735,259	130,184,898
Goods available for sale		948,400,875	540,102,911	439,550,753
Merchandise and finished goods at end of year	9	(174,848,218)	(134,863,612)	(30,409,716)
Loss on inventory obsolescence	9	8,114,168	242,566	-
Cost of disposed inventories		442,921	-	-
		8,557,089	242,566	-
	19	P 782,109,746	P 405,481,865	P 409,141,037

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2008	2007	2006
Rentals		P 10,572,725	P 9,230,693	P 2,285,640
Taxes and licenses		10,134,002	11,580,592	13,639,389
Light and water		5,872,358	6,664,736	7,201,448
Security and janitorial services		4,641,417	4,306,696	3,596,262
Depreciation and amortization	12	3,398,863	1,646,657	31,472,144
Repairs and maintenance		2,683,965	1,569,342	2,035,839
Salaries and employee benefits		857,946	717,497	849,946
Others		1,372,304	1,538,704	1,909,705
	19	P 39,533,580	P 37,254,917	P 62,990,373

18. OTHER OPERATING INCOME

The breakdown of this account is as follows:

	Note	2008	2007	2006
Fair value gains on investment property	12	P 163,114,009	P -	P -
Increase in cash surrender value of investment in life insurance		13,558,294	12,493,503	13,177,887
Others		15,734,366	13,054,702	16,449,663
		P 192,406,669	P 25,548,205	P 29,627,550

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature is shown below.

	Notes	2008	2007	2006
Net purchases of merchandise inventories	17.2	P 669,532,022	P 355,957,936	P 272,764,218
Salaries and employee benefits	21.1	237,147,178	215,531,162	218,783,088
Materials, supplies and other consumables		175,357,667	188,169,656	149,222,433
Depreciation and amortization	11	79,372,652	85,954,452	118,277,074
Communication, light and water		76,133,320	81,899,585	74,988,181
Manpower and other outside services		69,697,342	111,560,549	60,531,478
Cost of real estate		22,470,496	61,997,555	8,481,841
Rentals	25.3, 29.3	46,995,595	40,327,073	40,502,990
Transportation and travel		38,813,898	32,261,048	34,418,432
Repairs and maintenance		37,446,499	28,603,447	39,868,888
Transponder rental and leased line		36,850,372	35,872,080	39,186,031
Taxes and licenses		26,742,657	31,216,226	27,572,073
Loss on inventory obsolescence	9	8,114,168	242,566	1,417,413
Change in merchandise, finished				

	Notes	2008	2007	2006
goods and work-in process inventories		(46,145,858)	(99,401,238)	10,377,378
Others	15	142,908,619	118,184,625	80,141,759
		P1,621,436,627	P1,288,386,722	P1,176,533,277

Others primarily consists of advertising and promotion expenses, subcontracting services, taxes and licenses, cable services and insurance expense incurred by the Group.

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

	Notes	2008	2007	2006
Cost of services	17.1	P 435,837,110	P 482,833,414	P 460,167,153
Cost of sales	17.2	782,109,746	405,481,865	409,141,037
Cost of rentals	17.3	39,533,580	37,254,917	62,990,373
Cost of real estate sold		22,470,496	61,997,555	8,481,841
General and administrative expenses		267,072,584	270,070,987	213,572,741
Selling and distribution costs		74,413,111	30,747,984	22,180,132
		P1,621,436,627	P1,288,386,722	P1,176,533,277

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2008	2007	2006
Interest income from banks	4	P 31,190,862	P 19,472,944	P 13,791,568
Fair value gains on financial assets at fair value through profit or loss – net		-	-	29,821,299
Foreign currency gains		37,942,980	-	-
Reversal of impairment loss on receivables	7	7,879,232	10,290,149	-
Gain on sale of financial assets		-	2,595,101	7,508,465
Others		-	693,414	1,421,250
		P 77,013,074	P 33,051,608	P 52,542,582

In 2007, the Company recognized a gain from the disposal of its financial assets designated as 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.

Interest income from banks of SGI and BRL amounting to P81.2 million, P89.3 million and P105.1 million in 2008, 2007 and 2006, respectively, are presented as Interest Income under Revenues in the consolidated income statement.

