

**SECURITIES AND EXCHANGE COMMISSION
SEC FORM 17-A, AS AMENDED**

**ANNUAL REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SECTION 141
OF CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended December 31, 2013
2. SEC Identification Number: 845
3. BIR Tax Identification No.: 000-508-536-000
4. Exact name of issuer as specified in its charter **SOLID GROUP INC.**
5. Province, Country or other jurisdiction of incorporation or organization: Philippines
6. _____ (SEC Use Only)
Industry Classification Code
7. Address of principal office: Solid House, Postal Code: 1231
2285 Don Chino Roces Avenue (formerly Pasong Tamo Ext.)
Makati City, Philippines
8. Telephone No: (632) 843-15-11
9. Former name, former address, and former fiscal year, if changed since last report: Not Applicable
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|----------------------------|---|
| Common Stock, P1 par value | 1,821,542,000 shares |
11. Are any or all of these securities listed on the Philippine Stock Exchange
Yes [] No []
If yes, state the name of such stock exchange and classes of securities listed therein:
Philippine Stock Exchange Common

12. Check whether the issuer:

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

Yes [x] No []

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

Yes [x] No []

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant:

P575,919,928

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PART I. BUSINESS AND GENERAL INFORMATION

Item 1. Business

(A) Description of Business

1. Business Development

The Company, formerly United Paracale Mining Company, was incorporated on October 9, 1933 as a mining company.

On May 31, 1996, the Company's new set of stockholders executed deeds of assignment transferring to the Company their investments in shares of stock of certain companies as full payment for their subscriptions to 1.5 billion shares of the Company's capital stock. On June 18, 1996, the Securities and Exchange Commission approved the assignment of shares and the following amendments to the Company's Articles of Incorporation: (a) change in the Company's corporate name to Solid Group Inc.; (b) change in its primary purpose to that of a holding company; (c) change of the par value of its shares from P.01 to P1.00; (d) the declassification of its class A and class B capital stock; and (e) the increase in its authorized capital stock from P20 million (divided into P1.2 billion Class A shares and 0.8 billion Class B shares at P0.01 par value) to P5 billion divided into 5 billion shares at P1.00 par value, all of one class.

On September 4, 1996, an additional 524,475,000 of Company's shares of stock were offered to the public and listed in the Philippine Stock Exchange.

On the November 21, 2002 special stockholders' meeting, the stockholders approved the acquisition of the shares and/or economic interests in the Destiny Group (consisting of Destiny, Inc. and subsidiaries (DI) and Destiny Cable, Inc. and subsidiaries) from the Elena Lim family in exchange for 1.026 billion shares of the Company with par value of P1.00 per share.

In May 2003, the Company completed the acquisition of the entire issued and outstanding shares of DI, which is in the business of broadband multimedia services. The acquisition was approved by the Bureau of Internal Revenue (BIR) on May 15, 2003. A notice of exemption for the issuance of shares under the Revised Securities Act was filed with the Securities and Exchange Commission on November 6, 2003. Company shares totaling 224,461,752 was proposed to be issued in payment for the DI acquisition upon approval of the listing of these shares with the Philippine Stock Exchange. However, in 2004, upon further review of the assets and liabilities of DI, certain receivables from and payables to related parties were removed from the valuation of DI's net assets. The re-valuation resulted in a change in its financial position from a net asset to a net liability of P23,201,010. The Company and DCI agreed that the Company would no longer issue shares of stock to DCI as payment for its acquisition of DI, but instead assume the DI's net liability which represents fair value of the ongoing business of DI including its existing cable internet subscriber base which, in accordance with the pooling of interest accounting applied to this transaction, was charged to additional paid-in capital.

The Company has twelve (12) wholly-owned subsidiaries as of December 31, 2013, as follows:

My Solid Technologies & Devices Corporation (MySolid) was incorporated on April 21, 2009 to engage in the manufacture, sale, distribution, importation of any type of digital communication devices, communication technology, broadband and audio-video equipment, gadgets and accessories as well as undertake product research and development. MySolid merged with MyTel Mobility Solutions Inc. (MyTel), another wholly subsidiary of the Company with similar business, with MySolid as the surviving company effective June 1, 2012.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. On February 22, 2011, the Board of Directors and stockholders approved the amendment of the SGTC's articles of incorporation to change its primary purpose. This was approved by the Securities and Exchange Commission on March 22, 2011 and starting that date, SGTC's primary purpose is to engage in, operate, conduct and maintain business of designing, manufacturing, installing, importing, exporting, marketing, distributing or otherwise dealing in at wholesale and retail prefabricated modular house and office units. SGTC was formerly a wholly-owned subsidiary of SC. In 2007, SGTC became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in SGTC.

Solid Video Corporation (SVC) was incorporated on October 12, 1984. SVC distributes professional video equipment, accessories and supplies to broadcast networks and other companies.

Solid Manila Corporation (SMC) was incorporated on June 13, 1983. SMC is engaged in the lease and development of the Company's real estate properties. SMC merged with Solid Distributors, Inc. (SDI), another wholly-owned subsidiary of the Company, on December 23, 2003, with SMC as the surviving company. Effective January 1, 2012, SMC merged with Solid Corporation, also another wholly owned subsidiary of the Company engaged in the same business of leasing real estate properties, with the SMC as the surviving company.

Zen Towers Corporation (Zen) was incorporated on July 6, 2005. Zen is engaged in the development and sale of real estate properties. Its developed the Zen Tri-Tower condominium located in Ermita, Manila.

Precos Corporation (Precos) was incorporated on October 31, 1989 to engage in real estate and related businesses. Prior to 2004, Precos was 60% owned by SC and 40% owned by Sony International (Singapore) Ltd. (SONIS). In 2004, Precos reacquired as treasury stock the shares held by SONIS, thereby making the Company a wholly owned subsidiary of SC. In 2007, Precos became a wholly-owned subsidiary of the Company when SC declared property dividend to the Company in the form of its investment in Precos.

Kita Corporation (Kita) was incorporated on October 1, 1994. Kita produced color TV sets under the AIWA brand at its factory located inside the Clark Special Economic Zone. Kita ceased its manufacturing operations effective April 15, 2001 after its agreement with Aiwa expired in April 1, 2000 and was no longer renewed. Kita merged with Clark Plastics Manufacturing Corporation (CPMC), a wholly owned subsidiary of SC, on April 2004, with Kita as the surviving company. After its merger with CPMC, Kita resumed operations to continue the business of CPMC, which is injected plastics manufacturing as well as the lease of its property. In December 2010, Kita ceased the operations of its injected plastics manufacturing business. Henceforth, Kita's revenues principally come from the lease of its properties.

Omni Solid Services Inc. (OSSI) (formerly Solid Laguna Corporation SLC) was incorporated on May 15, 1995. SLC merged with Solid City Industrial and Commercial Corporation (SCICC), a wholly-owned subsidiary of Solid Corporation, on December 28, 2001 with SLC as the surviving company. SLC ceased its consumer electronics manufacturing operations in December 2002 after its manufacturing agreement with SPH expired in September 2002 and was not renewed. Subsequently, SLC's business is injected plastics manufacturing which was the business of SCICC prior to their merger. SLC ceased the operations of the plastic injection manufacturing business at the end of 2009 and operated as lessor of real estate. SLC merged with Omni Logistics Corporation (OLC), another wholly owned subsidiary of the Company, effective January 1, 2012, with SLC as the surviving company. After the merger, SLC resumed the business of OLC of providing warehousing and logistics services to third parties. On March 19, 2012, SLC changed its corporate name to Omni Solid Services, Inc.

Solid Electronics Corporation (SEC) was incorporated on August 9, 1982. SEC operates the repair and service centers for SONY brands of audio and video consumer electronics equipment and MyPhone digital devices. SEC merged with AA Electronics Corporation (AAEC), another wholly-owned subsidiary of the Company and Solid Electronics Services Inc. (SESI), a wholly owned subsidiary of SC on April 12, 2004 with SEC as the surviving company.

Brilliant Reach Limited (BRL) was incorporated on March 12, 2003 in the British Virgin Islands and acquired by the Company on July 31, 2003. BRL handles and manages the placement of the Company's investible funds in foreign currency fixed income financial assets and other investments.

Solid Manila Finance Inc. (SMFI) was incorporated on September 9, 1999. SMFI is engaged in the financing and extension of business, appliance and other loans.

Solid Broadband Corporation (SBC) was incorporated on September 22, 2000 to offer broadband services. SBC obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. It has been granted provisional authority to use its franchise by the National Telecommunications Commission on April 15, 2002. SBC was merged with Destiny Inc. (DI) as approved by the Securities and Exchange Commission on August 26, 2005, with SBC as the surviving entity. Henceforth, SBC assumed the operations of DI of broadband cable infrastructure and provides transport services to an affiliate engaged in cable television operations. It also provides integrated multimedia services, among which are, VSAT, broadcast uplink and leased line services. In 2007, SBC started the marketing and distribution of mobile phones. In 2010, My Solid Technologies & Devices Corporation assumed the importation of the mobile phones from SBC while MyTel Mobility Solutions Inc. took over the distribution of mobile phones from SBC. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

Henceforth, the term "Company" would mean the Parent Company and/or any of its subsidiaries.

2. Business of Issuer

Principal Products and Services

The consumer electronics business of the Company as of December 31, 2013 are:

(1) sale of mobile phones which generated sales of P3,398 million (for 2,454,531 units) or 97% of sales in 2013, P3,836 million (for 2,985,764 units) or 97% of sales in 2012 and P2,908 million (for 2,022,142 units) or 93% of sales in 2011; and (2) after-sales service for principally SONY brands of consumer electronic products and My|Phone with its 38 company-owned service centers throughout the Philippines as of end of 2013 which generated service income of P164 million or 40% of service revenues in 2013, P203 million or 32% of service revenues in 2012 and P204 million or 30% of service revenues in 2011; and (3) warehousing, distribution and product testing of consumer electronic products with service revenue of P116 million or 28% in 2013, P116 million or 18% of service revenue in 2012 and P84 million or 12% of service revenues in 2011 and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee P9 million in 2013 (for 58,000 units) or 2% of service revenues, nil in 2012 and 2011.

As mentioned above, Solid Broadband Corporation sold its wired and satellite assets and broadband/internet subscriber base on May 11, 2012. After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable Corporation until the SBC's clients are transferred to the latter. Sky Cable Corporation also assumed to pay all cost and expenses in connection with use and operation of the assets. Revenues arising from this activity amounted to P53 million in 2013 or 13% of service revenues, P91 million in 2012 or 14% of service revenues (nil for 2011). Prior to the sale, the broadband multimedia business reported revenues of P156 million in 2012 or 25% of service income and P374 million in 2011 or 55% of service income in 2011.

The Company's other business activities are: the development and sale of industrial estates in joint venture with Samsung Corporation of Korea, the development of residential condominium for sale and the development and lease of other real estate properties and hotel operations, sale of prefabricated modular houses, and sale of broadcast/professional equipment and accessories.

The Company's products are sold in the Philippines. Revenues for the last 3 years, are as follows: broadcast/professional equipment and accessories of P81 million or 2% of sales in 2013, P82 million or 2% of sales in 2012 and P182 million or 93% of sales in 2011; prefabricated modular houses of P34 million or 1% of sales in 2013, P39 million or 1% of sales in 2012 and P13 million or 0.4% of sales in 2011. Real estate sales amounted to P114 million or 3% of sales in 2013, P99 million or 2% of revenues in 2012 and P126 million or 3% of revenues in 2011. Revenues from hotel operations amounted P39 million in 2013 or 9% of service revenues in 2013, P36 million in 2012 or 6% of service revenues in 2012 and P30 million in 2011 or 4% of service revenues in 2011.

Distribution

The broadcast/professional equipment and accessories is also sold directly to its corporate clients such as broadcast stations.

The Company distributes through its subsidiaries consumer electronic products and devices in the Philippines. The MyPhone brand is distributed by MySolid Technologies and Devices Corporation. As of December 31, 2013, MySolid supplied approximately 350 dealer accounts.

Status of any-publicly announced new product or service

None.

Competition

The MyPhone brand celphones distributed by MySolid Technologies and Devices Corporation competed with other brands in the Philippine market mainly Nokia, Samsung, Sony Ericsson, Motorola, Cherry Mobile, Torque and other grey market phones.

The broadcast/professional equipment and accessories that the Company sells competes with other brands like Panasonic and Sharp.

The prefabricated modular houses that the Company markets are standardized in design, modular assembled, easy to assemble and disassemble and relocate and can also be stored easily. Its main products are designed and manufactured using light steel frames and sandwich wall panels that covers a wide range of applications such as temporary offices, dormitories for construction sites, municipal offices, residential settlements, school classrooms shops, temporary housing for disaster relief and military camps, temporary buildings for exhibitions. It competes with Indigo and Smarthouse.

The Company provides warehousing, and logistics services mostly to electronics companies. It competes with Fast Cargo, Yusen and Agility Logistics among others.

The Company operates a hotel through Casa Bocobo Hotel (CBH). CBH competes with other budget hotels within the Manila area.

Raw Materials, Parts and Components

The Company through its subsidiaries procures raw materials for manufacture of its products and finished products from a number of sources in the Philippines and foreign suppliers. It has an existing contract through its subsidiary SolidGroup Technologies Corporation, with a foreign supplier, for the supply of prefabricated modular houses (See Agreements).

Dependency of the business upon a single or few customers

The Company is not dependent on any single or few customers. There are no major existing sales contracts.

Service

The Company provides through its subsidiaries, after-sales service for all the consumer electronic products it manufactures. As at December 31, 2013, it has 38 service centers throughout the Philippines.

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements. Subsidiaries of the Company generally depend on one another for supply

of services and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

Principal Terms and Expiration Dates of all Licenses and Agreements

- Memorandum of Understanding with Sony Philippines, Inc. (Sony)

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony 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. In the first quarter of 2009, SEC and Sony agreed to lower the network support fees to be 0.45%. Effective April 2009, SEC and Sony agreed that the network support fees shall be at a fixed rate of P1.25 million per month. The Agreement is effective unless revoked by any of the parties.

- Distributorship Agreement with Sony Corporation

Solid Video Corporation has a non-exclusive Distributor Agreement with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under 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.

- Exclusive Distribution Agreement with Yahgee Modular House Co., Ltd.

SolidGroup Technologies Corporation (SGTC) has an exclusive Distribution Agreement with Yahgee Modular House Co., Ltd., a corporation organized and existing under the laws of the People's Republic of China on June 10, 2011. Under the agreement, SGTC is designated as the exclusive distributor of its products under the MyHouse brand in the Philippines. The agreement is valid for three years.

- Agreement with Sky Cable Corporation

On May 11, 2012, the Solid Broadband Corporation (SBC) entered into an agreement with Sky Cable Corporation covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base of SBC used in the operation of its broadband business. SBC received the amount of P1 billion as consideration for this transaction.

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

- Option Agreement

On May 11, 2012, the Company entered into an Option Agreement with Sky Cable Corporation to purchase its shares of stocks in SBC which option must be exercised not later than December 31, 2013. Sky Cable Corporation did not exercise the option.

- Franchise

Solid Broadband Corporation (SBC) obtained a congressional franchise for 25 years to construct, install, establish, operate and maintain telecommunications systems throughout the Philippines under Republic Act No. 9116 which took effect on April 14, 2001. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

Need for any government approval

Zen Tower Corporation is awaiting the approval of the Housing and Land Use Regulatory Board (HLURB) its license to sell for the Tower 2. Also, FilDragon is waiting of the release of property titles from the local government of Nanning, China.

Effect of existing and probable governmental regulations on the business

None.

Research and development activities

The Company has not spent any significant amount for research and development activities in the last three years.

Costs and effects of compliance with environmental laws

The Company has complied with environmental laws at minimal costs.

Employees

The Company and its subsidiaries have 388 regular employees as at December 31, 2013 as shown in the table below. It estimates to have 450 employees by the end of December 31, 2014. There is no existing union as of December 31, 2013. There are no employees who would be on strike nor have been on strike in the past three (3) years, nor are threatening to strike. The Company has no supplemental benefits and incentive arrangements with its employees other than the regular Christmas bonus, thirteenth month pay, performance incentives and leave conversions.

| | <u>Number of employees</u> |
|------------------------|----------------------------|
| Management | 18 |
| Sales and Distribution | 56 |
| Operation | 80 |
| Service | 108 |
| Administration | 80 |
| Finance | 46 |
| Total | <u>388</u> |

Major Risks involved in the Businesses of the Company

The Company and its subsidiaries identify the major risks of the businesses by assessing the business environment in which they operate. Major risks and threats are addressed through the corporate planning process, which defines appropriate strategic directions and actions to be taken. These directions and actions are managed by regular audit and management review of the operations and financial results of the Company and its subsidiaries. Significant issues, which may arise as a result of the management review, are then presented to the Executive Committee and the Board of Directors for resolution.

The Company has certain risks in its businesses such as financial risk associated with certain long-term financial investments, specifically bonds. The Company relies on the advice and research of major leading international financial consultants on the handling of these financial investments.

The Company's business is continuously subject to rapid technology changes which may cause inventory obsolescence. The Company monitors developments in technology advances that could affect its business.

Item 2. Properties

B. Description of Property

Certain properties owned by the Company through its subsidiaries are as follows:

| Location | Land Area (in sq. m.) | Current and Intended Use |
|---|--------------------------|--|
| Laguna International Industrial Park, Binan, Laguna | 73,532 | Building for lease |
| La Huerta, Bicutan, Paranaque | 18,490 | Office building & warehouses |
| San Dionisio, Paranaque | 6,690 | Warehouses for lease |
| San Antonio, Paranaque | 4,056 | Warehouses for lease |
| Valenzuela, Marulas, Bulacan | 10,493 | Factory and warehouses; Building for lease |
| Laguna International Industrial Park, Binan, Laguna | 5,141 | Building for lease |
| Pasong Tamo, Makati City | 5,000 | Building (Under renovation for Hotel and Office use) |
| Natividad St., Ermita, Manila | 4,506 | Condominium tower under construction (for sale) |
| Osmena Blvd., Cebu City | 3,859 | Service center & office building for lease |
| Outlook Drive, Baguio City | 3,846 | Land for sale |
| Brgy. Tabuco, Naga City | 3,059 | Raw land (Intended for sale) |
| Tandang Sora, Quezon City | 2,511 | Building for lease; (Future site of the pilot project for modular residential housing units) |
| Barrio Pantal, Dagupan City | 1,918 | Raw land (Intended for sale) |

| | | |
|--|---------|--|
| Barrio San Rafael, Iloilo City | 1,750 | Service Center and Office building for lease |
| J. Bocobo St., Ermita, Manila | 1,724 | Office building and Hotel |
| Brgy. San Roque, San Pablo City | 1,714 | Service center and office building |
| Oliveros, Balintawak, Quezon City | 1,400 | Raw land (Intended for sale) |
| Bacoor, Cavite | 1,334 | Office building for lease |
| Cabanatuan City, Nueva Ecija | 1,212 | Service center and building for lease |
| Brgy. San Rafael, Tarlac, Tarlac | 1,000 | Warehouse for lease |
| Calamba Premiere Industrial Park | 9,852 | Industrial/ Commercial lots for sale |
| Araneta, Quezon City | 1,000 | Land (Intended for sale) |
| Brgy. Parian, Prinza and Barandal, Calamba | 132,929 | Raw Land |

Solid Corporation also owns a parcel of land in Bgys. Talipapa and Pamaldan, Cabanatuan City, Nueva Ecija with an area of 1,914,180 square meters. This property is the subject of a case filed by Solid Corporation on October 17, 1995 with the Department of Agrarian Reform Regional Adjudication Board (RARAB) to declare the emancipation patents issued to several tenant farmers of the said property and any patents that may subsequently be issued covering the same, null and void on the ground that the requirements of Presidential Decree No. 27 have not been complied with. The portion of the property that may be subject to litigation consists of 47,211 square meters. On February 6, 1997, the case was submitted for resolution. On June 26, 1997, the RARAB ordered the processing of the Certificate of Land Transfer for issuance to the tenants. On July 31, 1997, Solid Corporation appealed the RARAB decision to the DAR's Central Adjudication Board (DARAB). The appeal was resolved adverse to Solid Corporation on January 31, 2002. Solid Corporation appealed the DARAB decision to the Court of Appeals on February 11, 2002. The Court of Appeals dismissed the petition of Solid Corp. on March 1, 2002. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank, which the Court of Appeals granted last June 28, 2004. No amicable settlement was however reached. Thus, Solid Corporation filed for a Petition for Higher Valuation of Land before the Provincial Agrarian Reform Adjudication Board of the Department of Agrarian Reform in Cabanatuan City on November 18, 2007. The Department of Agrarian Reform granted Solid Corporation's petition and ordered Land Bank to re-evaluate the land valuation based only on Republic Act No. 6657 (The Comprehensive Agrarian Reform Program) on September 28, 2012. Land Bank amended the valuation and tendered an Amended Offer of P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation agreed to the offer and is complying the documentation requirements as of April 2014.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution

No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267, 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264 which is pending resolution as of April 2013. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

There are two other cases involving certain properties of Solid Manila Corporation. Its titles to the Balintawak, Quezon City property with land area of 31,423 square meters, currently used as a service center and office building, are sought to be annulled in a civil action filed on 25th September, 1990, with the Regional Trial Court Branch 120 on the ground that another title covers the same area claimed by Lilia Sevilla et.al. On July 14, 1995, the in-house counsel assumed the case. On January 20, 2003, the RTC Branch 120 rendered a decision in favor of Lilia Sevilla annulling seven titles of Solid Manila Corporation to wit-- TCT Nos. 12729 up to 12736. SMC filed an appeal with the Court of Appeals. The Company's legal counsel believes that the titles of Solid Manila Corporation will prevail over those of the claimants on the grounds that the titles of the claimants are being sought to be nullified and voided by the government itself. The government's case filed by the Land Registration Authority (which is represented by the Office of the Solicitor General) before the Regional Trial Court (RTC) Branch 122 was for the annulment of claimant's title. Solid Manila Corporation filed an intervention in the government's case despite opposition by Lilia Sevilla et.al. The Court allowed Solid Manila Corporation to intervene in the government's case. Pending the incident of other third party intervenors, the Department of Justice recommended the dismissal of the Register of Deeds (ROD) and Deputy ROD of Caloocan based on inquiry of the antecedent facts of the case. In November 2000, the RTC Branch 122 rendered a decision in favor of the government, thus nullifying the land titles of Lilia Sevilla et. al., who subsequently appealed the decision of RTC Branch 122 to the Court of Appeals. SMC consolidated these cases as of February 2004. Lilia Sevilla et. al. filed a motion for reconsideration to the Court of Appeals' order consolidating these cases. The Court of Appeals had received the memoranda of the respective parties of Lilia Sevilla, the Government and Solid Manila Corp. and had raffled the case to another division for the promulgation of the decision. This case is now submitted for decision. There is no decision as of April 2014.

Franchise

A Company's subsidiary, Solid Broadband Corporation (SBC), obtained a congressional franchise to construct, install, establish, operate and maintain telecommunications systems

throughout the Philippines under Republic Act No. 9116 which took effect on April 15, 2001. On May 11, 2012, SBC entered into an agreement with Skycable Corporation for the sale/assignment and purchase of its wired and satellite assets and broadband/internet subscriber base, (See Agreements). After the sale of its assets, SBC remaining business was acting as collecting agent of Sky Cable until the SBC's clients are transferred to the latter.

Mortgage, lien or encumbrance and limitation on ownership or usage on the properties

Except for the above third party claims filed against the Company's subsidiaries as disclosed above, there are no other mortgage, lien or encumbrance and limitation on the ownership or usage on the properties.

Lease agreements

Kita Corporation, a wholly-owned subsidiary of the Company, has entered into lease contracts with Clark Development Corporation

| Location | Annual Rent (In Thousand Pesos) | Expiration Date |
|-----------------|------------------------------------|------------------------------|
| Clark, Pampanga | 7,353* | March, April and August 2019 |

* With increase after every five years on the lease of land and 10% annual increase on lease of the improvements after the first five years.

The lease contract are renewable upon mutual agreement of the parties.

Also, the Company through its subsidiaries, primarily Solid Manila Corporation and Kita Corporation, leases out to tenants certain real estate properties as summarized below. These leases are renewable on terms mutually acceptable to the parties.

| Location | Annual Rent (In Thousand Pesos) | Expiration Date |
|---|------------------------------------|---------------------------------|
| Bacoor, Cavite | 4,366 | July 31, 2014 |
| Balintawak, Quezon City | 33,083 | Various up to September, 2015 |
| Cagayan de Oro | 1,915 | Various up to January 31, 2016 |
| Chino Roces Ave, Makati City | 4,372 | Various up to July 6, 2019 |
| Clark, Pampanga | 28,378 | Various up to February 13, 2019 |
| Iloilo | 1,921 | Various up to March 31, 2016 |
| Laguna International Industrial Park, Binan, Laguna | 47,133 | Various up to March 31, 2016 |

| | | |
|---|--------|----------------------------------|
| Laguna International Industrial Park, Binan, Laguna | 3,600 | April 30, 2014 |
| La Huerta, Bicutan, Paranaque | 7,410 | Various up to October 31, 2017 |
| Ermita, Manila | 11,859 | Various up to September 30, 2018 |
| Ermita, Manila | 3,895 | Various up to December 14, 2017 |
| San Dionisio, Paranaque City | 727 | February 14, 2013 |
| Valenzuela, Bulacan | 2,644 | Various up to December 31, 2013 |

Properties the Company intends to acquire in the next twelve months

The Company estimates capital expenditures for the year 2014 to amount to P200 million for various real estate development and/ or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

Item 3. Legal Proceedings

C. Legal Proceedings

As discussed Item 2 (See Properties), certain subsidiaries of the Company are involved in litigation or other proceedings affecting their respective titles to real estate property and certain other litigation in relation to property, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the Company. The Company does not believe any such litigation will have a significant impact on the financial results, operations or prospects of the Company.

Item 4. Submission of Matters to a Vote of Security Holders

There were no matters submitted to a vote of the security holders during the fourth quarter of the fiscal year covered by this report.

PART II - OPERATIONAL AND FINANCIAL INFORMATION

Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

A. Market Price of and Dividends on Registrant's Common Equity and Related Stockholders Matters

(1) Market Information

(a) Principal Market

The principal market for the registrant's common equity is the Philippine Stock Exchange

(i) The registrant's common equity is listed and traded only at the Philippine Stock Exchange. The high and low sales prices for each quarter within the last two years are as follows:

Stock Prices

| | High (₱) | Low (₱) |
|----------------|----------|---------|
| 2013 | | |
| First quarter | 2.54 | 1.90 |
| Second quarter | 2.24 | 1.50 |
| Third quarter | 1.82 | 1.51 |
| Fourth quarter | 1.70 | 1.04 |
| 2012 | | |
| First quarter | 1.37 | 1.10 |
| Second quarter | 1.69 | 1.23 |
| Third quarter | 2.71 | 1.38 |
| Fourth quarter | 2.20 | 1.85 |

(ii)

Not applicable. The principal market is the Philippine Stock Exchange.

(b) The Company share was trading at P1.46 as of April 15, 2014 (the latest practicable trading date).

(c) Not applicable. This report is not filed in relation to registration of securities.

(2) Holders

The number of shareholders of record as of December 31, 2013 was 4,415. Common shares outstanding as of December 31, 2013 were 1,821,542,000 shares. Total issued shares as of December 31, 2012 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of December 31, 2013:

| Name of Stockholder | No. of Shares Held | % to Total Outstanding |
|--|-----------------------|---------------------------|
| 1. AA Commercial, Inc. | 583,377,817 | 32.03 |
| 2. AV Value Holdings Corporation | 499,999,999 | 27.45 |
| 3. PCD Nominee Corporation (F) | 332,744,126 | 18.27 |
| 4. Lim, David S. | 179,488,591 | 9.85 |
| 5. Lim, Vincent S. | 71,887,187 | 3.95 |
| 6. Lim, Jason S. | 65,176,160 | 3.58 |
| 7. PCD Nominee Corporation (NF) | 41,297,633 | 2.27 |
| 8. Chua, Willington Chua &/or Constantino | 11,610,000 | 0.64 |
| 9. Chua, Constantino &/or Willington &/or George | 1,750,000 | 0.10 |
| 10. Hottick Development Corporation | 1,408,000 | 0.08 |
| 11. Chua, Willington | 1,110,000 | 0.06 |
| 12. Paz, Venson | 1,065,000 | 0.06 |
| 13. Lucio W. Yan &/or Clara Yan | 1,000,000 | 0.05 |
| Columbian Motors Corporation | 1,000,000 | 0.05 |
| 14. Juan Go Yu &/or Grace Chu Yu | 940,000 | 0.05 |
| 15. Ong, Victoria | 632,000 | 0.03 |
| 16. Union Properties, Inc. | 625,000 | 0.03 |
| 17. Esperanza I. Lim | 600,000 | 0.03 |
| 18. Lim, Julia | 590,000 | 0.03 |

| | | | |
|-----|---|---------|------|
| 19. | Castillo Laman Tan Pantaleon & San Jose Law Offices | 536,000 | 0.03 |
| 20. | Jacinto, Ray Sy | 500,000 | 0.03 |
| | GMA Farms Inc. | 500,000 | 0.03 |

b. Not applicable. This report is not filed in relation to registration of securities or any acquisition, business combination or other reorganization.

c. Not applicable. This report is not filed in relation to any acquisition, business combination or other reorganization.

d. Not applicable. This report is not filed in relation to registration of securities.

(3) Dividends

a. In 2013, cash dividend amounted to P0.06 per share in favor of stockholders of record as of August 30, 2013 and payable on or before September 24, 2013. In 2012, cash dividend amounted to P0.06 per share to stockholders of record as of October 31, 2012 and payable on or before November 28, 2012. None was declared in 2011.

b. The Company's retained earnings as of December 31, 2013 included undistributed earnings of subsidiaries and unconsolidated investees, which are not currently available for dividend declaration until such time that the subsidiaries have distributed them. The Company's retained earnings is also restricted for the cost of 209,433,000 treasury shares amounting to P115.6 million as of December 31, 2013.

(4) Recent Sales of Unregistered or Exempt Securities

There was no sale of unregistered or exempt securities in 2011 to 2013.

a. Securities Sold.

No securities were sold by the Company from 2011 to 2013.

b. Underwriters and Other Purchases

Not applicable. There were no securities were sold by the Company from 2011 to 2013.

c. Consideration

Not applicable. There were no securities were sold by the Company from 2011 to 2013.

d. Exemption from Registration Claimed

Not applicable. There were no securities were sold by the Company from 2011 to 2013.

Item 6. Management's Discussion and Analysis or Plan of Operation

A. Management's Discussion and Analysis or Plan of Operation

(1) Plan of Operation

Not applicable. The Company have revenues from operations in each of the last two fiscal years.

(2) Management's Discussion and Analysis

Full Fiscal Years

Key Performance Indicators

The following key performance indicators were identified by the Company: asset turnover, revenue growth, operating expense ratio, earnings before interest, taxes, depreciation and amortization (EBITDA), earnings per share, current ratio and debt to equity ratio.

Revenue growth was determined as follows: revenues for the current year less revenues for last year or change in revenues divided by the revenues of the previous year.

Asset turnover was computed based on the revenues earned during the year divided by the average total assets.

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

EBITDA was determined by adding back interest expense, depreciation and amortization charges to income before tax on continuing operations for the year.

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

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

Debt to equity ratio was computed by dividing the total liabilities (excluding amounts due to related parties) as of end of the year by the total equity as of end of the year.

Key performance indicators for 2013, 2012 and 2011 are as follows:

| | <u>December 31, 2013</u> | <u>Dec. 31, 2012</u> | <u>Dec. 31, 2011</u> |
|-------------------------|--------------------------|----------------------|----------------------|
| Revenue growth | (13%) | 18% | 53% |
| Asset turnover | 32% | 40% | 37% |
| Operating expense ratio | 17% | 15% | 16% |
| EBITDA | P225 million | P1,565 million | P659 million |
| Earnings(loss) / share | P0.09 | P0.68 | P0.24 |
| Current ratio | 2.60:1 | 3.14:1 | 2.47:1 |
| Debt to equity ratio | 0.39:1 | 0.33:1 | 0.36 : 1 |

2013

Revenue declined by 13% in 2013 vs. 18% increase in 2012 principally due to lower revenues of the distribution segment on digital product sales and lower broadband revenues due to sale of its assets in May 2012.

Asset turnover stood lower at 32% in 2013 from 40% in 2012 mainly as a result of lower revenues of the distribution segment on the digital product sales.

Operating expense ratio was 17% and 15% for 2013 and 2012, respectively due to higher selling and distribution expenses of the distribution segment and lower revenues for the period.

EBITDA amounted to P225 million in 2013 against P1,565 million in 2012. The decrease was mainly due to low operating profit for the period.

Earnings per share amounted to P0.09 in 2013 versus P0.68 in 2012 (P0.32 excluding the one-time gain from broadband asset sale in 2012) mainly from lower net income. The distribution segment suffered a loss in 2013 principally from lower revenues and margins due to stiff market competition.

Current ratio stood lower at 2.60:1 as of December 31, 2013 and 3.14 : 1 as of December 31, 2012 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.39: 1 as of December 31, 2013 from 0.33: 1 as of December 31, 2012 primarily due to higher liabilities.

2012

The Company recorded revenue growth of 18% in 2012 against 53% in 2011. The improvement in revenues was principally driven by the distribution business segment as the my|phone business increased its sales with the introduction of new model lineup; and, the other related service business segment's higher revenues from additional fund placements.

Asset turnover stood at 40% in 2012 from 37% in 2011 principally from higher revenues of the distribution segment.

Operating expense ratio was lower at 14% in 2012 from 16% in 2011. The improvement was mainly due to higher revenues reported for the year.

EBITDA reached P1,574 million in 2012 as compared with P660 million in 2011. The Company reported one-time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million from the sale of assets of Solid Broadband Corporation. Moreover, profits on the my|phone business improved as it increased sales and managed its inventory levels and earnings of the other related services business segment from additional fund placements.

Earnings per share amounted to P0.68 in 2012 from P0.24 in 2011 primarily from higher reported profits in 2012.

Current ratio stood at 3:14:1 as of December 31, 2012 from 2.47 :1 as of December 31, 2011 as the Company's liquidity position improved from the proceeds of the sale of the broadband assets.

Debt to equity ratio stood at 0.33 : 1 as of December 31, 2012 from 0.36 : 1 as of December 31, 2011 primarily due to improved equity position this year.

2011

The Company posted revenue growth of 53% in 2011 vs. 17% in 2010. Revenues improved by 53% in 2011 vs. 17% in 2010. Revenues improved by 53% in 2011 as sales of digital products of the distribution segment doubled in 2011.

Asset turnover was 37% in 2011 from 26% in 2010 driven by higher revenues of the distribution segment in 2011.

Operating expense ratio stood at 16% in 2011 and 19% in 2010. The improvement was mainly due to higher revenues for the year.

EBITDA amounted to P660 million in 2011 against P452 million in 2010. The increase was mainly due to higher operating profit from the distribution and real estate segment.

Earnings per share amounted to P0.24 in 2011 versus P0.13 in 2010 mainly from higher net income for the year.

Current ratio stood at 2.47 :1 as of December 31, 2011 and 2.81 : 1 as of December 31, 2010 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.36 : 1 as of December 31, 2011 from 0.29 : 1 as of December 31, 2010 primarily due to higher liabilities.

Results of Operations 2013

Revenues declined by 13% in 2013 reaching P4,233 million from P4,890 million in 2012 principally from lower revenues of the distribution segment from digital product sales and broadband lower revenue due to sale of its assets in May 2012.

Sale of goods amounted to P3,513 million in 2013, lower by 11% from P3,959 million for the same period in 2012 mainly due lower volume of sales of the digital products.

Service revenue went down to P414 million in 2013, decreasing by 34% from P630 million in 2012 mainly due to sale of assets of Solid Broadband Corp. in May 2012 and its eventual termination of operations. Moreover, in-warranty and out-of-warranty service revenues also suffered a decline.

Rental income amounted to P151 million in 2013, up by 11% from P136 million in 2012 mainly due to higher occupancy in 2013.

Sale of real estate amounted to P113 million in 2013, up by 15% from P98 million in 2012. This was principally due to higher condominium sales.

Interest income amounted to P39 million in 2013, lower by 39% from P64 million in 2012 mainly from lower yield on placements as compared with previous year.

Cost of sales, services and rentals amounted to P3,421 million in 2013, or a decrease of 7% from P3,661 million in 2012 as discussed below.

Cost of sales amounted to P2,983 million in 2013, lower by 4%, from P3,092 million last year principally in relation to the decrease in sales.

Cost of services amounted to P332 million in 2013 from P488 million in 2012, down by 32% mainly in relation to lower service revenue for the period.

Cost of rentals amounted to P34 million in 2013 and P35 million 2012. There was no material change for this account.

Cost of real estate sold amounted to P70 million in 2013, up by 53% from P45 million for the same period of 2012. The increase was mainly in relation to higher sale of real estate.

Gross profit amounted to P811 million in 2013 from P1,228 million in 2012. The 34% decrease was principally due to lower revenues and margins of the distribution segments driven by stiff market competition.

Other operating expenses (income) amounted to P686 million in 2013 against P107 million in 2012 as explained below.

General and administrative expenses amounted to P288 million in 2013 from P352 million in 2012. Expenses went down after the broadband assets were sold in May 2012.

Selling and distribution costs amounted to P451 million in 2013, up by 25% from P361 million in 2012 mainly from higher advertising costs for the distribution segment.

Gain on sale of assets amounted to P267 million in 2012 vs. none in 2013. This represented the one-time gains from the disposal of the broadband assets in 2012.

Other operating income amounted to P53 million in 2013, down by 90% from P 553 million in 2012 principally due lower fair value gains (P23 million in 2013 vs P149 million in 2012). In addition, the company reported a reversal in impairment losses on the broadband asset of P350 million in 2012 (none in 2013).

Operating profit amounted to P125 million in 2013 from P1,336 million in 2012, declining by 91% from lower gross profit and other operating income as discussed above.

Other income (charges) amounted to P64 million in 2013 against P175 million gain in 2012 mainly from the following:

Finance income was lower at P62 million in 2013 compared with P163 million for the same period of last year principally due to lower interest income from bank placements as a result of lower interest rates. Moreover, reversal of impairment in trade receivables was higher in 2012 due to the sale of the broadband assets in 2012.

Finance costs decreased to P20 million in 2013 compared with P49 million in 2012 primarily due to lower foreign currency losses and lower interest expense from interest-bearing loans.

Other gains was P22 million in 2013 versus P60 million in 2012 primarily because there were reversal of allowance for inventory obsolescence in 2012 (none in 2013) and lower gain on derecognition of liabilities.

