# SOLID GROUP INC.

July 7, 2011

**THE DISCLOSURE DEPARTMENT**
3/F Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
Makati City

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

Gentlemen:

We are submitting herewith the SEC Form 20-IS Definitive Information Statement.

We trust that you will find everything in order.

Very truly yours,

**MELLINA T. CORPUZ**
Corporate Information officer

# SOLID GROUP, INC.

Solid House Bldg., #2285 Pasong Tamo Ext., Makati City

## NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To All Stockholders:

Please be advised that the annual meeting of the stockholders of SOLID GROUP, INC. will be held on August 16, 2011 at 3:00 p.m. at the Fairways Dining Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

The following is the agenda of the meeting:

1. Call to Order
2. Proof of Notice and Certification of Quorum
3. Approval of Minutes of Previous Stockholders' Meeting
4. Management Report and Audited Financial Statements for the Year Ended December 31, 2010
5. Ratification of Previous Corporate Acts
6. Election of Directors
7. Appointment of External Auditors
8. Others Matters
9. Adjournment

For purposes of the meeting, stockholders of record as of June 30, 2011 are entitled to notice and to vote at the said meeting. Registration for the said meeting begins at 2:00 p.m. For convenience in registering your attendance, please have available some form of identification, such as, a driver's license, voter's ID, TIN card, SSS card or passport.

If you will not be able to attend the meeting but would like to be represented thereat, you may submit your proxy from, duly signed and accomplished, to the Corporate Secretary at the Solid House Building, 2285 Pasong Tamo Ext., Makati City, no later than August 5, 2011. Beneficial owners whose shares are lodged with PDTC or registered under the name of a broker, bank or other fiduciary allowed by law must, in addition to the required I.D., present a sub-proxy or notarized certification from the owner of record that he is the beneficial owner, indicating thereon the number of shares. Corporate shareholders shall likewise be required to present a notarized secretary's certificate attesting to the authority of its representative to attend and vote at the stockholders' meeting. Validation of proxies will be held on August 11, 2011 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, July 1, 2011.

**ANA MARIA A. KATIGBAK**
Asst. Corporate Secretary

**SECURITIES AND EXCHANGE COMMISSION**
SEC FORM 20-IS
Information Statement Pursuant to Section 20
of the Securities Regulation Code

1. Check the appropriate box:

    ______ Preliminary Information Statement

    ✔ **Definitive Information Statement**

2. Name of Registrant as specified in its charter: SOLID GROUP, INC.

3. Province, country or other jurisdiction of incorporation or organization: Philippines

4. SEC Identification Number: 845

5. BIR Tax Identification Code: 321-000-508-536

6. Address of principal office: Solid House Bldg., 2285 Pasong Tamo Ext., Makati City Postal Code 1600

7. Registrant's telephone number, including area code: (632) 843-1511

8. Date, time and place of the meeting of security holders: August 16, 2011 at 3:00 p.m. at the Fairways, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders July 26, 2011

10. Securities Registered pursuant to Section 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):

| Title of Each Class | Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding |
|---|---|
| Common | 2,030,975,000 Common Shares (including Treasury Shares) |

11. Are any or all of registrant's securities listed on the Philippine Stock Exchange?

    Yes **X** No ______

**WE ARE NOT ASKING YOU FOR A PROXY AND YOU ARE REQUESTED NOT TO SEND US A PROXY**

# SOLID GROUP, INC.

## INFORMATION STATEMENT

### A. GENERAL INFORMATION

**Date, Time and Place of Meeting of Security Holders:**

The annual stockholders' meeting will be held on **August 16, 2011** at 3:00 pm at the Fairways, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

The complete mailing address of the principal office is Solid House Building, 2285 Pasong Tamo Ext., Makati City, Metro Manila.

The approximate date when the information statement will be first sent to security holders will be on **July 26, 2011.**

**Dissenters' Right of Appraisal**

There are no matters to be taken up during the annual stockholders' meeting with respect to which the law allows the exercise of appraisal right by any dissenting stockholder. The Corporation Code limits the exercise of the appraisal right to the following instances:

a. In case any amendment to the articles of incorporation has the effect of changing or restricting the rights of any stockholder or class of share, or of authorizing preferences in respect superior to those of outstanding shares of any class, or of extending or shortening the term of corporate existence (Section 81);

b. In case of the sale, lease, exchange, transfer, mortgage, pledge of other disposition of all or substantially all of the corporate property and assets (Section 81);

c. In case of merger or consolidation (Section 81);

d. In case of investments in another corporation, business or purpose (Section 42).

Since the matters to be taken up do not include any of the foregoing, the appraisal right will not be available.

However, if at any time after this Information Statement has been sent out, an action which may give rise to the right of appraisal is proposed at the meeting, any stockholder who voted against the proposed action and who wishes to exercise such right must make a written demand, within thirty (30) days after the date of the meeting or when the vote was taken, for the payment of the fair market value of his shares. Upon payment, he must surrender his certificates of stock. No payment shall be made to any dissenting stockholder unless the Company has unrestricted retained earnings in its books to cover such payment.

**Interest of Certain Persons in or Opposition to Matters to be Acted Upon**

The directors, officers, nominees for directors and their associates do not have a substantial interest, direct or indirect, in any matter to be acted upon, other than election to office.

The registrant has not been informed in writing by any person that he intends to oppose any action to be taken by the Registrant at the meeting.

## B. CONTROL AND COMPENSATION INFORMATION

**Voting Securities and Principal Holders**

The record date to determine the stockholders entitled to notice and to vote at the meeting is on June 30, 2011.

As of May 31, 2011, there are 1,821,542,000 outstanding common shares (excluding treasury) entitled to notice and to vote during the meeting. Each common share is entitled to one vote, except with respect to the election of directors where the stockholders are entitled to cumulative voting. There is no classification of voting securities.

The election of the board of directors for the current year will be taken up and all stockholders have the right to cumulate their votes in favor of their chosen nominees for director in accordance with Section 24 of the Corporation Code. Section 24 provides that a stockholder, may vote such number of shares registered in his name as of the record date for as many persons as there are directors to be elected or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates as he shall see fit. The total number of votes cast by such stockholder should not exceed the number of shares owned by him as shown in the books of the corporation multiplied by the whole number of directors to be elected.