20.2 Finance Costs

This account consists of the following:

	Notes	2008	2007	2006
Interest expense arising from loans	14	P 21,161,120	P 28,368,954	P 29,575,943
Impairment losses on trade and other receivables	7	17,603,434	11,581,155	25,685,517
Foreign currency losses		4,568,448	119,446,635	61,065,963
Impairment losses on available-for-sale financial assets	8	170,000	1,400,000	8,600,000
Others		6,856,178	4,473,086	-
		P 50,359,180	P 165,269,830	P 124,927,423

20.3 Other Gains (Losses)

This account consists of the following:

	Note	2008	2007	2006
Gain on sale of property and equipment	11	P 945,857	P 174,168	P 184,209
Gain (loss) on sale of investments		(41,776)	2,011,066	-
Impairment of land and leasehold rights held as investment property - net		-	-	(21,103,136)
Others – net		4,599,231	2,553,183	271,107
		P 5,503,312	P 4,738,417	(P 20,647,820)

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).

	2008	2007	2006
Short-term benefits	P 219,621,396	P 206,010,002	P 213,245,448
Retirement benefits	13,870,070	9,447,660	5,059,243
Termination benefits	3,655,712	73,500	478,397
	P 237,147,178	P 215,531,162	P 218,783,088

21.2 Employee Retirement Benefit Obligation

The Group maintains a tax-qualified, fully-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 amounts of total retirement benefit asset of the subsidiaries that is recognized in the consolidated balance sheets are determined as follows:

	2008	2007
Fair value of plan assets	P 103,984,335	P 115,047,327
Present value of the obligation	36,020,848	73,028,736
Excess of plan assets	67,963,487	42,018,591
Unrecognized actuarial losses (gains)	(23,284,732)	193,080
Retirement benefit asset	P 44,678,755	P 42,211,671

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

	2008	2007
Fair value of plan assets	P 67,553,115	P 37,420,112
Present value of the obligation	38,583,434	23,114,304
Excess of plan assets	28,969,681	14,305,808
Unrecognized actuarial gains	(36,332,281)	(17,553,716)
Retirement benefit obligation	P 7,362,600	P 3,247,908

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 of the Group.

	2008	2007	2006	2005	2004
Fair value of plan assets	P 171,537,450	P 152,467,439	P 151,042,443	P 113,584,009	P 95,138,340
Present value of the obligation	74,604,282	96,143,040	78,556,734	66,872,164	48,933,810
Excess in the plan	P 96,933,168	P 56,324,399	P 72,485,709	P 46,711,845	P 46,204,530

Experience adjustments arising from the plan assets amounted to P2.4 million in 2008, P2.5 million in 2007 and P23.4 million in 2006. 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:

	2008	2007
Balance at beginning of year	P 96,143,040	P 78,556,734
Current service and interest cost	21,574,350	19,355,460
Benefits paid	(409,282)	(11,051,415)
Actuarial gains (losses)	(42,703,826)	9,282,261
Balance at end of year	P 74,604,282	P 96,143,040

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

	2008	2007
Balance at beginning of year	P 152,467,439	P 151,042,443
Contributions paid into the plan	12,222,463	5,917,091
Benefits paid by the plan	(409,282)	(11,051,415)
Expected return on plan assets	9,148,046	9,062,547
Actuarial losses	(1,891,216)	(2,503,227)
Balance at end of year	P 171,537,450	P 152,467,439

Actual returns on plan assets amounted to P8.8 million, P6.3 million and P32.8 million in 2008, 2007 and 2006, respectively. The Group expects to contribute P21.4 million in contributions to retirement benefit plans in 2009.