Income before tax reached P190 million in 2013, decreasing by 87% from P1,511 million for the same period in 2012 mainly due to lower operating profit as explained above.

Tax expense amounted to P44 million in 2013 from P274 million in 2012 due to lower pre-tax income.

Net income amounted to P145 million in 2013 against P1,237 million (P581 million excluding one-time gain from broadband asset sale in 2012) in 2012 due to the reported losses of the distribution segment and lower operating results of the real estate and other segments.

Net income attributable to equity holders of the parent amounted to P157 million in 2013 against P1,239 million in 2012 as discussed above.

Net income attributable to minority interest amounted to P12 million loss in 2013 compared with P2 million loss in 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Financial Position 2013

Cash and cash equivalents amounted to P 2,327 million as of December 31, 2013 down by 23% from P3,019 million as of December 31, 2012. Cash was mostly used for investing activities mainly for acquisition of FAFVTPL and additions to property and equipment and for operating activities mainly for increase in inventories.

Financial assets at fair value through profit or loss amounted to P294 million in 2013, none in 2012, from acquisition of unit investments in trust funds.

Trade and other receivables reached P1,132 million as of December 31, 2013 against P1,220 million as of December 31, 2012, or a decrease of 7% principally due to lower receivable of the distribution segment. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P24 million as of December 31, 2013 and P21 million as of December 31, 2012, an increase of 14% due to additional advances.

Merchandise inventories and supplies - net amounted to P844 million as of December 31, 2013, compared with P391 million as of December 31, 2012, an increase of 115% due to buildup of inventories of the mylphone business.

Real estate inventories amounted to P2,423 million as of December 31, 2013 from P2,011 million as of December 31, 2012, an increase of 20% due to additions to the Golden Hill project.

Other current assets amounted to P 425 million as of December 31, 2013 compared with P319 million as of December 31, 2012, an increase of 33 % due to higher creditable withholding taxes and input VAT.

Total current assets reached P 7,472 million as of December 31, 2013 from P6,984 million as of December 31, 2012 mainly from higher merchandise inventories and real estate inventories as discussed above.

Non-current trade and other receivables amounted to P722 million as of December 31, 2013 from P630 million as of December 31, 2012, higher by 15% due to increase in financing receivables and cash surrender value of life insurance.

Non-current available-for-sale financial assets stood at P7 million as of December 31, 2013 against P9 million as of December 31, 2012. The decrease was due to lower club shares.

Property, plant and equipment amounted to P1,560 million as of December 31, 2013 from P1,048 million as of December 31, 2012, an increase of 49% due to the transfer of Solid House property from investment property to this account since the company will use this property for the future Green Sun Hotel operation.

Investment property amounted to P3,648 million as of December 31, 2013 from P4,017 as of December 31, 2012, a decrease of 9% mainly due to the transfer of Solid House to property and equipment.

Retirement benefit assets amounted to P82 million as of December 31, 2013, an increase of 15% from P71 million December 31, 2012 due to lower present value of obligation.

Deferred tax assets - net amounted to P77 million as of December 31, 2013 and P64 million December 31, 2012 respectively. There was a 20% increase principally due to MCIT of MySolid.

Other non-current assets amounted to P32 million as of December 31, 2013 or an increase of 48% from P22 million as of December 31, 2012 primarily due to higher deferred input VAT.

Total non-current assets amounted to P6,131 million as of December 31, 2013 from P5,863 million as of December 31, 2012 as discussed above.

Total assets reached P13,604 million as of December 31, 2013 from P12,848 million as of December 31, 2012 as discussed above.

Interest-bearing loans amounted to P684 million as of December 31, 2013 from P571 million as of December 31, 2012, up by 20% due to additional loans for the Golden Hill project.

Trade and other payables amounted to P731 million as of December 31, 2013 against P628 million as of December 31, 2012, higher by 16% primarily due to higher trade and other payables of Golden Hill Project and myphone business.

Customers' deposits amounted to P1,306 million as of December 31, 2013 versus P881 million as of December 31, 2012. The increase of 48% was mainly due to additional deposits received from the Golden Hill project.

Advances from related parties amounted to P81 million as of December 31, 2013, an increase of 599% from P11 million as of December 31, 2012 due to additional advances.

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

Income tax payable amounted to P4 million as of December 31, 2013 from P65 million as of December 31, 2012 mainly due to lower income tax expense.

Total current liabilities stood at P2,875 million as of December 31, 2013, higher by 29% from P2,227 million as of December 31, 2012 as explained above mainly due to higher interest-bearing loans, trade and other payables and customers' deposits.

Non-current refundable deposits amounted to P15 million as of December 31, 2013 from P16 million as of December 31, 2012 from transfer of non-current deposits to current liabilities.

Retirement benefit obligation amounted to P26 million as of December 31, 2013 and P16 million as of December 31, 2012. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P935 as of December 31, 2013 and P919 million in December 31, 2012. There was no material variance for this account.

Total non-current liabilities amounted to P976 million as of December 31, 2013 from P951 million as of December 31, 2012.

Total liabilities amounted to P3,852 million as of December 31, 2013 from P3,179 million as of December 31, 2012.

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

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

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

Revaluation reserves amounted to P16 million loss as of December 31, 2013 from P63 million loss as of December 31, 2012 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations.

Retained earnings amounted to P2,820 million as of December 31, 2013 from P2,772 million as of December 31, 2012 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P9,361 million as of December 31, 2013 from P9,265 million as of December 31, 2012 due to higher retained earnings.

Minority interest amounted to P390 million as of December 31, 2013 and P402 million as of December 31, 2012 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Total equity amounted to P9,751 million as of December 31, 2013 from P9,668 million as of December 31, 2012.

Results of Operations 2012

Revenues amounted to P4,890 million in 2012, improving by 18% from P4,149 million in 2011 as discussed below.

Sale of goods amounted to P3,959 million in 2012, up by 26% from P3,135 million in 2011 mainly as sales of digital products improved with the introduction of new model lineup and also from higher sales of prefabricated modular houses.

Service revenue amounted to P630 million in 2012 from P682 million in 2011 as its revenue declined due to broadband's sale of assets and subscribers base in May 2012.

Rental income amounted to P 136 million in 2012 from P157 million in 2011, lower by 13% principally due to decrease in occupied spaces as the Company terminated certain lease contracts since the Solid House Building was renovated.

Sale of real estate amounted to P 98 million in 2012, lower by 22% from P126 million in 2011 since there was no sale of industrial lot for 2012.

Interest income amounted to P 64 million in 2012, or higher by 35% from P47 million in 2011 mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets.

Cost of sales, services and rentals amounted to P3,661 million in 2012, or an increase of 16% from P3,159 million in 2011 as discussed below.

Cost of sales amounted to P 3,092 million in 2012, higher by 22%, from P2,524 million in 2011 in relation to the increase in sales.

Cost of services amounted to P 488 million in 2012 from P499 million in 2011 in relation to service revenue.

Cost of rentals amounted to P35 million in 2012 or a decrease of 11% from P39 million in 2011 principally due to lower rental and other overhead.

Cost of real estate sold amounted to P 45 million in 2012, lower by 52% from P95 million in 2011. The decline was mainly in relation to lower sale of real estate.

Gross profit amounted to P1,228 million in 2012 from P989 million in 2011. The increase was principally due to higher revenues.

Other operating expenses (income) amounted to P107 million other operating income in 2012 against P411 million other operating expenses in 2011 as explained below.

General and administrative expenses amounted to P 352 million in 2012 from P366 million in 2011. The decline was principally due to lower operating expenses of the broadband operations after it disposed of its assets.

Selling and distribution costs amounted to P 361 million in 2012, higher by 30% from P278 million in 2011 mainly from higher commissions.

Gain on sale of assets of 267 million in 2012 represents the one-time gain from the sale of broadband assets (none in 2011).

Other operating income- net amounted to P553 million in 2012 from P232 million in 2011 principally due to one-time gains on reversal of asset impairment of P437 million from the sale of the broadband assets.

Operating profit amounted to P 1,336 million in 2012 from P577 million in 2011, improving by 132% from higher gross profit and other operating income and gain of sale of asset as discussed above.

Other income (charges) amounted to P 175 million gain in 2012 against P5.6 million loss in 2011 mainly from the following:

Finance income amounted to P163 million in 2012 compared with P64 million in 2011. The increase was principally contributed by reversals of impairment loss on trade and other receivables of the Solid Broadband Corporation.

Finance costs amounted to P49 million in 2012 compared with P89 million in 2011 primarily due to lower impairment losses on trade and other receivables and foreign currency losses.

Other gains amounted to P60 million in 2012 versus P19 million in 2011 primarily due to gain on derecognition of liabilities.

Income before tax reached P1,511 million in 2012, or higher by 164% from P572 million in 2011 mainly due to higher operating profit as explained above. The sale of broadband assets contributed P267 million one time-gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense amounted to P274 million in 2012 from P139 million in 2011 due to higher pre-tax income.

Profit from continuing operations amounted to P1,237 million in 2012 against P433 million in 2011 due to the factors discussed above.

Loss from discontinued operations in 2011 represents losses on the remaining plastic injection operations as it disposed its remaining stocks (none in 2012).

Net profit for the year reached P1,237 million in 2012 against P429 million in 2011.

Net income attributable to equity holders of the parent amounted to P1,239 million in 2012 against P438 million in 2011 as discussed above.

Net loss attributable to minority interest amounted to P2 million loss in 2012 compared with P9 million loss in 2011. The share in losses for the Golden Hill project in Nanning, China was offset by interest income on placements of the real estate segment.

Financial Position 2012

Cash and cash equivalents amounted to P3,019 million as of December 31, 2012, up by 76% from P1,720 million as of December 31, 2011. Cash was mainly provided from investing activities mainly from the proceeds on the sale of broadband assets and from operating activities principally from decrease in inventories, collection of customers' deposits and advances and it was used for financing activities primarily for payment of interest bearing loans and dividends.

Trade and other receivables reached P1,220 million as of December 31, 2012 against P1,137 million as of December 31, 2011. The increase was principally due to higher receivable position of the distribution segment.

Advances to related parties was P21 million as of December 31, 2012 compared to P128 million as of December 31, 2011 principally from collections of advances during the year.

Financial assets at fair value through profit or loss was nil as of December 31, 2012 versus P70 million in 2011 due to disposal of these investments.

Available-for-sale financial assets was nil as of December 31, 2012 from P51 million as of December 31, 2011 mainly due to disposals made during the period.

Merchandise inventories and supplies - net amounted to P391 million as of December 31, 2012, compared with P564 million as of December 31, 2011 as the Company improved its inventory position in the distribution segment.

Real estate inventories amounted to P2,011 million as of December 31, 2012 from P1,675 million as of December 31, 2011. The increase was primarily due to continuous construction of Golden Hill Project.

Other current assets amounted to P319 million as of December 31, 2012 compared with P315 million as of December 31, 2011. There is no material variance for this account.

Total current assets reached P6,984 million as of December 31, 2012 from P5,616 million as of December 31, 2011 as discussed above.

Non-current trade and other receivable amounted to P630 million as of December 31, 2012 from P669 million as of December 31, 2011. The decrease was principally due to lower translated value of the foreign-currency receivables arising from the appreciation of the Philippine peso against the US dollar.

Non-current available-for-sale financial assets stood at P9 million as of December 31, 2012 against P 7.8 million as of December 31, 2011, an increase of 15% principally from fair value gains of club shares.

Property, plant and equipment amounted to P1,048 million as of December 31, 2012 from P1,386 million as of December 31, 2011, a decrease of 24% mainly due to sale of broadband assets.

Investment property amounted to P4,017 million as of December 31, 2012 and P3,864 million as of December 31, 2011. The increase was due to fair value gains recognized this year.

Retirement benefit assets amounted to P71 million as of December 31, 2012 and P84 million as of December 31, 2011. The decrease was principally due to claims and refund of retirement of Solid Broadband Corporation.

Deferred tax assets - net amounted to P64 million as of December 31, 2012 and P71 million as of December 31, 2011, a decrease of 10% principally due to lower allowances for inventory obsolescence and provision for warranty.

Other non-current assets amounted to P22 million as of December 31, 2012 and 2011. There was no material variance for this account.

Total non-current assets amounted to P 5,863 million as of December 31, 2012 from P6,100 million as of December 31, 2011 as discussed above.

Total assets reached P12,847 million as of December 31, 2012 from P11,723 million as of December 31, 2011 as discussed above.

Interest-bearing loans amounted to P571 million as of December 31, 2012 from P779 million as of December 31, 2011, a decrease of 27% principally due to payment of loans during the year.

Trade and other payables amounted to P628 million as of December 31, 2012 against P592 million as of December 31, 2011, higher by 6% primarily due to higher trade payables incurred for the Golden Hill Project.

Customers' deposits amounted to P881 million as of December 31, 2012 versus P686 million as of December 31, 2011, an increase of 28% due to additional collection of deposits from real estate and prefabricated modular houses buyers.

Advances from related parties amounted to P11 million as of December 31, 2012 from P107 million as of December 31, 2011, lower by 89% due to payments made during the year.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2012 and December 31, 2011. There was no movement for this account.

Income tax payable amounted to P65 million as of December 31, 2012 from P43 million as of December 31, 2011 mainly due to higher tax expenses.

Total current liabilities stood at P2,227 million as of December 31, 2012 from P2,277 million as of December 31, 2011 as explained above.

Non-current refundable deposits amounted to P16 million as of December 31, 2012 from P15 million as of December 31, 2011 from additional deposits.

Retirement benefit obligation amounted to P 16 million as of December 31, 2012 and P13 million December 31, 2011. The increase was due to unfunded retirement benefit obligation of the distribution segment.

Deferred tax liabilities-net amounted to P 919 million as of December 31, 2012 and P862 million as of December 31, 2011. The increase was primarily from provision for fair value gains on investment property.

Total non-current liabilities amounted to P951 million as of December 31, 2012 from P891 million as of December 31, 2012 and December 31, 2011.

Total liabilities amounted to P3,179 million as of December 31, 2012 from P3,168 million as of December 31, 2011.

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

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

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

Revaluation reserves amounted to P63 million loss as of December 31, 2012 from P48 million loss as of December 31, 2011 due to other comprehensive income for the period mainly from currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P2,772 million as of December 31, 2012 from P1,641 million as of December 31, 2011 as a result of net income and dividend declaration during the period.

Total equity attributable to Equity holders of Parent amounted to P9,265 million as of December 31, 2012 from P8,150 million as of December 31, 2011 due to higher retained earnings.

Minority interest amounted to P402 million as of December 31, 2012 and P405 million as of December 31, 2011. There was no material variance for this account.

Total equity amounted to P9,668 million as of December 31, 2012 from P8,555 million as of December 31, 2011.

Results of Operations 2011

Revenues reached P4,149 million in 2011 from P2,709 million in 2010, improving by 53% driven by strong sale of goods of the distribution segment as discussed below.

Sale of goods amounted to P3,135 million in 2011, posting growth of 93% from P1,622 million in 2010 as digital products sales doubled in 2011.

Service revenue amounted to P682 million in 2011 from P694 million in 2010. There was no material change for this account.

Sale of real estate amounted to P 126 million in 2011, down by 39%, from P207 million in 2010. This was principally due the lower sale of industrial lots for the period.

Rental income amounted to P157 million in 2011 from P121 million in 2010, improving by 30% principally due to more space rented out.

Interest income amounted to P47 million in 2011, down by 24% from P63 million in 2010 mainly from lower investible bonds.

Cost of sales, services and rentals amounted to P3,159 million in 2011 or up by 68% from P1,875 million in 2010 as discussed below.

Cost of sales amounted to P2,524 million in 2011 went up from P1,225 million in 2010, or higher by 106% in relation to higher sales.

Cost of services amounted to P499 million in 2011 up by 8% against P460 million in 2010 from higher direct charges on broadband maintenance and depreciation.

Cost of real estate sold amounted to P95 million in 2011, lower by 37% from P151 million in 2010. The decrease was mainly in relation to lower sale of real estate.

Cost of rentals amounted to P39 million in 2011 from P38 million in 2010, up by 3%. The increase was principally due to higher taxes.

Gross profit amounted to P989 million in 2011, improving by 19% from P834 million in 2010 principally due to higher revenues.

Other operating expenses (income) amounted to P412 million in 2011 compared with P421 million in 2010 as explained below.

General and administrative expenses amounted to P366 million in 2011 versus P281 million in 2010, or higher by 30% principally due to higher personnel and warranty costs.

Selling and distribution costs amounted to P278 million in 2011, or an increase of 22% from P227 million in 2010, mainly from higher advertising costs.

Other operating income amounted to P232 million in 2011 versus P87 million in 2010, or an increase of 166%. This was primarily due to higher fair value gains on investment property.

Operating profit improved by 40% to P577 million in 2011 from P412 million in 2010 from P374 million in 2009 mainly from higher gross profit and other operating income.

Other income (charges) amounted to P5.6 million loss in 2011 or an increase of 88% from P46 million loss in 2010 mainly from the following:

Finance costs amounted to P89 million in 2011 and P88 million in 2010 There was no material variance for this account.

Finance income amounted to P64 million in 2011, up by 65% compared with P38 million in 2010 mainly due to the higher interest income from higher placements of the real estate segment, higher impairment reversals, interest income from financing the condominium units and foreign currency gains.

Other gains amounted to P19 million in 2011 versus P2.7 million in 2010 principally due to income from common usage area.

Income before tax reached P573 million in 2011, or higher by 56% from P366 million in 2010 mainly due to higher operating profit as explained above.

Tax expense amounted to P139 million in 2011 from P122 million in 2010 principally due to higher pre-tax income of certain subsidiaries.

Profit from continuing operations amounted to P433 million in 2011 from P243 million in 2010 mainly from higher operating profit as explained above.

Loss from discontinued operations amounted to P3.8 million loss in 2011 versus P17 million in 2010 as the Company continued to dispose its remaining stocks.

Net income amounted to P429 million in 2011 against P227 million in 2010 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P438 million in 2011 against P229 million in for the same period of 2010 as discussed above.

Loss attributable to minority interest amounted to P9 million in 2011 compared with P2 million in 2010 primarily due to expenses of the Golden Hill project in Nanning, China.

Financial Position 2011

Cash and cash equivalents amounted to P 1,720 million as of December 31, 2011, higher by 6% from P1,620 million as of December 31, 2010. Cash was mainly provided from operating activities primarily from advances from customers for the Golden Hill project.

Trade and other receivables reached P1,089 million as of December 31, 2011 against P890 million as of December 31, 2010, or higher by 22% principally due to higher trade receivables on digital products. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Advances to related parties amounted to P128 million as of December 31, 2011 from P201 million as of December 31, 2010 principally due to collections received.

Financial assets at fair value through profit or loss amounted to P70 million as of December 31, 2011 versus none in 2010 principally from purchases made during the year.

Available-for-sale financial assets amounted to P51 million as of December 31, 2011 from P138 million as of December 31, 2010 mainly due to disposals made for the period.

Merchandise inventories and supplies - net amounted to P564 million as of December 31, 2011, increasing by 44% compared with P392 million as of December 31, 2010 mainly from higher merchandise and finished goods for digital products.

Real estate inventories amounted to P1,675 million as of December 31, 2011 from P1,328 million as of December 31, 2010 or higher by 26%. The increase was mainly due to additions made during the period offset by real estate sold.

Other current assets amounted to P315 million as of December 31, 2011 and P242 million as of December 31, 2010 or a increase of 30% principally from higher prepaid expenses, creditable withholding taxes and advances to suppliers and contractors.

Total current assets reached P5,616 million as of December 31, 2011 from P4,813 million as of December 31, 2010 as discussed above.

Non-current trade and other receivable amounted to P669 million as of December 31, 2011 from P640 million as of December 31, 2010 mainly from higher cash surrender value of investment in life insurance.

Non-current available-for-sale financial assets stood at P7 million as of December 31, 2011 against P12.1 million as of December 31, 2010 from decline in market value of shares.

Property, plant and equipment amounted to P1,386 million as of December 31, 2011 from P1,396 million as of December 31, 2010. There was no material variance for this account.

Investment property amounted to P3,864 million as of December 31, 2011 and P3,646 million as of December 31, 2010 mainly due to fair value gains on investment property.

Retirement benefit assets amounted to P84 million as of December 31, 2011 from P74 million as of December 31, 2010, increasing by 13% from contributions during the year.

Deferred tax assets - net amounted to P71 million as of December 31, 2011, higher by 119% from P32 million December 31, 2010 mainly on higher valuation allowance on inventories.

Other non-current assets amounted to P22 million as of December 31, 2011 or a decrease of 10% from P24 million as of December 31, 2010 from lower prepaid insurance.

Total non-current assets amounted to P6,107 million as of December 31, 2011 from P5,828 million as of December 31, 2010 as discussed above.

Total assets reached P11,723 million as of December 31, 2011 from P10,642 million as of the December 31, 2010 as discussed above.

Interest-bearing loans amounted to P779 million as of December 31, 2011 from P989 million as of December 31, 2010 due to payments made to banks as they matured in 2011 offset with loan availments from related parties.

Trade and other payables amounted to P592 million as of December 31, 2011 against P413 million as of December 31, 2010, up by 43% primarily due to higher trade payables.

Customers' deposits amounted to P686 million in 2011 principally due to deposits received for the pre-selling of the condominium units of Golden Hill Project in Nanning, China.

Advances from related parties amounted to P107 million as of December 31, 2011 from P168 million as of December 31, 2010 due to repayments of advances made during the year.

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

Income tax payable amounted to P43 million as of December 31, 2011 from P44 million as of December 31, 2010. There was no material change for this account.

Total current liabilities stood at P2,277 million as of December 31, 2011, higher by 33% from P1,713 million as of December 31, 2010 as explained above mainly due to higher trade and other payables.

Non-current refundable deposits amounted to P15.6 million as of December 31, 2011 and P15.2 million as of December 31, 2010. There was no material change for this account.

Retirement benefit obligation amounted to P13 million as of December 31, 2011 from P3 million December 31, 2010 mainly from unpaid contributions.

Deferred tax liabilities -net amounted to P862 million as of December 31, 2011 and P798 million as of December 31, 2010, higher by 8% principally arising from fair value gains on investment property for the year.

Total non-current liabilities amounted to P891 million as of December 31, 2011 from P817 million as of December 31, 2010.

Total liabilities amounted to P3,168 million as of December 31, 2011 from P2,530 million as of December 31, 2010 as discussed above.

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

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

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

Revaluation reserves amounted to P48 million loss as of December 31, 2011 from P43 million loss as of December 31, 2010 due to other comprehensive income for the period consisting mainly reclassification adjustments for losses recognized in profit or loss for the year and translation currency adjustments, offset by fair value losses on available for sale financial assets .

Retained earnings amounted to P1,641 million as of December 31, 2011 from P1,183 million as of December 31, 2010 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P8,150 million as of December 31, 2011 from P7,697 million as of December 31, 2010 due to higher retained earnings.

Minority interest amounted to P405 million as of December 31, 2011 from P414 million in December 31, 2010 primarily from share of minority in net loss.

Total equity amounted to P8,555 million as of December 31, 2011 from P8,111 million as of December 31, 2010.

Past and future financial condition and results of operations, with particular emphasis on the prospects for the future.

The Company has consistently manage to maintain a strong financial condition as shown in its balance sheets for those periods so that it was always poised to take advantage of investment opportunities that would contribute to its overall business strategy. In 2013, the Company encountered setbacks in its mobile phone business as market competition intensified. As a result, the distribution segment reported 11% sales decline and net loss of P6.8 million (from P251 million net income in 2012). Despite this, the Company still manage to report a net income of P145 million in 2013 from P1,237 million in 2012 (or P581 million excluding the one-time gains from the sale of broadband assets in 2012) and P429 million in 2011, translating to earnings per share of 0.09, 0.68 and 0.24 respectively.

The Company completed the disposal of its broadband assets in 2012, significantly improving its liquidity. It increased its total assets to P13.6 billion in 2013 from P12.8 billion in 2012 and P11.7 billion in 2011. It increased its equity to P9.75 billion in 2013 from P9.67 billion in 2012 and P8.56 billion in 2011. It has maintained a low debt to equity ratio of 0.39:1 in 2013 from 0.33:1 in 2012 and 0.36 : 1 in 2011 and even a lower gearing percentage (computed as financial debt divided by total equity) of 7% in 2013 from 6% in 2012 and 9% in 2011 resulting from low financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. Moreover, the Company kept significant amounts of cash and cash equivalents and financial assets at fair value through profit or loss as part of its current assets to maintain its liquidity such that its current ratio had always exceeded the conservative rule of thumb of 2 : 1 by achieving a current ratio of 2.60:1 in 2013 from 3.14:1 in 2012 and 2.47:1 in 2011.

The Company will maintain its strong financial condition in the future. Although its low debt load provides the company with substantial debt capacity to borrow funds to finance future projects/investments, management has set a limit on financial borrowings to a maximum gearing of 50% of equity.

The Company foresees its consolidated operations to continue to be profitable in the future as it expects that the Golden Hill project in Nanning, China will start to recognize revenues in 2014 as its sales transactions materializes. The Company will still capitalize on the rising demand of mobile phone and continue to deliver mobile phones of high quality and competitive prices. It has partnered with a mobile and web application development company that exclusively develops Filipino-made applications to its roster of mobile phones to support its commitment to deliver and redefine consumer expectations from the fast-phased mobile revolution. In addition, its real estate business segment will continue to be a significant value driver in the future and, with constant revenue streams, provide a significant hedge against possible downturns in the other business segments. The Company also plans the sale of certain properties when market opportunity arises. The Company is optimistic that the MyHouse business will surpass its 2013 revenue with the number of projects already lined-up or about to be completed this year, the biggest of which is the Iglesia ni Cristo project in Bulacan. It will continue to push its success stories in classrooms and dorms and housing construction to achieve its goal of P100 million revenues annually. The Company started the renovation of Solid House Building in 2012 with projected capital expenditures of about P300 million. It started development of a Business Hotel and Event Center consisting of 157 rooms to be named Green Sun Hotel and expects to generate revenues in 2014. This is the second hotel to be operated by the Group.

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

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

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

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

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

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

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

The Company estimates capital expenditures for the year 2014 to amount to P200 million for various real estate development and/ or renovation of Solid House Building. The purchase and/or construction of these capital expenditures will be financed primarily through the funds of the Company.

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

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

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

In 2012, Solid Broadband Corporation (SBC) sold its assets. The disposal of the assets of SBC contributed to a one time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million in 2012 (P656 million after tax).

vii. Causes for any Material Changes from Period to Period

On May 11, 2012, Solid Broadband Corporation (SBC) sold its wired and satellite assets and broadband/internet subscriber base. The disposal of the assets of SBC contributed to a one time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million.

Balance Sheet Items (2013 vs. 2012)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 23% decrease to P2,327 million from P3,019 million

Mostly used for investing activities mainly for acquisitions of FAFVTPL and additions to property and equipment and for operating activities mainly for increase in inventories. This account stood at 17% and 24% as a percentage of total assets for years 2013 and 2012.

Financial assets at fair value through profit or loss –P294 million as of December 31, 2013 and amounted to nil as of December 31, 2012.

Financial assets at fair value through profit or loss amounted P294 million as of December 31, 2013 versus nil as of December 31, 2012 mainly due to availment of UITF

Trade and other receivables – 7 % decrease to P1,132 million from P1,220 million

Mainly due to collection of receivables of the distribution segment. This account stood at 8% and 10% as a percentage of total assets in 2013 and 2012, respectively.

Advances to related parties – 14% increase to P24 million from P21 million

Principally from additional advances. This account stood at 0.18% and 0.17% as a percentage of total assets in 2013 and 2012, respectively.

Merchandise inventories and supplies – 115 % increase to P844 million from P391million

Mainly due to buildup of inventories of the myphone business. This account represented 6% and 3% as a percentage of total assets in 2013 and 2012, respectively.

Real estate inventories – 20% increase to P2,423 million from P2,011 million

The increase was mainly due to the ongoing Fil-Dragon's project in Nanning, China. This account stood at 17% and 15% as a percentage of total assets in 2013 and 2012, respectively.

Other current assets – 33% increase to P425 million from P319 million

Mainly due to higher creditable withholding taxes and input VAT . This account stood at 3% and 2% as a percentage of total assets for years 2013 and 2012.

Non-current trade and other receivables – amounted to P722 million as of December 31, 2013, increased by 14% from P630 million as of December 31, 2012..

Mainly due to increase in cash surrender value of life insurance and finance receivables. This account stood at 5% of total assets for both years.

Non-current available-for-sale financial assets – 20% decrease in 2013 to P7 million from P9 million in 2012

The decrease was due to lower club shares. This account stood at 0.05% and 0.07% as a percentage of total assets for 2013 and 2012.

Property, plant and equipment – 49% increase to P1,560 million from P1,048 million

Mainly due to the transfer of Solid House property from investment property to this account. This represented 11 % and 8% as a percentage of total assets in 2013 and 2012.

Investment property – P3,648 million from P4,017 million

Mainly from transfer of Solid House property to property and equipment. This account stood at 27% and 31% as a percentage of total assets in 2013 and 2012, respectively.

Retirement benefit assets - 115% increase to P82 million from P71 million

Increase was mainly due to lower present value to obligation. This represented 0.60% and 0.56% of total assets in 2013 and 2012, respectively.

Deferred tax assets –net - 20% increase to P77 million from P64 million

Mainly due to MCIT of MySolid. This account stood at 0.57% and 0.50% of total assets in 2013 and 2012 respectively.

Other non-current assets – 48% increase in 2013 to P32 million from P22 million

Mainly due to higher deferred input VAT. This represented 0.24% and 0.17% as percentage to total assets in 2013 and 2012 respectively.

Interest-bearing loans – 20% increase in 2013 to P684 million from P571 million

Mainly due to additional loans for the Golden Hill project. This account stood at 5% and 4% as a percentage of total liabilities and equity in 2013 and 2012, respectively.

Trade and other payable – 16% increase to P731 million from P 628 million

Increase was primarily due to higher trade payables and other payables of the Golden Hill project and myphone business. This account stood at 5% and 4% in 2013 and 2012 respectively as a percentage of total liabilities and equity in 2013 and 2012.

Customers' Deposit – increase to P1,306 million from P881 million

Principally due to additional collection of deposits for real estate sales.

Advances from related parties – 599 % increase to P81 million from P11 million

The increase was due to advances made during the period. This account stood at 0.60% in 2013 and 0.09% in 2012 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change

There was no movement during the period. This account represented 0.50% and 0.53% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

Income tax payable –92% decrease to P4 million as of December 31, 2013 from P65 million as of December 31, 2012.

Mainly due to lower tax expenses. This account was pegged at 0.03% and 0.51% of the total liabilities and equity in 2013 and 2012, respectively.

Non-current refundable deposits – amounted to P15 million from P1.6 million

Mainly from additional deposits. This represented 0.11% and 0.12% of the total liabilities and equity in 2013 and 2012, respectively.

Retirement benefit obligation – 64% increase to P26 million from P16 million

Mainly from unfunded retirement obligation. This account stood at 0.19% and 0.13% of the total liabilities and equity in 2013 and 2012, respectively.

Deferred tax liabilities –Increase to P935 million from P919 million

No material change. This account stood at 6 and 7% as a percentage of total liabilities and equity for 2013 and 2012.

Capital stock – no change

This account stood at 14% and 15% of total liabilities and equity for 2013 and 2012, respectively.

Additional Paid-In-Capital – no change

This account represented 34 % and 36% of total liabilities and equity for 2013 and 2012, respectively.

Treasury Shares – no change

This account represented 0.85% and 0.90% of total liabilities and equity for 2013 and 2012, respectively.

Revaluation reserves –amounted to (P16 million) from (P63 million)

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations. This account stood at .012% and 0.49% total liabilities and equity in 2013 and 2012, respectively.

Retained earnings – 1.75% increase to P2,820 million from P2.772 million

Increase was a result of net income during the period. This account stood at 20% and 21% of total liabilities and equity in 2013 and 2012, respectively.

Income Statement Items (2013 vs. 2012)

(Increase or decrease of 5% or more in the financial statements)

Sale of goods – 11% decrease to P3,513 million from P3,959 million

Principally from lower volume of digital product sales. As a percentage of total revenues, this account represents 83% and 81% in 2013 and 2012, respectively.

Service revenue – 34% decrease to P414 million from P630 million

Principally due to termination of operations of SBC after its asset sale in 2012. As a percentage of total revenues, this account represents 10% and 13% for years 2013 and 2012.

Rental income – 11% increase to P151 million from P136 million

Principally due to higher occupancy in 2013. As a percentage of total revenues, this account represents 4% and 3% for years 2013 and 2012.

Sale of real estate – 15% increase to P113 million from P98 million

Principally due to higher condominium sales. As a percentage of total revenues, this account stood at 3% in 2013 and 2% in 2012.

Interest income – 39% decrease to P39 million from P64 million

Mainly from lower yield on placements as compared with previous year. As a percentage of total revenues, this account represents 0.93% in 2013 and 1% in 2012.

Cost of sales - P2,983 million from P3,092 million

No material change for this account. As a percentage of total sales, this account represented 70% and 63% in 2013 and 2012 respectively.

Cost of services - 32% decrease to P332 million from P488 million

Principally in relation to lower service revenue. This account decreased to 8% in 2013 and 10% in 2012 as a percentage of total revenues.

Cost of rentals – P34 million from P35 million

No material change for this account. This account represents 1% as a percentage of total revenues for both years.

Cost of real estate sold – 53% increase to P70 million from P45 million

The increase was mainly in relation to higher sale of real estate. As a percentage of total revenues, this account represents 2% in 2013 and 1% in 2012.

General and administrative expenses – 18% decrease to P288 million from P352 million

Expenses went down after the broadband assets were sold in May 2012. As a percentage of total revenues, this account stood at 7% for both years.

Selling and distribution costs – 25% increase to P451 million from P361 million

Mainly from higher advertising costs. This account represents 11% of total revenues for 2012 and 7% in 2013.

Gain on sale of assets – nil in 2013 and 267 million in 2012

None in 2013, one-time gain from the sale of broadband assets in 2012.

Other operating income – net -90% decrease to P53 million from P553 million

Primarily due to gain on sale of broadband assets (none in 2013). This account decreased to 1% in 2013 from 11% in 2012 as a percentage of total revenues.

Finance income – 62% decrease to P62 million from P163 million

It went down because in 2012 there were reversals of impairment on PPE and trade receivables due to sale of broadband assets in 2012. This account decreased at 1% of total revenues for 2013 from 3% in 2012.

Finance costs – P20 million from P49 million

Primarily due to lower foreign currency losses and lower interest expense. This account decreased at 0.49% of total revenues in 2013 from 1% in 2012.

Other gains - net –P22 million to P60 million

Primarily due to lower gain on derecognition of liabilities in 2013. Also in 2012, there were reversal of allowance on inventory obsolescence (none in 2013). This account stood at 0.54% in 2013 from 1% in 2012 as a percentage of total revenues.

Balance Sheet Items (2012 vs. 2011)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 76% increase to P3,019 million from P1,720 million

Mainly provided by investing activities mainly from proceeds on the sale of broadband assets and from operating activities principally from decrease in inventories, collection of customers' deposits and advances and it was used for financing activities primarily for payment of interest bearing loans and dividends. This account stood at 24% and 15% as a percentage of total assets for years 2012 and 2011, respectively.

Financial Assets at fair value through fair value and loss – 100% decrease from P70 million

Financial assets at fair value through profit or loss amounted to nil as of December 31, 2012 versus P70 million in 2011 mainly due to disposals made during the period

Trade and other receivables – 12 % increase to P1,220 million from P1,089 million

Mainly from increase in trade receivables on digital products. This account stood at 10% and 9% as a percentage of total assets in 2012 and 2011, respectively.

Advances to related parties – 83% decrease to P21 million from P128 million

Principally from collections of advances made. This account stood at 0.17% and 1% as a percentage of total assets in 2012 and 2011, respectively.

Available-for-sale financial assets – 100% decrease from P51 million

The decrease was principally due to disposal of financial assets. This account stood at nil and 0.4% as a percentage of total assets in 2012 and 2011, respectively.

Merchandise inventories and supplies – 31 % decrease to P391 million from P564 million

Mainly due improved inventory position in the distribution segment. This account represented 3% and 5% as a percentage of total assets in 2012 and 2011, respectively.

Real estate inventories – 20% increase to P2,011 million from P1,675 million

The increase was mainly due to construction of Golden Hill Project. This account stood at 15% and 14% as a percentage of total assets in 2012 and 2011, respectively.

Other current assets – 1% increase to P319 million from P315 million

Mainly due to higher prepayments. This account stood at 2% as a percentage of total assets for years 2012 and 2011.

Non-current trade and other receivables – amounted to P630 million as of December 31, 2012, decreased by 6% from P670 million as of December 31, 2011.

Mainly due to lower translated value of the foreign-currency receivables. This account stood at 5% and 6% as a percentage of total assets for years 2012 and 2011 respectively.

Non-current available-for-sale financial assets – 15% increase in 2012 to P9 million from P7.8 million

Mainly from fair value gains of club shares. This account stood at nil and 0.07% as a percentage of total assets for 2012 and 2011, respectively.

Property, plant and equipment – 24% decrease to P1,048 million from P1,386 million

Mainly due to sale of broadband assets. This represented 8 % and 12% as a percentage of total assets in 2012 and 2011, respectively.

Investment property – P4,017 million from P3,864 million

Mainly from fair value gains for the year. This account stood at 31% and 33% as a percentage of total assets in 2012 and 2011, respectively.

Retirement benefit assets - 15% decrease to P71 million from P84 million

Decrease was mainly due to claims and refund by SBC. This represented 0.56% and 0.72% of total assets in 2012 and 2011, respectively.

Deferred tax assets –net - 10% decrease to P64 million from P71 million

Mainly due to lower allowances for inventory obsolescence and provision for warranty. This account stood at 0.50% and 0.61% of total assets in 2012 and 2011, respectively.

Other non-current assets – no change

This represented 0.17% and 0.19% as percentage to total assets in 2012 and 2011, respectively.

Interest-bearing loans – 27% decrease in 2012 to P571 million from P779 million

Mainly due to payments of loan during the year. This account stood at 4% and 7% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

Trade and other payable –6% increase to P628 million from P592 million

Increase was due to higher trade payables incurred for the Golden Hill Project. This account stood at 5% as a percentage of total liabilities and equity in 2012 and 2011.

Customers' Deposit –29% increase to P881 million from P686 million

Principally due to additional collection of deposits from real estate and prefabricated modular houses buyers. This account stood at 7% in 2012 and 6% in 2011 as a percentage of total liabilities and equity.

Advances from related parties – 89% decrease to P11 million from P107 million

The decrease was due to payments made during the period. This account stood at 0.09% in 2012 and 0.92% in 2011 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change

There was no movement during the period. This account represented 0.53% and 0.58% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

Income tax payable –50% increase to P65 million as of December 31, 2012 from P43 million as of December 31, 2011.