**Security Ownership of Certain Record and Beneficial Owners of More than 5%**

Owners of more than 5% of the Company's voting securities as of May 31, 2011 are as follows:

| (1) Title of Class | (2) Name and address of record owner and relationship with issuer | (3) Name of Beneficial Owner (or proxy) and Relationship with Record Owner | (4) Citizen-ship | (5) No. of Shares Held [record ( r ) or beneficial ( b )] | (6) Percent |
|---|---|---|---|---|---|
| Common | AA Commercial, Inc. [1]<br>1172 Edsa, Balintawak<br>Quezon City<br>Affiliate | Vincent S. Lim (Proxy)<br>Treasurer of AA Commercial Inc. | Filipino | 583,377,817 (r)[1] | 32.03 |
| Common | AV Value Holdings Corporation [2]<br>2285 Pasong Tamo Ext, Makati<br>Affiliate | David S. Lim (Proxy)<br>President of AV Value Holdings Corp. | Filipino | 499,999,999 (r )[2] | 27.45 |

| | | | | | |
|---|---|---|---|---|---|
| Common | PCD Nominee Corporation (F) [3] G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder | Various stockholders None | Filipino | 352,285,091 (r) [3] | 19.34 |
| Common | David S. Lim c/o Solid House, 2285 Pasong Tamo Ext, Makati | David S. Lim (Record and beneficial owner are the same person) | 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 President of AV Value Holdings Corporation. Mr. David S. Lim is also the President and Chief Executive Officer of Solid Group Inc.*

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

**Security Ownership of Management:**

The following directors and officers, and nominees for director, own the following shares of the Company's stock as of May 31,2011 as set forth across their names below.

| (1) Title of Class | (2) Name of Beneficial Owner | (3) Amount and Nature of Beneficial Ownership | (4) Citizenship | (5) Percent of Class |
|---|---|---|---|---|
| Common | Lim, Elena S. | 1,894 (direct) | Filipino | - |
| Common | Tan, Susan L. | 78,645 (direct) | Filipino | - |
| Common | Lim, David S. | 179,488,591 (direct) | Filipino | 9.85 |
| | | 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 |
| Common | Lim, Jason S. | 65,176,160 (direct) | Filipino | 3.58 |
| Common | Joseph S. Lim | 2 | Filipino | 0 |
| Common | Chua, Quintin | 5,000 (direct) | Australian | - |
| | | 3,500,000 (indirect) | | 0.19 |
| Common | Zabaljauregui, Luis-Maria | 5,000 (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 | 10,000 (direct) | Filipino | - |
| Common | Corpuz, Mellina T. | - | Filipino | - |

*The aggregate amount of ownership of all directors and officers as a group unnamed is 1,403,773,296 or 77.07% of the total issued and outstanding shares.*

<u>Note</u>: *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.*

**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. is a company 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 President of AV Value Holdings Corporation.

**Change in Control**

There has been no change in control of the Registrant since the beginning of its last fiscal year. There are no arrangements which may result in changes in control of the Registrant.

**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 shown below:

| Position | Name | Years Served in the Same Position | Age | Citizenship |
|---|---|---|---|---|
| Chairman Emeritus | Elena S. Lim | 10 | 81 | Filipino |
| Chairman of the Board | Susan L. Tan | 10 | 57 | Filipino |
| Director and President and Chief Executive Officer | David S. Lim | 10 | 55 | Filipino |
| Director and Sr. VP and Chief Operating Officer | Jason S. Lim | 9 | 54 | Filipino |
| Director and Sr. VP and Chief Financial Officer | Vincent S. Lim | 1 | 52 | Filipino |
| Director | Quintin Chua | 8 | 51 | Australian |
| Director | Luis-Maria Zabaljauregui | 3 | 65 | Filipino |
| Director | Joseph Lim | 1 | 84 | Filipino |
| Director and VP for Business Development and Investor Relations | Beda T. Manalac | 9 months | 50 | Filipino |
| VP and Treasurer | Lita Joaquin | 9 | 50 | Filipino |
| Corporate Secretary | Roberto V. San Jose | 15 | 68 | Filipino |
| Assistant Corporate Secretary | Ana Maria Katigbak-Lim | 14 | 42 | Filipino |

| | | | | |
|---|---|---|---|---|
| VP and Chief Accounting Officer | Mellina T. Corpuz | 5 | 44 | Filipino |

**Elena S. Lim** is the Chairman Emeritus of the Company and has held such office 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.

**Susan L. Tan** is the Chairman of the Board and has held the position 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.

**David S. Lim** is the President and Chief Executive Officer and has held the position 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. since1995 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.

**Jason S. Lim** is the Sr. Vice President and Chief Operating Officer and has held the position 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.

**Vincent S. Lim** was elected Sr. Vice President and Chief Financial Officer on September 2010 and was previously the Sr. Vice President for Finance and Investments from 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. Mr. Lim is the son of Joseph and Elena Lim.

**Quintin Chua** is an Independent Director and has held the office 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.

**Luis-Maria L. Zabaljauregui** is an Independent Director and has held the office since 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 is currently Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008. He has business experience for more than five (5) years.

**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.

**Beda T. Mañalac** is a Director and Vice President for Business Development and Investor Relations and has held the position since September 30, 2010. He is Vice President for Business Development of MyPhone mobile phones under MySolid Technologies and Devices Corporation and Solid Broadband Corporation since 2007. 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.

**Lita Joaquin** is the Treasurer and has held the position 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 Distributors, Inc., 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 a director of Mabuhay Holdings Corporation, Interport Resources Corporation, Anglo-Philippine Holdings Corporation, and Corporate Secretary of Alsons Consolidated Resources Inc., Beneficial Life Insurance Corporation., Inc., FMF Development Corporation, Premiere Entertainment Philippines, Inc., The Metropolitan Club, Inc., Marcventures Holdings, Inc and United Paragon Mining Corporation. 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 Entertainment Philippines, Inc. She is a member of the Integrated Bar of the Philippines.

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

**Nominees for Election**

The following have been nominated for election at the annual stockholders' meeting:

| Position | Name | Age | Citizenship |
|---|---|---|---|
| Director | Elena S. Lim | 81 | Filipino |
| Director | Susan L. Tan | 57 | Filipino |
| Director | David S. Lim | 55 | Filipino |
| Director | Jason S. Lim | 54 | Filipino |
| Director | Vincent S. Lim | 52 | Filipino |
| Independent Director | Quintin Chua | 51 | Australian |
| Independent Director | Luis-Maria L. Zabaljauregui | 65 | Filipino |
| Director | Joseph Lim | 86 | Filipino |
| Director | Beda T. Mañalac | 50 | Filipino |

**Independent Directors - Nominees**

Mr. Chua is an incumbent Independent Director of the Corporation. He has been re-nominated for Independent Director by Ms. Elena S. Lim. He is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement. Mr. Chua is not related to Ms. Elena S. Lim. Mr. Quintin Chua has been 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. He has business experience for more than five (5) years.