The plan assets consist of the following:

	2008	2007
Government securities	P 155,637,823	P 146,834,608
Mutual and trust funds	15,899,627	5,059,044
Others	-	573,787
	P 171,537,450	P 152,467,439

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

	2008	2007	2006
Current service costs	P 13,787,182	P 13,187,011	P 6,707,541
Interest costs	7,787,168	6,168,449	7,494,229
Expected return on plan assets	(9,148,046)	(9,062,547)	(9,115,264)
Net actuarial gains recognized during the year	(606,878)	(845,253)	(27,263)
Effect of asset limit	2,050,644	-	-
	P 13,870,070	P 9,447,660	P 5,059,243

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

	2008	2007	2006
Discount rates	8% - 11%	7% - 8%	10% - 12%
Expected rate of return on plan assets	5%	6%	8%
Expected rate of salary increases	9%	10%	10%

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

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

22. TAXES

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

	2008	2007	2006
Consolidated income statements:			
Current tax expense:			
Regular corporate income tax (RCIT) at 35%	P 23,103,812	P 22,709,880	P 17,537,525
Final taxes at 20% and 7.5%	8,557,701	3,161,000	9,730,448
Minimum corporate income tax (MCIT) at 2%	4,174,555	1,579,012	10,909
Preferential taxes at 5%	863,011	2,305,208	1,009,589
	36,699,079	29,755,100	28,288,471
Deferred tax income:			
Derecognition of deferred tax asset	-	16,227,675	-
Origination and reversal of temporary differences	67,825,472	16,007,114	(22,822,739)
Deferred tax resulting from a decrease in RCIT rate in 2009	(86,285,836)	-	-
Benefit from previously Unrecognized MCIT and net operating loss carry over (NOLCO)	-	(258,513)	(172,894)
Increase in RCIT rate	-	(674,017)	-
	(18,460,363)	(31,302,259)	(22,995,633)
Tax expense reported in the consolidated income statements	P 18,238,717	P 61,057,359	P 5,292,838
Consolidated statements of changes in equity –			
Deferred tax on fair value gains of available-for-sale financial assets (see Note 23)	(P 15,000)	(P 7,000)	(P 14,000)

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 (loss) computed at the applicable statutory rate to tax expense reported in consolidated income statements is shown below.

	2008	2007	2006
Tax on pretax income (loss) at 35%	P 129,180,280	P 12,429,543	(P 29,003,755)
Adjustment for income subject to lower tax rates	(6,474,812)	(24,265,101)	(21,889,935)
Tax effects of:			
Decrease in deferred tax assets due to decrease in applicable tax rates	(87,082,931)	630,758	-
Income of foreign subsidiary not subject to taxes	(17,961,718)	(10,607,463)	(12,851,202)
Benefit from previously unrecognized deferred tax assets	(15,321,707)	(3,493,915)	-
Derecognized and unrecognized deductible temporary differences	(9,171,371)	71,227,354	54,296,279
Nondeductible expenses	7,154,820	8,183,925	14,392,256
Amortization of goodwill attributable to property, plant and equipment	7,105,351	7,105,351	7,105,351
Unrecognized MCIT	5,828,640	1,884,180	-
Unrecognized benefit from write-off of receivables	4,057,815	-	-
Loss (income) on non-recoverable foreign exchange loss	(2,880,107)	4,687,071	-
Non-taxable income	(344,662)	(6,098,478)	(51,597)
Fair value gains of financial assets at fair value through profit or loss	-	(908,285)	(10,460,762)
Deferred tax assets recognized	-	156,073	-
Others	4,149,117	126,346	3,756,203
Tax expense	P 18,238,717	P 61,057,359	P 5,292,838

The net deferred tax assets of subsidiaries having a net deferred tax asset position as of December 31 relates to the following:

	Consolidated Balance Sheets		Consolidated Income Statements		
	2008	2007	2008	2007	2006
Deferred tax assets:					
Allowance for impairment of					
Unamortized past service costs	P 1,307,643	P 1,875,056	P 567,413	(P 861,774)	(P 1,473,486)
receivables	1,200,000	10,081,768	8,881,768	(10,717,437)	(4,746,649)
Accrued employee benefits	787,225	1,167,900	380,675	1,167,900	529,773
Provisions for warranty	463,111	-	(463,111)	(1,105,318)	(1,105,318)
NOLCO	445,827	12,170	(433,657)	12,170	-
Allowance for inventory obsolescence	95,735	36,033	(59,702)	(574,256)	(260,289)
Advance rental	-	184,198	184,198	(261,991)	1,656,341
Accrued rent	-	65,436	65,436	65,436	-
Unrealized foreign currency losses	-	-	-	(16,935,656)	(16,935,656)
Deferred rent expense – PAS 17	-	-	-	(755,335)	(755,335)
Deferred tax assets	4,299,541	13,422,561	9,123,000	(29,966,261)	(23,090,619)
Deferred tax liabilities:					
Retirement benefits	9,663	-	(9,663)	2,985,779	296,299
Deferred rent income – PAS 17	-	(202,101)	(202,101)	4,088,873	1,179,403
	9,663	(202,101)	(211,764)	7,074,652	(1,475,702)
Deferred tax income			P 8,911,256	(P 22,891,609)	(P 21,614,917)
Net deferred tax assets	P 4,309,204	P 13,220,460			