Mainly due to higher tax expenses. This account was pegged at 0.51% and 0.37% of the total liabilities and equity in 2012 and 2011, respectively.

Non-current refundable deposits – amounted to P16 million from P15.6 million

No material change. This represented 0.12% and 0.13% of the total liabilities and equity in 2012 and 2011, respectively.

Retirement benefit obligation – 21% increase to P16 million from P13 million

Mainly from unfunded retirement obligation of the distribution segment. This account stood at 0.13% and 0.11% of the total liabilities and equity in 2012 and 2011, respectively.

Deferred tax liabilities – 7 % increase to P920 million from P862 million

The increase was principally from provision for fair value gains on investment property. This account stood at 7% as a percentage of total liabilities and equity for 2012 and 2011.

Capital stock – no change

This account stood at 16% and 17% of total liabilities and equity for 2012 and 2011, respectively.

Additional Paid-In-Capital – no change

This account represented 36 % and 40% of total liabilities and equity for 2012 and 2011, respectively.

Treasury Shares – no change

This account represented 0.90% and 0.99% of total liabilities and equity for 2012 and 2011, respectively.

Revaluation reserves –amounted to (P63 million) from (P48 million)

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss. This account stood at 0.49%% and 0.41% total liabilities and equity in 2012 and 2011, respectively.

Retained earnings – 69% increase to P2,772 million from P1.641 million

As a result of net income and dividend declaration during the period. This account stood at 22% and 14% of total liabilities and equity in 2012 and 2011, respectively.

Income Statement Items (2012 vs. 2011)

(Increase or decrease of 5% or more in the financial statements)

Sale of goods – 26% increase to P3,959 million from P3,135 million

Primarily because sales of digital products improved with the introduction of new model lineup and also from higher sales of prefabricated modular house in 2012. As a percentage of total revenues, this account represents 81% and 76% in 2012 and 2011, respectively.

Rendering of services –8% decrease to P630 million from P682 million

Principally due to broadband's sale of assets and subscriber base in May 2012. As a percentage of total revenues, this account represents 13% and 16% in 2012 and 2011, respectively.

Sale of real estate – 22% decrease to P98 million from P126 million

Principally since there was no sale of industrial lots for 2012. As a percentage of total revenues, this account represents 2% in 2012 and 3% in 2011.

Rentals – 13% decrease to P136 million from P157 million

Principally due to decrease in occupied spaces as the Company Terminated certain lease contracts since the Solid House Building was renovated. As a percentage of total revenues, this account represents 3% and 4% for years 2012 and 2011.

Interest income – 35% increase to P64 million from P47 million

Mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets. As a percentage of total revenues, this account represents 1% in 2012 and 2011.

Cost of sales - 22% increase to P3,092 million from P2,524 million

Mainly in relation to higher sales. As a percentage of total revenues, this account represents 63% in 2012 and 61% in 2011.

Cost of services - 2% decrease to P488 million from P499 million

Principally in relation to service revenue. This account decreased to 10% in 2012 and 12% in 2011 as a percentage of total revenues.

Cost of real estate sales – 52% decrease to P45 million from P95 million

The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account represents 1% in 2012 and 2% in 2011.

Cost of rentals – 11% decrease to P35 million from P39 million

Primarily from lower rental and other overhead. This account represents 1% as a percentage of total revenues for years 2012 and 2011.

Gross profit – 24% increase to P1,228 million from P989 million

Primarily due to higher revenues. This account represents 25% in 2012 and 24% in 2011 as a percentage of total revenues

General and administrative expenses – 4% decrease to P352 million from P366 million

Principally due to lower operating expenses of the broadband operations after it disposed of its assets. As a percentage of total revenues, this account decreased to 7% in 2012 from 9% in 2011.

Selling and distribution costs – 30% increase to P361 million from P278 million

Mainly from higher commissions. This account remained at 7% of total revenues for 2012 and 2011, respectively.

Gain on sale of assets – 267 million

One-time gain from the sale of broadband assets, none in 2011.

Other operating income – net - 138% increase to P553 million from P232 million

Primarily due to one-time gains on reversal of asset impairment of P437 million from the sale of broadband assets. This account increased to 11% in 2012 from 6% in 2011 as a percentage of total revenues.

Operating profit – 132% increase to P1,336 million in 2012 from P577 million

Primarily from higher gross profit and other operating income and gain of sale of asset

Finance income – 154% increase to P163 million from P64 million

Principally contributed by reversals of impairment loss on trade and other receivables of SBC. This account increased at 3.35% of total revenues for 2012 from 1.55% in 2011.

Finance costs – P49 million from P89 million

Primarily due to lower impairment losses on trade and other receivables and foreign currency losses.

Other gains - net – P60 million to P19 million

Primarily due to gain on derecognition of liabilities. This account increased to 1.25% in 2012 from 0.47% in 2011 as a percentage of total revenues.

Income before tax – P1,511 million in 2012 from P572 million in 2011

Mainly due to higher operating profit. The sale of broadband assets contributed P267 million one-time gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense – P274 million from P139 million

Mainly due to higher pre-tax income

Balance Sheet Items (2011 vs. 2010)

(Increase or decrease of 5% or more in the financial statements)

Cash and cash equivalents – 6% increase to P1,720 million from P1,620 million

Mainly provided by financing activities from proceeds of loans, by operating activities primarily from increase in receivables and inventories and by investing activities for acquisition of property and equipment. This account stood at 15% as a percentage of total assets for years 2011 and 2010.

Trade and other receivables – 22% increase to P1,089 million from P890 million

Mainly from increase in trade receivables on digital products. This account stood at 10% and 8% as a percentage of total assets in 2011 and 2010, respectively.

Advances to related parties – 36% decrease to P128 million from P201 million

Principally due to collections made. This account stood at 1% and 2% as a percentage of total assets in 2011 and 2010, respectively.

Financial Assets through fair value and loss – 100% amounting to P70 million

Financial assets at fair value through profit or loss amounted to P70 million as of December 31, 2011 versus none in 2010 principally from purchases made during the year.

Available-for-sale financial assets – 62% decrease to P51 million from P138 million

The decrease was principally due to disposal of financial assets. This account stood at .4% and 1% as a percentage of total assets in 2011 and 2010, respectively.

Merchandise inventories and supplies – 43% increase to P564 million from P393 million

Mainly from higher merchandise and finished goods for digital products. This account represented 5% and 4% as a percentage of total assets in 2011 and 2010, respectively.

Real estate inventories – 26% increase to P1,675 million from P1,328 million

The increase was mainly due to additions made during the period offset by real estate sold. This account stood at 14% and 12% as a percentage of total assets in 2011 and 2010, respectively.

Other current assets – 30% increase to P315 million from P242 million

Principally from higher prepaid expenses, creditable withholding taxes and advances to suppliers and contractors. This account stood at 2% as a percentage of total assets for years 2011 and 2010.

Non-current trade and other receivables – amounted to P669 million as of December 31, 2011, increasing by 4% from P640 million as of December 31, 2010.

Mainly from higher cash surrender value of investment in life insurance. This account stood at 6% as a percentage of total assets for years 2011 and 2010.

Non-current available-for-sale financial assets – 35% decrease in 2011 to P7 million from P12 million

Mainly from lower market value of shares. This account stood at 0.067% and 0.11% as a percentage of total assets for 2011 and 2010.

Property, plant and equipment – P1,386 million from P1,396 million

There was no material variance for the account. This represented 12% and 13% as a percentage of total assets in 2011 and 2010.

Investment property – P3,864 million from P3,646 million

Mainly from fair value gains for the year. This account stood at 33% and 34% as a percentage of total assets in 2011 and 2010, respectively.

Retirement benefit assets -13% increase to P84 million from P74 million

Increase was mainly from contributions made during the year. This represented .67% and 1% of total assets in 2011 and 2010, respectively.

Deferred tax assets –net - 119% increase to P71 million from P32 million

Mainly due to higher valuation allowance on inventories. This account stood at 0.60% and 0.30% of total assets in 2011 and 2010 respectively.

Other non-current assets – 10% decrease in 2011 to P22 million from P24 million.

Mainly due to lower prepaid insurance. This represented 0.19% and 0.23% as percentage to total assets in 2010 and 2009 respectively.

Interest-bearing loans – 21% decrease in 2011 to P779 million from P989 million

Mainly due to payments made to banks as they matured in 2011 offset with loan availments from related parties. This account stood at 7% and 9% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

Trade and other payable –43% increase to P592 million from P413 million

Increase was due to higher trade and accrued expenses, refundable deposits. This account stood at 5% and 4% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

Customers' Deposit – increase to P686 million from P29 million

Principally due to deposits received for the pre-selling of the condominium units of Golden Hill Project in Nanning, China.

Advances from related parties – 36% decrease to P107 million from P168 million

The decrease was due to payments made during the period. This account stood at 0.9% in 2011 and 2% in 2010 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change

There was no movement during the period. This account represented .58% and 0.6% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

Income tax payable –amounted to P43 million as of December 31, 2011 from P44 million as of December 31, 2010.

No material change. This account was pegged at 0.37% and 0.41% of the total liabilities and equity in 2011 and 2010, respectively.

Non-current refundable deposits – 2% increase to P15.6 million from P15.2 million

No material change. This represented 0.13% and 0.14% of the total liabilities and equity in 2011 and 2010, respectively.

Retirement benefit obligation – 327% increase to P13 million from P3 million

Mainly from unpaid contributions. This account stood at 0.05% and 0.03% of the total liabilities and equity in 2011 and 2010, respectively.

Deferred tax liabilities – 8% increase to P862 million from P798 million

The increase was principally from higher accumulated fair value gains on investment property for the year. This account stood at 7% and 8% as a percentage of total liabilities and equity for 2011 and 2010, respectively.

Capital stock – no change

This account stood at 17% and 19% of total liabilities and equity for 2011 and 2010, respectively.

Additional Paid-In-Capital – no change

This account represented 39 and 44% of total liabilities and equity for 2011 and 2010, respectively.

Treasury Shares – no change

This account represented 10% and 1% of total liabilities and equity for 2011 and 2010, respectively.

Revaluation reserves – 12% increase to P48 million loss from P43 million loss

Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale financial assets and reclassification adjustments for losses recognized in profit or loss. This account stood at .25% and 0.41% total liabilities and equity in 2011 and 2010, respectively.

Retained earnings – 39%% increase to P1.641 million from P1.183 million

As a result of net income during the period. This account stood at 13.85% and 11% of total liabilities and equity in 2011 and 2010, respectively.

Income Statement Items (2011 vs. 2010)

(Increase or decrease of 5% or more in the financial statements)

Sale of goods – 93% increase to P3135 million from P1,622 million

Primarily because digital products sales doubled in 2011. As a percentage of total revenues, this account represents 76% and 60% in 2011 and 2010, respectively.

Service revenue – P682 million from P694 million

No material change.

Sale of real estate – 39% decrease to P126 million from P207 million

Principally due to lower sale of industrial lots. As a percentage of total revenues, this account decreased to 16% in 2011 and 8% in 2010.

Rental income – 30% increase to P157 million from P121 million

Principally due to more space rented out. As a percentage of total revenues, this account represents 4% for years 2011 and 2010.

Interest income – 24% decrease to P47 million from P63 million

Mainly from lower investible bonds. As a percentage of total revenues, this account declined to 0.01% in 2011 and 2% in 2010.

Cost of sales - 106% increase to P,2524 million from P1,225 million

Mainly in relation to higher sales. As a percentage of total sales, this account represented 61% in 2011 and 45% in 2010.

Cost of services - increase to P499 million from P460 million

Principally from higher direct charges on broadband maintenance and depreciation. This account increased to 12% in 2011 and 17% in 2010 as a percentage of total revenues.

Cost of real estate sold – 37% decrease to P95 million from P151 million

The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account decreased to 2% in 2011 and 6% in 2010.

Cost of rentals – 3% increase to P39 million from P38 million

Primarily from higher taxes. This account represents 1% as a percentage of total revenues for years 2011 and 2010.

General and administrative expenses – 30% increase to P366 million from P281 million

Principally due to higher provision for warranty and others. As a percentage of total revenues, this account decreased to 9% in 2011 from 10% in 2010.

Selling and distribution costs – 22% increase to P278 million from P227 million

Mainly from higher commissions, personnel and advertising costs. This account remained at 7% and 8% of total revenues for 2011 and 2010, respectively.

Other operating income –net - 166% increase to P232 million from P87 million

Primarily due to higher fair value gains on investment property. This account increased to 6% in 2011 from 3% in 2010 as a percentage of total revenues.

Finance income – 65% increase to P64 million from P38 million

Primarily due to the higher interest income from higher placements of the real estate segment, higher impairment reversals, interest income from financing the condominium units and foreign currency gains.. This account remained at 1% of total revenues for 2011 and 2010.

Finance costs – P89 million from P88 million

There was no material variance for this account

Other gains - net –P19 million to P2.7 million

Primarily due to income from common usage area. This account increased to 0.59% in 2011 from 0.10% in 2010 as a percentage of of total revenues.

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

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

Item 7. FINANCIAL STATEMENTS

The consolidated financial statements and schedules to Financial Statements and Supplementary Schedules are filed as part of this Form 17 - A.

(B) Information on Independent Accountant and Other Related Matters

(1) External Audit Fees And Services

(a) Under the caption Audit and Audit-Related Fees, the aggregate fees billed for each of the last two fiscal years for professional services rendered by the external auditor for :

1. The audit of the registrant's annual financial statements or services that are normally provided by the external auditor in connection with statutory and regulatory filings or engagements for those fiscal years:

The audit fees of our present external auditor, Punongbayan and Araullo for the examination of our annual audited financial statements, including those of our subsidiaries for the years ended December 31, 2013 and 2012 amounted to P5.2 million and P5 million, respectively. Also, audit fees for the short period reports as well as long form reports in 2012 as required for the filing of merger of the MySolid Technologies and Devices Corporation and MyTel Mobility Solutions Inc. amounted P210 thousand in 2012 (none in 2013). The audit fee of Grant Thornton for the examination of Fil-Dragon for the years ended December 31, 2013 and 2012 amounted to HK\$274,000 for both years.

2. Other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the registrant's financial statements.

None for 2013 and 2012.

(b) Under the caption "Tax Fees", the aggregate fees billed in each of the last two (2) fiscal years for professional services rendered by the external auditor for tax accounting, compliance, advice, planning and any other form of tax services. Registrant shall describe the nature of the services comprising the fees disclosed under this category.

The tax fees paid to the Tax Division of Punongbayan and Araullo for tax consultation and advisory services of our Company and those of our subsidiaries for the year ended December 31, 2013 and 2012 amounted to P204 thousand for both years.

Also, fees paid to the Tax and Compliance Division of Punongbayan and Araullo for the assistance on the merger of the Companies' subsidiaries, Solid Manila Corporation and Solid Corporation amounted to P200 thousand in 2012 (none in 2013).

(c) Under the caption "All Other Fees", the aggregate fees billed in each of the last two (2) fiscal years for products and services provided by the external auditor, other than the services reported under items (a) & (b) above. Registrants shall describe the nature of the services comprising the fees disclosed under this category.

There were no other fees paid for the years 2013 and 2012.

(d) The audit committee's approval policies and procedures for the above services.

The overall scope of the audit was reviewed and approved by the Audit Committee. The terms of engagement of the audit were also reviewed and approved by the Audit Committee.

The scope and terms of engagement of the tax consultation and advisory services were also reviewed and approved by the Audit Committee.

Upon the favorable endorsement by the Audit Committee, the proposed terms of engagement of services are submitted for approval to the Board of Directors. All of the above services were approved by the Board of Directors.

Item 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

The Company has no disagreements with the current accountant on accounting and financial disclosure.

On June 27, 2013, the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2013.

There was no change in our existing accountant for the years 2013 and 2012.

PART III – CONTROL AND COMPENSATION INFORMATION

Item 9. Directors and Executive Officers of the Issuer

A. Directors, Executive Officers, Promoters and Control Persons

(1) Directors, including Independent Directors and Executive Officers

There are nine (9) seats in the Board. The term of office of each member is one (1) year. The names, ages and citizenship of current directors and executive officers are as follows:

| Position | Name | Age | Citizenship |
|--|--------------------------|-----|-------------|
| Chairman Emeritus | Elena S. Lim | 84 | Filipino |
| Chairman of the Board | Susan L. Tan | 60 | Filipino |
| Director and President and Chief Executive Officer | David S. Lim | 58 | Filipino |
| Director and Sr. VP and Chief Operating Officer | Jason S. Lim | 57 | Filipino |
| Director and Sr. VP and Chief Financial Officer | Vincent S. Lim | 55 | Filipino |
| Director | Quintin Chua | 54 | Australian |
| Director | Luis-Maria Zabaljauregui | 66 | Filipino |
| Director | Joseph Lim | 87 | Filipino |
| Director and VP for Business Development | Beda T. Manalac | 53 | Filipino |
| VP and Treasurer | Lita Joaquin | 53 | Filipino |

| | | | |
|---------------------------------|------------------------|----|----------|
| Corporate Secretary | Roberto V. San Jose | 71 | Filipino |
| Assistant Corporate Secretary | Ana Maria Katigbak-Lim | 45 | Filipino |
| VP and Chief Accounting Officer | Mellina T. Corpuz | 47 | Filipino |
| Chief Information Officer | Josephine T. Santiago | 46 | Filipino |

Ms. Elena S. Lim is Chairman Emeritus since May 2001. Prior to that, she was President/ Chief Executive Officer from 1996 to May 2001 and is a Director since 1996. She is also Chairman of the Board of Laguna International Industrial Park, Inc. and Starworld Corporation. She was formerly the President of Solid Corporation, Solid Distributors, Inc., AA Export and Import Corporation, AA Marine Development Corporation, Columbian Autocars Corporation, Solid Electronics Corporation, Solid Video Corporation, AA Electronics Corporation, Solid Manila Corporation and Kita Corporation. Ms. Lim is married to Joseph Lim.

Ms. Susan L. Tan is Chairman of the Board since May 2001. She was Vice President of the Company from April 1999 to April 2001 and is a Director since 1996. She was Chief Operating Officer of the Company since 1996 up to March 1999. She is currently President of Solid Laguna Corporation and Solid Corporation and is also Managing Director of Solid Electronics Corporation and Solid Video Corporation. Ms. Tan is the daughter of Joseph and Elena Lim.

Mr. David S. Lim is President and Chief Executive Officer since May 2001. He is also Director since 1996. He was Vice-President since 1996 up to April 2001. He is also President and Chief Executive Officer of Solid Broadband Inc. since 1995 and presently Chairman of Destiny Cable Inc. and also Vice-President of Solid Corporation for more than five years and was formerly VP/Managing Director of Solid Video Corporation for more than five years. He is also presently Chairman of Zen Towers Corporation. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Jason S. Lim is Sr. Vice President and Chief Operating Officer since May 2002. He is a Director since May 1998. He was also EVP and Chief Operating Officer of Destiny Cable Inc. up to September 2000. He is also currently President of Kita Corporation and Solid Manila Finance Inc. He was formerly VP/ Managing Director of Clark Plastics Manufacturing Corporation and Solid City Industrial and Commercial Corporation for more than five years. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Vincent S. Lim is Sr. Vice President and Chief Financial Officer in September 2010 and was Sr. Vice President for Finance and Investments since June 2006 up to September 2010. He was Sr. VP and Chief Financial Officer from May 2002 up to June 2006. He is a director since 1996 and was VP/ Chief Financial Officer from 1996 up to May 2002. He has also been VP Finance, Treasurer and Corporate Secretary for Solid Corporation for more than five years and is also VP Finance and Treasurer for Solid Laguna Corporation and Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. He is also an Independent Director of Security Land Corporation effective June 2013. Mr. Lim is the son of Joseph and Elena Lim.

Mr. Quintin Chua is the Independent Director since March 25, 2003. He is the Chairman and Managing Director of QC Investments Pty. Ltd, Chairman and President of Nature's Harvest Corp. and Director of Hexagon Financing Corp.

Mr. Luis-Maria L. Zabaljauregui is Independent Director effective September 23, 2008. He was Executive Vice President of Leyte Agri Corporation from 2001 up to 2003. He was vice President and Resident Manager of Central Azucarera de la Carlota, Inc. from January 2004 to

June 2008. He was Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008 up to June 2011. He has business experience for more than five (5) years.

Mr. Joseph Lim is the Founding Chairman of Solid Group of Companies and served as Chairman of the Board of the Company from 1996 until 2006. He is presently the Chairman of Phil-Nanning Consortium, Inc. (Phil-Nanning), a wholly owned subsidiary of the Company; and Chairman of Guangxi Fil-Dragon Real Estate Development Ltd., a company in Nanning, China, where Phil-Nanning has a 51% ownership. In the past five years to present, he has been Chairman of various manufacturing and trading companies in Hongkong and China among which are Solid Co. Ltd., Solid Trading Ltd. and Solid Industrial (Shenzhen) Co. Ltd. Mr. Lim is the incumbent Chairman of the China-Philippines Chamber of Commerce. Mr. Lim is married to the Company's Chairman Emeritus, Ms. Elena S. Lim, and is the father of Chairman Ms. Susan L. Tan and Directors Mr. David S. Lim, Mr. Jason S. Lim and Mr. Vincent S. Lim. Mr. Lim assumed position as Director in June 2010.

Mr. Beda T. Mañalac is Director and Vice President for Business Development since September 30, 2010. He is President of Solid Manila Corporation effective January 2012. He was Vice President for Business Development of MyPhone mobile phones under MySolid Technologies and Devices Corporation and Solid Broadband Corporation since 2007 to May 31, 2010. Prior to that, he was Vice President for Sales and Marketing of Destiny Cable Inc and Vice President for Broadband Services of Solid Broadband Corporation.

Ms. Lita Joaquin is the Treasurer since May 2002. She was also director from June 2006 up to August 2007. She was Comptroller in 1996 to April 2002 and Director in May 1997 where she held office up to May 1998. She also became General Manager of Solid Manila Finance Inc. in October 1999. She is also Assistant Treasurer of Solid Corporation for more than five years and holds the same position for Solid Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. Ms. Joaquin is the niece of Mr. Joseph Lim.

Roberto V. San Jose is the Corporate Secretary of the Company and has held the office since 1996. He is Chairman of Mabuhay Holdings Corporation; a director of Interport Resources Corporation and Anglo-Philippine Holdings Corporation; and Corporate Secretary of Alsons Consolidated Resources Inc., Anglo-Philippine Holdings Corporation, Beneficial Life Insurance Corporation., Inc., FMF Development Corporation, Premiere Horizon Alliance Corporation, The Metropolitan Club, Inc., Marcventures Holdings, Inc, United Paragon Mining Corporation and Vulcan Industrial and Mining Corp. He is also either a director, corporate secretary, or an officer of various companies which are clients of the law firm of Castillo Laman Tan Pantaleon & San Jose, of which he is presently a Senior Consultant. He is a member of the Integrated Bar of the Philippines.

Ana Maria A. Katigbak is the Assistant Corporate Secretary of the Company and has held the office since 1997. She is a partner in Castillo, Laman, Tan, Pantaleon & San Jose Law Offices and also acts as Corporate Secretary of Minerales Industrias Corporation, and Assistant Corporate Secretary of Energy Development Corporation, Mabuhay Holdings, Inc., Marcventures Holdings, Inc., Paxys Inc., Premiere Horizon Alliance Corporation and Vulcan Industrial and Mining Corp. She is a member of the Integrated Bar of the Philippines.

Mellina T. Corpuz is the Chief Accounting Officer effective June 2006. Prior to that, she was the Senior Accounting Manager since 2002 and was the Accounting Manager since 1996.

Josephine Santiago is the Chief Information Officer in October 2012. She is also the Corporate Secretary of subsidiaries and affiliates of Solid Group Inc. for the last five years.

(2) Significant Employee

There is no significant employee that is not part of the Company directors and executive officers.

(3) Family Relationship

Ms. Elena S. Lim is married to Mr. Joseph Lim. Their children, namely, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason S. Lim and Vincent S. Lim are all directors and executive officers of the Company. Ms. Lita Joaquin, treasurer of the Company, is the niece of Mr. Joseph Lim.

(4) Involvement in Certain Legal Proceedings

Ms. Elena S. Lim is included as co-defendant in a case filed by a certain bank against AA Export and Import Corporation for the collection of unsecured business loans granted to that company. In another collection case filed by another bank against AA Export and Import Corporation, Ms. Elena S. Lim, Mr. Joseph Lim, Ms. Susan L. Tan, Mr. David S. Lim, Mr. Jason Lim and Mr. Vincent S. Lim are impleaded as co-defendants. The second case was dismissed by the court on February 24, 2014. Except by above, none of the directors and officers was involved in the past five years up to April 2014 in any bankruptcy proceeding. Neither have they been convicted by final judgment in any criminal proceeding, nor been subject to any order, judgment or decree of competent jurisdiction, permanently enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court or administrative body to have violated a securities or commodities law.

Item 10. Executive Compensation

B. Executive Compensation

Executive and Directors Compensation

(1) General

The Company's executive officers are regular employees of the Company and its subsidiaries and are similarly remunerated with a compensation package comprising of regular salary, bonuses, thirteenth month pay and leave conversions that the Company extends to its regular employees. Directors who are not executive officers are paid specified amounts per meeting participation.

(2) Summary Compensation Table

The following table summarizes certain information regarding compensation paid or accrued during the last two fiscal years and paid in the ensuing fiscal year to the Company's Chairman and each of the Company's four most highly compensated executive officers.

SUMMARY COMPENSATION TABLE

| (a) <u>Name and Principal Position</u> | (b) <u>Year</u> | Annual Compensation | | |
|--|---|--------------------------|-------------------------|--|
| | | (c) <u>Salary (₱)</u> | (d) <u>Bonus (₱)</u> | (e) <u>Other Annual Compensation Income (₱)</u> |
| Chairman and four most highly compensated executive officers | 2014 (Est.) | 20,000,000 | 3,500,000 | 1,500,000 |
| | 2013 | 16,543,113 | 2,954,729 | 1,174,113 |
| | 2012 | 20,334,875 | 2,167,880 | 811,367 |
| Susan L. Tan | Chairman of the Board | | | |
| David S. Lim | Director, President and Chief Executive Officer | | | |
| Jason S. Lim | Director, Senior VP and Chief Operating Officer | | | |
| Vincent S. Lim | Director, Senior VP and Chief Financial Officer | | | |
| Beda T. Manalac | Director, VP for Business Development | | | |
| All officers and directors as a group unnamed | 2014 (Est.) | 6,000,000 | 1,000,000 | 1,500,000 |
| | 2013 | 4,795,000 | 848,203 | 1,184,456 |
| | 2012 | 3,460,000 | 629,591 | 2,198,296 |

(3) Compensation of Directors

Please see executive and directors' compensation.

(4) Employment Contracts and Termination of Employment and Change-in-Control Arrangements.

Not applicable. There are no employment contracts between the registrant and executive officers/directors nor any compensatory plan or arrangement, including payments to be received from the registrant, if such plan or arrangement results or will result from resignation, retirement or any other termination of such executive officer or director's employment with the registrant and its subsidiaries or from change-in-control of the registrant or a change in the executive officer or directors' responsibilities following a change-in-control.

(5) Warrants and Options Outstanding: Repricing

Not applicable. The Company has no outstanding warrants and options.

Item 11. Security Ownership of Certain Beneficial Owners and Management

C. Security Ownership of Certain Record and Beneficial Owners and Management

(1) Security Ownership of Certain Record and Beneficial Owners

Owners of more than 5% of the Company's voting securities as of December 31, 2013 were as follows.

| (1) Title of Class | (2) Name and address of record owner and relationship with issuer | (3) Name of Beneficial Owner and Relationship with Record Owner | (4) Citizenship | (5) No. of Shares Held record (r) or beneficial (b) | (6) % to Total Outstanding |
|--------------------|---|---|-----------------|---|----------------------------|
| Common | AA Commercial, Inc. ¹ 1172 Edsa, Balintawak Quezon City Affiliate | Vincent S. Lim Treasurer of AA Commercial Inc. | Filipino | 583,377,817 (r) ¹ | 32.03 |
| Common | AV Value Holdings Corporation 1000 J. Bocobo St., Ermita, Manila Affiliate | David S. Lim President of AV Value Holding Corp. | Filipino | 499,999,999 (r) ² | 27.45 |
| Common | PCD Nominee Corporation (F) ² G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder | Various stockholders None | Filipino | 332,744,126 (r) ³ | 18.27 |
| Common | Lim, David S c/o Solid House, 2285 Pasong Tamo Ext, Makati | Not applicable | Filipino | 179,488,591 (r and b) | 9.85 |

Note 1: AA Commercial Inc. is owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc.

2. AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is the President of AV Value Holdings Corporation.

3: There is no participant lodged under PCD Nominee Corporation that owns more than 5% of the voting securities of the Company.

(2) Security Ownership of Management

The following directors and officers own shares in the Company as of December 31, 2013.

| (1) Title of Class | (2) Name of Beneficial Owner | (3) Amount and Nature of Beneficial Ownership | (4) Citizenship | (5) % to Total Outstanding |
|--------------------|------------------------------|---|-----------------|----------------------------|
| Common | Lim, Elena S. | 1,894 (direct) | Filipino | - |
| Common | Tan, Susan L. | 78,645 (direct) | Filipino | - |
| | | 7,300,000 (indirect) ³ | | 0.40 |
| Common | Lim, David S. | 179,488,591 (direct) | Filipino | 9.85 |
| | | 5,000,000 (indirect) ³ | | 0.27 |
| | | 499,999,999 (indirect) ² | | 27.45 |
| Common | Lim, Vincent S. | 71,887,187 (direct) | Filipino | 3.95 |
| | | 583,377,817 (indirect) ¹ | | 32.03 |

| | | | | |
|--------|---------------------------|-----------------------------------|------------|------|
| | | 5,996,000 (indirect) ³ | | 0.33 |
| Common | Lim, Jason S. | 65,176,160 (direct) | Filipino | 3.58 |
| Common | Chua, Quintin | 1,505,000 (direct) | Australian | 0.08 |
| Common | Zabaljauregui, Luis-Maria | 5,000 (direct) | Filipino | - |
| Common | Lim, Joseph | 2 (direct) | Filipino | - |
| Common | Beda T. Manalac | 1,001 (direct) | Filipino | - |
| Common | San Jose, Roberto V. | 242,000 (direct) | Filipino | 0.01 |
| Common | Katigbak, Ana Maria | - | Filipino | - |
| Common | Joaquin, Lita | 7,010,000 (direct) | Filipino | 0.38 |
| Common | Corpuz, Mellina T. | - | Filipino | - |
| Common | Santiago, Josephine T. | 7,000 (direct) | Filipino | - |

The aggregate amount of ownership of all directors and officers as a group unnamed is 1,427,076,296 or 78.34% of the total issued and outstanding shares.

Note 1: AA Commercial Inc. is owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc.

2. AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is the President of AV Value Holdings Corporation.

3. These shares were registered in the name of a member of the immediate family sharing the same household.

(3) Voting Trust Holders of 5% or More

The Company is not aware of any stock held under a voting trust agreement. However, AA Commercial Inc. and AV Value Holdings Corporation are companies owned by the Lim Family. Mr. Vincent S. Lim is authorized to vote the shares of stock registered in the name of AA Commercial Inc. Mr. Vincent S. Lim is the Treasurer of AA Commercial Inc. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is the President of AV Value Holdings Corporation.

(4) Changes in Control

There are no arrangements, which may result in changes in control of the registrant.

Item 12. Certain Relationships and Related Transactions

D. Certain Relationships and Related Transactions

1.

Solid Video Corporation (SVC) earns commission from sales of Solid Trading Limited (STL), a company owned by SGI's majority stockholders, to customers in the Philippines. SVC also advances funds to STL to pay foreign suppliers.

My Solid purchases mobile phones from STL. My Solid also made advance payments to STL for its future purchase of mobile phones.

Solid Manila Finance Inc. grants interest-bearing business and other loans to its related parties.

Solid Manila Corporation leases out certain land and buildings to Avid Sales Corporation.

Revenue from sale of goods and services are recorded as part of revenues and the related outstanding receivables are recorded as part of Trade and Other Receivables

Solid Electronics Corp. purchases parts and supplies from CPD, a company also owned by the Company's ultimate majority stockholders.

Advances to and from Related Parties

Certain subsidiaries of the Company grants to and obtains unsecured, non-interest bearing cash advances to and from related parties companies owned by Group's ultimate majority stockholders for working capital requirements and other purposes.

Brilliant Reach Limited granted an unsecured, interest-bearing loan denominated in Chinese Yuan Renminbi to Solid Company Limited amounting to P120.8 million in 2008 which will mature on March 1, 2011. The loan bears an annual interest of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in US dollars. In 2011, the parties agreed to increase the annual rate to 5% and extend the maturity date for another date. Also in 2012, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

In 2011, Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon) obtained loans from companies that are owned by Solid Company Limited (Hongkong). The liability is unsecured and payable on demand.

Other than the foregoing, there were no transactions during the past two fiscal years to which the Company was a party, in which a director, executive officer, nominee for director, stockholder owning more than 10% of the outstanding shares of the Company had a direct interest.

2.The Company has no transactions involving related parties where the service fees or rates are fixed by law or government authority, nor acts as bank depository of funds, transfer agent, registrar or trustee under a trust indenture nor has any other interest except for those arising from the ownership of securities of the registrant recorded as treasury shares nor received extra or special benefit that was not shared equally by all holders of the registrant.

3.The Company has no parent company holding or controlling more than 50% of its outstanding capital stock. However, AA Commercial Inc. and AV Value Holdings Corporation separately own and control 32.03% and 27.45%, respectively, of the Company's outstanding shares.

4.There are no transactions with promoters or assets acquired by the Company from any promoters.

PART IV CORPORATE GOVERNANCE

Item 13. Corporate Governance

The Company adopted a Manual on Corporate Governance to institutionalize the rules and principles of good corporate governance in accordance with the Code of Corporate Governance promulgated by Securities and Exchange Commission (SEC). Its Manual on Corporate Governance was submitted to the SEC on September 2, 2002 in accordance with SEC Memorandum Circular No. 2 Series of 2002.

Pursuant to the Manual, three Board Committees – Audit, Nomination and Compensation and Remuneration Committees were created in 2003 to aid in complying with principles of good corporate governance. In 2003, the Company increased the number of independent directors from one (1) to two (2). In 2004, in compliance with SEC Memorandum Circular No. 6. the Company increased the number of independent directors in its Audit Committee, from one independent director to two (2) independent directors, and appointed an independent director to head the Audit Committee. The company has reelected Mr. Quintin Chua and Mr. Luis Maria L. Zabaljauregui as Independent Directors during the Annual Stockholders' meeting on June 27, 2013. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. In 2012, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2011 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier.

A Compliance Officer was appointed in 2002, directly reporting to the Chairman of the Board to monitor compliance with the provisions and requirements of the Manual. The Compliance Officer has established an evaluation system to measure or determine the level of compliance of the Company with its Manual.

The Board of Directors approved the Company's Revised Manual of Corporate Governance in compliance with SEC Memorandum Circular No. 6, Series of 2009 on September 30, 2010. The Company adopted the Revised Manual of Corporate Governance and submitted it to the SEC on September 30, 2010.

On June 28, 2013, the Company accomplished and submitted the Annual Corporate Governance Report (ACGR) for the year 2012 in compliance with SEC Memorandum Circular No. 5, Series of 2013. There are no major deviations from the adopted Revised Manual on Corporate Governance.

On January 28, 2014, the Company submitted the attendance of the Board of Directors for 2013 in compliance with SEC Memorandum Circular No. 1, Series of 2014.

The Company reappointed Punongbayan and Araullo, CPA's as its independent accountant for the year 2013 during the Annual Stockholders' meeting on June 27, 2013.

On April 2, 2014, the Board of Directors approved the Revised Code of Business Conduct of the Company.

The Company, its Directors, Officers and Employees complied with all the leading practices and principles on Good Governance as embodied in the Company's Manual. All members of the Board of Directors as well as Senior Management officers completed and were duly certified to have attended a 2- day special seminar on Corporate Governance conducted by Institute of Corporate Directors and a 1-day SEC Revised Code of Corporate Governance conducted by Center for Global Best Practices.

PART V - EXHIBITS AND SCHEDULES

Item 14. Exhibits and Reports on SEC Form 17-C

- (a) Exhibits - See accompanying Index to Exhibit.

The following exhibit is filed as a separate section of this report:

- (b) Reports on SEC Form 17-C

The following were reported under SEC Form 17-C during the last six-month period.

On August 8, 2013, the Company advised that the Board of Directors approved the declaration of a cash dividend of P0.06 per share out of the unrestricted retained earnings as of December 31, 2012, in favor of stockholders of record of the Company as of August 30, 2013 and payable on or before September 24, 2013.

On August 12, 2013, the Company submitted the Audit Committee's Self-Assessment Results in compliance with SEC Memorandum Circular No. 4 Series of 2012 Guidelines for the Assessment of the Performance of Audit Committees of Companies listed on the Exchange. The Audit Committee provided an overall rating of 9.43 – Very Satisfactory in compliance with the Charter and its implementation based on a quantitative rating of 1 to 10 with corresponding qualitative description for each rating specifically poor, satisfactory, very satisfactory and outstanding, based on a clear set of criteria indicated in the Charter. The Company has an Audit Committee Charter in effect since January 31, 2006 and was amended and duly approved by its Board of Directors on June 13, 2013 to conform with the SEC Circular No. 4 Series of 2012.

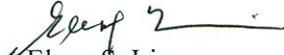
On April 2, 2014, the Company advised that the Board of Directors approved the following: 1) the financial reports for the year 2013; 2) the Code of Business Conduct of the Company; and 3) The increase of the authorized capital stock of Solid Video Corporation (SVC), a wholly-owned subsidiary, from P10 million to P50 million, of which P30 million will be subscribed and paid-up. The additional investment is intended to provide additional working capital of SVC, which is engaged in the distribution business (Sony Professional Products), and fund additional project sales and to improve SVC's net financial contracting capacity for bidding purposes.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati, Metro Manila, Philippines on April 15, 2014.