Mr. Luis-Maria Zabaljauregui has been re-nominated for Independent Director of the Corporation by Ms. Susan L. Tan. He is not acting as a representative of any director or substantial shareholder of Solid Group Inc. and/or any of its related companies and/or any of its substantial shareholders, pursuant to a Deed of Trust or under any contract or arrangement. He is not related to Ms. Susan L. Tan. Mr. Zabaljauregui 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. Mr. Zabaljauregui is currently Vice-President – Ethanol Project of Central Azucarera de la Carlota, Inc. effective July 2008. He has business experience for more than five (5) years.

**Nomination and Election of Independent Directors**

The Company complies with the requirements of SRC Rule 38 on the nomination and election of independent directors. On June 9, 2009, the SEC approved the Amended By-laws incorporating the requirements under SRC Rule 38 on the nomination and election of independent directors.

In compliance with SRC Rule 38 and the Company's Manual on Corporate Governance, a Nomination Committee was constituted with the following as current members:

1. Ms. Susan L. Tan (Chairman)
2. Mr. Quintin Chua (Vice-Chairman, Independent Director)
3. Mr. Jason S. Lim
4. Mr. Beda T. Manalac. (non-voting)

The Nomination Committee pre-screened and accepted the nominations of Mr. Quintin Chua and Mr. Luis Zabaljauregui as Independent Directors conformably with the criteria prescribed in SRC Rule 38 and the Company's Code of Corporate Governance. Mr. Chua was nominated by Mrs. Elena S. Lim while Mr. Zabaljauregui was nominated by Ms. Susan L. Tan. Mr. Chua and Ms. Lim are not related to each other. Mr. Zabaljauregui and Ms. Tan are likewise not related to each other.

**Family Relationships and Related Transactions**

Ms. Susan L. Tan, Mr. Vincent S. Lim, Mr. Jason S. Lim, and Mr. David S. Lim are the children of Ms. Elena S. Lim and Mr. Joseph Lim all directors and executive officers of the Corporation. Ms. Lita Joaquin, the Treasurer of the Corporation, is the niece of Ms. Elena S. Lim. Other than the ones disclosed, there are no other family relationships known to the Company.

**Significant Employees**

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

**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.

Other than the foregoing, none of the directors and officers was involved in the past five years up to the date of this Information Statement 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.

**Material Pending Legal Proceedings Involving the Company or its Subsidiaries**

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, individually or taken as a whole, does 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.

**Certain Relationships and Related Transactions**

1. Solid Broadband Corporation sold majority of its mobile phone inventories to MyTel Mobility Solutions Inc.

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

Mytel Mobility Solutions, Inc. sold mobile phone inventories to Solid Trading Limited.

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

Solid Group provides management services to CPD Access Corporation (CPD), a company owned by the Company's majority stockholders in accordance with a management contract.

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

Solid Electronics Corp. purchases parts and supplies from CPD while Solid Manila Corporation avails of management services from AA Commercial, a company also owned by the Company's ultimate majority stockholders.

Purchases of goods and availment of management services are recorded as part of Cost of services and Cost of Services, respectively and the related outstanding payables are recorded as part of Trade and Other Payables.

Solid Manila Corporation leases out certain land and buildings to Avid Sales Corporation. Income from these leases is shown as part of Rental in the consolidated statements of income. Uncollected billings, on the other hand, forms part of Trade and Other Receivables account in the consolidated statements of financial position.

Solid Laguna Corporation rents portion of a building of a company owned by the Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated statements of income. There are no outstanding liabilities related to this lease.

Solid Manila Finance Inc. grants interest-bearing business and other loans to its related parties. Interest earned on these loans are presented as part of Interest Income under Revenues in the consolidated statements of income while outstanding balance are shown as Finance Receivables under Trade and Other Receivables account in the consolidated statements of financial position.

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. Outstanding balances arising from these transactions are presented as Advances to and from Related Parties accounts in the consolidated statements of financial position.

Solid Video Corporation (SVC) earns commission from sales of Solid Trading Limited (STL), a company owned by the company's majority stockholders, to customers in the Philippines. Commission revenue are presented as part of Rendering of Services account in the consolidated income statements. SVC also advances funds to STL to pay foreign suppliers. The outstanding balance of these transaction are included as part of Advances to Related Parties in the consolidated statements of financial position.

My Solid Technologies & Devices Corporation (My Solid) and Solid Broadband Corporation (SBC) purchases mobile phone from Solid Company Limited (Hongkong), a related party owned by the Company's majority stockholders. Total purchases are presented as part of Cost of Sales in the consolidate statements of income. There are no outstanding liabilities relating to these purchases.

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. The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account.

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.

**Compensation of Directors and Executive Officer**

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 Emeritus and each of the Company's four most highly compensated executive officers.

**SUMMARY COMPENSATION TABLE**

| | | Annual Compensation | | |
|---|---|---|---|---|
| (a) | (b) | (c) | (d) | (e) |
| Name and Principal Position | Year | Salary (₱) | Bonus (₱) | Other Annual Compensation Income (₱) |
| Chairman and four most | 2011 (Est.) | 15,300,000 | 900,000 | 1,100,000 |

| | | | | |
|---|---|---|---|---|
| highly compensated | 2010 | 13,880,000 | 797,500 | 938,314 |
| executive officers | 2009 | 13,100,000 | 725,000 | 1,035,804 |
| | | | | |
| 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 | | | |
| Lita L. Joaquin | VP and Treasurer | | | |
| | | | | |
| All officers and directors | 2011 (Est.) | 1,900,000 | 180,000 | 1,850,000 |
| as a group unnamed | 2010 | 1,720,000 | 145,583 | 1,669,444 |
| | 2009 | 2,783,196 | 233,183 | 2,430,202 |

No action will be taken during the meeting with regard to any bonus, profit sharing, pension or retirement plan, options, warrants or right to purchase securities.