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

	Consolidated Income Balance Sheets		Consolidated Statements and Statements of Changes in Equity		
	2008	2007	2008	2007	2006
Deferred tax assets:					
Allowance for impairment of receivables	P 8,238,807	P 6,898,681	(P1,340,126)	P 6,898,681	(P 406,108)
Unamortized past service costs	752,982	886,126	133,141	886,123	2,231,362
Provision for warranty	518,648	1,204,889	686,241	1,204,889	767,117
Accrued rent income	508,115	-	(483,857)	-	-
Allowance for inventory obsolescence	162,199	355,220	193,021	355,220	338,429
Deferred revenue	-	94,837	94,837	94,837	1,590,909
Accrued employee benefits	41,101	-	(41,101)	-	1,167,855
NOLCO	385,711	-	(385,711)	-	-
Allowance for impairment of prepayments	-	-	-	-	231,056
	P10,607,563	P 9,439,750	(P 1,167,813)	P 9,250,076	P 6,732,836
Deferred tax liabilities:					
Fair value gains on investment property	(732,976,965)	(758,946,718)	(25,969,753)	1,020,307	-
Accumulated depreciation	(106,147,291)	(106,970,616)	(823,325)	4,719,303	-
Accrued rent income	(5,248,442)	(54,927)	5,193,515	(54,927)	-
Retirement benefits	(3,737,097)	(4,214,392)	(477,295)	(4,214,392)	(1,400,875)
Unrealized foreign currency gains	(612,920)	(1,221,845)	(608,925)	(1,221,845)	(5,395,010)
Deferred rent income – PAS 17	(182,019)	(4,778,726)	(4,596,707)	(4,778,726)	-
Deferred costs	-	-	-	-	1,317,667
	(848,904,734)	(876,187,224)	(27,282,490)	(4,530,280)	(8,113,552)
Deferred tax income recognized in consolidated income statements			(P28,450,303)	P 4,719,796	(P 1,380,716)
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)	60,000	(70,000)	P 10,000	(P 7,000)	P 14,000
	60,000	(70,000)			
Net deferred tax liabilities	(P838,237,171)	(P866,677,474)			

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:						
2008	P 26,225,127	P -	P -	P -	P 26,225,127	2011
2007	176,415,547	-	-	-	176,415,547	2010
2006	137,051,766	926,599	-	-	136,125,167	2009
2005	120,750,609	98,833	43,776,307	76,875,469	-	
	P 460,443,049	P 1,025,432	P 43,776,307	P 76,875,469	P 338,765,841	
MCIT:						
2008	P 4,174,555	P	P	P	P 4,174,555	2011
2007	367,720	-	-	-	367,720	2010
2006	10,929	-	-	-	10,929	2009
2005	77,640	-	-	77,640	-	
	P 4,630,844	P -	P -	P 77,640	P 4,553,204	