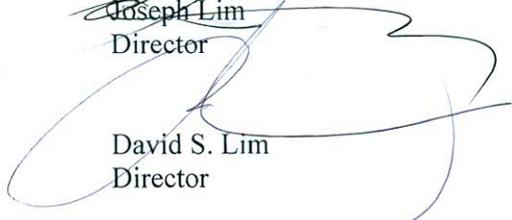
By:

Board of Directors


Elena S. Lim
Chairman Emeritus


Susan L. Tan
Chairman of the Board


Joseph Lim
Director


David S. Lim
Director


Jason S. Lim
Director


Vincent S. Lim
Director


Quintin Chua
Director

Luis Maria Zabaljauregui
Director


Beda T. Manalac
Director

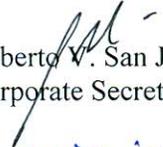
Executive Officers


David S. Lim
President & Chief Executive Officer


Jason S. Lim
SVP & Chief Operating Officer

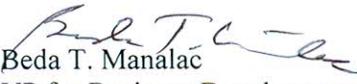

Vincent S. Lim
SVP & Chief Financial Officer

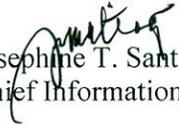

Lita L. Joaquin
VP & Treasurer


Roberto V. San Jose
Corporate Secretary


Ana Maria A. Katigbak-Lim
Assistant Corporate Secretary


Mellina T. Corpuz
VP & Chief Accounting Officer


Beda T. Manalac
VP for Business Development


Josephine T. Santiago
Chief Information Officer

APR 15 2014

SUBSCRIBED AND SWORN to before me this _____ day of _____, affiants exhibiting to me their passport, as follows:

| <u>Names</u> | <u>Passport No.</u> | <u>Date/Place Issued</u> |
|--------------------------|---------------------|---------------------------------------|
| Joseph Lim | EB6119642 | August 13, 2012, PCG Guangzhou, China |
| Elena S. Lim | EC0128638 | January 27, 2014, Manila |
| Susan L. Tan | EB0123180 | April 20, 2010, Manila |
| David S. Lim | EB4305124 | December 20, 2011, Manila |
| Jason S. Lim | EB0671416 | July 31, 2010, Manila |
| Vincent S. Lim | EB5665582 | June 15, 2012, Manila |
| Quintin Chua | M8252881 | March 8, 2008, Australia |
| Luis-Maria Zabaljauregui | EB8229998 | May 27, 2013, Bacolod City |
| Lita L. Joaquin | XX5459012 | February 5, 2010, Manila |
| Roberto V. San Jose | EB6079962 | August 3, 2012, Manila |
| Ana Maria Katigbak-Lim | EB6978724 | December 20, 2012, Manila |
| Mellina T. Corpuz | EB0552738 | July 10, 2010, Manila |
| Beda T. Manalac | EB4988026 | March 24, 2012, Manila |
| Josephine T. Santiago | EB6447724 | September 28, 2012, Manila |

Doc. No. 411 ;
Page No. 84 ;
Book No. 197 ;
Series of 2014 .


RUBEN T.M. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31, 2015
2734 M. AURORA ST., MAKATI CITY
IBF NO. 942556 / CY-2014
ROLL NO. 28947/MCLE-4 NO. 0006324/6-19-12
PTR NO. MKT. 4225649/1-2-14 MAKATI CITY

SOLID GROUP, INC.
INDEX TO FINANCIAL STATEMENTS
FORM 17-A, Item 7

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| Report of Independent Public Accountants | 1 |
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| Consolidated Statements of Income for the years ended December 31, 2013, 2012 and 2011 | 1 |
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| Consolidated Statements of Changes in Equity for the years ended December 31, 2013, 2012 and 2011 | 1 |
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SOLID GROUP INC.

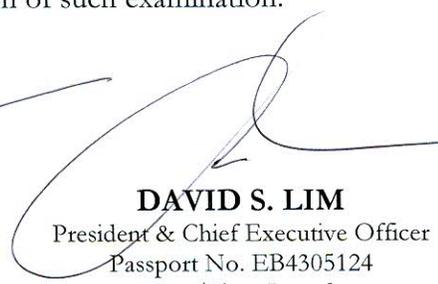
STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc.**, is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, in accordance with Philippine Financial Reporting Standards (PFRS), including the List of Supplementary Information filed separately from the basic consolidated financial statements.

Management's responsibility on the consolidated financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated 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.

The Board of Directors reviews and approves the consolidated financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

| | | |
|--|--|--|
|  SUSAN L. TAN Chairman Passport No. EB0123180 Date/Place Issued: April 20, 2010, Manila |  DAVID S. LIM President & Chief Executive Officer Passport No. EB4305124 Date/Place Issued: December 20, 2011, Manila |  VINCENT S. LIM SVP & Chief Financial Officer Passport No. EB5665582 Date/Place Issued: June 15, 2012, Manila |
|--|--|--|

Signed this APR 15 2014 day of _____ 2014.

SUBSCRIBED AND SWORN to before me this APR 15 2014 day of _____, affiants exhibiting to me their passport with details shown above.

Doc No. 410
Page No. 83
Book No. 197
Series of 2014


RUBEN T.M. RAMIREZ
NOTARY PUBLIC
UNTIL DEC. 31, 2015
2734-M. AURORA ST., MAKATI CITY
IBPS O. 942556 / CY-2014
ROLL NO. 28947/MCLE-4 NO. 0006324/6-19-12
PTR NO. MKT. 4225649/1-2-14 MAKATI CITY



Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

19th and 20th Floors, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 988 2288
F +63 2 886 5506
www.punongbayan-araullo.com

**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 statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 plan and perform the audit to obtain reasonable assurance about 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 consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 at December 31, 2013 and 2012, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230

TIN 120-319-128

PTR No. 4225004, January 2, 2014, Makati City

SEC Group A Accreditation

Partner - No. 0396-AR-2 (until Aug. 8, 2015)

Firm - No. 0002-FR-3 (until Jan. 18, 2015)

BIR AN 08-002511-20-2012 (until May 15, 2015)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 2, 2014

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2013 AND 2012
(With Corresponding Figures as of January 1, 2012)
(Amounts in Philippine Pesos)

| | Notes | December 31, 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|--|-------|-------------------------|---|---|
| ASSETS | | | | |
| CURRENT ASSETS | | | | |
| Cash and cash equivalents | 6 | P 2,327,335,632 | P 3,019,984,213 | P 1,720,748,062 |
| Financial assets at fair value through profit or loss | 7 | 294,286,160 | - | 70,272,991 |
| Trade and other receivables - net | 8 | 1,132,677,373 | 1,220,602,660 | 1,089,014,413 |
| Advances to related parties | 26 | 24,735,439 | 21,633,388 | 128,543,399 |
| Available-for-sale financial assets - net | 9 | - | - | 51,994,367 |
| Merchandise inventories and supplies - net | 10 | 844,245,080 | 391,862,888 | 564,543,065 |
| Real estate inventories - net | 11 | 2,423,235,917 | 2,011,065,441 | 1,675,780,772 |
| Other current assets | 14 | 425,932,898 | 319,028,004 | 315,334,816 |
| Total Current Assets | | 7,472,448,499 | 6,984,176,594 | 5,616,231,885 |
| NON-CURRENT ASSETS | | | | |
| Trade and other receivables | 8 | 722,200,488 | 630,458,102 | 669,885,531 |
| Available-for-sale financial assets - net | 9 | 7,236,527 | 9,076,527 | 7,881,527 |
| Property, plant and equipment - net | 12 | 1,560,681,049 | 1,048,407,834 | 1,386,934,809 |
| Investment property - net | 13 | 3,648,811,016 | 4,017,441,106 | 3,864,333,786 |
| Retirement benefit asset | 22 | 82,223,774 | 71,561,607 | 84,581,537 |
| Deferred tax assets - net | 23 | 77,579,849 | 64,509,159 | 71,772,733 |
| Other non-current assets - net | 14 | 32,848,159 | 22,231,704 | 22,151,072 |
| Total Non-current Assets | | 6,131,580,862 | 5,863,686,039 | 6,107,540,995 |
| TOTAL ASSETS | | P 13,604,029,361 | P 12,847,862,633 | P 11,723,772,880 |

| | Notes | December 31, 2013 | December 31, 2012 (As Restated - see Note 2) | January 1, 2012 (As Restated - see Note 2) |
|---|-------|-------------------------|---|---|
| LIABILITIES AND EQUITY | | | | |
| CURRENT LIABILITIES | | | | |
| Interest-bearing loans | 15 | P 684,002,914 | P 571,666,922 | P 779,398,755 |
| Trade and other payables | 16 | 731,274,757 | 628,902,651 | 592,432,973 |
| Customers' deposits | 11 | 1,306,036,566 | 881,899,665 | 686,313,646 |
| Advances from related parties | 26 | 81,323,563 | 11,629,819 | 107,495,231 |
| Estimated liability for land and land development costs | 11 | 68,304,647 | 68,304,647 | 68,304,647 |
| Income tax payable | | 4,695,146 | 65,207,807 | 43,387,647 |
| Total Current Liabilities | | 2,875,637,593 | 2,227,611,511 | 2,277,332,899 |
| NON-CURRENT LIABILITIES | | | | |
| Refundable deposits - net | 17 | 15,127,106 | 16,045,396 | 15,611,010 |
| Retirement benefit obligation | 22 | 26,520,678 | 16,136,455 | 13,321,230 |
| Deferred tax liabilities - net | 23 | 935,309,237 | 919,629,761 | 862,142,935 |
| Total Non-current Liabilities | | 976,957,021 | 951,811,612 | 891,075,175 |
| Total Liabilities | | 3,852,594,614 | 3,179,423,123 | 3,168,408,074 |
| EQUITY | | | | |
| Attributable to the | | | | |
| Parent Company's stockholders | | | | |
| Capital stock | 24 | 2,030,975,000 | 2,030,975,000 | 2,030,975,000 |
| Additional paid-in capital | | 4,641,701,922 | 4,641,701,922 | 4,641,701,922 |
| Treasury shares - at cost | 24 | (115,614,380) | (115,614,380) | (115,614,380) |
| Revaluation reserves | 24 | (16,786,209) | (63,554,524) | (48,638,038) |
| Retained earnings | 24 | 2,820,926,308 | 2,772,396,938 | 1,641,741,149 |
| Total equity attributable to the Parent Company's stockholders | | 9,361,202,641 | 9,265,904,956 | 8,150,165,653 |
| Non-controlling interests | | 390,232,106 | 402,534,554 | 405,199,153 |
| Total Equity | | 9,751,434,747 | 9,668,439,510 | 8,555,364,806 |
| TOTAL LIABILITIES AND EQUITY | | P 13,604,029,361 | P 12,847,862,633 | P 11,723,772,880 |

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

| | Notes | <u>2013</u> | <u>2012</u> (As Restated - see Note 2) | <u>2011</u> (As Restated - see Note 2) |
|--|--------|----------------------|--|--|
| REVENUES | | | | |
| Sale of goods | 2 | P 3,513,602,388 | P 3,959,978,189 | P 3,135,018,332 |
| Rendering of services | 26, 27 | 414,705,645 | 630,331,311 | 682,884,837 |
| Rentals | 13, 28 | 151,962,662 | 136,716,722 | 157,741,960 |
| Sale of real estate | 2 | 113,835,646 | 98,968,685 | 126,087,655 |
| Interest | 21, 26 | 39,263,000 | 64,387,678 | 47,757,624 |
| | | <u>4,233,369,341</u> | <u>4,890,382,585</u> | <u>4,149,490,408</u> |
| COSTS OF SALES, SERVICES, REAL ESTATE SALES AND RENTALS | | | | |
| Cost of sales | 18, 20 | 2,983,775,449 | 3,092,129,708 | 2,524,843,718 |
| Cost of services | 18, 20 | 332,503,851 | 488,402,762 | 499,294,869 |
| Cost of rentals | 18, 20 | 34,971,661 | 35,382,941 | 39,880,748 |
| Cost of real estate sales | 20 | 70,127,647 | 45,917,227 | 95,886,118 |
| | | <u>3,421,378,608</u> | <u>3,661,832,638</u> | <u>3,159,905,453</u> |
| GROSS PROFIT | | <u>811,990,733</u> | <u>1,228,549,947</u> | <u>989,584,955</u> |
| OTHER OPERATING EXPENSES (INCOME) | | | | |
| Selling and distribution costs | 20 | 451,129,327 | 361,066,027 | 278,372,598 |
| General and administrative expenses | 20 | 288,610,394 | 352,143,479 | 366,204,797 |
| Gain on sale of assets | 27 | - | (267,133,735) | - |
| Other operating income | 19 | (53,336,385) | (553,926,007) | (232,773,017) |
| | | <u>686,403,336</u> | <u>(107,850,236)</u> | <u>411,804,378</u> |
| OPERATING PROFIT | | <u>125,587,397</u> | <u>1,336,400,183</u> | <u>577,780,577</u> |
| OTHER INCOME (CHARGES) | | | | |
| Finance income | 21 | 62,749,912 | 163,702,479 | 64,476,707 |
| Finance costs | 21 | (20,598,454) | (49,088,095) | (89,426,503) |
| Other gains – net | 19 | 22,683,695 | 60,902,970 | 19,318,175 |
| | | <u>64,835,153</u> | <u>175,517,354</u> | <u>(5,631,621)</u> |
| PROFIT BEFORE TAX | | <u>190,422,550</u> | <u>1,511,917,537</u> | <u>572,148,956</u> |
| TAX EXPENSE | 23 | <u>44,903,108</u> | <u>274,668,827</u> | <u>139,080,528</u> |
| PROFIT FROM CONTINUING OPERATIONS | | <u>145,519,442</u> | <u>1,237,248,710</u> | <u>433,068,428</u> |
| LOSS FROM DISCONTINUED OPERATIONS - Net of Tax | 5 | <u>-</u> | <u>-</u> | <u>(3,863,823)</u> |
| NET PROFIT FOR THE YEAR | | <u>P 145,519,442</u> | <u>P 1,237,248,710</u> | <u>P 429,204,605</u> |
| Profit (loss) for the year attributable to the: | | | | |
| Parent Company's stockholders | | P 157,821,890 | P 1,239,948,309 | P 438,351,631 |
| Non-controlling interests | | (12,302,448) | (2,699,599) | (9,147,026) |
| | | <u>P 145,519,442</u> | <u>P 1,237,248,710</u> | <u>P 429,204,605</u> |
| Earnings per share attributable to the | | | | |
| Parent Company's stockholders - basic and diluted | 25 | <u>P 0.09</u> | <u>P 0.68</u> | <u>P 0.24</u> |

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|--------|----------------------|---------------------------------------|---------------------------------------|
| NET PROFIT FOR THE YEAR | | P 145,519,442 | P 1,237,248,710 | P 429,204,605 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Items that will not be reclassified subsequently to profit or loss – | | | | |
| Remeasurement of post-employment defined benefit plan | 22, 24 | 7,356,907 | 3,086,609 | (6,661,789) |
| Tax income (expense) | 23, 24 | (2,207,070) | (925,983) | 1,998,537 |
| | | 5,149,837 | 2,160,626 | (4,663,252) |
| Items that will be reclassified subsequently to profit or loss: | | | | |
| Currency exchange differences on translating balances of foreign operations | 2, 24 | 41,312,873 | (28,033,335) | 12,497,965 |
| Fair value gains (losses) on available-for-sale financial assets | 9 | 1,461,842 | (853,830) | (9,606,606) |
| Deferred tax income on changes in fair value of available-for-sale financial assets | 23 | (1,156,237) | (300,000) | (1,458,000) |
| Reclassification adjustments for losses recognized in profit or loss | 9 | - | 12,145,053 | 12,804,822 |
| | | 41,618,478 | (17,042,112) | 14,238,181 |
| Other Comprehensive Income (Loss) - net of tax | | 46,768,315 | (14,881,486) | 9,574,929 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | P 192,287,757 | P 1,222,367,224 | P 438,779,534 |
| Total comprehensive income (loss) for the year attributable to: | | | | |
| Parent Company's stockholders | | P 204,590,205 | P 1,225,031,823 | P 447,926,560 |
| Non-controlling interests | | (12,302,448) | (2,664,599) | (9,147,026) |
| | | P 192,287,757 | P 1,222,367,224 | P 438,779,534 |

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

| | | Attributable to the Parent Company's Stockholders | | | | | | | | | | | | | | | |
|-------------------------------|------------------|---|------------------------------|-------------------------|----------------------|--------------|------------------------------|-----------------|--------------------|---------------|----------------------|---------------|----------------------|-------------|--------------------|---------------|----------------------|
| Notes | Capital Stock | Additional Paid-in Capital | Treasury Shares - at Cost | Revaluation Reserves | Retained Earnings | Total | Non-controlling Interests | Total Equity | | | | | | | | | |
| Balance at January 1, 2013 | | | | | | | | | | | | | | | | | |
| | P | 2,030,975,000 | P | 4,641,701,922 | (P | 115,614,380) | (P | 46,319,482) | P | 2,758,300,997 | P | 9,269,044,057 | P | 402,745,823 | P | 9,671,789,880 | |
| | | - | | - | | (| 17,235,042) | | 14,095,941 | | (| 3,139,101) | | (| 211,269) | (| 3,350,370) |
| | | 2,030,975,000 | | 4,641,701,922 | | (| 115,614,380) | | 2,772,396,938 | | | | | 402,534,554 | | 9,668,439,510 | |
| Transactions between owners – | | | | | | | | | | | | | | | | | |
| | 24 | - | | - | | - | | (| 109,292,520) | | (| 109,292,520) | | - | | (| 109,292,520) |
| | 2, 9 | - | | - | | 46,768,315 | | 157,821,890 | | | | | (| 12,302,448) | | 192,287,757 | |
| | 24 | P | 2,030,975,000 | P | 4,641,701,922 | (P | 115,614,380) | (P | 16,786,209) | P | 2,820,926,308 | P | 9,361,202,641 | P | 390,232,106 | P | 9,751,434,747 |
| Balance at December 31, 2013 | | | | | | | | | | | | | | | | | |
| Balance at January 1, 2012 | | | | | | | | | | | | | | | | | |
| | P | 2,030,975,000 | P | 4,641,701,922 | (P | 115,614,380) | (P | 29,242,370) | P | 1,623,289,267 | P | 8,151,109,439 | P | 405,372,818 | P | 8,556,482,257 | |
| | | - | | - | | - | | (| 19,395,668) | | (| 943,786) | | (| 173,665) | (| 1,117,451) |
| | | 2,030,975,000 | | 4,641,701,922 | | (| 115,614,380) | | 1,641,741,149 | | | | | 405,199,153 | | 8,555,364,806 | |
| Transactions between owners – | | | | | | | | | | | | | | | | | |
| | 24 | - | | - | | - | | (| 109,292,520) | | (| 109,292,520) | | - | | (| 109,292,520) |
| | 2, 9 | - | | - | | - | | (| 14,916,486) | | 1,239,948,309 | | 1,225,031,823 | | (| 2,664,599) | 1,222,367,224 |
| | 24 | P | 2,030,975,000 | P | 4,641,701,922 | (P | 115,614,380) | (P | 63,554,524) | P | 2,772,396,938 | P | 9,265,904,956 | P | 402,534,554 | P | 9,668,439,510 |
| Balance at December 31, 2012 | | | | | | | | | | | | | | | | | |
| Balance at January 1, 2011 | | | | | | | | | | | | | | | | | |
| | P | 2,030,975,000 | P | 4,641,701,922 | (P | 115,614,380) | (P | 43,480,551) | P | 1,183,851,839 | P | 7,697,433,830 | P | 414,514,261 | P | 8,111,948,091 | |
| | | - | | - | | - | | (| 19,537,679) | | 4,805,263 | | (| 168,082) | | 4,637,181 | |
| | | 2,030,975,000 | | 4,641,701,922 | | (| 115,614,380) | | 1,203,389,518 | | 7,702,239,093 | | 414,346,179 | | 8,116,585,272 | | |
| | 2, 9 | - | | - | | - | | 9,574,929 | | 438,351,631 | | 447,926,560 | | (| 9,147,026) | 438,779,534 | |
| | 24 | P | 2,030,975,000 | P | 4,641,701,922 | (P | 115,614,380) | (P | 48,638,038) | P | 1,641,741,149 | P | 8,150,165,653 | P | 405,199,153 | P | 8,555,364,806 |
| Balance at December 31, 2011 | | | | | | | | | | | | | | | | | |

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|--------|-------------------|---------------------------------------|---------------------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | |
| Profit before tax from continuing operations | | P 190,422,550 | P 1,511,917,537 | P 572,148,956 |
| Loss before tax from discontinued operations | 5 | - | - | (3,514,984) |
| Profit before tax | | 190,422,550 | 1,511,917,537 | 568,633,972 |
| Adjustments for: | | | | |
| Interest income | | (62,453,275) | (147,707,834) | (84,885,381) |
| Depreciation and amortization | 12 | 32,328,211 | 46,467,220 | 78,173,250 |
| Fair value gains on investment property - net | 13, 19 | (23,784,336) | (149,569,182) | (191,644,597) |
| Gain on derecognition of liabilities | 19 | (15,825,655) | (25,117,698) | - |
| Unrealized foreign currency losses - net | | 3,239,177 | 14,111,262 | 1,723,603 |
| Interest expense | 21 | 2,610,444 | 6,227,444 | 7,996,557 |
| Gain on redemption of financial assets at fair value through profit or loss | 7, 21 | (1,006,736) | - | - |
| Impairment losses on available-for-sale financial assets | 9 | 800,000 | - | 18,995,887 |
| Interest amortization on refundable deposits | 17 | 388,412 | 1,930,812 | 820,928 |
| Fair value loss (gain) on financial assets at fair value through profit or loss | 8, 21 | (144,292) | - | 5,909,803 |
| Gain on sale of investment property | 13, 19 | - | - | (17,802,607) |
| Gain on sale of assets | 28 | - | (267,133,735) | (1,721,437) |
| Reversal of impairment losses on property, plant and equipment - net | 19 | - | (350,000,000) | - |
| Reversal of impairment losses on available-for-sale financial assets | 9, 21 | - | (990,643) | - |
| Operating profit before working capital changes | | 126,574,500 | 640,135,183 | 386,199,978 |
| Increase in trade and other receivables | | (3,817,099) | (128,025,521) | (275,142,988) |
| Decrease (increase) in advances to related parties | | (3,102,051) | 106,910,011 | 72,650,008 |
| Decrease in available-for-sale financial assets | | - | 5,333,012 | 86,079,080 |
| Decrease (increase) in merchandise inventories and supplies | | (452,382,192) | 148,246,101 | (171,833,821) |
| Increase in real estate inventories | | (406,957,264) | (335,284,669) | (347,777,942) |
| Increase in other current assets | | (167,417,555) | (147,125,720) | (96,146,286) |
| Decrease (increase) in retirement benefit asset | | (5,512,330) | 18,320,016 | (4,363,496) |
| Decrease (increase) in other non-current assets | | (10,616,455) | 1,534,754 | 2,427,596 |
| Increase in trade and other payables | | 117,809,349 | 61,587,376 | 178,804,517 |
| Increase in customers' deposits | | 424,136,901 | 195,586,019 | 657,278,552 |
| Increase (decrease) in advances from related parties | | 69,693,744 | (95,865,412) | (61,416,380) |
| Decrease in refundable deposits | | (918,290) | (997,074) | (255,543) |
| Increase (decrease) in retirement benefit obligation | | 10,384,223 | (4,394,864) | 4,713,553 |
| Cash generated from (used in) operations | | (302,124,519) | 465,959,212 | 431,216,828 |
| Interest received | | 39,263,000 | 64,387,678 | 47,757,624 |
| Cash paid for income taxes | | (2,137,686) | (43,387,647) | (44,369,442) |
| Net Cash From (Used in) Operating Activities | | (264,999,205) | 486,959,243 | 434,605,010 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | |
| Acquisitions of financial asset at fair value through profit or loss | 7 | (868,225,031) | - | (76,182,794) |
| Proceeds from redemption of financial assets at fair value through profit or loss | 7 | 575,089,899 | - | - |
| Acquisitions of property, plant and equipment | 12 | (157,777,542) | (143,682,133) | (99,184,297) |
| Interest received | | 23,190,275 | 83,320,157 | 37,127,757 |
| Proceeds from disposal of available-for-sale financial asset | 9 | 2,501,842 | 50,936,180 | - |
| Proceeds from disposal of investment property | 13 | 2,461,000 | - | 26,873,607 |
| Additions to investment property | 13 | (2,083,670) | (5,153,524) | (6,927,455) |
| Proceeds from sale of assets | | - | 1,164,718,639 | 4,352,549 |
| Net Cash From (Used in) Investing Activities | | (424,843,227) | 1,150,139,319 | (113,940,633) |
| <i>Balance forwarded</i> | | (P 689,842,432) | P 1,637,098,562 | P 320,664,377 |

| | Notes | 2013 | 2012 (As Restated - see Note 2) | 2011 (As Restated - see Note 2) |
|---|-------|-------------------------------|---------------------------------------|---------------------------------------|
| <i>Balance brought forward</i> | | (P 689,842,432) | P 1,637,098,562 | P 320,664,377 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | |
| Proceeds from interest-bearing loans | 15 | 112,335,992 | - | 404,053,192 |
| Dividends paid | 24 | (109,292,520) | (109,292,520) | - |
| Interest paid | | (2,610,444) | (6,726,796) | (8,203,376) |
| Repayments for interest-bearing loans | 15 | - | (207,731,833) | (614,156,996) |
| Net Cash From (Used in) Financing Activities | | <u>433,028</u> | (323,751,149) | (218,307,180) |
| Effect of Exchange Rate Changes on | | | | |
| Cash and Cash Equivalents | | (<u>3,239,177</u>) | (14,111,262) | (1,723,603) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | | (692,648,581) | 1,299,236,151 | 100,633,594 |
| CASH AND CASH EQUIVALENTS AT | | | | |
| BEGINNING OF YEAR | | <u>3,019,984,213</u> | <u>1,720,748,062</u> | <u>1,620,114,468</u> |
| CASH AND CASH EQUIVALENTS AT | | | | |
| END OF YEAR | | <u>P 2,327,335,632</u> | <u>P 3,019,984,213</u> | <u>P 1,720,748,062</u> |

Supplemental Information on Non-cash Investing Activities:

In 2013, SMC transferred investment properties with a carrying amount of P386.8 million , previously classified as Investment Property, to Property, Plant and Equipment (see Note 13).

In 2013, ZTC transferred investment properties with a carrying amount of P5.2 million, previously classified as Investment Property, to Real Estate Inventories (see Note 13).

In 2012, SMC transferred land with a carrying amount of P1.6 million as of December 31, 2012, previously classified as Investment Property, to Other Non-current Assets (see Note 13).

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2013, 2012 AND 2011
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

Solid Group Inc. (SGI or the Parent Company) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on October 16, 1933. On February 22, 1982, the SEC approved the extension of SGI's corporate life for another 50 years. SGI currently conducts business as an investment holding company. On September 4, 1996, SGI listed its shares of stock in the Philippine Stock Exchange (PSE).

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

| Subsidiaries | Percentage of Ownership | | | Notes | Nature of Business |
|--|-------------------------|------|------|----------|--|
| | 2013 | 2012 | 2011 | | |
| Brilliant Reach Limited (BRL) | 100 | 100 | 100 | (a) | Investment holding company |
| Kita Corporation (Kita) | 100 | 100 | 100 | | Real estate and manufacturing of injected plastics |
| Solid Broadband Corporation (SBC) | 100 | 100 | 100 | | Broadband, cable and satellite services, sale of LCD televisions |
| Solid Group Technologies Corporation (SGTC) | 100 | 100 | 100 | | Trading of prefabricated modular house and office units |
| 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 Manila Corporation (SMC) | 100 | 100 | 100 | (i) | Real estate |
| Casa Bocobo Hotel, Inc. (CBHI) | 100 | 100 | 100 | (e) | Hotel operations |
| 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 | 100 | 100 | (g) | Investment holding company |
| My Solid Technologies & Devices Corporation (My Solid) | 100 | 100 | 100 | (k) | Sale of mobile phones |
| Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)] | 100 | 100 | 100 | (j) | Logistics and assembly of consumer electronics products |
| Skyworld Corporation (Skyworld) | 75 | 75 | 75 | (c), (e) | Investment holding company |
| Interstar Holdings Company, Inc. (Interstar) | 73 | 73 | 73 | (b), (c) | Investment holding company |
| Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon) | 51 | 51 | 51 | (h) | 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 |
| Solid Corporation (SC) | - | - | 100 | (f) | Real estate |
| Mytel Mobility Solutions, Inc. (Mytel) | - | - | 100 | (k) | Sale of mobile phones |
| Omni Logistics Corporation (OLC) | - | - | 100 | (j) | Logistics and assembly of consumer electronics products |

Notes:

- (a) Incorporated and domiciled in the British Virgin Islands
- (b) Indirectly owned through SMC in 2013 and 2012 and through SC in 2011
- (c) Pre-operating or non-operating
- (d) LIIP is 22.5% owned by SMC in 2013 and 2012 and indirectly owned through SC in 2011, and 37.5% owned by Interstar
- (e) Indirectly owned through SMC
- (f) Starworld is 20% owned by SMC and 40% owned by Skyworld
- (g) Indirectly owned through Precos
- (h) Indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China (PRC)
- (i) Merged with SMC, the surviving company, effective January 1, 2012 (see Note 1.2)
- (j) Merged with SLC, the surviving company, effective January 1, 2012 (see Note 1.2)
On March 19, 2012, the SEC approved the change in corporate name of SLC to OSSI.
- (k) Merged with My Solid as the surviving company, effective June 1, 2012 (see Note 1.2)

SBC holds a provisional authority, granted by the National Telecommunications Commission (NTC), to use its legislative franchise under Republic Act (RA) No. 9116, *An Act Granting Solid Broadband Corporation a Franchise to Construct, Install, Establish, Operate and Maintain Telecommunications Systems throughout the Philippines* (see Note 27.3).

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

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

1.2 Status of Operations and Mergers

(a) Sale of SBC's Assets

In a special meeting held on May 11, 2012, the BOD of SBC approved the sale, assignment, transfer and conveyance of the assets, contracts and licenses of SBC to a third party. The assets identified to be included in the sale are SBC's property and equipment, a significant portion of its trade receivables and inventories, as well as contracts, permits and licenses that are used in carrying out its operations. Such sale transaction was consummated in 2012. Consequently, SBC's ownership on the identified assets, related contracts and licenses directly attributable to SBC's operations has been transferred to the third party (see Note 27.3).

(b) Mergers of Certain Subsidiaries

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

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

1.3 Other Corporate Information

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

| | | |
|----------------------|---|--|
| BRL | - | 2 nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands |
| Kita | - | N7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga |
| OSSI | - | Solid Street, LIIP, Mamplasan, Biñan, Laguna |
| SMC and CBHI | - | 1000 J. Bocobo St., Ermita, Manila |
| SE Corp. | - | 1172 E. delos Santos Avenue, Balintawak, Quezon City |
| Starworld | - | Bo. Prinza, Calamba City |
| ZTC | - | 1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila |
| PNCI | - | 139 Joy St. Balingasa, Quezon City |
| Fil-Dragon | - | 16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC |
| My Solid and SGTC | - | 2000 East Service Road Bicutan, Parañaque City |

1.4 Approval for Issuance of Consolidated Financial Statements

The consolidated financial statements of the Group for the year ended December 31, 2013 (including the comparatives for the years ended December 31, 2012 and 2011 and the corresponding figures as of January 1, 2012) were authorized for issue by the Parent Company's BOD on April 2, 2014.

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 and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a “Consolidated Statement of Income” and a “Consolidated Statement of Comprehensive Income.”

The Group presents a third consolidated statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

The Group’s adoption of PAS 19 (Revised), *Employee Benefits*, resulted in material retrospective restatements on certain accounts in the comparative consolidated financial statements as of December 31, 2012 and in the corresponding figures as of January 1, 2012 [see Note 2.2(a)(ii)]. Accordingly, the Group presents a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosures required under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

(c) *Functional and Presentation Currency*

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

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

(d) *Reclassification of Accounts*

Certain accounts in the 2012 and 2011 consolidated financial statements have been reclassified to conform with the 2013 consolidated financial statements presentation and classification.

In 2013, income tax recoverable of Fil-Dragon amounting to P125.3 million, which was previously presented as part of Others under the Trade and Other Receivables account, was reclassified and is now presented as part of Creditable withholding taxes under the Other Current Assets account.

2.2 Adoption of New and Amended PFRS

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

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

| | | |
|------------------------------------|---|--|
| PAS 1 (Amendment) | : | Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income |
| PAS 19 (Revised) | : | Employee Benefits |
| Consolidation Standards | : | |
| PFRS 10 | : | Consolidated Financial Statements |
| PFRS 11 | : | Joint Arrangements |
| PFRS 12 | : | Disclosures of Interests in Other Entities |
| PAS 27 (Revised) | : | Separate Financial Statements |
| PAS 28 (Revised) | : | Investments in Associates and Joint Ventures |
| PFRS 7 (Amendment) | : | Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities |
| PFRS 10, 11, and 12 (Amendment) | : | Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12 |
| PFRS 13 | : | Fair Value Measurement |
| Annual Improvements | : | Annual Improvements to PFRS (2009 – 2011 Cycle) |

Discussed below and in the succeeding pages are the relevant information about these new, revised and amended standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income*. The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively; hence, the presentation of other comprehensive income has been modified to reflect the changes.

(ii) PAS 19 (Revised), *Employee Benefits*. The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;
- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative consolidated financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012. The effect of the restatement on the affected assets, liabilities, and equity components is shown below.

| | December 31, 2012 | | |
|---|------------------------|--|----------------|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| <i>Changes in assets and liabilities:</i> | | | |
| Retirement benefit asset | P 73,164,772 | (P 1,603,165) | P 71,561,607 |
| Retirement benefit obligation | (12,582,159) | (3,554,296) | (16,136,455) |
| Deferred tax assets | 63,135,755 | 1,373,404 | 64,509,159 |
| Deferred tax liabilities | (920,063,448) | <u>433,687</u> | (919,629,761) |
| Net decrease in equity | | <u>(P 3,350,370)</u> | |
| <i>Changes in components of equity:</i> | | | |
| Revaluation reserves | (P 46,319,482) | (P 17,235,042) | (P 63,554,524) |
| Retained earnings | 2,758,300,997 | 14,095,941 | 2,772,396,938 |
| Non-controlling interests | 402,745,823 | <u>(211,269)</u> | 402,534,554 |
| Net decrease in equity | | <u>(P 3,350,370)</u> | |
| | January 1, 2012 | | |
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| <i>Changes in assets and liabilities:</i> | | | |
| Retirement benefit asset | P 79,281,451 | P 5,300,086 | P 84,581,537 |
| Retirement benefit obligation | (6,111,141) | (7,210,089) | (13,321,230) |
| Deferred tax assets | 69,982,489 | 1,790,244 | 71,772,733 |
| Deferred tax liabilities | (861,145,243) | <u>(997,692)</u> | (862,142,935) |
| Net decrease in equity | | <u>(P 1,117,451)</u> | |
| <i>Changes in components of equity:</i> | | | |
| Revaluation reserves | (P 29,242,370) | (P 19,395,668) | (P 48,638,038) |
| Retained earnings | 1,623,289,267 | 18,451,882 | 1,641,741,149 |
| Non-controlling interests | 405,372,818 | <u>(173,665)</u> | 405,199,153 |
| Net decrease in equity | | <u>(P 1,117,451)</u> | |

The effect of the restatement in the 2012 and 2011 consolidated statements of comprehensive income is presented below.

| | 2012 | | |
|---|---------------------------|--|----------------|
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| <i>Changes in consolidated statements of income:</i> | | | |
| General and administrative expenses | P 343,002,874 | P 9,140,605 | P 352,143,479 |
| Other gains | (57,651,877) | (3,251,093) | (60,902,970) |
| Tax expense | 276,164,794 | (1,495,967) | 274,668,827 |
| Net decrease in net profit | | <u>P 4,393,545</u> | |
| <i>Change in consolidated statements of comprehensive income</i> | | | |
| Remeasurements of post-employment defined benefit plan – net of tax | P - | <u>P 2,160,626</u> | P 2,160,626 |
| | | | |
| | 2011 | | |
| | As Previously Reported | Effect of Adoption of PAS 19 (Revised) | As Restated |
| <i>Changes in consolidated statements of income:</i> | | | |
| General and administrative expenses | P 366,950,584 | (P 745,787) | P 366,204,797 |
| Other gains | (21,439,128) | 2,120,953 | (19,318,175) |
| Tax expense | 139,364,314 | (283,786) | 139,080,528 |
| Net decrease in net profit | | <u>P 1,091,380</u> | |
| <i>Change in consolidated statements of comprehensive income</i> | | | |
| Remeasurements of post-employment defined benefit plan – net of tax | P - | (<u>P 4,663,252</u>) | (P 4,663,252) |

The adoption of PAS 19 (Revised) did not have a material impact on the Group's consolidated statements of cash flows for the years ended December 31, 2012 and 2011.

- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*. The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The amendment had no significant impact on the Group's consolidated financial statements as there were no financial assets and liabilities that are subject to offsetting; however, potential netting arrangements are disclosed in Note 30.2.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

This package of consolidation, joint arrangements, associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (Revised 2011), *Separate Financial Statements* and PAS 28 (Revised 2011), *Investments in Associates and Joint Ventures*.

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.
- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.
- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10, PFRS 11 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and it has determined that the adoption of the foregoing standards, revisions and amendments had no material impact on the amounts recognized in the consolidated financial statements. Additional information, however, are disclosed in compliance with the requirements of PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries (see Note 1).

- (v) PFRS 13, *Fair Value Measurement*. This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial items for which other PFRSs require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The amendment applies prospectively from annual period beginning January 1, 2013; hence, disclosure requirements need not be presented in the comparative information in the first year of application.

Other than the additional disclosures presented in Note 31, the application of this new standard had no significant impact on the amounts recognized in the consolidated financial statements.

- (vi) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:
 - (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, related notes to the opening consolidated statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' consolidated financial statements, the Group has presented a third consolidated statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

- (b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.
- (c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it has been recognizing the effect of distributions to holders of equity investments and transaction costs of an equity transaction in accordance with PAS 12.
- (d) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if:
 - (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. This amendment had no significant impact on the Group's consolidated financial statements.

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

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

| | | |
|---|---|--|
| PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Government Loans |
| Annual Improvement PFRS 1 (Amendment) | : | First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs |
| Philippine Interpretation International Financial Reporting Interpretations Committee 20 | : | Stripping Costs in the Production Phase of a Surface Mine |

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

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

- (i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.
- (ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

- (iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.
- (iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have impact on the consolidated financial statements.
- (v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, in most arrangements, does not require separation from the host contract.

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

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9/PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

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

- (vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after July 1, 2014. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

Annual Improvements to PFRS (2010-2012 Cycle)

- (a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.
- (c) PFRS 8 (Amendment), *Operating Segments* (effective July 1, 2014). Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies that the reconciliations of segment assets are only required if segment assets are reported regularly.

- (d) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.
- (e) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

- (a) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- (b) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.
- (c) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.1, after the elimination of intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

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

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

(a) *Investments in Subsidiaries*

Subsidiaries are entities over which the Group has control. The Group controls an entity when it has power over the investee, it is exposed, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Parent Company obtains control. The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

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

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

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

(b) *Transactions with NCI*

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

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

2.4 Segment Reporting

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

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

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

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and
- revenue, costs and fair value gains from investment property.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

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

2.5 Financial Assets

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

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

A more detailed description of the categories currently relevant to the Group is as follows:

(a) *Financial Asset at FVTPL*

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

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

(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 end of reporting period which are classified as non-current assets.