Matters of compensation of directors and executive officers are reviewed by the Company's Compensation Committee. The members of the Compensation Committee are the following:

Chairman: David S. Lim
Vice Chairman: Vincent S. Lim
Members: Luis Ma. L. Zabaljauregui (Ind. Director)
Susan L. Tan

**Standard Arrangements, Employment Contracts and Termination of Employment and Change-in-Control Arrangements.**

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, except that directors receive a per diem of Php 25,000 for each meeting actually attended.

There is also no existing plan or arrangement as a result of the resignation, retirement or any other termination of an executive officer or director's employment with the Registrant and its subsidiaries or from a change-in-control of the Registrant or a change in the executive officer or directors' responsibilities following a change-in-control.

**Warrants and Options Outstanding; Repricing**

The Company has no outstanding warrants and options.

**Independent Public Accountants**

The independent public accountant recommended for re-appointment for the current year is Punongbayan & Araullo ("P&A"). P&A was the auditor for the previous fiscal year ended 2010. There were no disagreements with P&A on any matter of accounting principle or practice, or financial disclosure.

Representatives of P&A shall be present at the meeting, will have the opportunity to make a statement if they choose to do so, and will be available to respond to appropriate questions.

The 2010 audit of the Company by P&A is in compliance with SRC Rule 68(3)(b)(iv) which provides that the audit partner-in-charge of the external auditor should be rotated every five (5) years or earlier.

The annual audited financial statements are approved by the Company's Audit Committee consisting of the following members:

| | |
|---|---|
| Chairman: | Luis Ma. L. Zabaljauregui (Independent Director) |
| Vice Chairman: | Vincent S. Lim |
| Members: | Susan L. Tan |
| | Quintin Chua (Independent Director) |

## D. OTHER MATTERS

**Action with Respect to Reports:**

The 2010 Audited Financial Statements, as set forth in the accompanying Management Report, and the Minutes of the Annual Stockholders' Meeting will be submitted for stockholder's approval. Copies of the Management Report are attached to this Information Statement.

Approval of the Minutes of the Annual Stockholders' Meeting held on July 30, 2009 constitutes a ratification of the accuracy and faithfulness of the Minutes to the events which transpired during the meeting which includes the following: (i) approval of minutes of the previous meeting ; (ii) approval of the annual report and 2009 audited financial statements; (iii) ratification of management's acts; (iv) election of directors; and (v) appointment of external auditors. This does not constitute a second approval of the same matters taken up at the previous annual stockholders' meeting which had already been approved.

The acts and resolutions of the Board and Management for ratification by the stockholders include the following: election of directors and officers; approval of financial statements; opening and closure of bank accounts; adoption of revised corporate governance manual; undertake the MyHouse business.

**Voting Procedure:**

For the election of directors, the nine (9) nominees receiving the most number of votes will be elected to the Board of Directors. Cumulative voting will apply.

For all other matters to be taken up, the approval of stockholders owning a majority of the outstanding capital stock shall be sufficient.

Voting shall be done *viva voce* or by raising of hands and the votes for or against the matter submitted shall be tallied by the Corporate Secretary in case of a division of the house.

**UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, FREE OF CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.**

ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:

Solid Group, Inc.
Solid House Bldg.
2285 Pasong Tamo Extn.,
Makati City, Metro Manila

Attention: Ms. Meline Corpuz

## SIGNATURES

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in Makati City on July 1, 2011.

Solid Group, Inc.

By:
**Ana Maria A. Katigbak**
Asst. Corporate Secretary

# SOLID GROUP INC.

## MANAGEMENT REPORT
## Pursuant to SRC Rule 20(4)(A)

**For the 2011 Annual Stockholders' Meeting**

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### *A. Audited Financial Statements for Fiscal Year Ended December 31, 2010*

Please refer to the accompanying audited financial statements for 2010 and first quarter report on SEC Form 17Q for the quarter ended March 31, 2011.

### *B. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure*

The Company has no disagreements with the external auditor on accounting and financial disclosure.

On September 30, 2010, the stockholders of the Company reappointed Punongbayan and Araullo (P&A) as its external auditors for the year 2010.

There was no change in our existing auditor for the years 2008 and 2009. The Company is in compliance with the Code of Corporate Governance and SEC Memorandum Circular No. 2, series of 2002 requiring the rotation every five (5) years of the audit partner-in-charge of the external auditor.

### *C. Management's Discussion and Analysis or Plan of Operations.*

### *Full Fiscal Years*

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

(1) Plan of Operation

Not applicable. The Company has 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, and impairment losses 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 2010, 2009 and 2008 are as follows:***

| | December 31, 2010 | Dec. 31, 2009 | Dec. 31, 2008 |
|---|---|---|---|
| Revenue growth | 17% | 44% | 13% |
| Asset turnover | 26% | 24% | 18% |
| Operating expense ratio | 19% | 15% | 20% |
| EBITDA | P495 million | P414 million | P423 million |
| Earnings (loss) per share | P0.13 | P0.12 | P0.15 |
| Current ratio | 2.81:1 | 3.94:1 | 3.33 : 1 |
| Debt to equity ratio | 0.29 :1 | 0.23 : 1 | 0.23: 1 |

**<u>2010</u>**

Revenue improved by 17% in 2010 vs. revenue growth of 44% for the same period in 2009. Revenue improved by 17% in 2010 but not as high as in 2009 mainly due to lower real estate sales offset by higher sales of the trading and broadband segments in 2010.

Asset turnover improved to 26% in 2010 from 24% in 2009 principally from higher revenues of the trading and broadband segments.

Operating expense ratio was higher at 19% in 2010 compared with 15% in 2009 mainly due to higher operating expenses of the trading segment.

EBITDA amounted to P495 million in 2010 against P414 million in 2009. The increase was mainly due to higher operating profit during the year.

Earnings per share amounted to P0.13 in 2010 versus P0.12 in 2009 mainly from higher net income in 2010.

Current ratio stood lower at 2.81 :1 as of December 31, 2010 from 3.94 : 1 as of December 31, 2009 mainly due to higher current liabilities from loans incurred for the Golden Hill Project.

Debt to equity ratio was higher at 0.29 : 1 as of December 31,2010 from 0.23 : 1 as of December 31, 2009 primarily due to higher liabilities.

**2009**

Revenue growth improved to 44% in 2009 vs. 13% in 2008. The improvement was mainly contributed by higher mobile sales of the trading segment, sale of industrial lots of the real estate segment and higher broadband revenues.

Asset turnover was 24% in 2009 compared with 18% in 2008 principally due to higher revenues generated during the year.

Operating expense ratio was 15% in 2009 which improved from last year's 20% mainly due to higher revenues as explained above.