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

	2008		2007	
	Amount	Tax Effect	Amount	Tax Effect
NOLCO	P 324,462,550	P 97,338,765	P 389,359,452	P 136,275,808
Unrealized foreign currency losses (gains)	(6,427,631)	(1,928,289)	59,619,781	20,866,923
Allowance for impairment of trade and other receivables	95,334,593	28,600,378	96,360,678	33,726,237
Allowance for impairment loss on available for-sale financial assets	5,320,000	1,596,000	5,220,000	1,827,000
Unrecognized retirement benefit expense	4,738,517	1,421,555	3,447,679	1,206,688
MCIT	1,208,551	1,208,551	1,656,652	1,656,652
Allowance for impairment of property, plant and equipment	350,000,000	105,000,000	385,000,000	134,750,000
Allowance for inventory obsolescence	45,599,116	13,679,735	37,804,064	13,231,422
Unamortized past service cost	2,760,646	828,194	3,443,603	1,205,261
	P 822,996,342	P 247,744,889	P 981,911,909	P 344,745,991

23. EQUITY

23.1 Revaluation Reserves

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

	Notes	2008	2007	2006
Fair value gains on available-for sale financial assets:				
Balance at beginning of year		P 9,606,169	P 12,336,169	P 10,860,725
Foreign currency losses		(15,903,984)	-	(821,675)
Fair value gains (losses) for the year – net of fair value gains recognized in consolidated income statements	8	(99,074,418)	(2,723,000)	2,311,119
Tax expense on fair value gains	22	(15,000)	(7,000)	(14,000)
Balance at end of year		92,761,603	9,606,169	12,336,169
Foreign currency differences:				
Balance at beginning of year		(220,583,543)	(49,155,985)	(4,960,585)
Currency differences on translating financial statements of foreign operations		(73,042,124)	(138,270,028)	(26,786,679)

Balance brought forward

	Notes	2008	2007	2006
Unrealized foreign currency loss on equity advances of SGI to BRL		(12,162,331)	(33,157,530)	(7,408,721)
Balance at end of year		(305,787,998)	(220,583,543)	(49,155,985)
		(P 213,026,395)	(P 210,977,374)	(P 36,819,816)

23.2 Prior Period Adjustments

(a) The balances of Kita's Deficit as of January 1, 2008 and 2007 were restated to reflect the effects of the prior period adjustments to correct certain misstatements in the financial statements as summarized below.

- Rental income in prior years was overstated by P3.4 million, P0.2 million, and P3.2 million in 2007, 2006, and 2005, respectively (see Note 19.4).This overstatement resulted from the changes in the terms of the lease agreements which were not considered in the application of PAS 17, Leases, and from improper accounting for rental deposits received.

- Depreciation expense and related accumulated depreciation for certain properties in prior years were understated by P6.6 million in 2007 and P1.5 million in 2006 and prior years.

(b) In 2006, as a result of SBC's change in policy in treating cable modems as part of Property, :Plant and Equipment, which were initially recorded as part of Inventories in the balance sheet, SBC recorded a prior period adjustment to the beginning balance of the Retained earnings account as of January 1, 2008 and 2007 to account for the unrecorded depreciation expense of the reclassified cable modems.The prior period adjustment resulted in a decrease in retained earnings and inventory accounts as of January 1, 2008 and 2007 by P14.6 million and an increase in property and equipment and accumulated depreciation on January 1, 2008 and 2007 by the same amount.

(c) In 2008, as a result of the Starworld's availment of the tax amnesty under R.A. 9480, the Tax Amnesty Law, which covers 2005 and prior taxable years, Starworld recorded a prior period adjustment to the balance of retained earnings as of January 1, 2008 and 2007 to reverse long-outstanding liabilities amounting to P9.0 million.The prior period adjustment resulted in an increase in Starworld's retained earnings as of December 31, 2008 and 2007 and a decrease in Estimated Liability for Land and Property Development by the said amount. Also, as a result of this adjustment, additional tax expense recorded as part of Taxes and Licenses presented in 2008 income statement, relating to the tax amnesty availment amounting to P500,000, was paid in March 5, 2008.