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred), discounted at the financial assets' original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

(c) *AFS Financial Assets*

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

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

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

The fair value of AFS financial asset is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS financial assets are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Except for interest income earned by SGI, SMFI, BRL, Starworld and Interstar which is presented as Interest under the Revenues section of the consolidated statement of income, all income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the consolidated statement of income line item Finance Income and Finance Costs, respectively.

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

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

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

2.6 Merchandise Inventories and Supplies

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Merchandise inventories, service parts, supplies, and others include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value of merchandise inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of spare parts, supplies and others is the current replacement cost.

2.7 Real Estate Inventories

Real estate inventories consist of the following:

(a) Land and Land Development Costs

Land and land development costs include the acquisition cost of raw land intended for future development and sale, as well as other costs and expenses incurred to effect the transfer of property title.

(b) Property Development Costs

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

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

2.8 Other Assets

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

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

2.9 Property, Plant and Equipment

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

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

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

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

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

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

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

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

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

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

2.10 Investment Property

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

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 31).

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

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

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

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

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans, trade and other payables [excluding output value-added tax (VAT) and other tax-related liabilities, advances from customers, reserve for warranty costs and unearned subscription income], advances from related parties and refundable deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and other payables, advances from related parties and refundable deposits, with maturities beyond one year, are initially recognized at their fair values and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company's BOD.

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

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 Offsetting Financial Instruments

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

2.13 Business Combination

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

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

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

- (a) *Rendering of services* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.
- (b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer i.e., generally when the customer has acknowledged delivery of goods.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).

- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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

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

- (f) *Interest income on loans receivables* – Revenue is recognized as the interest accrues using the effective interest method.

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

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

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

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

2.16 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

(b) Group as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term (see Note 2.15).

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

2.17 Foreign Currency Transactions and Translation

(a) Transactions and Balances

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

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

(b) Translation of Financial Statements of Foreign Subsidiaries

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

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

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

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

2.18 Impairment of Non-financial Assets

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

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

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.19 Employee Benefits

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

(a) Defined Benefit Plan

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

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

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Gains account in the consolidated statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) *Defined Contribution Plans*

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

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *Compensated Absences*

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

2.20 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

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

2.21 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.22 Related Party Transactions and Relationships

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

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

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

2.23 Equity

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

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related profit tax benefits.

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

Revaluation reserves comprise the remeasurements of post-employment defined benefit plan, cumulative translation adjustments and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared, if any.

2.24 Earnings Per Share

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

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

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are permanently impaired as of December 31, 2013 and 2012. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

An analysis of the allowance for impairment recognized on the Group's AFS financial assets is disclosed in Note 9.

(b) *Distinguishing Investment Property, Owner-occupied Properties and Real Estate Inventories*

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

(c) *Distinguishing Operating and Finance Leases*

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

(d) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Note 28.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Impairment of Trade and Other Receivables and Advances to Related Parties*

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

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 8.

(b) *Fair Value Measurement of Financial Instruments*

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

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 7 and 9, respectively.

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 10). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

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

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

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

The carrying amounts of the real estate inventories are disclosed in Note 11.

(e) *Costing of Merchandise Inventories and Supplies*

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

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

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2013, and 2012, there is no change in the estimated useful lives of property, plant and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(g) *Fair Value Measurement of Investment Property*

The Group's investment property composed of parcels of land and buildings and improvements are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 31.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Notes 13 and 19.1.

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

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying value of deferred tax assets, which management assessed may be fully utilized in the coming years, as of December 31, 2013 and 2012 is disclosed in Note 23.2. Further, certain deferred tax assets were not recognized since management believes that there is no assurance that the related tax benefit could be realized in the coming years.

(i) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on other non-financial assets in 2013, 2012 and 2011.

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

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2013 and 2012 is disclosed in Note 11.

(k) *Estimating Reserve for Warranty Costs*

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

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are disclosed in Note 16.

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

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates and expected rate of salary increases. In accordance with PFRS, actual results that differ from the assumptions are recognized immediately in the period in which they arise.

The amounts of the present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 22.2.

4. SEGMENT INFORMATION

4.1 Business Segments

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

- (a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones, and prefabricated modular houses;
- (b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties; and,
- (c) Other related services segment is presently engaged in the business of broadband services, after sales services, investing, financing and others.

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

4.2 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

The following tables present certain assets and liability information regarding business segments as of December 31, 2013, 2012 and 2011 and the related revenue and profit information for the years then ended (in thousands).

| | <u>Distribution</u> | <u>Real Estate</u> | <u>Other Related Services</u> | <u>Total</u> |
|---|---------------------|--------------------|-------------------------------|---------------------|
| 2013 | | | | |
| SEGMENT RESULTS | | | | |
| Sales to external customers | P 3,511,868 | P 276,037 | P 445,464 | P 4,233,369 |
| Intersegment sales | <u>30,847</u> | <u>16,620</u> | <u>32,234</u> | <u>79,701</u> |
| Total revenues | 3,542,715 | 292,657 | 477,698 | 4,313,070 |
| Cost of sales, services, and rentals | 2,984,075 | 136,210 | 314,383 | 3,434,668 |
| Other operating expenses | <u>558,004</u> | <u>75,297</u> | <u>121,655</u> | <u>754,956</u> |
| Operating profit | 636 | 81,150 | 41,660 | 123,446 |
| Finance income | 3,587 | 26,096 | 33,067 | 62,750 |
| Finance costs | (13,812) | (717) | (6,069) | (20,598) |
| Other gains – net | <u>3,514</u> | <u>2,101</u> | <u>17,069</u> | <u>22,684</u> |
| Profit (loss) before tax | (6,075) | 108,630 | 85,727 | 188,282 |
| Tax expense | <u>760</u> | <u>22,996</u> | <u>21,147</u> | <u>44,903</u> |
| Net profit (loss) for the year | (<u>P 6,835</u>) | P <u>85,634</u> | P <u>64,580</u> | P <u>143,379</u> |
| SEGMENT ASSETS AND LIABILITIES | | | | |
| Total assets | P <u>2,217,610</u> | P <u>8,882,306</u> | P <u>10,749,406</u> | P <u>21,849,322</u> |
| Total liabilities | P <u>1,611,155</u> | P <u>4,821,008</u> | P <u>601,697</u> | P <u>7,033,860</u> |
| OTHER SEGMENT INFORMATION | | | | |
| Capital expenditures | P 6,913 | P 133,321 | P 19,627 | P 159,861 |
| Depreciation and amortization | 5,751 | 11,942 | 14,636 | 32,328 |
| Impairment losses | 10,158 | 505 | 2,937 | 13,600 |
| Other non-cash expenses | 24,329 | 212 | - | 24,541 |

| | | <u>Distribution</u> | <u>Real Estate</u> | <u>Other Related Services</u> | <u>Total</u> | | | |
|--|---|---------------------|--------------------|-----------------------------------|--------------|---------------------|---|---------------------|
| <u>2012, As Restated – see Note 2.2</u> | | | | | | | | |
| SEGMENT RESULTS | | | | | | | | |
| Sales to external customers | P | 3,956,743 | P | 258,611 | P | 675,029 | P | 4,890,383 |
| Intersegment sales | | <u>6,300</u> | | <u>14,200</u> | | <u>40,790</u> | | <u>61,290</u> |
| Total revenues | | 3,963,043 | | 272,811 | | 715,819 | | 4,951,673 |
| Cost of sales, services, and rentals | | 3,094,531 | | 106,973 | | 474,922 | | 3,676,426 |
| Other operating expenses (income) | | <u>496,230</u> | | <u>118,946</u> | | <u>175,412</u> | | <u>790,588</u> |
| Operating profit | | 372,282 | | 46,892 | | 65,485 | | 484,659 |
| Finance income | | 2,389 | | 39,531 | | 121,782 | | 163,702 |
| Finance costs | (| 22,742) | (| 5,169) | (| 21,178) | (| 49,089) |
| Other gains – net | | <u>4,860</u> | | <u>229,132</u> | | <u>678,651</u> | | <u>912,643</u> |
| Profit before tax | | 356,789 | | 310,386 | | 844,740 | | 1,511,915 |
| Tax expense | | <u>105,061</u> | | <u>93,588</u> | | <u>75,922</u> | | <u>274,571</u> |
| Net profit for the year | P | <u>251,748</u> | P | <u>216,798</u> | P | <u>768,818</u> | P | <u>1,237,344</u> |
| SEGMENT ASSETS AND LIABILITIES | | | | | | | | |
| Total assets | | <u>P 1,867,473</u> | | <u>P 7,369,709</u> | | <u>P 11,146,872</u> | | <u>P 20,390,711</u> |
| Total liabilities | | <u>P 1,249,849</u> | | <u>P 3,962,200</u> | | <u>P 568,502</u> | | <u>P 5,780,551</u> |
| OTHER SEGMENT INFORMATION | | | | | | | | |
| Capital expenditures | P | 9,234 | P | 84,602 | P | 54,683 | P | 148,519 |
| Depreciation and amortization | | 4,162 | | 11,768 | | 30,779 | | 46,709 |
| Impairment losses | | 9,414 | | - | | 3,354 | | 12,768 |
| Other non-cash expenses | | 1,982 | | 1,431 | | 1,027 | | 4,440 |

| | <u>Distribution</u> | <u>Real Estate</u> | <u>Other Related Services</u> | <u>Total</u> |
|---|---------------------|--------------------|-----------------------------------|---------------------|
| 2011, As Restated – see Note 2.2 | | | | |
| SEGMENT RESULTS | | | | |
| Sales to external customers | P 3,122,839 | P 261,951 | P 764,700 | P 4,149,490 |
| Intersegment sales | <u>7,657</u> | <u>33,148</u> | <u>56,456</u> | <u>97,261</u> |
| Total revenues | 3,130,496 | 295,099 | 821,156 | 4,246,751 |
| Cost of sales, services, and rentals | 2,530,457 | 162,802 | 506,077 | 3,199,336 |
| Other operating expenses | <u>422,193</u> | <u>113,890</u> | <u>208,348</u> | <u>744,431</u> |
| Operating profit | 177,846 | 18,407 | 106,731 | 302,984 |
| Finance income | 17,449 | 43,300 | 21,999 | 82,748 |
| Finance costs | (8,622) | (761) | (56,226) | (65,609) |
| Other gains – net | <u>3,608</u> | <u>227,304</u> | <u>46,310</u> | <u>277,222</u> |
| Profit before tax | 190,281 | 288,250 | 118,814 | 597,345 |
| Tax expense | (<u>31,053</u>) | (<u>89,075</u>) | (<u>18,952</u>) | (<u>139,080</u>) |
| Profit – continuing operation | 159,228 | 199,175 | 99,862 | 458,265 |
| Loss – discontinued operation | <u>-</u> | <u>-</u> | (<u>3,864</u>) | (<u>3,864</u>) |
| Net profit for the year | <u>P 159,228</u> | <u>P 199,175</u> | <u>P 95,998</u> | <u>P 454,401</u> |
| SEGMENT ASSETS AND LIABILITIES | | | | |
| Total assets | <u>P 2,203,509</u> | <u>P 6,955,140</u> | <u>P 10,174,987</u> | <u>P 19,333,636</u> |
| Total liabilities | <u>P 1,797,033</u> | <u>P 3,392,932</u> | <u>P 1,863,879</u> | <u>P 7,053,844</u> |
| OTHER SEGMENT INFORMATION | | | | |
| Capital expenditures | P 7,559 | P 17,787 | P 80,103 | P 105,449 |
| Depreciation and amortization | 2,688 | 9,515 | 65,124 | 77,327 |
| Impairment losses | 3,430 | - | 16,168 | 19,598 |
| Other non-cash expenses | 48,582 | 1,238 | 28,990 | 78,810 |

4.5 Reconciliations

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in thousands):

| | | <u>Segment Totals</u> | <u>Intercompany Accounts</u> | <u>Consolidated Balances</u> |
|-------------------------------|---|---------------------------|----------------------------------|----------------------------------|
| 2013 | | | | |
| Revenues | P | 4,313,070 | (P 79,701) | P 4,233,369 |
| Net profit for the year | | 143,379 | 2,140 | 145,519 |
| Total assets | | 21,849,322 | (8,245,293) | 13,604,029 |
| Total liabilities | | 7,033,860 | (3,149,945) | 3,883,915 |
| Other segment information: | | | | |
| Capital expenditures | | 159,861 | - | 159,861 |
| Depreciation and amortization | | 32,328 | - | 32,328 |
| Impairment losses | | 13,600 | - | 13,600 |
| Other non-cash expenses | | 24,541 | - | 24,541 |
| 2012 | | | | |
| Revenues | P | 4,951,673 | (P 61,290) | P 4,890,383 |
| Net profit for the year | | 1,237,344 | (95) | 1,237,249 |
| Total assets | | 20,390,711 | (7,542,848) | 12,847,863 |
| Total liabilities | | 5,780,551 | (2,601,128) | 3,179,423 |
| Other segment information: | | | | |
| Capital expenditures | | 148,519 | 317 | 148,836 |
| Depreciation and amortization | | 46,709 | (242) | 46,467 |
| Impairment losses | | 12,768 | - | 12,768 |
| Other non-cash expenses | | 4,440 | - | 4,440 |
| 2011 | | | | |
| Revenues | P | 4,246,751 | (P 97,261) | P 4,149,490 |
| Net profit for the year | | 454,401 | (25,196) | 429,205 |
| Total assets | | 19,333,636 | (7,609,863) | 11,723,773 |
| Total liabilities | | 7,053,844 | (3,869,226) | 3,168,408 |
| Other segment information: | | | | |
| Capital expenditures | | 105,449 | 663 | 106,112 |
| Depreciation and amortization | | 77,327 | 846 | 78,173 |
| Impairment losses | | 19,598 | 20,544 | 40,142 |
| Other non-cash expenses | | 78,810 | (35,852) | 42,958 |

5. DISCONTINUED OPERATIONS

As of December 31, 2010, Kita and SLC (now OSSI – see Note 1.1) ceased the operations of their plastic injection manufacturing business. Termination benefits paid to employees who accepted voluntary redundancy amounted to P0.8 million in 2011 (see Note 22.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented as Loss from Discontinued Operations – Net of Tax. There were no revenues generated and costs and expenses incurred relating to the Group's discontinued operations in 2013 and 2012.

Machinery and equipment relating to the discontinued operations of Kita with total cost amounting to P25.2 million and a total carrying value of P0.2 million were sold in 2011 for a total consideration of P1.5 million. The resulting gain from the disposal of such asset is presented as part of Miscellaneous under Other Operating Income in the 2011 consolidated statement of income (see Note 19.1).

An analysis of the revenue, expenses and tax expense of the discontinued operations for the year ended December 31, 2011 is shown below.

| | <u>Notes</u> | |
|-------------------------------------|--------------|------------------------|
| Sale of goods | | P 4,047,684 |
| Cost of sales | 18.1 | (<u>14,307,547</u>) |
| Gross loss | | (<u>10,259,863</u>) |
| Other operating income (expenses): | | |
| General and administrative expenses | 20 | (385,540) |
| Selling and distribution costs | 20 | (671,435) |
| Other operating income | 19.1 | <u>8,353,416</u> |
| | | <u>3,963,422</u> |
| Other income (charges): | | |
| Finance income | 21.1 | 84,448 |
| Finance costs | 21.2 | (<u>636,010</u>) |
| | | (<u>551,562</u>) |
| Loss before tax | | (3,514,984) |
| Tax expense | 23.2 | (<u>348,839</u>) |
| Loss from discontinued operations | | (<u>P 3,863,823</u>) |

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the year ended December 31, 2011 are shown below.

| | <u>2011</u> | | |
|--|------------------------|---------------------|------------------------|
| | <u>Continuing</u> | <u>Discontinued</u> | <u>Total</u> |
| Net Cash From Operating Activities | P 354,066,628 | P 4,355,587 | P 358,422,215 |
| Net Cash From (Used in) Investing Activities | (38,042,351) | 284,513 | (37,757,838) |
| Net Cash Used in Financing Activities | (211,230,466) | (7,076,714) | (218,307,180) |
| Effect of Foreign Exchange Rate | | | |
| Changes on Cash and Cash Equivalents | (<u>1,723,719</u>) | <u>116</u> | (<u>1,723,603</u>) |
| Net increase (decrease) in cash and cash equivalents | 103,070,092 | (2,436,498) | 100,633,594 |
| Cash and cash equivalents at beginning of year | <u>1,618,111,420</u> | <u>2,003,048</u> | <u>1,620,114,468</u> |
| Cash and cash equivalents at end of year | <u>P 1,721,181,512</u> | <u>(P 433,450)</u> | <u>P 1,720,748,062</u> |

6. CASH AND CASH EQUIVALENTS

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

| | <u>2013</u> | <u>2012</u> |
|---------------------------|-------------------------------|------------------------|
| Cash on hand and in banks | P 424,429,746 | P 274,888,192 |
| Short-term placements | <u>1,902,905,886</u> | <u>2,745,096,021</u> |
| | <u>P 2,327,335,632</u> | <u>P 3,019,984,213</u> |

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual interest ranging from 1.4% to 4.0% in 2013, 0.8% to 4.7% in 2012 and 0.5% to 6.0% in 2011 (see Note 21.1).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2013, the Group acquired unit investments in trust funds (UITF) which have been classified as financial assets at FVTPL upon initial recognition. Total costs of acquisition amounted to P868.2 million.

Financial assets at FVTPL are stated at their fair values which have been determined directly by reference to published prices. Fair value is derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period) published by banks and the Investment Company Association of the Philippines.

The Company recognized gain on redemption of financial assets at FVTPL amounting to P1.0 million in 2013 and is presented as part of Finance Income under Other Income (Charges) account in the 2013 consolidated statement of income (see Note 21.1).

In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL. The disposals of financial assets at FVTPL resulted in a gain of P8.6 million in 2012 which is presented as part of Gain sale of financial assets – net shown under Finance Income in the 2012 consolidated statement of income (see Note 21.1).

Gains on fair value changes of financial assets at FVTPL amounted to P0.1 million in 2013 and losses on fair value changes amounted to P5.9 million in 2011 and are presented as part of Finance Income and Finance Cost, respectively, under Other Income (Charges) in the 2013 and 2011 consolidated statements of income (see Notes 21.1 and 21.2).

8. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

| | <u>Notes</u> | <u>2013</u> | 2012 As Restated (see Note 2.2) |
|--|---------------------|-------------------------------|---------------------------------------|
| Current: | | | |
| Trade receivables | 26.3, 26.6, 27.1 | P 796,315,556 | P 913,697,568 |
| Advances to suppliers | 26.6 | 242,349,914 | 223,559,332 |
| Loans receivables | 26.4, 26.7 | 45,655,849 | 45,836,453 |
| Due from related parties | | 1,535,862 | 2,734,223 |
| Interest receivable | | 20,284,738 | - |
| Other receivables | | <u>65,228,041</u> | <u>66,287,945</u> |
| | | 1,171,369,960 | 1,252,115,521 |
| Allowance for impairment | | <u>(38,692,587)</u> | <u>(31,512,861)</u> |
| | | <u>1,132,677,373</u> | <u>1,220,602,660</u> |
| Non-current: | | | |
| Trade receivables | 26.6 | 28,932,349 | 26,168,353 |
| Loans receivables | 26.6, 26.7 | 178,210,751 | 145,381,293 |
| Cash surrender value of investment in life insurance | 14 | <u>515,057,388</u> | <u>458,908,456</u> |
| | | <u>722,200,488</u> | <u>630,458,102</u> |
| | | <u>P 1,854,877,861</u> | <u>P 1,851,060,762</u> |

Trade receivables include amounts due from the Group's real estate buyers arising from the sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Group fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment (see Note 21.1).

Interest income recognized in 2013, 2012, and 2011 amounting to P10.3 million, P12.0 million and P5.2 million, respectively, are presented as part of Interest under the Revenue section of the consolidated statements of income. Interest rates on loans receivables range from 7.5% to 30.0% in 2013, 2012 and 2011.

Advances to suppliers mainly pertain to the advance payments received by Solid Trading Limited (STL) for My Solid's future purchase of inventories (see Note 26.6), various contractors for the construction of ZTC's Tri Towers (see Note 11) and various suppliers for CBHI's acquisition of supplies.

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 19.1). The difference between the initial cash surrender value and the premiums paid amounting to P1.2 million in 2012 (nil in 2013) represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 14). As of December 31, 2013, Prepaid insurance account was fully amortized.

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 15).

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

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

A reconciliation of the allowance for impairment at beginning and end of 2013 and 2012 is shown below.

| | <u>Note</u> | <u>2013</u> | <u>2012</u> |
|---|-------------|----------------------------|---------------------|
| Balance at beginning of year | | P 31,512,861 | P 117,015,673 |
| Impairment losses during the year | 21.2 | 13,599,854 | 12,767,663 |
| Reversal of impairment losses | 21.1 | (6,336,140) | (75,708,696) |
| Write-off of receivables previously provided with allowance | | (83,988) | (22,561,779) |
| Balance at end of year | | <u>P 38,692,587</u> | <u>P 31,512,861</u> |

Certain loans receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 26.4).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

| | <u>2013</u> | <u>2012</u> |
|--|---------------------------|---------------------------|
| Current: | | |
| Investments in foreign currency-denominated bonds | P 52,237,573 | P 52,237,573 |
| Allowance for impairment | (52,237,573) | (52,237,573) |
| | <u>-</u> | <u>-</u> |
| Non-current: | | |
| Club shares | 9,252,400 | 10,292,400 |
| Equity securities | 8,580,000 | 8,580,000 |
| Others | <u>634,127</u> | <u>634,127</u> |
| | 18,466,527 | 19,506,527 |
| Allowance for impairment | (11,230,000) | (10,430,000) |
| | <u>7,236,527</u> | <u>9,076,527</u> |
| | <u>P 7,236,527</u> | <u>P 9,076,527</u> |

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below.

| | <u>Note</u> | <u>2013</u> | <u>2012</u> |
|------------------------------|-------------|----------------------------|----------------------------|
| Balance at beginning of year | | P 62,667,573 | P 63,658,216 |
| Impairment loss | 21.2 | 800,000 | - |
| Reversal of impairment | 21.1 | <u>-</u> | (990,643) |
| Balance at end of year | | <u>P 63,467,573</u> | <u>P 62,667,573</u> |

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

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> |
|--|--------------|---------------------------|---------------------------|
| Balance at beginning of year | | P 9,076,527 | P 59,875,894 |
| Disposals | | (2,501,842) | (63,081,233) |
| Impairment loss | 21.2 | (800,000) | - |
| Reclassification adjustments for losses recognized in profit or loss | 24.3 | - | 12,145,053 |
| Reversal of impairment | 21.1 | - | 990,643 |
| Fair value gains (losses) – net | 24.3 | <u>1,461,842</u> | (853,830) |
| Balance at end of year | | <u>P 7,236,527</u> | <u>P 9,076,527</u> |

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

The Parent Company's management has determined that there is an objective evidence that the decline in the fair values of SPI shares and of some of its club shares is permanent. Accordingly, the Parent Company recognized impairment losses on the SPI shares and such club shares in prior years. The Parent Company's investment in SPI is fully provided with allowance for impairment losses as of December 31, 2013 and 2012.

Impairment losses recognized on the Group's AFS financial assets are presented as part of Finance Costs in the 2013 consolidated statement of income (see Note 21.2).

The fair values of the Group's investments in club shares, which represent proprietary membership club shares, as of December 31, 2013 and 2012 have been determined directly by reference to published prices in active markets (see Note 31).

10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Notes 18.1 and 26.2).

| | <u>2013</u> | <u>2012</u> |
|--------------------------------------|-----------------------------|-----------------------------|
| Merchandise and finished goods | P 846,213,717 | P 406,495,008 |
| Raw materials | 362,856 | 362,856 |
| Service parts, supplies and others | <u>61,985,161</u> | <u>26,589,434</u> |
| | 908,561,734 | 433,447,298 |
| Allowance for inventory obsolescence | (64,316,654) | (41,584,410) |
| Balance at end of year | <u>P 844,245,080</u> | <u>P 391,862,888</u> |

The movements in allowance for inventory obsolescence are as follows:

| | <u>Note</u> | <u>2013</u> | <u>2012</u> |
|---|-------------|----------------------------|----------------------------|
| Balance at beginning of year | | P 41,584,410 | P 103,832,347 |
| Loss on inventory obsolescence | 18.1 | 24,880,491 | 3,009,207 |
| Reversal of allowance for inventory obsolescence | 18.1 | (2,148,247) | (65,257,144) |
| | | <u>P 64,316,654</u> | <u>P 41,584,410</u> |

In 2012, SBC reversed the allowance for obsolescence on materials and supplies inventories amounting to P13.3 million following the sale of those inventories to a third party. The gain on reversal of allowance for inventory obsolescence is separately

recorded as part of Other Gains under Other Income in the 2012 consolidated statement of income (see Notes 19.2 and 27.3).

SLC and Kita's inventory write-down with no previous allowance for inventory obsolescence amounted to P1.7 million and P7.6 million in 2011, respectively, and is presented as Loss on inventory obsolescence on discontinued operations under Cost of Sales in the 2011 consolidated statement of income (see Notes 5 and 18.1).

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as of December 31, 2013 and 2012.

11. REAL ESTATE INVENTORIES

This account is composed of:

| | <u>Note</u> | <u>2013</u> | <u>2012</u> |
|----------------------------------|-------------|------------------------------|-------------------------------|
| Land and land development costs: | | | |
| Land | | P 9,725,593 | P 9,725,593 |
| Land development costs | | <u>457,288,818</u> | <u>17,695,475</u> |
| | | 467,014,411 | 27,421,068 |
| Allowance for impairment | | <u>(2,022,800)</u> | <u>(2,022,800)</u> |
| | | 464,991,611 | 25,398,268 |
| Property development costs – | | | |
| Construction in progress | | | |
| and development costs | 13 | <u>1,958,244,306</u> | <u>1,985,667,173</u> |
| | | <u>P2,423,235,917</u> | <u>P 2,011,065,441</u> |

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

Borrowing costs incurred from loans availed of by Fil-Dragon were capitalized as part of Property development costs. Borrowing cost incurred in 2013 and 2012 relating to these loans amounted to RMB6.8 million (P46.9 million) and RMB5.0 million (P32.9 million), respectively, and are capitalized as part of Real Estate Inventories (see Notes 15 and 26.8).

The allowance for impairment recognized in prior years pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2013, 2012 and 2011.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2013 and 2012, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2013.

In addition, the balances of Property development costs as of December 31, 2013 and 2012 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 28.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of December 31, 2013 and 2012 amounting to P1,228.6 million (RMB168.0 million) and P840.1 million (RMB127.2 million), respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2013 and 2012 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 28.4).

12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of 2013 and 2012 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, 2013 | | | | | | | | | | | | |
| Cost | P 1,207,854,682 | P 155,408,061 | P 46,032,938 | P 154,774,686 | P 109,596,633 | P - | P 103,054,255 | P 68,158,644 | P 80,393,594 | P 29,038,254 | P 177,773,048 | P 2,132,084,795 |
| Accumulated depreciation and amortization | - | (30,678,741) | (30,703,750) | (136,263,157) | (89,006,051) | - | (101,851,777) | (67,254,980) | (56,402,307) | (24,242,983) | - | (536,403,746) |
| Accumulated impairment loss | - | (35,000,000) | - | - | - | - | - | - | - | - | - | (35,000,000) |
| Net carrying amount | <u>P 1,207,854,682</u> | <u>P 89,729,320</u> | <u>P 15,329,188</u> | <u>P 18,511,529</u> | <u>P 20,590,582</u> | <u>P -</u> | <u>P 1,202,478</u> | <u>P 903,664</u> | <u>P 23,991,287</u> | <u>P 4,795,271</u> | <u>P 177,773,048</u> | <u>P 1,560,681,049</u> |
| December 31, 2012 | | | | | | | | | | | | |
| Cost | P 897,854,682 | P 78,478,803 | P 42,488,916 | P 145,637,594 | P 102,727,626 | P - | P 102,529,259 | P 67,729,139 | P 66,254,133 | P 26,627,769 | P 57,155,448 | P 1,587,483,369 |
| Accumulated depreciation and amortization | - | (30,032,581) | (26,878,414) | (126,470,571) | (81,867,374) | - | (100,721,086) | (66,420,081) | (49,642,025) | (22,043,403) | - | (504,075,535) |
| Accumulated impairment loss | - | (35,000,000) | - | - | - | - | - | - | - | - | - | (35,000,000) |
| Net carrying amount | <u>P 897,854,682</u> | <u>P 13,446,222</u> | <u>P 15,610,502</u> | <u>P 19,167,023</u> | <u>P 20,860,252</u> | <u>P -</u> | <u>P 1,808,173</u> | <u>P 1,309,058</u> | <u>P 16,612,108</u> | <u>P 4,584,366</u> | <u>P 57,155,448</u> | <u>P 1,048,407,834</u> |
| January 1, 2012 | | | | | | | | | | | | |
| Cost | P 897,854,682 | P 107,157,571 | P 30,124,265 | P 132,342,425 | P 94,388,131 | P 1,337,286,751 | P 153,787,380 | P 68,446,028 | P 56,557,182 | P 25,169,630 | P - | P 2,903,114,045 |
| Accumulated depreciation and amortization | - | (64,546,364) | (24,762,932) | (115,711,989) | (76,436,056) | (621,928,012) | (96,970,837) | (65,369,216) | (45,470,846) | (19,982,984) | - | (1,131,179,236) |
| Accumulated impairment loss | - | (35,000,000) | - | - | - | (350,000,000) | - | - | - | - | - | (385,000,000) |
| Net carrying amount | <u>P 897,854,682</u> | <u>P 7,611,207</u> | <u>P 5,361,333</u> | <u>P 16,630,436</u> | <u>P 17,952,075</u> | <u>P 365,358,739</u> | <u>P 56,816,543</u> | <u>P 3,076,812</u> | <u>P 11,086,336</u> | <u>P 5,186,646</u> | <u>P -</u> | <u>P 1,386,934,809</u> |

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 of property, plant and equipment is shown below.

| | <u>Land</u> | <u>Buildings and Improvements</u> | <u>Machinery and Equipment</u> | <u>Furniture, Fixtures and Office Equipment</u> | <u>Transportation Equipment</u> | <u>Cable System Equipment</u> | <u>Test, Communication and Other Equipment</u> | <u>Computer System</u> | <u>Leasehold Improvements</u> | <u>Tools and Equipment</u> | <u>Construction in Progress</u> | <u>Total</u> |
|---|------------------------|-----------------------------------|--------------------------------|---|---------------------------------|-------------------------------|--|------------------------|-------------------------------|----------------------------|---------------------------------|------------------------|
| Balance at January 1, 2013 net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 13,446,222 | P 15,610,502 | P 19,167,023 | P 20,860,252 | P - | P 1,808,173 | P 1,309,058 | P 16,612,108 | P 4,584,366 | P 57,155,448 | 1,048,407,834 |
| Additions | - | 105,374 | 3,544,022 | 9,137,092 | 6,869,007 | - | 524,996 | 429,505 | 12,039,258 | 2,410,485 | 122,717,803 | 157,777,542 |
| Reclassification (see Note 13) | 310,000,000 | 76,823,884 | - | - | - | - | - | - | 2,100,203 | - | (2,100,203) | 386,823,884 |
| Depreciation and amortization charges for the year | - | (646,160) | (3,825,336) | (9,792,586) | (7,138,677) | (-) | (1,130,691) | (834,892) | (6,760,282) | (2,199,580) | - | (32,328,211) |
| Balance at December 31, 2013 net of accumulated depreciation, amortization and impairment loss | <u>P 1,207,854,682</u> | <u>P 89,729,320</u> | <u>P 15,329,188</u> | <u>P 18,511,529</u> | <u>P 20,590,582</u> | <u>P -</u> | <u>P 1,202,478</u> | <u>P 903,664</u> | <u>P 23,991,287</u> | <u>P 4,795,271</u> | <u>P 177,773,048</u> | <u>P 1,560,681,049</u> |
| Balance at January 1, 2012 net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 7,611,207 | P 5,361,333 | P 16,630,436 | P 17,952,075 | P 365,358,739 | P 56,816,543 | P 3,076,812 | P 11,086,336 | P 5,186,646 | P - | 1,386,934,809 |
| Additions | - | 6,321,232 | 12,903,587 | 14,677,574 | 12,142,765 | 27,343,618 | 1,023,283 | 574,747 | 7,734,842 | 723,925 | 60,236,560 | 143,682,133 |
| Reclassification | - | - | (538,936) | - | - | - | 538,936 | - | 2,346,898 | 734,214 | (3,081,112) | - |
| Disposals | - | - | - | (1,382,405) | (3,803,270) | (726,059,448) | (52,820,340) | (1,291,636) | (384,789) | - | - | (785,741,888) |
| Reversal of impairment loss | - | - | - | - | - | 350,000,000 | - | - | - | - | - | 350,000,000 |
| Depreciation and amortization charges for the year | - | (486,217) | (2,115,482) | (10,758,582) | (5,431,318) | (16,642,909) | (3,750,249) | (1,050,865) | (4,171,179) | (2,060,419) | - | (46,467,220) |
| Balance at December 31, 2012 net of accumulated depreciation, amortization and impairment loss | <u>P 897,854,682</u> | <u>P 13,446,222</u> | <u>P 15,610,502</u> | <u>P 19,167,023</u> | <u>P 20,860,252</u> | <u>P -</u> | <u>P 1,808,173</u> | <u>P 1,309,058</u> | <u>P 16,612,108</u> | <u>P 4,584,366</u> | <u>P 57,155,448</u> | <u>P 1,048,407,834</u> |

In 2013, the Group transferred certain land and building improvements from Investment Property to Property, Plant, and Equipment as the Company intends to use such properties for the expansion of the Groups' hotel operations. The amount recognized as deemed cost represents the fair value of the properties at the time of transfers (see Note 13).

Construction in progress pertains to the ongoing construction of a hotel of SMC to be named Green Sun Hotel. Further, construction in progress also includes costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use.

In 2012, SBC reversed the allowance for impairment provided on its cable system, following the sale of its assets used in business operations (see Notes 1.3 and 27.3). The reversal amounted to P350.0 million and is presented as part of Other Operating Income in the 2012 consolidated statement of income (see Note 19.1).

No additional impairment losses were recognized in 2013, 2012 and 2011 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2013 and 2012, the fair values of the Group's land and building and improvements amounted to P3,161.5 million and P3,560.3 million, respectively.

The amount of depreciation and amortization computed on property, plant and equipment is presented as part of the following accounts:

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------------------|--------------|----------------------------|----------------------------|----------------------------|
| Cost of services | 18.2 | P 13,860,376 | P 29,405,353 | P 63,913,859 |
| Cost of rentals | 18.3 | 2,199,631 | 3,428,898 | 4,119,796 |
| General and administrative expenses | | 16,268,204 | 13,632,969 | 9,439,774 |
| Discontinued operations | | <u>-</u> | <u>-</u> | <u>699,821</u> |
| | 20 | <u>P 32,328,211</u> | <u>P 46,467,220</u> | <u>P 78,173,250</u> |

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

Fully depreciated property, plant and equipment still in use in the Group's operations amounted to P139.0 million and P109.9 million as of December 31, 2013 and 2012, respectively.

13. INVESTMENT PROPERTY

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

The fair values of the Group's investment property as of December 31, 2013, 2012 and 2011 were determined based on appraisal reports dated March 20, 2014, February 5, 2013, and February 29, 2012, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers (see Note 31).

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

| | <u>Land and Improvements</u> | <u>Buildings and Improvements</u> | <u>Total</u> |
|--|----------------------------------|---------------------------------------|-------------------------------|
| 2013: | | | |
| Balance at beginning of year | P 3,288,117,049 | P 729,324,057 | P 4,017,441,106 |
| Fair value gains on investment property – net (see Note 19.1) | 4,172,301 | 19,612,035 | 23,784,336 |
| Additions | - | 2,083,670 | 2,083,670 |
| Disposal | - | (2,461,000) | (2,461,000) |
| Transfers to real estate inventories and property, plant and equipment | (<u>310,000,000</u>) | (<u>82,037,096</u>) | (<u>392,037,096</u>) |
| Balance at end of year | <u>P 2,982,289,350</u> | <u>P 666,521,666</u> | <u>P 3,648,811,016</u> |
| 2012: | | | |
| Balance at beginning of year | P 3,047,677,774 | P 816,656,012 | P 3,864,333,786 |
| Fair value gains (losses) on investment property – net (see Note 19.1) | 242,054,661 | (92,485,479) | 149,569,182 |
| Additions | - | 5,153,524 | 5,153,524 |
| Reclassification | (<u>1,615,386</u>) | <u>-</u> | (<u>1,615,386</u>) |
| Balance at end of year | <u>P 3,288,117,049</u> | <u>P 729,324,057</u> | <u>P 4,017,441,106</u> |

Certain real estate properties owned by SMC are the subject of litigations brought up by third parties against the subsidiary (see Notes 14 and 28.3).

In 2013, SMC transferred investment properties with a carrying amount of P386.8 million to Property, Plant and Equipment account, while ZTC transferred investment properties with carrying amount of P5.2 million to Real Estate Inventories account (see Notes 11 and 12).

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

In 2010, SMC entered into a contract to sell three parcels of land to a customer under an installment sales scheme. The contract price of the land amounting to P30.0 million, inclusive of VAT, is payable within 29 months. In 2011, the land was transferred and the corresponding gain was recognized. The carrying value of the land on the date of disposal is P12.2 million. Consequently, the Group recognized a gain amounting to P17.8 million, which is presented as part of Other Gains in the 2011 consolidated statement of income (see Note 19.2).

14. OTHER ASSETS

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

| | <u>Notes</u> | <u>2013</u> | 2012 As Restated – (see Note 2.2) |
|--|--------------|-----------------------------|---|
| Current: | | | |
| Creditable withholding taxes | | P 174,610,896 | P 61,878,986 |
| Prepayments | | 112,297,479 | 132,585,128 |
| Input VAT - net | | 110,967,327 | 73,056,951 |
| Refundable deposits | | 14,803,019 | 10,988,982 |
| Advances to suppliers and contractors | | 4,526,215 | 33,632,728 |
| Restricted cash | | 6,173,337 | 5,141,100 |
| Others | | <u>2,554,625</u> | <u>1,744,129</u> |
| | | <u>425,932,898</u> | <u>319,028,004</u> |
| Non-current: | | | |
| Deferred input VAT | | 13,987,869 | - |
| Land under litigation | 13, 28.3 | 4,935,606 | 4,935,606 |
| Deposits to suppliers | | 3,661,213 | - |
| Refundable deposits - net | | 3,263,084 | 10,765,679 |
| Rental deposits | | 2,979,363 | - |
| Investment in shares | | 1,375,290 | 1,375,290 |
| Cash bond | | 568,234 | 568,234 |
| Others | | <u>2,077,500</u> | <u>4,586,895</u> |
| | | <u>32,848,159</u> | <u>22,231,704</u> |
| | | <u>P 458,781,057</u> | <u>P 341,259,708</u> |

Prepayments include prepaid insurance, rentals and other business taxes.