EBITDA amounted to P414 million in 2009 against P423 million in 2008. The decrease was mainly due to finance costs from losses on sale of financial assets by Brilliant Reach Limited offset by higher operating profits of the trading and broadband segments.

Earnings per share amounted to P0.12 in 2009 versus P0.15 in 2008 mainly from lower net income for the year.

Current ratio stood at 3.94 : 1 as of December 31, 2009 and 3.33 : 1 as of December 31, 2008 mainly due to higher current assets.

Debt to equity ratio was 0.23 : 1 as of December 31, 2009 and 2008 .

**2008**

The Company posted revenue decline of 13% in 2008 vs. 23% growth in 2007 principally due to lower revenues from broadband services of the broadband segment .

Asset turnover grew to 18% in 2008 from 17% in 2007 mainly from higher revenues as explained above.

Operating expense ratio went down to 20% in 2008 from 21% in 2007 due to improved revenues as explained above and effective control of expenses which increased only by 13% or a little over one-half of the increase in revenues..

EBITDA reached P423 million in 2008 from P155 million in 2007. The increase was mainly attributed to higher operating profit as explained above and fair value gains on investment property of the real estate segment.

Earnings per share reached P0.15 in 2008 compared with loss per share of P0.01 in 2007 mainly due to improved net income in 2008 principally from higher revenues and fair value gains on investment property as explained above.

Current ratio declined to 3.33 : 1 as of December 31, 2008 vs. 3.47:1 as of December 31, 2007 primarily from lower current assets of the investing, financing and other business segment as certain investments in foreign currency denominated bonds were classified as non-current assets in 2008.

**Debt to equity ratio was slightly lower at 0.23 : 1 as of December 31, 2008 from 0.24 : 1 as of December 31, 2007.**

**Results of Operations**

**2010**

Revenues reached P2,709 million in 2010, or higher by 17% from P2,323 million in 2009 as discussed below.

Sale of goods amounted to P1,622 million in 2010, improving by 44 % from P1,124 million in 2009 mainly due higher volume of sales of the digital products.

Service revenue amounted to P694 million in 2010, up by 10% from P630 million in 2009 principally higher broadband revenues as a result of increase in subscribers in 2010.

Sale of real estate amounted to P207 million in 2010, or lower by 43% from P360 million in 2009. This was principally due the lower sale of industrial lots for the period.

Rental income amounted to P121 million in 2010 or slightly higher by 8% from P112 million in 2009 principally due to more space rented out.

Interest income amounted to P63 million in 2010, or down by 34% from P95 million in 2009 mainly from lower yield of the placements and also in 2009, the Company earned interest income from the amortization of discounts on held to maturity financial assets versus none in 2010 as a result of the reclassification of these financial assets to available for sale.

Cost of sales, services and rentals amounted to P1,875 million in 2010, or higher by 15% from P1,624 million in 2009 as discussed below.

Cost of sales went up to P1,225 million in 2010, or higher by 44%, from P849 million in 2009 in relation to the increase in sales.

Cost of services amounted to P460 million in 2010 or almost the same level as last year of P458 million in 2009.

Cost of real estate sold amounted to P151 million in 2010, or a decrease of 46% from P282 million in 2009. The decrease was mainly in relation to lower sale of real estate.

Cost of rentals amounted to P38 million in 2010 from P33 million in 2009, or an increase of 15%. The increase was principally due to higher outside services

Gross profit amounted to P834 million in 2010 from P699 million in 2009, up by 19% principally due to higher revenues and higher gross margin of the broadband segment.

Other operating expenses (income) amounted to P421 million in 2010 against P325 million in 2009 as explained below.

General and administrative expenses amounted to P281 million in 2010, or up by 12% from P250 million in 2009 principally due to higher provision for warranty and others.

Selling and distribution costs amounted to P227 million in 2010, up by 134% from P97 million in 2009 mainly from higher commissions, personnel and advertising costs .

Other operating income amounted to P87 million in 2010, increasing by 283% compared with P22 million gains in 2009. This was primarily due to higher fair value gains on investment property and return on retirement plan assets in 2010

Operating profit amounted to P412 million in 2010 from P374 million in 2009, or a increase of 10%, mainly from higher gross profit.

Other income (charges) amounted to P46 million loss in 2010 against P82 million loss in 2009 mainly from the following:

Finance costs amounted to P88 million in 2010, decreasing by 26% against P118 million in 2009 mainly due to the losses on the sale of foreign currency denominated financial assets in 2009, none in 2010. Impairment losses on financial assets was however incurred in 2010.

Finance income amounted to P38 million in 2010, up by 12% compared with P34 million in 2009 mainly due to the reversal of impairment losses on trade and other receivables.

Other gains amounted to P2.7 million in 2010 versus P1.6 million in 2009 principally due to income from common usage area.

Income before tax reached P366 million in 2010, or higher by 25% from P292 million in 2009 mainly due to higher operating profit as explained above.

Tax expense amounted to P122 million in 2010 from P63 million in 2009 principally due to higher pre-tax income of certain subsidiaries.

Profit from continuing operations amounted to P243 million in 2010 from P228 million in 2009 as a result of the higher profit in 2010.

Loss from discontinued operations amounted to P17 million in 2010 vs. P2 million in 2009. In 2009, the Company started phasing out its plastic injection manufacturing business which had been incurring operating losses.

Net income amounted to P226 million in 2010 and 2009 despite higher revenues in 2010 mainly due to higher tax expense in 2010.

Net income attributable to equity holders of the parent amounted to P229 million in 2010 against P203 million in in 2009 as discussed above.

Net income attributable to minority interest amounted to P2.6 million in 2010 compared with P23 million income in 2009 due to higher earnings of the industrial estate business of the Company in 2009 .

**2009**

Revenues reached P2,323 million in 2009, achieving growth of 44% from P1,608 million in 2008 as discussed below.

Sale of goods reached P1,124 million in 2009, posting growth of 49% from P754 in 2008 mainly due higher volume of sales of the digital products.

Service revenue amounted to P630 million in 2009, up by 7% against P589 million in 2008, mainly due to improved broadband revenues.

Sale of real estate amounted to P360 million in 2009, improving by 1,078% from P30 million in 2008. This was principally due the sale of industrial lots.

Rental income amounted to P112 million in 2009 or lower by 17% from P136 million in 2008 primarily due to reduction in rates.

Interest income amounted to P95 million in 2009, or lower by 2% from P97 million in 2008 mainly due to lower interest from business loans.