The restatement of the balance sheet items as of January 1, 2008 is summarized as follows:

	Notes	As Previously Reported	Prior Period Adjustment	As Restated
Changes in assets :				
Trade and other receivables	5	P 453,501,305	(P 2,711,448)	P 450,789,857
Merchandise inventories and supplies	9	190,167,830	(14,648,571)	175,519,259
Other current assets	13	160,009,964	(5,739,439)	154,270,525
Property, plant and equipment	11	1,456,897,277	(1,458,308)	1,455,438,969
Changes in assets –		P 2,260,576,376	(P 24,557,766)	P 2,236,018,610
Changes in liabilities –				
Trade and other payables	10	377,220,679	(8,228,250)	368,992,429
		P 1,883,355,697		P 1,867,026,181
Total adjustments to equity			(P16,329,516)	

23.3 Retrospective Effect of a Change in Accounting Policy

The balances of unappropriated retained earnings (deficit) as of January 1, 2008 and 2007 were restated to reflect the effects of the change in accounting policy for investment property (see Note 12) as summarized below.

	January 1, 2008	January 1, 2007
Fair value gains	P 1,281,949,921	P 1,281,949,921
Deferred tax liabilities on fair value gains	(758,946,718)	(758,946,718)

	January 1, 2008	January 1, 2007
Reversal of accumulated depreciation based on cost	403,322,840	369,448,081
Deferred tax effect on accumulated depreciation	(109,284,234)	(101,231,007)
Reversal of accumulated impairment losses	69,321,594	69,321,594
	P 886,363,403	P 860,541,871

The accounting change also resulted in an increase in the Investment Property account by P886.4 million and P860.5 million as of January 1, 2008 and 2007, respectively and a decrease in the previously reported net loss for 2007 by P28.1 million, net of tax, representing decrease in depreciation and amortization expense (see Note 9).

The change in accounting policy were not effected retrospectively from January 1, 2006 since there were no available information relative to the fair value measurements of the Group's Investment Property as of December 31, 2005.

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:

	2008	2007	2006
Net income (loss) attributable to equity holders of the parent company	P 350,440,903	(P 26,295,296)	(P 84,435,882)
Divided by weighted average shares outstanding:			
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	P 0.18	(P 0.01)	(P 0.05)

There were no outstanding potentially dilutive instruments as of December 31, 2008, 2007 and 2006, 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	
	2008	2007	2006	2008	2007
Rendering of services:					
Use of cable infrastructure	P 116,785,714	P 85,392,857	P 65,096,591	P 69,724,998	P 59,967,007
Commissions	1,455,268	1,591,100	1,895,244	39,057,253	31,371,160
Management services	1,200,000	1,200,000	1,200,000	-	97,000
	P 119,440,982	P 88,183,957	P 68,191,835	P 108,782,251	P 91,435,167

SVC sells professional equipment, accessories and tapes to Avid Sales Corporation (Avid), a company owned by the Company' 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 these transactions are recorded as part of Revenues from Rendering of Services and Sales of Goods in the consolidated income statements.The related outstanding receivables are recorded as part of Trade and Other Receivables in the consolidated balance sheets (see Note 7).

25.2 Purchase of Goods and Services

	Amount of Transactions			Outstanding Balances	
	2008	2007	2006	2008	2007
Purchase of goods	P 80,119,087	P 79,097,937	P 72,099,355	P 2,963,292	P 15,738
Availment of management services	-	2,318,182	4,370,370	-	-
	P 80,119,087	P 81,416,119	P 76,469,725	P 2,963,292	P 15,738

Balance carried forward

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 (see Note 19), respectively, and the related outstanding payables are recorded as part of Trade and Other Payables (see Note 15).

25.3 Lease of Real Property

	Amount of Transactions			Outstanding Balances	
	2008	2007	2006	2008	2007
Group as lessor	P 545,296	P 571,973	P 593,333	P -	P 53,384
Group as lessee	P 190,269	P 190,269	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 General and Administrative Expenses in the consolidated income statements (see Note 19). There are no outstanding liabilities related to this lease in both 2008 and 2007.

25.4 Granting of Loans

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 8% in 2008 and 9% in 2007. Total interests earned from these loans amounted to P13.3 million in 2008 and P14.1 million in 2007, and is presented as part of Rendering of Services account in the consolidated income statements. The outstanding receivables from these business loans are shown as part of Loans and Other Receivables account in the consolidated balance sheets (see Note 5). The outstanding receivables as of December 31, 2008 and 2007 are as follows:

	2008	2007
Business loans:		
AA Export & Import Corporation	P 90,191,405	P 105,415,204
Avid Sales Corporation	46,000,000	46,000,000
	136,191,405	151,415,204
Car loans:		
TCL Sun, Inc.	-	168,902
	P 136,191,405	P 151,548,106

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

SMFI also granted unsecured business loan to Avid Sales Corporation amounting to P80.0 million. There were no principal repayments made in 2008 and 2007 related to the business loan.