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates (see Note 21.1).

15. INTEREST-BEARING LOANS

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

| | 2013 | | | 2012 | | |
|------------|---------------------|---------------------|----------------------|---------------------|---------------------|----------------------|
| | USD | RMB | Total in PHP | USD | RMB | Total in PHP |
| BRL | \$ 5,220,159 | ¥ - | P 231,848,142 | \$ 5,155,223 | ¥ - | P 212,353,946 |
| Fil-Dragon | - | 61,842,434 | 452,154,772 | - | 54,396,030 | 359,312,976 |
| | <u>\$ 5,220,159</u> | <u>¥ 61,842,434</u> | <u>P 684,002,914</u> | <u>\$ 5,155,223</u> | <u>¥ 54,396,030</u> | <u>P 571,666,922</u> |

The Group's short-term interest-bearing loans as of December 31, 2013 and 2012 amounting to P684.0 million and P571.7 million, respectively, are denominated in U.S. dollar and Chinese yuan RMB, and are currently due within 12 months after the end of reporting period; hence, classified as part of the Group's current liabilities in the consolidated statements of financial position.

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

(a) *Loans of BRL*

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 8). The loans bear interest at prevailing market rates per annum of 1.3% in 2013, 1.8% to 3.0% in 2012 and 2.0% to 2.3% in 2011. Interest expense arising from these loans amounted to P2.6 million, P6.2 million and P8.0 million in 2013, 2012 and 2011, respectively, and is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2).

In 2013, BRL extended the terms of various loans it obtained from Bank of Singapore. The loans are extended for one year up to June 30, 2014.

(b) *Loans of Fil-Dragon*

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan RMB from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance of the loan amounted to RMB61.8 million (P452.2 million) and RMB54.4 million (P359.3 million) as of December 31, 2013 and 2012, respectively. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 15.0% in 2013, 2012 and 2011. Borrowing cost incurred in 2013 and 2012 relating to these loans amounted to RMB6.8 million (P46.9 million) and RMB5.0 million (P32.9 million), respectively, and are capitalized as part of Real Estate Inventories (see Notes 11 and 26.8).

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 30.1). As of December 31, 2013, the Group is not subjected to any covenants relating to the above loans.

16. TRADE AND OTHER PAYABLES

This account consists of:

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> |
|------------------------------|--------------|-----------------------------|-----------------------------|
| Trade payables | 26.2, 26.6 | P 516,484,923 | P 335,534,348 |
| Accrued expenses | | 38,435,027 | 58,423,762 |
| Advances from customers | | 36,488,366 | 9,542,619 |
| Accrued dealers' incentives | | 31,347,206 | 24,375,822 |
| Refundable deposits | 17 | 18,617,735 | 16,181,595 |
| Rentals payable | | 17,656,928 | 17,671,797 |
| Due to a related party | 26.6 | 17,121,707 | 18,706,344 |
| Reserve for warranty costs | | 9,290,348 | 14,545,332 |
| Deferred output VAT | | 6,197,121 | 1,505,635 |
| Retention payable | | 1,756,300 | 16,061,269 |
| Output VAT | | 798,877 | 48,843,309 |
| Unearned subscription income | | - | 18,143,581 |
| Accrued municipal taxes | | - | 14,357,151 |
| Other payables | | 37,080,219 | 35,010,087 |
| | | <u>P 731,274,757</u> | <u>P 628,902,651</u> |

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

In 2013, SEC, SVC, OSSI and SBC derecognized certain accrued expenses and other payables. In 2012, SMC derecognized certain accrued expenses and other payables which were acquired by SMC from the merger with SC (see Note 1.2). Management believes that the possibility of cash outflows is remote since the purpose for which the liabilities were recognized no longer exists. The Gain on Derecognition of Liabilities amounting to P15.8 million and P25.1 million is presented as Other Gains under Other Income account in the 2013 and 2012 consolidated statements of income (see Note 19.2).

In October 2011, the obligation to provide warranties was transferred by My Solid to Mytel when the latter was handed over the ownership of the brand and consequently became importer of the inventories from Mytel's supplier. As a result, Mytel derecognized the outstanding balance of provision for warranty claims from previous year amounting to P10.8 million. The income arising from the derecognition of this liability is presented as part of Reversal of warranty provision under Other Operating Income in the 2011 consolidated statement of income (see Note 19.1). My Solid and Mytel subsequently merged in 2012 (see Note 1.2).

The outstanding deferred output VAT arises from the outstanding receivables on the Group's sale of goods and services.

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

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> |
|--|--------------|---------------------------|---------------------|
| Balance at beginning of year | | P 14,545,332 | P 18,354,383 |
| Provisions for warranty claims during the year | 20 | 34,108,528 | 41,465,997 |
| Actual warranty claims during the year | | (38,425,198) | (36,118,916) |
| Reversals during the year | 19.1 | (938,314) | (9,156,132) |
| Balance at end of year | | <u>P 9,290,348</u> | <u>P 14,545,332</u> |

Accrued expenses include accrued rentals, accrued outside services, accrued salaries and other operating expenses which remained unpaid as at the end of the reporting period. Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

17. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P15.1 million and P16.0 million as at December 31, 2013 and 2012, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.48% to 15.77% at the inception of the lease terms. The interest expense recognized amounting to P0.2 million in 2013, P1.4 million in 2012 and P0.6 million in 2011 is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2). The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

18. COST OF SALES, SERVICES AND RENTALS

18.1 Cost of Sales

The details of this account are shown below.

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|------------------|-------------------------------|-------------------------------|-------------------------------|
| Merchandise and finished goods at beginning of year | 10 | <u>P 406,495,008</u> | <u>P 621,292,896</u> | <u>P 412,507,056</u> |
| Net purchases of merchandise during the year | 20, 26.6 26.2 | <u>3,400,761,914</u> | <u>2,925,915,239</u> | <u>2,700,622,823</u> |
| Cost of goods manufactured: | | | | |
| Raw materials at beginning of year | 10 | 362,856 | 362,856 | 10,757,863 |
| Work- in-process at beginning of year | | - | - | 2,256,191 |
| Net purchases of raw materials during the year | | - | - | 3,811,972 |
| Direct labor | 22.1 | - | - | 1,715,564 |
| Manufacturing overhead | 22.1 | - | - | 1,831,269 |
| Raw materials at end of year | 10 | (362,856) | (362,856) | (362,856) |
| Work-in-process at end of year | | <u>-</u> | <u>-</u> | <u>-</u> |
| | | <u>-</u> | <u>-</u> | <u>20,010,003</u> |
| Goods available for sale | | 3,807,256,922 | 3,547,208,135 | 3,133,139,882 |
| Merchandise and finished goods at end of year | 10 | (846,213,717) | (406,495,008) | (621,292,896) |
| Net provision (reversal of allowance) for inventory obsolescence | 10 | <u>22,732,244</u> | <u>(48,583,419)</u> | <u>27,304,279</u> |
| | 20 | <u>P 2,983,775,449</u> | <u>P 3,092,129,708</u> | <u>P 2,539,151,265</u> |

The allocation of cost of sales between continuing and discontinued operations is shown below.

| | <u>Note</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------|-------------|-------------------------------|-------------------------------|-------------------------------|
| Continuing operations | 20 | <u>P 2,983,775,449</u> | <u>P 3,092,129,708</u> | <u>P 2,524,843,718</u> |
| Discontinued operations | 5 | <u>-</u> | <u>-</u> | <u>14,307,547</u> |
| | | <u>P 2,983,775,449</u> | <u>P 3,092,129,708</u> | <u>P 2,539,151,265</u> |

18.2 Cost of Services

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

| | Notes | 2013 | 2012 | 2011 |
|---|----------|----------------------|----------------------|----------------------|
| Materials, supplies and other consumables | | P 75,893,537 | P 94,017,131 | P 90,295,728 |
| Service fees | 27.3 (a) | 53,624,045 | 59,347,325 | - |
| Salaries and employee benefits | 22.1 | 52,970,338 | 80,725,659 | 92,304,067 |
| Subcontracting services | | 48,267,737 | 48,254,650 | 30,841,268 |
| Outside services | | 31,139,187 | 24,560,909 | 37,481,054 |
| Communication, light and water | | 15,236,009 | 33,262,444 | 50,503,338 |
| Depreciation and amortization | 12 | 13,860,376 | 29,405,353 | 63,913,859 |
| Transponder rental and leased line | | 11,756,596 | 27,803,313 | 46,122,992 |
| Repairs and maintenance | | 7,673,524 | 10,731,747 | 19,949,027 |
| Rentals | 28.2 | 6,941,302 | 36,602,623 | 29,463,835 |
| Transportation and travel | | 1,244,466 | 18,032,263 | 18,442,548 |
| Cable services | | - | 3,901,463 | 6,696,429 |
| Others | | 13,896,734 | 21,757,882 | 13,280,724 |
| | 20 | <u>P 332,503,851</u> | <u>P 488,402,762</u> | <u>P 499,294,869</u> |

18.3 Cost of Rentals

The details of this account are as follows:

| | Notes | 2013 | 2012 | 2011 |
|--------------------------------|--------|---------------------|---------------------|---------------------|
| Taxes and licenses | | P 9,337,528 | P 9,835,266 | P 9,571,471 |
| Outside services | | 7,399,654 | 7,397,150 | 5,856,501 |
| Rentals | | 7,353,293 | 8,043,416 | 10,040,302 |
| Repairs and maintenance | | 4,069,623 | 3,461,720 | 3,487,349 |
| Depreciation and amortization | 12 | 2,199,631 | 3,428,898 | 4,119,796 |
| Salaries and employee benefits | 22.1 | 999,943 | 1,194,501 | 1,144,438 |
| Utilities and communication | | - | - | 3,324,709 |
| Others | | 3,611,989 | 2,021,990 | 2,336,182 |
| | 13, 20 | <u>P 34,971,661</u> | <u>P 35,382,941</u> | <u>P 39,880,748</u> |

Cost of rentals – others primarily consists of supplies and transportation and travel expenses.

19. OTHER INCOME

19.1 Other Operating Income

The breakdown of this account is as follows:

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|--------------|----------------------------|-----------------------------|-----------------------------|
| Fair value gains on investment property | 13 | P 23,784,336 | P 149,569,182 | P 191,644,597 |
| Increase in cash surrender value of investment in life insurance | 8 | 19,231,829 | 18,365,563 | 19,110,728 |
| Gain on insurance settlement | | 1,546,124 | 353,338 | 55,000 |
| Reversal of warranty provision | 16 | 938,314 | 9,156,132 | 11,904,405 |
| Reversal of impairment losses on property and equipment | 12 | - | 350,000,000 | - |
| Miscellaneous | 5 | 7,835,782 | 26,481,792 | 18,411,703 |
| | | <u>P 53,336,385</u> | <u>P 553,926,007</u> | <u>P 241,126,433</u> |

The allocation of other operating income between continuing and discontinued operations is shown below.

| | <u>Note</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------|-------------|----------------------------|-----------------------------|-----------------------------|
| Continuing operations | | P 53,336,385 | P 553,926,007 | P 232,773,017 |
| Discontinued operations | 5 | <u>-</u> | <u>-</u> | <u>8,353,416</u> |
| | | <u>P 53,336,385</u> | <u>P 553,926,007</u> | <u>P 241,126,433</u> |

19.2 Other Gains – Net

The breakdown of this account is as follows:

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> (As Restated – see Note 2.2) | <u>2011</u> (As Restated – see Note 2.2) |
|--|--------------|----------------------------|--|--|
| Gain on derecognition of liabilities | 16 | P 15,825,655 | P 25,117,698 | P - |
| Foreign currency exchange gains | | 3,159,239 | 7,767,563 | - |
| Net interest gain (loss) on retirement benefit asset | 22.2 | 1,641,760 | 3,251,093 | (2,120,953) |
| Gain on sale of investment property | 13 | - | - | 17,802,607 |
| Reversal of allowance for inventory obsolescence | 10 | - | 13,334,706 | - |
| Gain on disposal of property, plant, and equipment | | - | 1,071,310 | - |
| Others | | 2,057,041 | 10,360,600 | 3,636,521 |
| | | <u>P 22,683,695</u> | <u>P 60,902,970</u> | <u>P 19,318,175</u> |

Other gains relate to continuing operations for all the years presented.

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

| | <u>Notes</u> | <u>2013</u> | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|--|--------------|-------------------------------|---|---|
| Net purchases of merchandise inventories | 18.1 | P 3,400,761,914 | P 2,925,915,239 | P 2,700,622,823 |
| Changes in merchandise, finished goods and work-in-process inventories | | (439,718,709) | 214,797,888 | (208,785,840) |
| Salaries and employee benefits | 22.1 | 219,517,826 | 266,115,015 | 260,527,805 |
| Advertising and promotions | | 167,120,420 | 130,977,514 | 132,187,080 |
| Outside services | | 132,939,229 | 194,934,604 | 149,697,511 |
| Subcontracting services | | 126,467,788 | 110,298,465 | 86,887,735 |
| Materials, supplies and other consumables | | 76,982,915 | 78,028,164 | 110,419,752 |
| Cost of real estate sold | | 70,127,647 | 45,917,227 | 95,886,118 |
| Service fees | 27.3(a) | 53,624,045 | 59,347,325 | - |
| Rentals | 28.2 | 43,028,069 | 60,820,460 | 42,785,957 |
| Taxes and licenses | | 42,803,859 | 52,113,634 | 46,839,422 |
| Utilities and communication | | 35,505,747 | 54,590,325 | 72,208,053 |
| Provision for warranty | 16 | 34,108,528 | 41,465,997 | 45,072,286 |
| Transportation and travel | | 33,565,112 | 44,072,915 | 43,880,536 |
| Depreciation and amortization | 12 | 32,328,211 | 46,467,220 | 78,173,250 |
| Net provision (reversal of allowance) for inventory obsolescence | 18.1 | 22,732,244 | (48,583,419) | 27,304,279 |
| Repairs and maintenance | | 22,051,837 | 31,640,652 | 45,966,836 |
| Transponder rental and leased line | | - | 7,070,544 | 44,719,890 |
| Miscellaneous | | 87,171,647 | 59,052,375 | 45,453,877 |
| | | <u>P 4,161,118,329</u> | <u>P 4,375,042,144</u> | <u>P 3,819,847,370</u> |

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

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

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------------------|--------------|-------------------------------|------------------------|------------------------|
| Continuing operations: | | | | |
| Cost of sales | 18.1 | P 2,983,775,449 | P 3,092,129,708 | P 2,524,843,718 |
| Cost of services | 18.2 | 332,503,851 | 488,402,762 | 499,294,869 |
| Cost of rentals | 18.3 | 34,971,661 | 35,382,941 | 39,880,748 |
| Cost of real estate sales | | 70,127,647 | 45,917,227 | 95,886,118 |
| Selling and distribution costs | | 451,129,327 | 361,066,027 | 278,372,598 |
| General and administrative expenses | | 288,610,394 | 352,143,479 | 366,204,797 |
| | | <u>4,161,118,329</u> | <u>4,375,042,144</u> | <u>3,804,482,848</u> |
| Discontinued operations: | | | | |
| Cost of sales | 5, 18.1 | - | - | 14,307,547 |
| General and administrative expenses | 5 | - | - | 385,540 |
| Selling and distribution costs | 5 | - | - | 671,435 |
| | | <u>-</u> | <u>-</u> | <u>15,364,522</u> |
| | | <u>P 4,161,118,329</u> | <u>P 4,375,042,144</u> | <u>P 3,819,847,370</u> |

21. OTHER INCOME (CHARGES)

21.1 Finance Income

This account consists of the following:

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|--------------|----------------------------|----------------------|---------------------|
| Interest income from cash and cash equivalents | 6, 14 | P 33,327,776 | P 56,862,020 | P 28,088,868 |
| Foreign currency gains – net | | 12,633,424 | 827,155 | 5,624,590 |
| Interest income from financing | 8 | 9,301,544 | 26,458,136 | 11,990,898 |
| Reversal of impairment losses on trade and other receivables | 8 | 6,336,140 | 75,708,696 | 17,014,146 |
| Gain on redemption of financial assets at FVTPL | 7 | 1,006,736 | - | - |
| Fair value gains on financial assets at FVTPL | 7 | 144,292 | - | - |
| Gain on sale of financial assets – net | 7 | - | 2,095,315 | - |
| Reversal of impairment losses on AFS financial assets | 9 | - | 990,643 | - |
| Others | | <u>-</u> | <u>760,514</u> | <u>1,842,653</u> |
| | | <u>P 62,749,912</u> | <u>P 163,702,479</u> | <u>P 64,561,155</u> |

The allocation of finance income between continuing and discontinued operations is shown below.

| | <u>Note</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------|-------------|----------------------------|-----------------------------|----------------------------|
| Continuing operations | | P 56,872,172 | P 163,702,479 | P 64,476,707 |
| Discontinued operations | 5 | <u>-</u> | <u>-</u> | <u>84,448</u> |
| | | <u>P 56,872,172</u> | <u>P 163,702,479</u> | <u>P 64,561,155</u> |

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P39.3 million in 2013, P64.4 million in 2012 and P47.8 million in 2011 are presented as Interest under the Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

21.2 Finance Costs

This account consists of the following:

| | <u>Notes</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|--|--------------|----------------------------|----------------------------|----------------------------|
| Impairment losses on trade and other receivables | 8 | P 13,599,854 | P 12,767,663 | P 21,145,641 |
| Foreign currency losses | | 2,771,014 | 22,738,154 | 33,124,222 |
| Interest expense arising from interest-bearing loans | 15 | 2,610,444 | 6,227,444 | 7,996,557 |
| Impairment losses on AFS financial assets | 9 | 800,000 | - | 18,995,887 |
| Interest amortization on refundable deposits | 17 | 388,412 | 1,930,812 | 820,928 |
| Loss on write off of trade receivables | | 326,860 | - | - |
| Fair value loss on financial assets at FVTPL | 7 | - | - | 5,909,803 |
| Others | | <u>101,870</u> | <u>5,424,022</u> | <u>2,069,475</u> |
| | | <u>P 20,598,454</u> | <u>P 49,088,095</u> | <u>P 90,062,513</u> |

The allocation of finance costs between continuing and discontinued operations is shown below.

| | <u>Note</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-------------------------|-------------|----------------------------|----------------------------|----------------------------|
| Continuing operations | | P 17,936,865 | P 49,088,095 | P 89,426,503 |
| Discontinued operations | 5 | <u>-</u> | <u>-</u> | <u>636,010</u> |
| | | <u>P 17,936,865</u> | <u>P 49,088,095</u> | <u>P 90,062,513</u> |

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 20 and 26.10).

| | Note | <u>2013</u> | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|-------------------------|------|-----------------------------|---|---|
| Short-term benefits | | P 205,531,568 | P 247,679,694 | P 250,166,545 |
| Post-employment benefit | 22.2 | 13,986,258 | 16,967,011 | 9,596,475 |
| Termination benefits | | <u>-</u> | <u>1,468,310</u> | <u>764,785</u> |
| | | <u>P 219,517,826</u> | <u>P 266,115,015</u> | <u>P 260,527,805</u> |

22.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Group maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Company's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012 which have been restated in line with the adoption of PAS 19 (Revised) [see Note 2.2(a)(ii)].

The components of the retirement benefit asset of SGI and certain subsidiaries at the end of the reporting periods are shown below.

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) |
|-----------------------------|----------------------------|---|
| Fair value of plan assets | P 181,854,959 | P 195,334,214 |
| Present value of obligation | (67,512,401) | (96,955,783) |
| | 114,342,558 | 98,378,431 |
| Effect of asset ceiling | (32,118,784) | (26,816,824) |
| | <u>P 82,223,774</u> | <u>P 71,561,607</u> |

The components of the retirement benefit obligation of certain subsidiaries at the end of the reporting periods are shown below.

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) |
|-----------------------------|----------------------------|---|
| Present value of obligation | P 26,520,678 | P 29,632,031 |
| Fair value of plan assets | - | (14,080,141) |
| | 26,520,678 | 15,551,890 |
| Effect of asset ceiling | - | 584,565 |
| | <u>P 26,520,678</u> | <u>P 16,136,455</u> |

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

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) |
|---|----------------------------|---|
| Balance at beginning of year | P 126,587,814 | P 111,242,417 |
| Current service costs | 13,986,258 | 16,967,011 |
| Interest costs | 6,600,575 | 6,743,569 |
| Benefits paid | (42,764,356) | (1,597,216) |
| Remeasurements – actuarial losses (gains) arising from: | | |
| Experience adjustments | (13,751,877) | (6,105,750) |
| Changes in financial assumptions | 3,374,665 | - |
| Transfers | - | (662,217) |
| Balance at end of year | <u>P 94,033,079</u> | <u>P 126,587,814</u> |

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

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) |
|---|-----------------------------|---|
| Balance at beginning of year | P 209,414,356 | P 198,370,421 |
| Interest income | 10,227,100 | 12,011,577 |
| Return on plan assets (excluding amounts included in net interest) | 1,787,287 | (1,509,299) |
| Contributions paid into the plan | 3,190,572 | 659,116 |
| Benefits paid by the plan | (42,764,356) | (117,460) |
| Balance at end of year | <u>P 181,854,959</u> | <u>P 209,414,355</u> |

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

| | <u>2013</u> | <u>2012</u> |
|------------------------------|-----------------------------|----------------------|
| Debt securities: | | |
| Philippines government bonds | P 151,568,091 | P 174,714,397 |
| Corporate bonds | 15,775,830 | 16,732,207 |
| UITF | 9,839,466 | 11,330,598 |
| Mutual funds | <u>4,671,572</u> | <u>6,637,153</u> |
| | <u>P 181,854,959</u> | <u>P 209,414,355</u> |

UITF and mutual funds are composed of short-term and money-market funds denominated in Philippine peso.

The fair values of the above debt securities and investments are determined based on quoted market prices in active markets.

The plan assets earned net return of P12.0 million, P10.5 million and P15.4 million in 2013, 2012 and 2011, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

| | Notes | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|--|-------|---------------------|---|---|
| <i>Reported in consolidated statements of income:</i> | | | | |
| Current service cost | 22.1 | P 13,986,258 | P 16,967,011 | P 9,596,475 |
| Net interest expense (income) | 19.2 | (1,641,760) | (3,251,093) | 2,120,953 |
| Effect of asset ceiling | | - | (662,217) | - |
| | | P 12,344,498 | P 13,053,701 | P 11,717,428 |
| <i>Reported in consolidated statements of comprehensive income:</i> | | | | |
| Actuarial losses from changes in: | | | | |
| - Experience adjustments | | 13,751,877 | 6,105,750 | (27,574,538) |
| - Financial assumptions | | (3,374,665) | - | - |
| Return on plan assets (excluding amounts included in net interest expense) | | 1,787,287 | (1,509,299) | 1,036,203 |
| Effect of asset ceiling | | (4,807,592) | (1,509,842) | 19,876,546 |
| | | P 7,356,907 | P 3,086,609 | (P 6,661,789) |

Current service cost is allocated to and presented under the General and Administrative Expenses account in the consolidated statements of income.

The net interest expense is included in Other Gains account in the consolidated statements of income (see Note 19.2). Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

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

| | 2013 | 2012 | 2011 |
|-----------------------------------|---------|---------|---------|
| Discount rates | 4% - 5% | 4% - 6% | 6% - 7% |
| Expected rate of salary increases | 9% | 9% | 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 20 years for males and 21 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of sa zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

In 2011 and prior years, SBC maintained a wholly funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. As a result of the sale its business, SBC ceased operations immediately thereafter and requested the release of the remaining balance in the trust fund account under the multi-employer retirement plan. The retirement plan assets were withdrawn in 2012 since all of the employees were terminated during such year. Accordingly, SBC's plan assets had a nil balance as of December 31, 2013 and 2012.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has generally concentrated on investment in debt securities.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) *Inflation Risk*

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

| | <u>Impact on Post-employment Benefit Obligation</u> | | |
|----------------------|---|-------------------------------|-------------------------------|
| | <u>Change in Assumption</u> | <u>Increase in Assumption</u> | <u>Decrease in Assumption</u> |
| Discount rate | +1.0 -12.1%/-1.0-10.6% | (2,807,111) | 6,929,061 |
| Salary increase rate | +1.0-10.5%/-1.0-9.5% | 4,042,157 | (532,170) |

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2013 and 2012 consists of debt securities, although the Group also invests in UITF and mutual funds.

(iii) *Funding Arrangements and Expected Contributions*

The plan is currently overfunded by P55.7 million based on the latest actuarial valuations.

The Group expects to make contribution of P3.2 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan as of December 31, 2013 follows:

| | |
|--|------------------------------|
| Within one year | P 200,288 |
| More than one year but not more than five years | 3,677,711 |
| More than five years but not more than ten years | 29,445,696 |
| More than ten years but not more than 15 years | 141,233,917 |
| More than 15 years but not more than 20 years | 164,831,255 |
| More than 20 years | <u>2,199,952,487</u> |
| | <u>P2,539,341,354</u> |

23. TAXES

23.1 *Registration with Economic Zone Authorities and Fil-Dragon Taxation*

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

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

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

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

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

(c) *Fil-Dragon Taxation*

Pursuant to the relevant laws and regulations in the PRC, Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as Fil-Dragon did not generate any assessable profits in 2013, 2012 and 2011.

23.2 Current and Deferred Taxes

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

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|----------------------------|---|---|
| <i>Consolidated statements of income</i> | | | |
| Current tax expense: | | | |
| Regular corporate | | | |
| income tax (RCIT) at 30% | P 23,536,894 | P 190,483,882 | P 105,566,741 |
| Final taxes at 20% and 7.5% | 8,592,626 | 17,657,651 | 9,686,979 |
| Preferential tax at 5% | 1,921,077 | 2,035,898 | 1,165,853 |
| Minimum corporate | | | |
| income tax (MCIT) at 2% | <u>11,063,933</u> | <u>222,424</u> | <u>784,751</u> |
| | 45,114,530 | 210,399,855 | 117,204,324 |
| | | | |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | <u>(211,422)</u> | <u>64,268,972</u> | <u>22,225,043</u> |
| | <u>P 44,903,108</u> | <u>P 274,668,827</u> | <u>P 139,429,367</u> |
| <i>Consolidated statements of comprehensive income:</i> | | | |
| Remeasurements of defined benefit post-employment obligation | P 2,207,070 | P 925,983 | (P 1,998,537) |
| Deferred tax income on changes in fair value of AFS financial assets | <u>(1,156,237)</u> | <u>(300,000)</u> | <u>(1,458,000)</u> |
| | <u>P 1,050,833</u> | <u>P 625,983</u> | <u>(P 3,456,537)</u> |

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

| | <u>2013</u> | 2012 (As Restated - see Note 2.2) | 2011 (As Restated - see Note 2.2) |
|--|----------------------------|---|---|
| Tax on pretax profit at 30% | P 57,126,765 | P 453,575,261 | P 171,644,687 |
| Adjustment for income subjected to lower tax rates | (10,493,932) | (13,388,166) | (6,615,150) |
| Tax effects of: | | | |
| Unrecognized deferred taxes from net operating loss carry-over (NOLCO) and MCIT | 8,933,328 | 567,373 | 1,430,215 |
| Loss (income) of foreign subsidiary not subject to taxes | (6,218,370) | (547,491) | 9,739,812 |
| Unrecognized deductible temporary differences | (5,512,277) | 3,504,041 | 1,761,138 |
| Nondeductible expenses and losses | 3,869,521 | 2,513,046 | 5,437,096 |
| Nontaxable income | (2,601,399) | (2,640,899) | (5,563,691) |
| Benefit from previously unrecognized NOLCO, MCIT and other temporary differences | (295,738) | (142,098,292) | (26,314,832) |
| Excess of optional standard deduction over itemized deductions | - | (27,893,962) | - |
| Reversal of previously recognized deferred tax liability | - | - | (11,409,417) |
| Others | 95,210 | 1,077,916 | (680,491) |
| | <u>P 44,903,108</u> | <u>P 274,668,827</u> | <u>P 139,429,367</u> |

The allocation of the tax expense relating to profit or loss from continuing and discontinued operations in 2013 is shown below.

| | <u>Note</u> | <u>2013</u> | 2012 | 2011 |
|-------------------------|-------------|----------------------------|-----------------------------|-----------------------------|
| Continuing operations | | P 44,903,108 | P 274,668,827 | P 139,080,528 |
| Discontinued operations | 5 | <u>-</u> | <u>-</u> | <u>348,839</u> |
| | | <u>P 44,903,108</u> | <u>P 274,668,827</u> | <u>P 139,429,367</u> |

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

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) |
|--|----------------------------|---|
| Deferred tax assets: | | |
| Fair value losses on investment property | P 23,831,400 | P 23,831,400 |
| Allowance for inventory obsolescence | 17,814,389 | 11,462,608 |
| Accrued expenses | 14,604,251 | 14,721,085 |
| MCIT | 10,810,770 | - |
| Allowance for impairment on trade and other receivables | 7,881,003 | 6,483,910 |
| Retirement benefit obligation | 6,074,118 | 4,440,371 |
| Unrealized foreign currency loss (gain) | (3,960,690) | 2,982,141 |
| Provision for warranty claims | 524,608 | 2,181,337 |
| Unamortized pre-operating expenses | - | 54,271 |
| Deferred tax liability – Retirement benefit asset | <u>-</u> | <u>(1,647,964)</u> |
| Deferred tax assets – net | <u>P 77,579,849</u> | <u>P 64,509,159</u> |

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

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) |
|---|------------------------|---|
| Deferred tax assets: | | |
| Fair value loss on investment property | P 44,826,279 | P - |
| Provision for warranty claims | 2,262,388 | 2,012,749 |
| Allowance for impairment on trade and other receivables | 1,372,343 | 688,083 |
| Unamortized past service costs | 1,336,337 | 1,657,651 |
| Loss on investment in subsidiaries | 838,709 | - |
| Allowance for inventory obsolescence | 627,149 | 324,678 |
| Accrued expenses | 413,699 | 867,374 |
| Unearned rent income | 47,083 | 257,395 |
| Refundable deposits | 22,192 | - |
| Deferred rent expense – PAS 17 | - | 408,033 |
| Retirement benefit obligation | - | 314,196 |
| Deferred tax liabilities: | | |
| Fair value gains on investment property | (820,983,996) | (772,747,918) |
| Accumulated depreciation on investment property | (132,910,575) | (132,666,733) |
| Retirement benefit asset | (31,129,133) | (20,380,804) |
| Deferred rent income – PAS 17 | (1,988,775) | (213,056) |
| Unrealized foreign currency gains | (42,937) | (19,409) |
| Changes in fair value of AFS financial asset | <u>-</u> | <u>(132,000)</u> |
| Deferred tax liabilities – net | <u>(P 935,309,237)</u> | <u>(P 919,629,761)</u> |

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

| | <u>2013</u> | 2012 As Restated - (see Note 2.2) | 2011 As Restated - (see Note 2.2) |
|---|--------------------|---|---|
| Benefits from previously unrecognized MCIT | (P) 10,810,770 | (P) 1,812,952 | (P) 47,888 |
| Unrealized foreign currency gains - net | 6,966,359 | (2,749,471) | (677,951) |
| Allowance for inventory obsolescence | (6,654,252) | 14,668,089 | (19,956,486) |
| Retirement benefit obligation | 4,945,352 | 81,094 | (6,114,724) |
| Fair value gains on investment property | 3,409,799 | 49,991,128 | 54,506,870 |
| Allowance for impairment on trade and other receivables | (2,081,353) | 3,395,556 | (2,896,526) |
| Deferred rent expense – PAS 17 | 1,896,896 | (2,627,509) | 34,412 |
| Deferred rent income – PAS 17 | 1,717,719 | (556,364) | (1,752,527) |
| Provision for warranty claims | 1,407,090 | 3,169,076 | (1,214,422) |
| Change in fair value of AFS | (1,024,237) | - | - |
| NOLCO | (432,914) | - | - |
| Unamortized past service costs | 321,314 | 173,828 | 344,910 |
| Accumulated depreciation on investment property | (253,842) | 6,337,868 | 6,651,556 |
| Unearned rent income | 210,312 | (165,041) | - |
| Accrued expenses | 116,834 | (5,694,710) | (6,702,344) |
| Unamortized pre-operating expenses | 54,271 | 58,380 | 50,163 |
| | <u>(P) 211,422</u> | <u>P 64,268,972</u> | <u>P 22,225,043</u> |

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS financial assets and remeasurements of post-employment defined benefit plan.

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

| <u>Year</u> | <u>Original Amount</u> | <u>Applied in Previous Years</u> | <u>Applied in Current Year</u> | <u>Expired Balance</u> | <u>Remaining Balance</u> | <u>Valid Until</u> |
|---------------|------------------------|----------------------------------|--------------------------------|------------------------|--------------------------|--------------------|
| NOLCO: | | | | | | |
| 2013 | P 36,638,281 | P - | P - | P - | P 36,638,281 | 2016 |
| 2012 | 15,862,462 | - | - | - | 15,862,462 | 2015 |
| 2011 | 31,305,517 | - | 5,501,441 | - | 25,804,076 | 2014 |
| 2010 | <u>3,283,221</u> | <u>2,008,326</u> | <u>331,953</u> | <u>942,942</u> | <u>-</u> | 2013 |
| | <u>P 87,089,481</u> | <u>P 2,008,326</u> | <u>P 5,833,394</u> | <u>P 942,942</u> | <u>P 78,304,819</u> | |
| MCIT: | | | | | | |
| 2013 | P 255,337 | P - | P - | P - | P 255,337 | 2016 |
| 2012 | 222,424 | - | - | - | 222,424 | 2015 |
| 2011 | 832,637 | - | 611,343 | - | 221,294 | 2014 |
| 2010 | <u>4,774,835</u> | <u>-</u> | <u>4,774,835</u> | <u>-</u> | <u>-</u> | 2013 |
| | <u>P 6,085,233</u> | <u>P -</u> | <u>P 5,385,178</u> | <u>P -</u> | <u>P 699,055</u> | |

Fil-Dragon has incurred tax losses amounting to P30.0 million (RMB4.3 million), P22.8 million (RMB3.5 million) and P32.5 million (RMB4.8 million) in 2013, 2012, and 2011 respectively. Similar to NOLCO, these tax losses can be applied as deductions from future taxable income of Fil-Dragon. However, the benefits from the tax losses expire within five years from the year such tax losses are incurred.

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

| | 2013 | | 2012 | | 2011 | |
|--|---------------------|---------------------|---------------------|---------------------|----------------------|----------------------|
| | Amount | Tax Effect | Amount | Tax Effect | Amount | Tax Effect |
| NOLCO | P 70,997,903 | P 21,299,371 | P 41,220,143 | P 12,366,043 | P 41,027,061 | P 12,308,118 |
| Unrealized foreign currency loss | (13,745,572) | (4,123,672) | 12,211,081 | 3,663,324 | 1,606,837 | 482,051 |
| Allowance for impairment of trade receivables | 13,600,000 | 4,080,000 | - | - | - | - |
| Retirement benefit obligation | 4,686,238 | 1,405,871 | 1,001,270 | 300,381 | 875,601 | (262,680) |
| Unearned income | 1,170,000 | 351,000 | 1,170,000 | 351,000 | 4,920,000 | 1,476,000 |
| Allowance for inventory obsolescence | 914,262 | 274,279 | 362,856 | 108,857 | 15,504,733 | 4,651,420 |
| MCIT | 640,139 | 640,139 | 3,679,121 | 3,679,121 | 5,545,272 | 5,545,272 |
| Allowance for impairment loss on AFS financial assets | - | - | 5,060,000 | 1,518,000 | 5,420,000 | 1,626,000 |
| Allowance for impairment of financial assets classified as loans and receivables | - | - | 22,555,186 | 6,766,555 | 113,897,224 | 34,169,167 |
| Accumulated impairment losses on property, plant, and equipment | - | - | - | - | 350,000,000 | 105,000,000 |
| Fair value loss in investment property | - | - | - | - | 10,167,900 | 3,050,370 |
| Unamortized past service cost | - | - | - | - | 976,947 | 293,084 |
| | P 78,262,970 | P 23,926,988 | P 87,259,657 | P 28,753,281 | P 549,941,575 | P 168,864,162 |

Except for SBC, the Group opted to claim itemized deductions in computing for its income tax due in 2013, 2012, and 2011. SBC used itemized deductions in 2013 while it opted to claim the optional standard deduction in 2012 and 2011.

24. EQUITY

24.1 Capital Stock

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

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

As of December 31, 2013 and 2012, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 394,465,704 and 392,472,704 shares are held by the public, respectively. There are 4,415 and 4,482 holders of the listed shares which closed at P1.18 and P1.98 per share on December 31, 2013 and 2012, respectively.

24.2 Retained Earnings

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

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

Retained earnings is restricted in the amount of P115.6 million as of December 31, 2013 and 2012, equivalent to the cost of 209,433,000 shares held in treasury.

24.3 Revaluation Reserves

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

| | Notes | 2013 | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|--|-------|----------------|---|---|
| Remeasurement of post-employment: | | | | |
| Balance at beginning of year | | (P 17,235,042) | (P 19,395,668) | (P 14,732,416) |
| Actuarial gain (losses) during the year | | 7,356,907 | 3,086,609 | (6,661,789) |
| Tax income (expense) | | (2,207,070) | (925,983) | 1,998,537 |
| Balance at the end of the year | | (12,085,205) | (17,235,042) | (19,395,668) |
| Cumulative translation adjustments: | | | | |
| Balance at beginning of year | | 49,374,055 | 77,477,390 | 64,979,425 |
| Currency differences on translating financial statements of foreign operations | 2 | 41,312,873 | (28,103,335) | 12,497,965 |
| | | 90,686,928 | 49,374,055 | 77,477,390 |
| Fair value losses on AFS financial assets: | | | | |
| Balance at beginning of year | | (95,728,537) | (106,719,760) | (108,459,976) |
| Fair value gains (losses) | 9 | 1,461,842 | (853,830) | (9,606,606) |
| Deferred tax income on changes in fair value of AFS financial assets | 23.2 | (1,156,237) | (300,000) | (1,458,000) |
| Reclassification adjustments for losses recognized in profit or loss | 9 | - | 12,145,053 | 12,804,822 |
| | | (95,422,932) | (95,728,537) | (106,719,760) |
| Other comprehensive income attributable to non-controlling interest | | 35,000 | 35,000 | - |
| Balance at end of the year | | (P 16,786,209) | (P 63,554,524) | (P 48,638,038) |

25. EARNINGS PER SHARE

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

| | <u>2013</u> | 2012 (As Restated – see Note 2.2) | 2011 (As Restated – see Note 2.2) |
|---|----------------------|---|---|
| Net profit for the year attributable to the Parent Company's stockholders | P 157,821,890 | P 1,239,948,309 | P 438,351,631 |
| 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 |
| EPS – basic and diluted | P 0.09 | P 0.68 | P 0.24 |

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2013, 2012 and 2011; hence, diluted EPS is equal to the basic EPS.