Cost of sales, services and rentals amounted to P1,624 million in 2009, or an increase of 46% from P1,111 million in 2008 as discussed below.

Cost of sales amounted to P849 million in 2009, was higher by 38%, from P616 million in 2008 is mainly in relation to higher sales.

Cost of services was higher by 5% at P458 million in 2009 from P435 million for the same period of 2008 principally in relation to increase in service revenues.

Cost of real estate sold amounted to P282 million in 2009, or up by 1,159% from P22 million in 2008. The increase was mainly in relation to higher sale of land.

Cost of rentals amounted to P33 million in 2009, or lower by 7% from P36 million in 2008 primarily from lower taxes and licenses and utilities.

Gross profit went up to P699 million in 2009 from P497 million in 2008, improving by 41% due to improved margins from the sale of digital products.

Other operating expenses (income) amounted to P325 million in 2009 against P229 million in 2008 as explained below.

General and administrative expenses amounted to P250 million in 2009, or slightly lower by 3% from P258 million in 2008.

Selling and distribution costs amounted to P97 million in 2009, up by 38% from P70 million in 2008 mainly from higher advertising and warranty expenses.

Other operating income –net amounted to P22 million in 2009 compared with P98 million in 2008 or lower by 77% principally from lower fair value gains on investment property.

Operating profit amounted to P374 million in 2009 from P267 million in 2008, or higher by 40%, mainly from higher gross profit as explained above.

Other income (charges) amounted to P82 million loss in 2009 against P38 million income in 2008 mainly from the following:

Finance income amounted to P34 million in 2009, down by 52% compared with P72 million in 2008 primarily due to decrease in foreign currency gains.

Finance costs amounted to P118 million in 2009, increasing by 196% against P40 million in 2008 mainly due to loss on sale of investments offset by lower interest expenses.

Income before tax was lower at P292 million in 2009 from P305 million in 2008 mainly due to the higher finance costs as explained above.

Tax expense amounted to P63 million in 2009 from P5 million in 2008 due to higher taxable income of certain subsidiaries.

Net income from continuing operations amounted to P228 million in 2009 against P300 million in 2008 due to the higher tax expense as discussed above.

Loss from discontinued operations – net of tax amounted to P2 million in 2009 from P31 million in 2008.

Net income amounted to P226 million in 2009 against P268 million in 2008 due to the higher tax expense as discussed above.

Net income attributable to equity holders of the parent amounted to P203 million in 2009 against P268 million in 2008 as discussed above.

Net income attributable to non-controlling interest amounted to P23 million in 2009 compared with P406 thousand in 2008 due to earnings of the industrial estate business of the Company.

**2008**

**Results of Operations**

The Company posted revenues of P1,608 million in 2008, achieving growth of 13% from P1,425 million in 2007 as discussed below.

Service revenue amounted to P589 million in 2008, or lower by 6% against P625 million for the in 2007, mainly due to revenue earned for services rendered for the ASEAN Summit in 2007, partly offset by higher broadband revenues for the current period.

Sale of goods reached P754 million in 2008, posting growth of 59% from P474 million in 2007 mainly due to mobile phone sales.

Rental income amounted to P136 million for the first nine months of 2008, higher by 15% from P117 million for the same period in 2007 primarily from higher occupancy.

Sale of land amounted to P30 million in 2008, down by 70% from P102 million in 2007. The decline was principally because of zero sales of industrial lots for the period.

Interest income amounted to P97 million in 2008, or a decline of 8% from P105 million in 2007 mainly from lower investible funds and lower average dollar conversion rate for the year.

Cost of sales, services and rentals amounted to P1,111 million in 2008, or higher by 13% from P983 million in 2007 as discussed below.

Cost of services reached P435 million in 2008, or a decrease of 10% from P482 million in 2007, principally in relation to the decline in service revenues.

Cost of sales amounted to P616 million in 2008, or higher by 53% from P403 million in 2007 mainly in relation to higher sales for the period.

Cost of rentals amounted to P36 million in 2008, or up by 1% from P35 million in 2007 primarily in relation of higher rental income.

Cost of land amounted to P22 million in 2008, or a down by 64% from P61 million in 2007. The decrease was mainly in relation to the decline in sale of land.

Gross profit improved by 12% to P497 million in 2008 compared with P442 million in 2007 due to higher volume from mobile phone sales.

Other operating expenses (income) amounted to P229 million in 2008 against P279 million in 2007 as explained below.

General and administrative expenses amounted to P258 million in 2008, lower by 5% from P271 million in 2007.

Selling and distribution costs amounted to P70 million in 2008, up by 129% from P30 million in 2007 mainly from higher advertising charges for the mobile phone and digital devices businesses.

Other operating income amounted to P98 million in 2008 compared with P23 million in 2007, or an increase of 324% principally due to fair value gains on investment property.

Operating profit amounted to P267 million in 2008 compared with P162 million in 2007 mainly from higher gross profit and other operating income as explained above.

Other income (charges) amounted to P38 million in 2008 against P127 million loss in 2007 mainly from the following:

Finance income amounted to P72 million in 2008, up by 120% compared with P33 million for the same period of last year primarily due to higher foreign currency gains.

Finance costs went down to P40 million in 2008, down by 76% against P165 million in 2007 mainly from lower interest rates in 2008 and also due foreign currency losses incurred last year.

Income before tax reached P305 million in 2008, improving from P35 million in 2007 mainly due to higher operating profit and other income as explained above.

Tax expense amounted to P5 million in 2008 from P61 million in 2007 or lower by 91% due to lower deferred tax expense resulting from decrease in regular income tax rate to 30%.

Net income amounted to P268 million in 2008 against P25 million loss in 2007 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P268 million in 2008 against P26 million loss in 2007 as discussed above.

Net income attributable to minority interest amounted to P406 thousand in 2008 compared with P750 thousand in 2007 due to share in net losses incurred by the China real estate project of the Company.

Earnings per share amounted to P0.15 in 2008 versus P0.01 loss in 2007 mainly from higher income for the period.

**Financial Position**

**2010**

Cash and cash equivalents amounted to P 1,620 million as of December 31, 2010, up by 28% from P1,263 million as of December 31, 2009. Cash was provided from financing activities mainly from proceeds of loans and used for operating activities for increase in receivables and inventories. It was also used for investing activities for acquisition of property and equipment.