Total principal repayments received on business loans granted to AA Export & Import Corporation amounted to P15,223,799 and P5,824,784 in 2008 and 2007, respectively, while all outstanding car loans as of December 31, 2007 have been fully collected as of December 31, 2008.

25.5 Advances to and from Related Parties

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

25.6 Transactions with Solid Trading Limited (STL)

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P1.5 million and P1.6 million and P1.9 million in 2008, 2007 and 2006, respectively, and is presented as part of Rendering of Services account in the consolidated income statements. SVC also advances funds to STL to pay foreign suppliers. The outstanding balance of these advances amounted to P39.1 million and P31.3 million as of December 31, 2008 and 2007, respectively, and are included as part of Trade Receivables under Trade and Other Receivables account in the consolidated balance sheets (see Note 7).

25.7 Transactions with Solid Company Limited

The Company purchases mobile phones from Solid Company Limited (Hongkong), a related party under common ownership. Total purchases amounted to P93.1 million and P169.7 million in 2008 and 2007, respectively, and are presented as part of Cost of Sales in the income statements (see Note 11). There are no outstanding liabilities relating to these purchases as of December 31, 2008 and 2007.

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited, a company owned by SGI's majority stockholders, amounting to P120.8 million which will mature on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. The amount of loan is presented as Investments in Notes under the Other Non-Current Assets account in the 2008 consolidated balance sheet (see Note 13).

25.8 Key Management Personnel Compensation

Salaries and other benefits given to key management personnel for 2008, 2007 and 2006 are as follows (see Note 21.1):

	2008	2007	2006
Short-term benefits	P 23,147,052	P 25,890,580	P 24,577,115
Retirement benefits	1,530,758	1,613,830	1,243,537
	P 24,677,810	P 27,504,410	P 25,820,652

26. REGISTRATION WITH ECONOMIC ZONE AUTHORITIES

26.1 Registration with 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 Kita's registered activities.

26.2 Registration with the Philippine Economic Zone Authority (PEZA)

SMC is registered withPEZA 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 Philippines, Inc. (Sony)

On July 1, 2003, SE Corp. entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony and Aiwa products. Under the MOU, Sony authorized the 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	
	2008	2007	2006	2008	2007
SONY Products	P 27,933,816	P 32,030,215	P 29,903,703	P 22,207,796	P 13,409,249
AIWA Products	600,000	600,000	600,000	280,000	-
	P 28,533,816	P 32,630,215	P 30,503,703	P 22,487,796	P 13,409,249

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).

27.2 Distributorship Agreement with Sony Corporation

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

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 was recognized as part of Sale of Goods account in 2006 while P55.5 million was recorded as part of Rendering of Services account in 2007.

28. EVENT AFTER BALANCE SHEET DATE

During the fiscal year 2008, Starworld and a certain buyer entered into a reservation agreement covering parcels of land owned by the Starworld.At the time of the agreement, the location of these lots was not yet included in the existing CPIP Special Economic Zone. Hence, the initial payment made by the buyer amounting to P49.6 million is initially recognized as part of Other payables under Trade and Other Payables in the 2008 consolidated balance sheet (see Note 11).

On February 4, 2009, the BOD of SBC approved the spin-off and transfer of the Company's mobile division and digital business to a new company to be incorporated as "My Solid Technologies & Devices Corporation".

In March 2009, the trading division of the SLC ceased operations.The net carrying amount of property and equipment in the SLC's tranding division amounted to P40,851 as of December 31, 2008.