26. RELATED PARTY TRANSACTIONS

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

A summary of the Group's related party transactions as of December 31, 2013 and 2012 and for each of the three years in the period ended is summarized below and in the succeeding pages.

| Related Party Category | Note | Amounts of Transaction | | | Outstanding Balance | |
|--|------------|------------------------|---------------|---------------|----------------------|--------------|
| | | 2013 | 2012 | 2011 | 2013 | 2012 |
| Related Parties Under Common Ownership: | | | | | | |
| Purchase of mobile phones | 26.6 | 3,165,472,663 | 2,816,688,776 | 2,582,212,621 | (177,548,009) | 121,141,047 |
| Availment of loans | 26.8 | 92,841,796 | (44,740,216) | 404,053,192 | 452,154,772 | 359,312,976 |
| Cash advances obtained | 26.5 | 69,759,951 | (95,931,619) | (61,416,380) | (81,323,563) | (11,629,819) |
| Interest expense | 26.8 | 46,917,606 | 32,874,588 | 9,714,529 | 3,725,553 | 3,436,432 |
| Purchase of parts | 26.2 | 31,349,823 | 87,557,687 | 107,849,402 | (6,694,454) | (6,412,755) |
| Lease of real property | 26.3 | 15,375,161 | 1,905,820 | 485,592 | 355,800 | 274,060 |
| Interest income | 26.4, 26.7 | 10,270,326 | 12,045,070 | 5,196,900 | 15,939,918 | 9,565,856 |
| Advances to suppliers | 26.6 | 7,264,159 | 8,668,237 | 2,928,899 | 218,018,511 | 210,754,352 |
| Commissions | 26.6 | 4,366,100 | 1,730,242 | 2,498,762 | 4,366,100 | 1,730,242 |
| Cash advances granted | 26.5 | 3,102,051 | (106,324,516) | (72,650,008) | 24,735,439 | 21,633,388 |
| Advances for equipment | 26.6 | 2,839,816 | 20,063 | 3,070,522 | (250,969) | (3,090,785) |
| Collection of receivables | 26.6 | 1,634,470 | 19,627,454 | 109,898 | (17,121,707) | (18,756,177) |
| Use of cable infrastructure | 26.1 | - | 81,656,142 | 228,608,036 | - | - |
| Management services | 26.1 | - | 1,500,000 | 1,200,000 | - | - |
| Granting of business loans | 26.4 | - | - | - | 67,560,199 | 67,560,199 |
| Granting of loans | 26.7 | - | - | - | 112,517,273 | 104,354,742 |

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

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

26.1 Rendering of Services

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 100% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. As of December 31, 2012, however, SBC has sold a significant portion of its assets used in its operations to a third party (see Note 27.3). Accordingly, there were no revenues recognized related to this transaction subsequent to such sale of assets.

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

Revenues arising from the above transactions are presented as part of Rendering of Services in the consolidated statements of income. There were no outstanding receivables related to these transactions as of December 31, 2013 and 2012.

26.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P31.3 million in 2013, P87.6 million in 2012 and P107.8 million in 2011 are recorded as part of Cost of Services in the consolidated statements of income (see Note 18.2). The outstanding liability from the above transactions amounted to payable of P6.7 million and P6.4 million as of December 31, 2013 and 2012, respectively, and are presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

26.3 Lease of Real Property

SMC leases out certain land and buildings to Avid Sales Corporation (Avid), a related party under common ownership. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income (see Note 13). Uncollected billings, on the other hand, form part of Trade receivables under the Trade and Other Receivables-net account in the consolidated statements of financial position (see Note 8).

The outstanding receivables from related parties are unsecured and do not bear any interest. Based on management's assessment, all receivables from related parties are fully collectible; hence, no impairment loss was recognized in 2013, 2012 and 2011.

26.4 Granting of Loans

SMFI grants business loans and other loans to its related parties that bear interests ranging from 7.5% to 9.0% in 2013, 2012 and 2011. Total interests earned from these loans amounted to P4.9 million in 2013, P6.3 million in 2012 and P7.6 million in 2011 and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans Receivables under the Trade and Other Receivables-net account in the consolidated statements of financial position (see Note 8).

The outstanding receivables from business loans as of December 31, 2013 and 2012 are as follows:

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

In prior years, SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment on this loan amounting to P10.1 million and P2.8 million were made in 2012 and 2011, respectively. There was no principal repayment on these loans in 2013. This loan is payable on demand.

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loans for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2013 and 2012.

There were no impairment losses recognized on the outstanding balances of business loans to granted to related parties in 2013, 2012 and 2011 based on management's assessment.

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

Section 9(d) of RA No. 8556, *The Financing Company Act of 1998*, states that the total credit that a financing company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of SMFI decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of SMFI's net worth which is not in accordance with Section 9(d) of RA No. 8556. In 2013 and 2012, the SMFI has not extended credits to any debtor which exceeded such threshold.

26.5 Advances to and from Related Parties

Certain subsidiaries of the Group grant to and obtain unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances of Advances to Related Parties amounted to P24.7 million and P21.6 million as of December 31, 2013 and 2012, respectively, while the outstanding balances of Advances from Related Parties amounted to P81.3 million and P11.6 million as of December 31, 2013 and 2012, respectively.

These advances have no definite repayment dates and are generally settled in cash depending on available resources of the parties involved. No impairment losses were recognized on the outstanding balances of Advances to Related Parties as management has assessed that the such amounts are fully collectible.

26.6 Transactions with STL

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P4.4 million in 2013, P1.7 million in 2012 and P2.5 million in 2011 and is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding receivable from STL amounted to P4.4 million and P1.7 million as of December 31, 2013 and 2012, respectively, and is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections received in behalf of STL in 2013, 2012 and 2011 amounted to P1.6 million, P19.6 million and P0.1 million, respectively. Total obligations arising from this transaction as of December 31, 2013 and 2012 amounting to P17.1 million and P18.8 million, respectively, is presented as Due to a related party under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being made by STL on behalf of SVC. Total payments made by STL on behalf of SVC related to this transaction amounted to P2.8 million in 2013, P0.02 million in 2012 and P3.1 million in 2011. The outstanding balance arising from this transaction amounted to P0.3 million and P3.1 million as of as of December 31, 2013 and 2012, respectively, and is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid purchases mobile phones from STL. Total purchases amounted to P3.2 billion in 2013, P2.8 billion in 2012 and P2.6 billion in 2011 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 18.1). Outstanding liabilities relating to these purchases amounted to P177.5 million as of December 31, 2013 and P121.1 million as of December 31, 2012, which are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid also made advance payments to STL for its future purchase of mobile phones. The outstanding advances amount to P218.0 million as of December 31, 2013 and P210.8 million as of December 31, 2012 and is presented as part of Advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

26.7 Transactions with Solid Company Limited (SCL)

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to P120.8 million (RMB17.42 million) which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. Also in 2012 and 2013, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

Interests earned from these loans amounted to P5.4 million in 2013, P5.8 million in 2012 and P5.2 million in 2011, and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding balance of the loan amounting to P112.5 million and P104.4 million as of December 31, 2013 and 2012, respectively, is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8). No impairment loss was recognized on these loans in 2013, 2012 and 2011.

26.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted RMB 61.8 million (P452.2 million) and RMB54.4 million (P359.3 million) as of December 31, 2013 and 2012, respectively. These loans bear interest at prevailing market rates at 15% in 2013 and 6% to 10% per annum in 2012 and 2011, respectively. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the consolidated statements of financial position. Borrowing costs incurred in 2013 and 2012 relating to these loans amounted to RMB6.8 million (P46.9 million) and RMB5.0 million (P32.9 million) respectively, and are capitalized as part of Real Estate Inventories in the consolidated statements of financial position (see Notes 11 and 15).

26.9 Financial Guarantees

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby they guarantee that the principal amount and related interests will be paid as the payments fall due. The guarantee contract was terminated in 2012 as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 15).

26.10 Key Management Personnel Compensation

Compensation provided to key management personnel significantly consists of short-term benefits amounting to P42.9 million, P29.6 million, and P34.0 million for 2013, 2012 and 2011, respectively. These amounts are shown as part of Salaries and employee benefits account under General and Administrative Expenses in the consolidated statements of income (see Notes 20 and 22).

26.11 Transactions with the Retirement Fund

The Group has established a formal multi-employer retirement plan which is administered by a trustee bank, except for CBHI, My Solid, SGTC and ZTC, whose retirement fund remained unfunded as of December 31, 2013.

The retirement fund consists of government securities, corporate bonds, UITF, mutual and trust funds with fair values totaling P181.9 million and P209.4 million, as of December 31, 2013 and 2012, respectively (see Note 22.2). The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also has no investments in the Parent Company's shares of stock which are listed for trading at the PSE (see also Note 1.1).

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 22.2.

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with SPI

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

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

The breakdown of network support fees and in-warranty service fees amounted to P75.1 million, P77.7 million and P56.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P3.3 million and P14.7 million as of December 31, 2013 and 2012, respectively, and are included as part of Trade under Trade and Other Receivables in the consolidated statements of financial position (see Note 8).

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

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

27.3 Sale of SBC's Assets

(a) Agreement on Sale of Assets

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 27.3(d)]. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers of SCC and, accordingly, remit to the latter all collections received. Service fees incurred related to this transaction amounted to P53.6 million in 2013 and P59.3 million in 2012 and are presented as Service fees and included as part of Cost of Services in the 2013 and 2012 consolidated statements of income (see Note 18.2).

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

(b) Management Agreement

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

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

In 2013, NTC approved the assignment of assets and accordingly, the Management Agreement is deemed automatically terminated.

(c) Option Agreement

On the same date, SGI entered into an Option Agreement (the Option) with SCC to purchase SGI's shares of stocks which option must be exercised not later than December 31, 2013. As of December 31, 2013, SCC has not exercised the option (see Note 28.8).

(d) Gain on Sale of Assets

SBC sold the Assets to SCC for a gross amount totaling to P1.1 billion. The book value of the assets sold amounted to P827.2 million resulting in the recognition of gain on sale of assets amounting to P267.1 million, which is presented as Gain on Sale of Assets in the 2012 consolidated statement of income (see Notes 6, 10 and 12).

28. COMMITMENTS AND CONTINGENCIES

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

28.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease various properties under various non-cancellable lease agreements with terms ranging from one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are as follows:

| | <u>2013</u> | <u>2012</u> |
|--|-----------------------------|----------------------|
| Within one year | P 96,895,544 | P 114,423,915 |
| After one year but not more than five years | 93,594,153 | 198,445,354 |
| More than five years | <u>2,605,134</u> | <u>3,261,256</u> |
| | <u>P 193,094,831</u> | <u>P 316,130,525</u> |

Rental income earned from these transactions amounted to P151.9 million, P136.7 million and P157.7 million in 2013, 2012 and 2011, respectively. These amounts are presented as Rentals under Revenues in the consolidated statements of income.

28.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

| | <u>2013</u> | <u>2012</u> |
|--|----------------------------|---------------------|
| Within one year | P 10,227,331 | P 12,490,671 |
| After one year but not more than five years | 46,536,524 | 47,388,054 |
| More than five years | <u>-</u> | <u>15,858,583</u> |
| | <u>P 56,763,855</u> | <u>P 75,737,308</u> |

Rental expense charged to operations from these operating leases amounted to P7.4 million each in 2013, 2012 and 2011, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 18.2 and 20).

Rental deposits received amounted to P17.8 million and P21.6 million in 2013 and 2012, respectively. These amounts are presented as Other Current Assets and Other Non-current Assets in the consolidated statement of financial position.

28.3 Legal Claims

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

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

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

28.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2013, 2012 and 2011, for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

28.5 Purchase Commitments

In 2007, ZTC entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 11). The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2013.

28.6 Possible Impact of Government Project

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

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

28.7 Properties Under Development

Fil-Dragon has commitment for about P123.9 million (RMB16.9 million) and P34.0 million (RMB5.2 million) as of December 31, 2013 and 2012, respectively, for the construction of the Golden Hill Project (see Note 11).

28.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2013, SCC has not exercised this option [see Note 27.3(c)]; hence, the Parent Company still holds the ownership interests in SBC.

28.9 Others

As of December 31, 2013, the Group has unused credit facilities amounting to P712.1 million.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. Management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 30.1. The main types of risks are market risk, credit risk and liquidity risk.

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

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

29.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

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

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

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

| | 2013 | | 2012 | |
|-----------------------|-----------------------|--------------------------|----------------------|--------------------------|
| | U.S. Dollar | Chinese Yuan Renminbi | U.S. Dollar | Chinese Yuan Renminbi |
| Financial assets | P 350,871,152 | P 79,075,855 | P 342,359,128 | P 48,982,187 |
| Financial liabilities | (614,218,228) | (768,165,522) | (512,512,383) | (525,912,848) |
| | (P263,347,076) | (P689,089,667) | P 170,153,255 | P 476,930,661 |

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

| | 2013 | | 2012 | | 2011 | |
|-----------|--|-----------------------------------|--|-----------------------------------|----------------------------------|-----------------------|
| | Reasonably Possible Change in Rate | Effect in Profit Before Tax | Reasonably Possible Change in Rate | Effect in Profit Before Tax | Reasonably Possible Dollar | Effect in Renminbi |
| Php – USD | 23.40% | (P 61,623,216) | 13.83% | (P 23,532,195) | 16.13% | P 6,939,858 |
| Php – RMB | 23.67% | (163,107,524) | 11.52% | (54,942,412) | 13.18% | (43,337,150) |
| | | (P 224,730,740) | | (P 78,474,607) | | (P 36,397,292) |

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

(b) Interest Rate Risk

At December 31, 2013, 2012 and 2011, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-2.14% in 2013, +/-1.54% in 2012 and +/-1.17% in 2011. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 2.14%, 1.54% and 1.17% profit before tax in 2013, 2012 and 2011 would have increased by P49.8 million, P46.5 million and P20.1 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

(c) Other Price Risk

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets classified as financial assets at FVTPL and AFS financial assets). The Group manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

29.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks and investing in UITF.

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

| | Notes | <u>2013</u> | <u>2012</u> |
|---|-------|-------------------------------|-------------------------------|
| Cash and cash equivalents | 6 | P 2,327,335,632 | P 3,019,984,213 |
| Financial assets at FVTPL | 7 | 294,286,160 | - |
| Trade and other receivables (excluding advances to suppliers) – net | 8 | 1,612,527,947 | 1,061,954,170 |
| Advances to related parties | 26 | 24,735,439 | 21,633,388 |
| Refundable deposits – net | 14 | <u>18,066,103</u> | <u>21,754,661</u> |
| | | <u>P 4,276,951,281</u> | <u>P 4,125,326,432</u> |

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

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

(a) *Cash and Cash Equivalents and FVTPL*

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

(b) *Trade and Other Receivables*

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

(c) *Advances to Related Parties*

The Group is not exposed to any significant credit risk exposure in respect of advances to related parties. These advances are generally receivable in cash upon demand.

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

| | <u>2013</u> | <u>2012</u> |
|--|----------------------------|-----------------------------|
| Not more than 3 months | P 22,552,688 | P 160,693,790 |
| More than 3 months but not more than one year | 14,646,174 | 77,870,120 |
| More than one year | <u>-</u> | <u>131,075</u> |
| | <u>P 37,198,862</u> | <u>P 238,694,985</u> |

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

29.3 Liquidity Risk

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

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

As of December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

| | <u>Current</u> | |
|-------------------------------|-------------------------------|----------------------------|
| | <u>1 to 6 months</u> | <u>6 to 12 months</u> |
| Interest-bearing loans | P 688,448,933 | P - |
| Trade and other payables | 661,703,614 | - |
| Advances from related parties | <u>-</u> | <u>81,323,563</u> |
| | <u>P 1,350,152,547</u> | <u>P 81,323,563</u> |

This compares to the maturity of the Group's financial liabilities as of December 31, 2012 as follows:

| | <u>Current</u> | |
|-------------------------------|-----------------------|-----------------------|
| | <u>1 to 6 months</u> | <u>6 to 12 months</u> |
| Interest-bearing loans | P 574,215,169 | P - |
| Trade and other payables | 563,429,613 | - |
| Advances from related parties | <u>-</u> | <u>11,629,819</u> |
| | <u>P1,137,644,782</u> | <u>P 11,629,819</u> |

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

30. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

30.1 Carrying Amounts and Fair Values by Category

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

| | <u>Notes</u> | <u>2013</u> | | <u>2012</u> | |
|-------------------------------------|--------------|-----------------------------|------------------------|-----------------------------|------------------------|
| | | <u>Carrying Amounts</u> | <u>Fair Values</u> | <u>Carrying Amounts</u> | <u>Fair Values</u> |
| <i>Financial assets</i> | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 6 | P2,327,335,632 | P2,327,335,632 | P 3,019,984,213 | P 3,019,984,213 |
| Trade and other receivables – net | 8 | 1,612,527,947 | 1,612,527,947 | 1,851,060,762 | 1,851,060,762 |
| Advances to related parties | 26 | 24,735,439 | 24,735,439 | 21,633,388 | 21,633,388 |
| Refundable deposits | 17 | <u>18,066,103</u> | <u>18,066,103</u> | <u>21,754,661</u> | <u>21,754,661</u> |
| | | 3,982,665,121 | 3,982,665,121 | 4,914,433,024 | 4,914,433,024 |
| Financial assets at FVTPL | 7 | 294,286,160 | 294,286,160 | - | - |
| AFS financial assets | | | | | |
| Golf club shares – net | 9 | 6,602,400 | 6,602,400 | 8,442,400 | 8,442,400 |
| Others | | <u>634,127</u> | <u>634,127</u> | <u>634,127</u> | <u>634,127</u> |
| | | <u>7,236,527</u> | <u>7,236,527</u> | <u>9,076,527</u> | <u>9,076,527</u> |
| | | <u>P 4,284,187,808</u> | <u>P 4,284,187,808</u> | <u>P 4,923,509,551</u> | <u>P 4,923,509,551</u> |
| <i>Financial liabilities</i> | | | | | |
| At amortized cost: | | | | | |
| Interest-bearing loans – net | 15 | P 684,002,914 | P 684,002,914 | P 571,666,922 | P 571,666,922 |
| Trade and other payables | 16 | 661,703,614 | 661,703,614 | 563,429,613 | 563,429,613 |
| Advances from related parties | 26 | 81,323,563 | 81,323,563 | 11,629,819 | 11,629,819 |
| Refundable deposits – net | 17 | <u>33,744,841</u> | <u>35,645,761</u> | <u>32,226,991</u> | <u>34,138,070</u> |
| | | <u>P 1,460,774,932</u> | <u>P 1,462,675,852</u> | <u>P 1,178,953,345</u> | <u>P 1,180,864,424</u> |

For the Group's financial assets and liabilities as of December 31, 2013, 2012 and 2011, management considers that the carrying amounts of these financial instruments approximate their fair values.

See Notes 2.5 and 2.11 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

30.2 Offsetting of Financial Instruments

The Group has not set-off financial instruments in 2013 and 2012 and does not have relevant offsetting arrangements. Currently, financial assets and liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BODs and stockholders or upon instruction by the parent company.

The Group's outstanding cash advances obtained from other related parties amounting to P81.3 million and P11.6 million as of December 31, 2013 and 2012, respectively, and presented as part of Advances to Related Parties account in the consolidated statements of financial position, can be offset by the amount of outstanding cash advances granted to other related parties amounting to P24.7 million and P21.6 million as of December 31, 2013 and 2012, respectively. Further, outstanding liability from purchase of mobile phones amounting to P177.5 million and P121.1 million as of December 31, 2013 and 2012, respectively, and presented as part of Trade and Other Payables in the consolidated statements of financial position, can be offset by the amount of outstanding advances to suppliers amounting to P218.0 million and P210.8 million as of December 31, 2013 and 2012, respectively, and presented as part of Trade and Other Receivables in the consolidated statements of financial position.

31. FAIR VALUE MEASUREMENTS AND DISCLOSURES

31.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

The different levels have been defined as follows:

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

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

31.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2013 and 2012.

| | Notes | Fair Value Hierarchy As At December 31, 2013 | | | |
|---------------------------|-------|--|----------------------|------------------|----------------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial assets at FVTPL | 7 | P - | P 294,286,610 | P - | P 294,286,610 |
| AFS financial assets | 9 | - | 6,602,400 | 634,127 | 7,236,527 |
| | | <u>P -</u> | <u>P 300,889,010</u> | <u>P 634,127</u> | <u>P 301,523,137</u> |

The Group has no financial liabilities measured at fair value as of December 31, 2013 and 2012.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

31.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

| | Notes | Fair Value Hierarchy As At December 31, 2013 | | | |
|-------------------------------|-------|--|------------|------------------------|------------------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Financial Assets | | | | | |
| <i>Loans and receivables:</i> | | | | | |
| Cash | | P 2,327,335,632 | P - | P - | P 2,327,335,632 |
| Trade and other receivables | 8 | | | 1,612,527,947 | 1,612,527,947 |
| Advances to related parties | 26 | | - | 24,735,439 | 24,735,439 |
| Security deposits | 14 | - | - | 18,066,103 | 18,066,103 |
| | | <u>P2,327,335,632</u> | <u>P -</u> | <u>P1,655,329,489</u> | <u>P 3,982,665,121</u> |
| Financial Liabilities | | | | | |
| <i>At amortized cost:</i> | | | | | |
| Interest-bearing loans – net | 15 | P - | P - | P 684,002,914 | P 684,002,914 |
| Trade and other payables | 16 | - | - | 661,703,614 | 661,703,614 |
| Advances from related parties | 26 | | | 81,323,563 | 81,323,563 |
| Refundable deposits - net | 17 | - | - | 33,744,841 | 33,744,841 |
| | | <u>P -</u> | <u>P -</u> | <u>P 1,460,774,932</u> | <u>P 1,477,012,416</u> |

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

31.4 Fair Value Measurements of Non-financial Assets

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2013.

| | Note | Fair Value Hierarchy As At December 31, 2013 | | | |
|------------------------------------|------|--|-----------------------|----------------------|-----------------------|
| | | Level 1 | Level 2 | Level 3 | Total |
| Land | 13 | P - | P 2,982,289,350 | P - | P2,982,289,350 |
| Building and building improvements | 13 | - | - | 666,521,666 | 666,521,666 |
| | | <u>P -</u> | <u>P2,982,289,350</u> | <u>P 666,521,666</u> | <u>P3,648,811,016</u> |

The fair value of the Group's land and building and building improvements classified under Investment Property (see Note 13) are determined on the basis of the appraisals performed by Asian Appraisal, Inc., an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

(b) *Fair Value Measurement for Building and Building Improvements*

The Level 3 fair value of the buildings and improvements under Investment Property account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

32. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

| | <u>2013</u> | <u>2012</u> |
|---|------------------------|-----------------|
| Total liabilities (excluding advances from related parties) | P 3,771,271,051 | P 3,167,793,304 |
| Total equity | 9,751,434,747 | 9,668,439,510 |
| Debt-to-equity ratio | <u>0.39:1</u> | <u>0.33:1</u> |

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and 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.



Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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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, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Solid Group Inc. and subsidiaries for the year ended December 31, 2013, on which we have rendered our report dated April 2, 2014. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: **Mailene Sigue-Bisnar**
Partner

CPA Reg. No. 0090230

TIN 120-319-128

PTR No. 4225004, January 2, 2014, Makati City

SEC Group A Accreditation

Partner - No. 0396-AR-2 (until Aug. 8, 2015)

Firm - No. 0002-FR-3 (until Jan. 18, 2015)

BIR AN 08-002511-20-2012 (until May 15, 2015)

Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 2, 2014

Certified Public Accountants

P&A is a member firm within Grant Thornton International Ltd

Offices in Cebu, Davao, Cavite

BOA/PRC Cert. of Reg. No. 0002

SEC Group A Accreditation No. 0002-FR-3

SOLID GROUP INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

Supplementary Schedules

Independent Auditors' Report on the SEC Supplementary Schedules
Filed Separately from the Basic Financial Statements

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

| | <u>Page No.</u> |
|---|-----------------|
| A. Financial Assets | 1 |
| B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties) | N/A |
| C. Amounts Receivable/Payable from/to Related Parties which were Eliminated During the Consolidation of Financial Statements | 2 |
| D. Intangible Assets - Other Assets | N/A |
| E. Long-term Debt | N/A |
| F. Indebtedness to Related Parties (Long-term Loans from Related Companies) | 3 |
| G. Guarantees of Securities of Other Issuers | N/A |
| H. Capital Stock | 4 |

Other Required Information

| | |
|---|------|
| I. Reconciliation of Parent Company Retained Earnings for Dividend Declaration | 5 |
| J. Financial Soundness Indicators | 6 |
| K. Schedule of Philippine Financial Reporting Standards and Interpretations Adopted by the Securities and Exchange Commission and the Financial Reporting Standards Council as of December 31, 2013 | 7-10 |
| L. Map Showing the Relationship Between and Among the Company and its Related Entities | 11 |

Solid Group Inc. and Subsidiaries
Schedule A - Financial Assets
December 31, 2013

| Name of Issuing entity and association of each issue | Number of shares of principal amount of bonds and notes | Amount shown in statement financial position | Value based on market quotation at end of reporting period | Income received and accrued |
|--|---|--|--|-----------------------------|
| Financial Assets at Fair Value Through Profit or Loss | | | | |
| Security Bank Unit Investment Trust Fund (UITF) | | P <u>294,286,160</u> | P <u>294,286,160</u> | P <u>158,692</u> |
| Available-for-Sale Financial Assets - Current | | P <u>-</u> | P <u>-</u> | P <u>-</u> |
| Available-for-Sale Financial Assets - Non-Current | | | | |
| The Tagaytay Country Club | 2 | P 3,000,000 | P 3,000,000 | - |
| Tagaytay Midlands Golf Club | 4 | 1,600,000 | 1,600,000 | - |
| Alabang Country Club | 1 | 1,900,000 | 1,900,000 | - |
| Philippine Long Distance Telephone Co. | 36,440 | 364,400 | 364,400 | - |
| Philam Properties Corporation | 1 | 272,127 | 272,127 | - |
| Subic Bay Yacht Club Inc. | 1 | <u>100,000</u> | <u>100,000</u> | <u>-</u> |
| | | P <u>7,236,527</u> | P <u>7,236,527</u> | P <u>-</u> |

Solid Group Inc. and Subsidiaries
Schedule C - Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31, 2013

| Name and designation of debtor | Balance at beginning of period | Additions | Deductions | | Ending Balance | | Balance at end of period |
|---|--------------------------------|----------------------|---------------------|---------------------|------------------------|-------------|--------------------------|
| | | | Amounts collected | Amounts written off | Current | Not current | |
| Trade Receivables: | | | | | | | |
| Kita Corporation | P 13,600,000 | P - | P - | P - | P 13,600,000 | P - | P 13,600,000 |
| My Solid Devices & Technologies Corporation | 685,755 | 3,805,382 | - | - | 4,491,137 | - | 4,491,137 |
| Solid Electronics Corporation | 2,771,384 | - | 797,504 | - | 1,973,880 | - | 1,973,880 |
| SolidGroup Technologies Corporation | 2,806,218 | - | 2,806,218 | - | - | - | - |
| Omni Solid Services Inc. | 8,641,592 | - | 3,276,021 | - | 5,365,571 | - | 5,365,571 |
| Solid Manila Corporation | 99,903 | 718,274 | - | - | 818,177 | - | 818,177 |
| | <u>P 28,604,852</u> | <u>P 4,523,656</u> | <u>P 6,879,743</u> | <u>P -</u> | <u>P 26,248,765</u> | <u>P -</u> | <u>P 26,248,765</u> |
| Due from Related Parties: | | | | | | | |
| Kita Corporation | P 511,759,173 | - | P 15,000,000 | - | P 496,759,173 | - | P 496,759,173 |
| Solid Broadband Corporation | - | - | - | - | - | - | - |
| Zen Towers Corporation | 553,407,157 | - | 78,400,000 | - | 475,007,157 | - | 475,007,157 |
| Solid Manila Corporation | 190,043,188 | 100,000,000 | - | - | 290,043,188 | - | 290,043,188 |
| Precos, Inc. | 149,511,000 | - | - | - | 149,511,000 | - | 149,511,000 |
| Solid Manila Finance Inc. | - | 5,000,000 | - | - | 5,000,000 | - | 5,000,000 |
| Casa Bocobo Hotel, Inc. | 3,000,000 | - | - | - | 3,000,000 | - | 3,000,000 |
| Brilliant Reach Limited | 133,363,697 | 10,431,585 | - | - | 143,795,282 | - | 143,795,282 |
| Mytel Mobility Solutions Inc. | 684,000,000 | - | - | - | 684,000,000 | - | 684,000,000 |
| My Solid Devices & Technologies Corporation | 140,000,000 | 358,000,000 | - | - | 498,000,000 | - | 498,000,000 |
| SolidGroup Technologies Corporation | 23,000,000 | 3,000,000 | - | - | 26,000,000 | - | 26,000,000 |
| | <u>P 2,388,084,215</u> | <u>P 476,431,585</u> | <u>P 93,400,000</u> | <u>P -</u> | <u>P 2,771,115,800</u> | <u>P -</u> | <u>P 2,771,115,800</u> |
| Trade payables: | | | | | | | |
| My Solid Devices & Technologies Corporation | P 4,411,863 | - | - | - | P 4,411,863 | - | P 4,411,863 |
| Solid Electronics Corporation | 126,222 | - | - | - | 126,222 | - | 126,222 |
| Omni Solid Services Inc. | 167,356 | - | - | - | 167,356 | - | 167,356 |
| | <u>P 4,705,441</u> | <u>P -</u> | <u>P -</u> | <u>P -</u> | <u>P 4,705,441</u> | <u>P -</u> | <u>P 4,705,441</u> |

Solid Group Inc. and Subsidiaries
 Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)
 December 31, 2013

| <i>Title of issue and type of obligation</i> | <i>Amount authorized by indenture</i> | <i>Amount shown under caption "Current portion of long-term debt" in related statement of financial position</i> | <i>Amount shown under caption "Long-Term Debt" in related statement of financial position</i> |
|--|---------------------------------------|--|---|
|--|---------------------------------------|--|---|

Loans:

Short term loans

| | | |
|--|---------------|-----|
| | P 452,154,772 | P - |
|--|---------------|-----|

Solid Group Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2013

| <i>Title of Issue</i> | <i>Number of shares authorized</i> | <i>Number of shares issued and outstanding as shown under the related balance sheet caption (A)</i> | <i>Number of shares reserved for options, warrants, conversion and other rights</i> | <i>Number of shares held by</i> | | |
|------------------------------------|------------------------------------|---|---|---------------------------------|--|---------------|
| | | | | <i>Related parties (B)</i> | <i>Directors, officers and employees</i> | <i>Others</i> |
| Common shares - P1 par value | | | | | | |
| Authorized - P5,000,000,000 shares | 5,000,000,000 | | | | | |
| Issued | | 1,821,542,000 | - | | | |
| Outstanding | | | | 1,083,377,816 | 343,698,480 | 394,465,704 |
| | | | | | | |

A: Number of shares issued and outstanding = 2,030,975,000 issued shares less 209,433,000 treasury shares

B: This represents shares held by AA Commercial and AV Value Holdings Corp., related parties which are ultimately owned by the Lim Family.

SOLID GROUP INC.
Schedule I

Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2013

| | | |
|--|----------|---------------------------|
| Unappropriated Retained Earnings at Beginning of Year | P | 656,525,263 |
| Prior Years' Outstanding Reconciling Items, net of tax | | <u>-</u> |
| Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted | | 656,525,263 |
| Net Profit Realized during the Year | | |
| Net profit per audited financial statements | P | 343,768,527 |
| Non-actual / unrealized income, net of tax | | |
| Unrealised foreign exchange gain | (| 10,431,710) |
| Deferred tax income | (| <u>203,878</u>) |
| | | 333,132,939 |
| Other Transactions During the Year | | |
| Dividends declared | (| 109,292,520) |
| Retained Earnings Restricted for Treasury Shares | (| <u>115,614,380</u>) |
| Unappropriated Retained Earnings Available for Dividend Declaration at End of Year | P | <u>764,751,302</u> |

SOLIDGROUP INC. AND SUBSIDIARIES
Schedule J - Financial Soundness Indicators

| | FORMULA | DECEMBER 31, 2013 | DECEMBER 31, 2012 |
|-------------------------------------|--|-------------------|-------------------|
| Liquidity Ratios | | | |
| Current ratio | $\frac{\text{Current Assets}}{\text{Current Liabilities}}$ | 2.60:1 | 3.14:1 |
| Acid Test ratio | $\frac{\text{Cash \& Cash Equivalents + Trade Receivables}}{\text{FAFVPL + AFS}} \div \frac{\text{Current Liabilities}}{\text{Current Liabilities}}$ | 1.31:1 | 1.90:1 |
| Solvency Ratios | | | |
| Debt to Equity ratio | $\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$ | 0.39:1 | 0.33:1 |
| Gearing Ratio | $\frac{\text{Financial Debt}}{\text{Total Equity}}$ | 0.07:1 | 0.06:1 |
| Asset-to-Equity Ratios | $\frac{\text{Total Assets}}{\text{Total Equity}}$ | 1.40:1 | 1.33:1 |
| Interest Rate Coverage Ratio | $\frac{\text{EBIT}}{\text{Interest Expense}}$ | 69.34:1 | 225.76:1 |
| Profitability Ratios | | | |
| Operating Margin | $\frac{\text{Operating Profit}}{\text{Total Revenues}}$ | 3% | 27% |
| Net Profit Margin | $\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$ | 3% | 25% |
| Return on Total Assets | $\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$ | 1% | 10% |
| Return on Equity | $\frac{\text{Net Income after Tax}}{\text{Total Equity}}$ | 1% | 13% |

SOLID GROUP INC. AND SUBSIDIARIES
Schedule K

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2013

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|--|--|---------|-------------|----------------|
| Framework for the Preparation and Presentation of Financial Statements | | ✓ | | |
| Conceptual Framework Phase A: Objectives and Qualitative Characteristics | | ✓ | | |
| Practice Statement Management Commentary | | | ✓ | |
| <i>Philippine Financial Reporting Standards (PFRS)</i> | | | | |
| PFRS 1 (Revised) | First-time Adoption of Philippine Financial Reporting Standards | ✓ | | |
| | Amendments to PFRS 1: Additional Exemptions for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters | ✓ | | |
| | Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters | ✓ | | |
| | Amendment to PFRS 1: Government Loans | ✓ | | |
| PFRS 2 | Share-based Payment | | | ✓ |
| | Amendments to PFRS 2: Vesting Conditions and Cancellations | | | ✓ |
| | Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions | | | ✓ |
| PFRS 3 (Revised) | Business Combinations | ✓ | | |
| PFRS 4 | Insurance Contracts | | | ✓ |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | | | ✓ |
| PFRS 5 | Non-current Assets Held for Sale and Discontinued Operations | ✓ | | |
| PFRS 6 | Exploration for and Evaluation of Mineral Resources | | | ✓ |
| PFRS 7 | Financial Instruments: Disclosures | ✓ | | |
| | Amendments to PFRS 7: Transition | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition | ✓ | | |
| | Amendments to PFRS 7: Improving Disclosures about Financial Instruments | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Transfers of Financial Assets | ✓ | | |
| | Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities | ✓ | | |
| | Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (<i>deferred application</i>) | | | ✓ |
| PFRS 8 | Operating Segments | ✓ | | |
| PFRS 9 | Financial Instruments* (<i>deferred application</i>) | | | ✓ |
| | Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* (<i>deferred application</i>) | | | ✓ |
| PFRS 10 | Consolidated Financial Statements | ✓ | | |
| | Amendment to PFRS 10: Transition Guidance | ✓ | | |
| | Amendment to PFRS 10: Investment Entities* (<i>effective January 1, 2014</i>) | | | ✓ |
| PFRS 11 | Joint Arrangements | ✓ | | |
| | Amendment to PFRS 11: Transition Guidance | | | ✓ |
| PFRS 12 | Disclosure of Interests in Other Entities | ✓ | | |
| | Amendment to PFRS 12: Transition Guidance | ✓ | | |
| | Amendment to PFRS 12: Investment Entities* (<i>effective January 1, 2014</i>) | | | ✓ |
| PFRS 13 | Fair Value Measurement | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|--|--|---------|-------------|----------------|
| <i>Philippine Accounting Standards (PAS)</i> | | | | |
| PAS 1 (Revised) | Presentation of Financial Statements | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 1: Presentation of Items of Other Comprehensive Income | ✓ | | |
| PAS 2 | Inventories | ✓ | | |
| PAS 7 | Statement of Cash Flows | ✓ | | |
| PAS 8 | Accounting Policies, Changes in Accounting Estimates and Errors | ✓ | | |
| PAS 10 | Events after the Reporting Period | ✓ | | |
| PAS 11 | Construction Contracts | | | ✓ |
| PAS 12 | Income Taxes | ✓ | | |
| | Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets | ✓ | | |
| PAS 16 | Property, Plant and Equipment | ✓ | | |
| PAS 17 | Leases | ✓ | | |
| PAS 18 | Revenue | ✓ | | |
| PAS 19 (Revised) | Employee Benefits | ✓ | | |
| PAS 20 | Accounting for Government Grants and Disclosure of Government Assistance | | | ✓ |
| PAS 21 | The Effects of Changes in Foreign Exchange Rates | ✓ | | |
| | Amendment: Net Investment in a Foreign Operation | ✓ | | |
| PAS 23 (Revised) | Borrowing Costs | ✓ | | |
| PAS 24 (Amended) | Related Party Disclosures | ✓ | | |
| | Disclosure of Key Management Personnel* (effective July 1, 2014) | | | ✓ |
| PAS 26 | Accounting and Reporting by Retirement Benefit Plans | | | ✓ |
| PAS 27 (Revised) | Separate Financial Statements | ✓ | | |
| | Amendment to PAS 27: Investment Entities* (effective January 1, 2014) | | | ✓ |
| PAS 28 (Revised) | Investments in Associates and Joint Ventures | | | ✓ |
| PAS 29 | Financial Reporting in Hyperinflationary Economies | | | ✓ |
| PAS 32 | Financial Instruments: Presentation | ✓ | | |
| | Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation | ✓ | | |
| | Amendment to PAS 32: Classification of Rights Issues | ✓ | | |
| | Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* (effective January 1, 2014) | | | ✓ |