Trade and other receivables reached P890 million as of December 31, 2010 against P501 million as of December 31, 2009, or higher by 78% principally due to higher receivable for digital products. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

Available-for-sale financial assets stood at P138 million as of December 31, 2010, lower by 55% from P305 million as of December 31, 2009, mainly from disposal of financial assets.

Merchandise inventories and supplies - net amounted to P392 million as of December 31, 2010, increasing by 371% compared with P83 million as of December 31, 2009 mainly from higher merchandise and finished goods for digital products.

Real estate inventories amounted to P1,328 million as of December 31, 2010 from P1,046 million as of December 31, 2009 or higher by 27%. The increase was mainly due to additions made during the period offset by real estate sold.

Advances to related parties amounted to P201 million as of December 31, 2010 from P504 million as of December 31, 2009 or lower by 60%. Certain advances as at December 31, 2009 were mainly provided to MyTel Mobility Solutions Inc. (MyTel) for working capital purposes. The acquisition of MyTel was consummated in January 2010. The said advances were included and eliminated in the consolidated financial statements in 2010.

Other current assets amounted to P242 million as of December 31, 2010, lower by 19% compared with P299 million as of December 31, 2009 principally from lower advances to suppliers and contractors.

Total current assets amounted to P4,813 million as of December 31, 2010 from P4,003 million as of December 31, 2009 as discussed above.

Non-current trade and other receivable amounted to P640 million as of December 31, 2010 from P679 million as of December 31, 2009 or lower by 6% mainly from lower non-current trade receivables on real estate sales and finance receivables .

Non-current available-for-sale financial assets stood at P12 million as of December 31, 2010 against P8 million as of December 31, 2009 or an increase of 51% mainly from club shares.

Property, plant and equipment amounted to P1,396 million as of December 31, 2010 from P1,397 million as of December 31, 2008 or almost the same level.

Investment property amounted to P3,646 million as of December 31, 2010 from P3,617 million as of December 31, 2009 or almost the same level.

Retirement benefit assets amounted to P74 million as of December 31, 2010 or higher by 63% from P45 million December 31, 2009 mainly from contributions made during the year and lower unrecognized actuarial gains.

Deferred tax assets - net amounted to P32 million as of December 31, 2010, higher by 20% from P27 million as of December 31, 2009 principally due to tax assets from temporary differences.

Other non-current assets amounted to P24 million as of December 31, 2010 and December 31, 2009 or almost the same level.

Total non-current assets amounted to P5,828 million as of December 31, 2010 from P5,801 million as of December 31, 2009 as discussed above.

Non-current assets held for sale stood at none as December 31, 2010 from P12 million as of end of 2009 mainly due to sale of equipment.

Total assets reached P10,642 million as of December 31, 2010 from P9,817 million as of the December 31, 2009 as discussed above.

Interest-bearing loans amounted to P989 million as of December 31, 2010, higher by 136% from P419 million as of December 31, 2009 principally due to additional loan availments for the Golden Hill Project in China offset by payment of some loans.

Trade and other payables amounted to P442 million as of December 31, 2010 against P322 million as of December 31, 2009, up by 37% primarily due to higher trade and accrued expenses, refundable deposits, advances from customers.

Advances from related parties amounted to P168 million as of December 31, 2010, down by 16% from P201 million as of December 31, 2009 due to payments made.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2010 and December 31, 2009. There was no movement for this account.

Income tax payable amounted to P44 million as of December 31, 2010 from P4 million as of December 31, 2009 mainly from due to higher provision for income tax.

Total current liabilities stood at P1,713 million as of December 31, 2010, higher by 69% from P1,016 million as of December 31, 2009 as explained above mainly due to higher interest bearing loans and trade and other payables.

Non-current interest bearing loans amounted to none as of year-end 2010 from P135 million as of December 31, 2009 principally due to reclassification of non-current loans to current for financial statement presentation since Fil-Dragon was not able to comply with the debt to equity ratio covenant.

Non-current refundable deposits amounted to P15 million as of December 31, 2010, higher by 37% from P11 million as of December 31, 2009 mainly from additional deposits received.

Retirement benefit obligation amounted to P3 million as of December 31, 2010 , up by 110% from P1 million as of December 31, 2009 mainly from higher present value of obligation.

Deferred tax liabilities -net amounted to P798 million as of December 31, 2010 from P825 million as of December 31, 2009 from lower accumulated fair value gains as of year-end.

Total non-current liabilities amounted to P817 million as of December 31, 2010 from P973 million as of December 31, 2009.

Capital stock stood at P2,030 million as of December 31, 2010 and December 31, 2009.

Additional paid-in capital amounted to P4,641 million as of December 31, 2010 and December 31, 2009.

Treasury shares amounted to P115 million as of December 31, 2010 and December 31, 2009.

Revaluation reserves amounted to P43 million loss as of December 31, 2010 from P101 million loss as of December 31, 2009 due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale financial assets and reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P1,183 million as of December 31, 2010 from P954 million as of December 31, 2009 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P7,697 million as of December 31, 2010 from P7,409 million as of December 31, 2009 due to higher retained earnings.

Minority interest amounted to P414 million as of December 31, 2010 from P417 million in December 31, 2009 primarily from share of minority in net income.

**<u>2009</u>**

Cash and cash equivalents amounted to P 1,263 million as of December 31, 2009, up by 13% from P1,118 million as of December 31, 2008. Cash was mainly provided by operating activities primarily from decrease in merchandise inventories and supplies and by financing activities mainly from proceeds on loans.

Trade and other receivables reached P501 million as of December 31, 2009 against P313 million as of December 31, 2008, increasing by 60% mainly from increase in 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.

Available-for-sale financial assets amounted to P305 million as of December 31, 2009 from P63 million as of December 31, 2008, or higher by 381%. The increase was principally due to additions and reclassifications of certain held-to-maturity investments to available-for-sale financial assets in 2009.

Merchandise inventories and supplies - net amounted to P83 million as of December 31, 2009, down by 62% compared with P219 million as of December 31, 2008 mainly from lower merchandise and finished goods.

Real estate inventories amounted to P1,046 million as of December 31, 2009, or an increase of 1% from P1,036 million as of December 31, 2008. There was no material variance for this account.

Advances to related parties amounted to P504 million as of December 31, 2009 from P192 million as of December 31, 2008. The increase of 162% was mainly due to additional advances.

Other current assets amounted to P299 million as of December 31, 2009, lower by 21% compared with P376 million as of December 31, 2008 principally from decrease in advances to suppliers and contractors.