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 Company, 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:

	2008	2007	2006
Within one year	P 75,120,679	P 12,041,244	P 71,857,133
After one year but not more than five years	132,001,097	9,556,733	156,753,601
More than five years	5,467,962	3,613,297	8,005,451
	P 212,589,738	P 25,211,274	P 236,616,185

29.3 Operating Lease Commitments – Group as Lessee

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

	2008	2007	2006
Within one year	P 5,884,690	P 5,196,035	P 4,747,016
After one year but not more than five years	28,876,660	27,054,655	24,157,140
More than five years	55,692,029	63,387,324	70,753,956
	P 90,423,379	P 95,638,014	P 99,658,112

Total rental expense from these operating leases amounted to P7,415,493 each in 2008, 2007 and 2006, and are shown as part of Rentals 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 (see Note 12):

(a) SMC is involved in a number of litigation and is subject to certain claims relating to among others:

(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 amounting to P7.6 million are being subject to expropriation coverage under the Agrarian Reform Act and claims by third parties.

As of December 31, 2008, the outcome of these legal claims cannot be ascertained by the Group. In previous years, 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 of December 31, 2007, there are claims for alleged infringement of copyrights and sound recording by a third party against SLC. Management believes that the outcome of such lawsuits will not materially affect the Group's consolidated financial statements.

29.5 Estimated Liability for Land and Property Development

As of December 31, 2008 and 2007, the Company has commitment of about P68.3 million and P27.9 million, respectively, for the fulfilment of projects in the development and marketing of CPIP (see Note 12).

29.6 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).

29.7 Possible Impact of Government Project

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

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.

29.8 Others

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

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 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, 2008 and 2007 are as follows:

	2008		2007	
	U.S. Dollar	Philippine Pesos	U.S. Dollar	Philippine Pesos
Financial assets	P 6,886,347	P 326,998,187	P 4,201,828	P 173,959,891
Financial liabilities	117,360	5,572,827	10,005,447	414,235,521
Total net exposure	P 6,768,987	P 321,425,360	P 5,803,619	P 240,275,630

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 income before tax for the year with respect to changes in Philippine peso against U.S. dollar of +/-26.18% in 2008 and +/-20.72% in 2007 with effect from the beginning of the year. These changes in rates have 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 Group's financial instruments held at each balance sheet date, with effect estimated from the beginning of the year.

All other variables held constant, if the Philippine peso had strengthened against the U.S. dollar, income before tax in 2008 and 2007 would have decreased by P84.2 million and P18.4 million, respectively. Conversely, if the Philippine peso weakened against the U.S. dollar by the same percentages, income before tax would have been higher by the same amounts.

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

30.2 Interest Rate Sensitivity

At December 31, 2008 and 2007, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5). All other financial assets and liabilities have fixed rates.

The following illustrates the sensitivity of income before tax for the year to a reasonably possible change in interest rates of +/-7.25% in 2008 and +/-4.46% in 2007 with effect from the beginning of the year. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Company's financial instruments held at each balance sheet date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 7.25% and 4.46%, income before tax in 2008 and 2007 would have increased by P66.8 million and P21.9 million, respectively. Conversely, if the interest rate decreased by the same percentages, income before tax would have been lower by the same amounts.

30.3 Credit Risk

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

	Notes	2008	2007
Cash and cash equivalents	5	P 1,118,462,976	P 1,206,991,793
Held-to-maturity investments	6	161,289,378	53,000,000
Trade and other receivables - net	7	1,049,192,856	932,991,816
Available-for-sale financial assets	8	63,519,015	388,448,319
Advances to related parties	25	192,327,778	130,091,376
		P 2,584,792,005	P 2,711,523,304

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

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due for each balance sheet dates are of good credit quality.

None of Group's the financial assets are secured by collateral or other credit enhancements.

Financial assets past due but not impaired can be shown as follows:

	2008	2007
Not more than 3 months	P 89,878,519	P 87,670,744
More than 3 months but not more than one year	37,143,280	17,321,570
More than one year	33,917,007	34,952,334
	P 160,938,806	P 139,944,648

In respect of trade and other receivables, 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.

30.4 Liquidity Risk

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash 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, 2008 and 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.

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

	2008	2007
Total liabilities (excluding amounts due to related parties)	P 1,783,613,360	P 1,747,741,413
Total equity	7,611,933,183	7,124,197,408
Debt-to-equity ratio	0.23 : 1	0.24 : 1

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