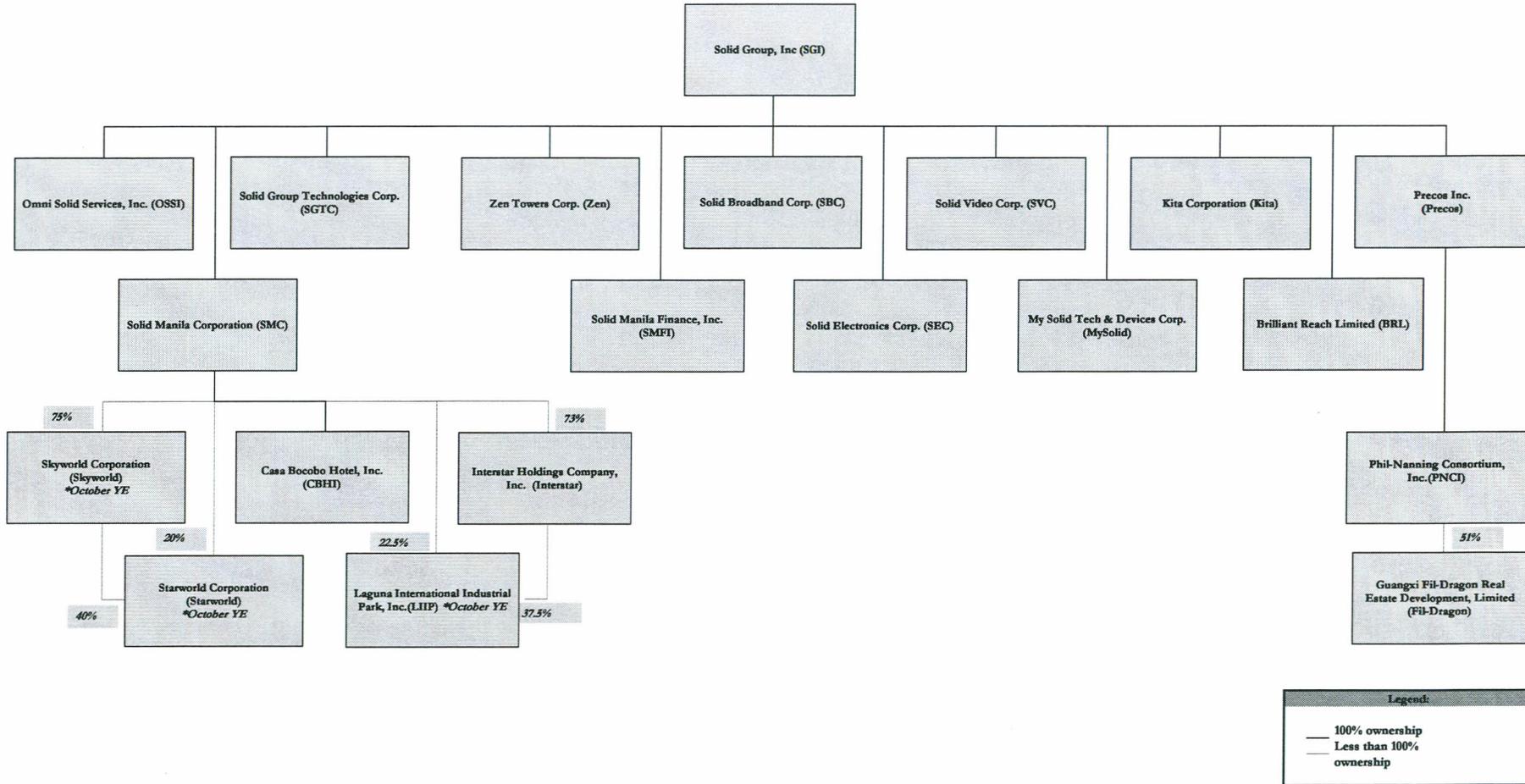
| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|---|---|---------|-------------|----------------|
| PAS 33 | Earnings per Share | ✓ | | |
| PAS 34 | Interim Financial Reporting | ✓ | | |
| PAS 36 | Impairment of Assets | ✓ | | |
| | Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets* (effective January 1, 2014) | | | ✓ |
| PAS 37 | Provisions, Contingent Liabilities and Contingent Assets | ✓ | | |
| PAS 38 | Intangible Assets | ✓ | | |
| PAS 39 | Financial Instruments: Recognition and Measurement | ✓ | | |
| | Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities | ✓ | | |
| | Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions | ✓ | | |
| | Amendments to PAS 39: The Fair Value Option | ✓ | | |
| | Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets | ✓ | | |
| | Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives | ✓ | | |
| | Amendment to PAS 39: Eligible Hedged Items | ✓ | | |
| | Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014) | | | ✓ |
| PAS 40 | Investment Property | | | ✓ |
| PAS 41 | Agriculture | | | ✓ |
| Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC) | | | | |
| IFRIC 1 | Changes in Existing Decommissioning, Restoration and Similar Liabilities | | | ✓ |
| IFRIC 2 | Members' Share in Co-operative Entities and Similar Instruments | | | ✓ |
| IFRIC 4 | Determining Whether an Arrangement Contains a Lease | ✓ | | |
| IFRIC 5 | Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds | | | ✓ |
| IFRIC 6 | Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment | | | ✓ |
| IFRIC 7 | Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies | | | ✓ |
| IFRIC 9 | Reassessment of Embedded Derivatives** | ✓ | | |
| | Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives** | ✓ | | |
| IFRIC 10 | Interim Financial Reporting and Impairment | | | ✓ |
| IFRIC 12 | Service Concession Arrangements | | | ✓ |
| IFRIC 13 | Customer Loyalty Programmes | | | ✓ |
| IFRIC 14 | PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction | ✓ | | |
| | Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction** | ✓ | | |
| IFRIC 16 | Hedges of a Net Investment in a Foreign Operation | | | ✓ |
| IFRIC 17 | Distributions of Non-cash Assets to Owners** | ✓ | | |
| IFRIC 18 | Transfers of Assets from Customers** | ✓ | | |
| IFRIC 19 | Extinguishing Financial Liabilities with Equity Instruments** | ✓ | | |
| IFRIC 20 | Stripping Costs in the Production Phase of a Surface Mine** | ✓ | | |
| IFRIC 21 | Levies** | ✓ | | |

| PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS | | Adopted | Not Adopted | Not Applicable |
|--|--|---------|-------------|----------------|
| <i>Philippine Interpretations - Standing Interpretations Committee (SIC)</i> | | | | |
| SIC-7 | Introduction of the Euro | | | ✓ |
| SIC-10 | Government Assistance - No Specific Relation to Operating Activities | | | ✓ |
| SIC-13 | Jointly Controlled Entities - Non-Monetary Contributions by Venturers | | | ✓ |
| SIC-15 | Operating Leases - Incentives | ✓ | | |
| SIC-25 | Income Taxes - Changes in the Tax Status of an Entity or its Shareholders** | ✓ | | |
| SIC-27 | Evaluating the Substance of Transactions Involving the Legal Form of a Lease | ✓ | | |
| SIC-29 | Service Concession Arrangements: Disclosures | | | ✓ |
| SIC-31 | Revenue - Barter Transactions Involving Advertising Services** | ✓ | | |
| SIC-32 | Intangible Assets - Web Site Costs** | ✓ | | |

* These standards will be effective for periods subsequent to 2013 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

Solid Group Inc. and Subsidiaries
Map Showing the Relationships Between and Among the Company and its Related Parties



INDEX TO EXHIBITS

Form 17-A

| <u>No.</u> | <u>Page No.</u> |
|---|-----------------|
| (3) Plan of Acquisition, Reorganization, Arrangement, Liquidation or Succession | * |
| (5) Instruments Defining the Rights of Security Holders, including Indentures | * |
| (8) Voting Trust Agreement | * |
| (9) Material Contracts | 63 |
| (10) Annual Report to Security Holders, Form 17-Q or Quarterly Report to Security Holders | * |
| (13) Letter re Change in Certifying Accountant | * |
| (16) Report Furnished to Security Holders | * |
| (18) Subsidiaries of the Registrant | 64 |
| (19) Published Report Regarding Matters Submitted to Vote of Security Holders | * |
| (20) Consent of Experts and Independent Counsel | * |
| (21) Power of Attorney | * |
| (29) Additional Exhibits Audited Financial Statements (AFS) of Guangxi Fil-Dragon Real Estate Development Limited for the period December 31, 2013 | 65 |

* These Exhibits are either not applicable to the Company or require no answer.

EXHIBIT 9 MATERIAL CONTRACTS

There are no material contracts that are not made in the ordinary course of business entered into by the Company and its subsidiaries during the year.

EXHIBIT 18 SUBSIDIARIES OF THE REGISTRANT

Solid Group Inc. has twelve consolidated subsidiaries, each of which is wholly owned, as follows:

| Name | Jurisdiction |
|--|--------------------------------------|
| Solid Video Corporation | Makati City, Philippines |
| Kita Corporation | Clark, Pampanga, Philippines |
| Omni Solid Services Inc. (formerly Solid Laguna Corporation) | Binan, Laguna, Philippines |
| Solid Electronic Corporation | Balintawak, Quezon City, Philippines |
| Solid Manila Corporation | Manila, Philippines |
| Solid Manila Finance Inc. | Makati, Philippines |
| Solid Broadband Corporation | Makati, Philippines |
| Brilliant Reach Limited | British Virgin Islands |
| Zen Tower Corporation | Manila, Philippines |
| Precos, Inc. | Makati, Philippines |
| SolidGroup Technologies Corporation | Paranaque, Philippines |
| MySolid Technologies & Devices Corporation | Paranaque, Philippines |

Report and Financial Statements

Guangxi Fil-Dragon Real Estate Development
Limited

廣西菲龍房地產開發有限公司

For the year ended 31 December 2013

Contents

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| Expressed in Renminbi ("RMB") | |

Independent auditors' report

**To the members of Guangxi Fil-Dragon Real Estate Development Limited
(established in the People's Republic of China with limited liability)**

We have audited the financial statements of Guangxi Fil-Dragon Real Estate Development Limited (the "Company") set out on pages 3 to 23, which comprise the statement of financial position as at 31 December 2013, and the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the financial statements

The directors of the Company are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards ("IFRS"), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

Our responsibility is to express an opinion on these financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Auditors' responsibility (Continued)

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, 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 auditors consider internal control relevant to the entity's preparation of financial statements that give a true and fair view 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 the directors, 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 financial statements give a true and fair view of the state of the Company's affairs as at 31 December 2013 and of its loss and cash flows for the year then ended in accordance with International Financial Reporting Standards.



Grant Thornton Hong Kong Limited
Certified Public Accountants
Level 12
28 Hennessy Road
Wanchai
Hong Kong

31 MAR 2014

Lin Ching Yee Daniel
Practising Certificate No.: P02771

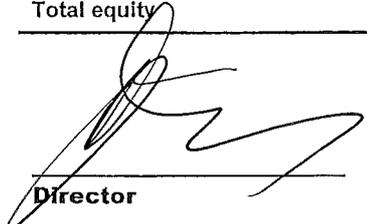
Statement of comprehensive income for the year ended 31 December 2013

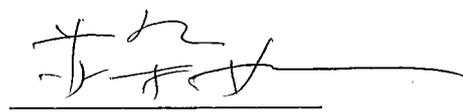
| | Notes | 2013 RMB | 2012 RMB |
|---|-------|--------------------|--------------------|
| Revenue | 5 | - | - |
| Cost of sales | | - | - |
| Gross Profit | | | - |
| Other income | 6 | 10,248 | 144,812 |
| Selling and distribution expenses | | (940,864) | (1,127,793) |
| Administrative and other operating expenses | | (3,410,984) | (2,484,104) |
| Loss before income tax | 8 | (4,341,600) | (3,467,085) |
| Income tax expense | 10 | - | - |
| Loss and total comprehensive loss for the year | | (4,341,600) | (3,467,085) |

The notes on pages 7 to 23 are an integral part of these financial statements.

Statement of financial position as at 31 December 2013

| | Notes | 2013 RMB | 2012 RMB |
|---|-------|--------------------|--------------------|
| ASSETS AND LIABILITIES | | | |
| Non-current assets | | | |
| Property, plant and equipment | 11 | 234,684 | 300,314 |
| Current assets | | | |
| Properties under development | 12 | 263,420,599 | 223,584,009 |
| Other receivables, deposits and prepayments | 13 | 16,894,116 | 14,378,299 |
| Income tax recoverable | | 17,134,588 | 870,560 |
| Restricted cash | 15 | 844,344 | 778,306 |
| Cash and cash equivalents | 16 | 4,845,090 | 1,511,073 |
| | | 303,138,737 | 241,122,247 |
| Current liabilities | | | |
| Trade and other payables | 17 | 32,854,684 | 24,721,387 |
| Receipt in advance from customers | | 168,032,996 | 127,187,200 |
| Loan from related companies | 18 | 61,842,434 | 54,396,030 |
| Amounts due to directors | 14 | 10,366,963 | 500,000 |
| | | 273,097,077 | 206,804,617 |
| Net current assets | | 30,041,660 | 34,317,630 |
| Net assets | | 30,276,344 | 34,617,944 |
| EQUITY | | | |
| Paid in capital | 19 | 50,000,000 | 50,000,000 |
| Accumulated losses | | (19,723,656) | (15,382,056) |
| Total equity | | 30,276,344 | 34,617,944 |


 Director


 Director

The notes on pages 7 to 23 are an integral part of these financial statements.

Statement of cash flows for the year ended 31 December 2013

| | 2013 RMB | 2012 RMB |
|--|------------------|--------------------|
| Cash flows from operating activities | | |
| Loss before income tax | (4,341,600) | (3,467,085) |
| Adjustments for: | | |
| Depreciation | 109,279 | 142,239 |
| Interest income | (10,248) | (11,142) |
| Realized gain on disposal of financial assets at fair value through profit or loss | - | (33,670) |
| Operating loss before working capital changes | (4,242,569) | (3,369,658) |
| Increase in properties under development | (33,940,186) | (39,098,211) |
| Increase in other receivables, deposits and prepayments | (2,515,817) | (3,404,329) |
| Increase in restricted cash as guarantee for construction of projects and other operating activities | (66,038) | (45,523) |
| Increase in trade and other payables | 8,133,297 | 22,074,258 |
| Increase in receipt in advance from customers | 40,845,796 | 28,427,088 |
| Cash generated from operations | 8,214,483 | 4,583,625 |
| PRC corporate income tax paid | (16,264,028) | (516,406) |
| <i>Net cash(used in)/from operating activities</i> | (8,049,545) | 4,067,219 |
| Cash flows from investing activities | | |
| Purchase of property, plant and equipment | (43,649) | (7,500) |
| Interest received | 10,248 | 11,142 |
| Proceeds from disposal of financial assets at fair value through profit or loss | - | 958,414 |
| Receipts from directors | 9,866,963 | 1,500,000 |
| <i>Net cash from investing activities</i> | 9,833,562 | 2,462,056 |
| Cash flows from financing activities | | |
| Proceeds from loan from related companies | 10,000,000 | 5,614,000 |
| Repayment of loan from related companies | (8,450,000) | (14,357,114) |
| <i>Net cash from/(used in) financing activities</i> | 1,550,000 | (8,743,114) |
| Net increase/(decrease) in cash and cash equivalents | 3,334,017 | (2,213,839) |
| Cash and cash equivalents at 1 January | 1,511,073 | 3,724,912 |
| Cash and cash equivalents at 31 December | 4,845,090 | 1,511,073 |

The notes on pages 7 to 23 are an integral part of these financial statements.

Statement of changes in equity for the year ended 31 December 2013

| | Paid in capital RMB | Accumulated losses RMB | Total equity RMB |
|---|------------------------|------------------------------|------------------------|
| Balance at 1 January 2012 | 50,000,000 | (11,914,971) | 38,085,029 |
| Loss and total comprehensive loss for the year | - | (3,467,085) | (3,467,085) |
| Balance at 31 December 2012 and 1 January 2013 | 50,000,000 | (15,382,056) | 34,617,944 |
| Loss and total comprehensive loss for the year | | (4,341,600) | (4,341,600) |
| Balance at 31 December 2013 | 50,000,000 | (19,723,656) | 30,276,344 |

The notes on pages 7 to 23 are an integral part of these financial statements.

Notes to the financial statements for the year ended 31 December 2013

1. GENERAL INFORMATION

Guangxi Fil-Dragon Real Estate Development Limited (the “Company”) is a limited liability company established and domiciled in the People’s Republic of China (“PRC”). The address of its registered office is 16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC.

The Company is controlled by Phil-Nanning Consortium, Inc., a company registered in the Philippines. The ultimate parent of the Company is Solid Group Inc., a company registered in the Philippines and its shares are listed on the Philippine Stock Exchange.

The Company is principally engaged in the property development in the PRC.

The financial statements for the year ended 31 December 2013 were approved for issue by the board of directors on 31 MAR 2014 .

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements on pages 3 to 23 have been prepared in accordance with International Financial Reporting Standards (“IFRSs”) which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards and Interpretations issued by the International Accounting Standards Board (“IASB”). The Company also prepares a set of statutory financial statements in accordance with the relevant accounting principles and regulations applicable to PRC enterprises.

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

The financial statements have been prepared on the historical cost basis. The measurement basis is fully described in the accounting policies below.

The financial statements have been presented in Renminbi (“RMB”).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.1 Basis of preparation (Continued)

It should be noted that accounting estimates and assumptions are used in preparation of the financial statements. Although these estimates are based on management's best knowledge and judgement of current events and actions, actual results may ultimately differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements are disclosed in note 4.

2.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Depreciation on property, plant and equipment is provided to write off the cost less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives for the current and comparative periods are as follows:

| | |
|------------------------|--------------|
| Office equipment | 3 to 5 years |
| Furniture and fixtures | 3 to 5 years |
| Motor vehicles | 5 years |

The assets' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

The gain or loss arising on retirement or disposal is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other costs, such as repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

2.3 Financial assets

Financial assets are classified as loans and receivables.

Management determines the classification of its financial assets at initial recognition depending on the purpose for which the financial assets were acquired and where allowed and appropriate, re-evaluates this designation at every reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets (Continued)

All financial assets are recognised when, and only when, the Company becomes a party to the contractual provisions of the instrument. Regular way purchases of financial assets are recognised on trade date. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

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

At each reporting date, financial assets are reviewed to assess whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised based on the classification of the financial asset.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are subsequently measured at amortised cost using the effective interest method, less any impairment losses. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction cost. Interest is recognised in profit or loss.

Impairment of financial assets

At each reporting date, financial assets are reviewed to determine whether there is any objective evidence of impairment.

Objective evidence of impairment of individual financial assets includes observable data that comes to the attention of the Company about one or more of the following loss events:

- Significant financial difficulty of the debtor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- It becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;
- The disappearance of an active market for that financial asset because of financial difficulties; and
- A significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.3 Financial assets (Continued)

Impairment of financial assets (Continued)

Loss events in respect of a group of financial assets include observable data indicating that there is a measurable decrease in the estimated future cash flows from the group of financial assets. Such observable data includes but not limited to adverse changes in the payment status of debtors in group and, national or local economic conditions that correlate with defaults on the assets in the group.

If any such evidence exists, the impairment loss is measured and recognised as follows:

(i) **Financial assets carried at amortised cost**

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The amount of the loss is recognised in profit or loss of the period in which the impairment occurs.

If, in subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed to the extent that it does not result in a carrying amount of the financial asset exceeding what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in profit or loss of the period in which the reversal occurs.

Impairment losses on financial assets are written off against the corresponding assets directly. Subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

2.4 Properties under development

Properties under development are stated at the lower of cost and net realisable value. Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and anticipated cost to completion.

Development cost of property comprises construction costs, cost of land use rights, borrowing costs, and professional fees incurred during the development period. On completion, the properties are transferred to completed properties held for sale.

Properties under development are classified as current assets unless those will not be realised in one normal operating cycle.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.5 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

Bank deposits which are restricted to use are included in "restricted cash". Restricted cash are excluded from cash and cash equivalents in the statement of cash flows.

2.6 Financial liabilities

The Company's financial liabilities include trade and other payables, receipt in advance from customers, loan from related companies and amount due to a director. They are included on the face of the statement of financial position.

Financial liabilities are recognised when the Company becomes a party to the contractual provisions of the instrument. All interest related charges are recognised in accordance with the Company's accounting policy for borrowing costs (see note 2.11).

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Trade and other payables, receipt in advance from customers, loan from related companies and amount due to a director are recognised initially at their fair value and subsequently measured at amortised cost, using the effective interest method.

2.7 Operating leases

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Company determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Company

Assets that are held by the Company under leases which transfer to the Company substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Company are classified as operating leases.

(ii) Operating lease charges as the lessee

Where the Company has the right to use of assets held under operating leases, payments made under the leases are charged to profit or loss on a straight line basis over the lease terms.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.8 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for sale of properties, net of discount. Provided it is probable that the economic benefits will flow to the Company and specific criteria have been met as described below, and the revenue and cost, if applicable, can be measured reliably, revenue is recognised as follows:

Revenue from sales of properties is recognised when the risks and rewards of the properties are transferred to the purchasers, which is when the construction of relevant properties has been completed and the properties have been delivered to the purchasers pursuant to the sales agreement and collectibility of related receivables is reasonably assured. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under current liabilities.

Interest income is recognised on a time-proportion basis using the effective interest method.

2.9 Impairment of non-financial assets

Property, plant and equipment are subject to impairment testing and are tested for impairment whenever there are indications that the asset's carrying amount may not be recoverable.

An impairment loss is recognised as an expense immediately for the amount by which the asset's carrying amount exceeds its recoverable amount. Recoverable amount is the higher of fair value, reflecting market conditions less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of time value of money and the risk specific to the asset.

For the purposes of assessing impairment, where an asset does not generate cash inflows largely independent from those from other assets, the recoverable amount is determined for the smallest group of assets that generate cash inflows independently (i.e. a cash-generating unit). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment losses recognised for cash-generating units is charged pro rata to the assets in the cash generating unit, except that the carrying value of an asset will not be reduced below its individual fair value less cost to sell, or value in use, if determinable.

Impairment loss is reversed if there has been a favourable change in the estimates used to determine the asset's recoverable amount and only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.10 Employee benefits

Retirement benefits

Retirement benefits to employees are provided through defined contribution plans.

The employees of the Company are required to participate in the central pension scheme operated by the relevant local municipal government in PRC. The Company is required to contribute certain percentage of its payroll costs to the central pension scheme.

Contributions are recognised as an expense in profit or loss as employees render services during the year. The Company's obligations under these plans are limited to the fixed percentage contributions payable.

2.11 Borrowing costs

Borrowing costs incurred, net of any investment income earned on the temporary investment of the specific borrowings, for the acquisition, construction or production of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. A qualifying asset is an asset which necessarily takes a substantial period of time to get ready for its intended use or sale. Other borrowing costs are expensed when incurred.

Borrowing costs are capitalised as part of the cost of a qualifying asset when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are being undertaken. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are complete.

2.12 Accounting for income taxes

Income tax comprises current and deferred taxes.

Current income tax assets and/or liabilities comprise those obligations to, or claims from, tax authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. 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 recognised as a component of income tax expense in profit or loss.

Deferred tax is calculated using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the financial statements and their respective tax bases. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised for all deductible temporary differences, tax losses available to be carried forward as well as other unused tax credits, to the extent that it is probable that taxable profit, including existing taxable temporary differences, will be available against which the deductible temporary differences, unused tax losses and unused tax credits can be utilised.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.12 Accounting for income taxes (Continued)

Deferred tax assets and liabilities are not recognised if the temporary difference arises from initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither taxable nor accounting profit or loss.

Deferred tax is calculated, without discounting, at tax rates that are expected to apply in the period the liability is settled or the asset realised, provided they are enacted or substantively enacted at the end of the reporting date.

Changes in deferred tax assets or liabilities are recognised in profit or loss, or in other comprehensive income or directly in equity if they relate to items that are charged to other comprehensive income or credited directly in equity.

Current tax assets and current tax liabilities are presented net if, and only if,

- (a) the Company has the legally enforceable right to set off the recognised amounts; and
- (b) intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

The Company presents deferred tax assets and deferred tax liabilities net if, and only if,

- (a) the entity has a legally enforceable right to set off current tax assets against current tax liabilities; and
- (b) the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority.

2.13 Related parties

- (a) A person, or a close member of that person's family, is related to the Company if that person:
 - (i) has control or joint control over the Company;
 - (ii) has significant influence over the Company; or
 - (iii) is a member of the key management personnel of the Company or the Company's parent.
- (b) An entity is related to the Company if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member).
 - (iii) Both entity are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Company or an entity related to the Company.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

2.13 Related parties (Continued)

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. ADOPTION OF NEW OR AMENDED IFRSs

At the date of authorisation of these financial statements, certain new and amended IFRSs have been published but are not yet effective, and have not been adopted early by the Company.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Company's accounting policy for the first period beginning after the effective date of the pronouncement. The directors are currently assessing the impact of these IFRSs but are not yet in the position to state whether they would have any material impact on the Company's financial statements.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Net realisable value of properties under development

Management's assessment of net realisable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates requires judgement as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

5. REVENUE

The Company's principal activity is disclosed in note 1 to these financial statements. The Company did not generate any revenue for the current and prior years.

6. OTHER INCOME

| | 2013 RMB | 2012 RMB |
|--|---------------|----------------|
| Bank interest income | 10,248 | 11,142 |
| Realized gain on disposal of financial assets at fair value through profit or loss | - | 33,670 |
| Sundry income | - | 100,000 |
| | <u>10,248</u> | <u>144,812</u> |

7. FINANCE COSTS

| | 2013 RMB | 2012 RMB |
|---|------------------|------------------|
| Interest charges on: | | |
| Loan from related companies | 6,799,653 | 4,996,138 |
| Total borrowing costs | <u>6,799,653</u> | <u>4,996,138</u> |
| Less: amounts capitalised in properties under development (note 12) | (6,799,653) | (4,996,138) |
| | <u>-</u> | <u>-</u> |

The borrowing costs have been capitalised at a rate of 15% (2012: 6% to 10%) per annum.

8. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after (crediting)/charging:

| | 2013 RMB | 2012 RMB |
|--|-------------|-------------|
| Operating lease charges: | | |
| - Staff quarter | - | 89,400 |
| Depreciation | 109,279 | 142,239 |
| Realized gain on disposal of financial assets at fair value through profit or loss | - | (33,670) |
| | <u>-</u> | <u>-</u> |

9. EMPLOYEE BENEFITS EXPENSE

| | 2013 RMB | 2012 RMB |
|---|------------------|------------------|
| Wages, salaries and other benefits (including operating lease charges on staff quarter) | 1,321,517 | 1,471,107 |
| Pension costs – defined contribution plans | 89,118 | 42,220 |
| | <u>1,410,635</u> | <u>1,513,327</u> |

10. INCOME TAX EXPENSE

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

Reconciliation between tax expense and accounting loss at applicable tax rate:

| | 2013 RMB | 2012 RMB |
|--|-------------|-------------|
| Loss before income tax | (4,341,600) | (3,467,085) |
| Tax at PRC corporate income tax rate of 25% (2012: 25%) | (1,085,400) | (866,771) |
| Tax effect of non-deductible expenses | 405,269 | 203,499 |
| Tax effect of unrecognised temporary differences | 20,503 | (25,059) |
| Others | 659,628 | 688,331 |
| Total income tax expense | - | - |

11. PROPERTY, PLANT AND EQUIPMENT

| | Office equipment RMB | Furniture and fixtures RMB | Motor vehicles RMB | Total RMB |
|---|----------------------------|----------------------------------|--------------------------|----------------|
| At 1 January 2012 | | | | |
| Cost | 196,126 | 99,761 | 598,712 | 894,599 |
| Accumulated depreciation | (83,155) | (64,961) | (311,430) | (459,546) |
| Net book amount | 112,971 | 34,800 | 287,282 | 435,053 |
| Year ended 31 December 2012 | | | | |
| Opening net book amount | 112,971 | 34,800 | 287,282 | 435,053 |
| Additions | 7,500 | - | - | 7,500 |
| Depreciation | (49,000) | (15,658) | (77,581) | (142,239) |
| Closing net book amount | 71,471 | 19,142 | 209,701 | 300,314 |
| At 31 December 2012 and 1 January 2013 | | | | |
| Cost | 203,626 | 99,761 | 598,712 | 902,099 |
| Accumulated depreciation | (132,155) | (80,619) | (389,011) | (601,785) |
| Net book amount | 71,471 | 19,142 | 209,701 | 300,314 |
| Year ended 31 December 2013 | | | | |
| Opening net book amount | 71,471 | 19,142 | 209,701 | 300,314 |
| Additions | 43,649 | - | - | 43,649 |
| Depreciation | (48,464) | (9,167) | (51,648) | (109,279) |
| Closing net book amount | 66,656 | 9,975 | 158,053 | 234,684 |
| At 31 December 2013 | | | | |
| Cost | 247,275 | 99,761 | 598,712 | 945,748 |
| Accumulated depreciation | (180,619) | (89,786) | (440,659) | (711,064) |
| Net book amount | 66,656 | 9,975 | 158,053 | 234,684 |

12. PROPERTIES UNDER DEVELOPMENT

| | 2013 RMB | 2012 RMB |
|---|-------------|-------------|
| Properties under development comprise: | | |
| Land use rights | 15,145,025 | 15,145,025 |
| Construction costs and capitalised expenditures | 225,328,047 | 192,291,110 |
| Interest capitalised | | |
| Balance at 1 January | 16,147,874 | 11,151,736 |
| Interest capitalised for the year | 6,799,653 | 4,996,138 |
| Balance at 31 December | 22,947,527 | 16,147,874 |
| | 263,420,599 | 223,584,009 |

Properties under development included leasehold interests in land located in the PRC with lease terms expiring in 2077.

As at the reporting dates, all properties under development are expected to be completed within one operating cycle and are included under current assets.

13. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | 2013 RMB | 2012 RMB |
|--|-------------|-------------|
| Other receivables and deposits | 4,881,885 | 5,125,985 |
| Prepaid business taxes and other taxes | 12,012,231 | 9,252,314 |
| | 16,894,116 | 14,378,299 |
| | | |

The directors of the Company considered that the fair values of other receivables are not materially different from their carrying amounts because these amounts have short maturity periods on their inception.

At each reporting dates, the Company reviews receivables for evidence of impairment on both an individual and collective basis. No impairment has been recognised on other receivables for the years ended 31 December 2013 and 2012. No amounts in relation to other receivables were past due at the reporting date.

14. AMOUNTS DUE TO DIRECTORS

The amounts due are unsecured, interest-free and repayable on demand. The carrying amount of the amount due approximates its fair values.

15. RESTRICTED CASH

| | Notes | 2013 RMB | 2012 RMB |
|--|-------|----------------|----------------|
| Guarantee deposit for construction of projects | (a) | 196,739 | 196,242 |
| Deposit pledged against mortgage loans granted to the purchasers of properties | (b) | 647,605 | 582,064 |
| | | 844,344 | 778,306 |

(a) In accordance with relevant documents issued by local government, the Company is required to place certain amount of cash at designated bank accounts as guarantee deposits for construction of properties. The deposits can only be used to pay for construction fees and purchase of construction materials of the relevant project when approvals are obtained from the local government. The restriction will be released upon the construction is completed. This deposit earns interest at floating rates based on daily bank deposit rates.

(b) The bank deposits were pledged as security in favour of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties for the period from the date of draw-down of mortgage loans to the date when the certificates for housing ownership and certificates of others' interest for housing ownership (collectively known as "Certificates") are granted to the property purchasers. Such charges would be released when the Certificates are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates.

16. CASH AND CASH EQUIVALENTS

All bank balances denominated in Renminbi ("RMB") are placed with banks in the PRC. RMB is not a freely convertible currency. Under the PRC's Foreign Exchange Control Regulations and Administration of Settlement and Sales and Payment of Foreign Exchange Regulations, the Company is permitted to exchange RMB for foreign currencies through banks that are authorised to conduct foreign exchange business.

17. TRADE AND OTHER PAYABLES

| | 2013 RMB | 2012 RMB |
|------------------------------------|-------------------|-------------------|
| Trade payables – third parties | 32,345,130 | 24,201,149 |
| Other payables and accrued charges | 509,554 | 520,238 |
| | 32,854,684 | 24,721,387 |

All amounts are short term and hence the carrying values of the Company's trade and other payables are considered to be a reasonable approximation of fair value.

18. LOAN FROM RELATED COMPANIES

The amounts due are unsecured, repayable on demand and interest-bearing at 15% (2012: 6% to 10%) per annum. The carrying amounts approximate their fair values. The related companies are controlled by a shareholder of the Company.

19. PAID IN CAPITAL

| | 2013 RMB | 2012 RMB |
|--------------------------------|-------------|-------------|
| Registered and paid in capital | 50,000,000 | 50,000,000 |

20. OPERATING LEASE COMMITMENTS

At the reporting date, the total future minimum lease payments payable by the Company under non-cancellable operating leases are as follows:

| | 2013 RMB | 2012 RMB |
|-----------------|-------------|-------------|
| Within one year | - | 22,350 |

In 2012, the Company leased a number of staff quarters under operating leases. The leases ran for an initial period of one year, with an option to renew the lease and renegotiated the terms at the expiry dates or at dates as mutually agreed between the Company and respective landlords. None of the leases included contingent rentals.

21. CAPITAL COMMITMENTS

| | 2013 RMB | 2012 RMB |
|---|-------------|-------------|
| Properties under development Contracted but not provided for | 16,948,000 | 5,153,000 |

22. RELATED PARTY TRANSACTIONS

In addition to the transactions/information disclosed elsewhere in these financial statements, during the year, the Company had the following material transactions with related parties:

22.1 Details of the transactions between the Company and its related parties are summarised below.

| | 2013 RMB | 2012 RMB |
|--|-------------|-------------|
| Companies in which a shareholder of the Company have beneficial interests Interest expense | 6,799,653 | 4,996,138 |

22.2 Key management personnel remuneration

Key management of the Company are members of the board of directors as well as certain senior management personnel. Included in staff costs are key management personnel remuneration which includes the following expenses:

| | 2013 RMB | 2012 RMB |
|--|-------------|-------------|
| Short-term employee benefits Salaries, bonus and other benefits | 578,794 | 590,540 |

23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS

The Company is exposed to financial risks through its use of financial instruments in its ordinary course of operations and in its investment activities. The financial risks include foreign currency risk, interest rate risk, credit risk and liquidity risk. In light of the simplicity of the operations, the risk management of the Company is carried out by the board of directors directly. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance. The Board discusses principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk and liquidity risk.

23.1 Categories of financial assets and liabilities

The carrying amounts presented in the statements of financial position relate to the following categories of financial assets and financial liabilities:

| | 2013 RMB | 2012 RMB |
|---|--------------------|-------------------|
| Financial assets | | |
| Loans and receivables | | |
| Other receivables and deposits | 4,881,885 | 5,125,985 |
| Restricted cash | 844,344 | 778,306 |
| Cash and cash equivalents | 4,845,090 | 1,511,073 |
| | 10,571,319 | 7,415,364 |
| Financial liabilities | | |
| Financial liabilities measured at amortised cost | | |
| Trade and other payables | 32,854,684 | 24,721,387 |
| Loan from related companies | 61,842,434 | 54,396,030 |
| Amounts due to directors | 10,366,963 | 500,000 |
| | 105,064,081 | 79,617,417 |

23.2 Foreign currency risk

Foreign currency risk refers to the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The management considers that the Company is not exposed to foreign currency risk as all of the transactions, monetary assets and liabilities are denominated in the functional currency of the Company.

23.3 Interest rate risk

Interest rate risk relates to the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in the market interest rates. The Company's interest rate risk arises primarily from bank balances and borrowings. Borrowings bearing variable rates and fixed rates expose the Company to cash flow interest rate risk and fair value interest rate risk respectively. The exposure to interest rates for the Company's short term bank deposits is considered immaterial.

The Company manages interest rate risk by monitoring its interest rate profile, but the Company has not used any interest rate swaps to hedge its exposure to interest rate risk.

23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

23.3 Interest rate risk (Continued)

No sensitivity analysis is performed as the Company's interest expenses are all capitalised to properties under development, hence there are no profit or loss effect for any general increase/decrease in interest rates.

23.4 Credit risk

Credit risk refers to the risk that the counterparty to a financial instrument would fail to discharge its obligation under the terms of the financial instrument and cause a financial loss to the Company. The Company's exposure to credit risk mainly arises from its investing activities.

The Company's maximum exposure to credit risk on recognised financial assets is limited to the carrying amount at the reporting date as summarised in note 23.1 above.

In respect of credit risk associated with other receivables, management closely monitors all outstanding debts and reviews the collectability of other receivables periodically. The credit risk for liquid funds is considered negligible as the counterparties are reputable international banks with high quality external credit ratings.

23.5 Liquidity risk

Liquidity risk relates to the risk that the Company will not be able to meet its obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company is exposed to liquidity risk in respect of settlement of trade payables and its financing obligations, and also in respect of its cash flow management. The Company's policy is to regularly monitor current and expected liquidity requirements and ensure that the Company maintains sufficient reserves of cash and adequate committed lines of funding from related companies to meet its liquidity requirements in the short and longer term.

Analysed below is the Company's remaining contractual maturities for its financial liabilities as at the reporting date. When the creditor has a choice of when the liability is settled, the liability is included on the basis of the earliest date when the Company is required to pay. Where settlement of the liability is in instalments, each instalment is allocated to the earliest period in which the Company is committed to pay.

23. FINANCIAL RISK MANAGEMENT AND FAIR VALUE MEASUREMENTS (Continued)

23.5 Liquidity risk (Continued)

The contractual maturity analysis below is based on the undiscounted cash flows of the financial liabilities.

| | Within 1 year or on demand RMB | Total contractual undiscounted cash flow RMB | Carrying amount RMB |
|-----------------------------|---|--|---------------------------|
| 2013 | | | |
| Trade and other payables | 32,854,684 | 32,854,684 | 32,854,684 |
| Loan from related companies | 61,842,434 | 61,842,434 | 61,842,434 |
| Amounts due to directors | 10,366,963 | 10,366,963 | 10,366,963 |
| | 105,064,081 | 105,064,081 | 105,064,081 |
| 2012 | | | |
| Trade and other payables | 24,721,387 | 24,721,387 | 24,721,387 |
| Loan from related companies | 54,396,030 | 54,396,030 | 54,396,030 |
| Amount due to a director | 500,000 | 500,000 | 500,000 |
| | 79,617,417 | 79,617,417 | 79,617,417 |

23.6 Fair values

The fair values of the Company's financial assets and financial liabilities are not materially different from their carrying amounts because of the immediate or short term maturity of these financial instruments.

24. CAPITAL MANAGEMENT

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

The Company actively and regularly reviews and manages its capital structure and makes adjustments to it in light of changes in economic conditions.