Total current assets amounted to P4,003 million as of December 31, 2009 from P3,319 million as of December 31, 2008 as discussed above.

Non-current trade and other receivable amounted to P679 million as of December 31, 2009, increasing by 2% from P666 million as of December 31, 2008. There was no material variance for this account.

Non-current available-for-sale financial assets stood at P8 million as of December 31, 2009 against P7 million as of December 31, 2008 or an increase of 7% mainly from higher club shares.

There was no non-current held-to-maturity investments as of end of 2009 against P161 million as of end of 2008 principally due to disposal of financial assets and reclassification to available-for-sale financial assets.

Property, plant and equipment amounted to P1,397 million as of December 31, 2009 or lower by 3% from P1,438 million as of December 31, 2008. There was no material variance for this account.

Investment property amounted to P3,617 million as of December 31, 2009 from P3,631 as of December 31, 2008. There was no material variance for this account.

Retirement benefit assets amounted to P45 million as of December 31, 2009 from P36 million as of December 31, 2008. The increase was primarily due to contributions for the year.

Deferred tax assets - net amounted to P27 million as of December 31, 2009 from P26 million and December 31, 2008. There was no material variance for this account.

Other non-current assets amounted to P24 million as of December 31, 2009, down by 11% from P28 million December 31, 2008 mainly from lower prepaid expenses and refundable deposits.

Total non-current assets amounted to P5,801 million as of December 31, 2009 from P5,997 million as of December 31, 2008 as discussed above.

Non-current assets held for sale amounted to P12 million as of December 31, 2009 vs. none in 2008 mainly as a result of reclassification of certain property, plant and equipment of Solid Laguna Corpoation.

**Total assets reached P9,817 million as of December 31, 2009 from P9,317 million as of the December 31, 2008 as discussed above.**

Interest-bearing loans amounted to P419 million as of December 31, 2009, down by 9% from P458 million as of December 31, 2008 mainly due to payments during the period.

Trade and other payables amounted to P322 million as of December 31, 2009 against P352 million as of December 31, 2008, lower by 9% primarily due to decrease in refundable deposits and other payable offset by higher accrued expenses.

Advances from related parties amounted to P201 million as of December 31, 2009 from P111 million as of December 31, 2008. The increase was due to advances availed during the period.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2009 and December 31, 2008. There was no movement for this account.

Income tax payable amounted to P4 million as of December 31, 2009 from P6 million as of December 31, 2008 mainly from payments made.

Total current liabilities stood at P1,016 million as of December 31, 2009, higher by 2% from P998 million as of December 31, 2008 as explained above mainly due to higher advances from related parties.

Non-current interest-bearing loans amounted to P135 million as of December 31, 2009 vs. none in 2008 mainly due to availment of loan.

Non-current refundable deposits amounted to P11 million as of December 31, 2009 from P9 million as of December 31, 2008. The increase was mainly due to additional deposits during the year.

Retirement benefit obligation amounted to P1 million as of December 31, 2009 from P7 million as of December 31, 2008 mainly due to payments made.

Deferred tax liabilities -net amounted to P825 million as of December 31, 2009 from P812 million as of December 31, 2008. The increase was principally in relation to additional fair value gains.

Total non-current liabilities amounted to P973 million as of December 31, 2009 from P829 million as of December 31, 2008.

Capital stock stood at P2,030 million as of  December 31, 2009 and December 31, 2008.

Additional paid-in capital amounted to P4,641 million as of December 31, 2009 and December 31, 2008.

Treasury shares amounted to P115 million as of December 31, 2009 and December 31, 2008.

Revaluation reserves amounted to P101  million loss as of December 31, 2009 from P213 million loss as of December 31, 2008 principally due to fair value gains on available for sale financial assets and reclassification adjustments for other losses, gain on reclassification adjustments of financial assets offset by currency differences on translating financial statements of foreign operations

Retained earnings amounted to P954 million as of  December 31, 2009 from P751 million as of December 31, 2008 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P7,409  million as of December 31, 2009 from P7,095 million as of December 31, 2008 due to higher retained earnings and lower revaluation reserves.

Non-controlling interest amounted to P417 million as of December 31, 2009 from P394 million as of December 31, 2008, or an increase of  6%.  The increase was due to minorityshare in net income during the year.

Total  equity amounted to P7,827 million as of December 31, 2009 from  P7,489 million as of December 31, 2008.

**2008**

The Company reported cash and cash equivalents of P 1,118 million as of December 31, 2008, down by 7% from P1,206 million as of December 31, 2007. Cash was mainly used for operating activities primarily for increase in real estate inventories.

Held-to-maturity investments amounted to none as of December 31, 2008 against P53 million as of end of last year mainly due to maturity of these investments.

Trade and other receivables reached  P313 million as of December 31, 2008 against P428 million as of December 31, 2007, decreasing by 27% mainly from decrease in trade and other receivables.  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 P192 million as of December 31, 2008 from P130 million as of  December 31, 2007 mainly from additional advances.

Available-for-sale financial assets amounted to P63 million as of December 31, 2008, down by 84% from P388 million as of December 31, 2007 mainly due to reclassification of certain bonds to held to maturity investments.

Merchandise inventories and supplies - net amounted to P219 million was higher by 25% as of December 31, 2008 compared with P175 million as of December 31, 2007 principally due to higher merchandise and finished goods.

Real estate inventories amounted to P1,036 million as of December 31, 2008, up by 12% from P925 million as of December 31, 2007, primarily from additional cost on property development.

Other current assets amounted to P376 million as of December 31, 2008, increasing by 113% compared with P176 million as of December 31, 2007 principally from creditable withholding taxes.

Total current assets amounted to P3,319million as of December 31, 2008 from P3,484 million as of December 31, 2007 as discussed above.

Non-current trade and other receivable amounted to P666 million as of December 31, 2008, up by 38% from P482 million as of December 31, 2007 mainly from higher cash surrender value of life insurance policy.

Non-current available-for-sale financial assets stood at P7 million as of December 31, 2008 and December 31, 2007. There was no material change for this account.

Non-current held-to-maturity investments amounted to P161 million as of December 31, 2008 versus none as of end of last year. The account represented investments in foreign currency denominated bonds which was reclassified as held to maturity in 2008.

Property, plant and equipment amounted to P1,438 million as of December 31, 2008 or lower by 1% from P1,455 million as of December 31, 2007. There was no material variance for this account.

Investment property amounted to P3,631 million as of December 31, 2008 against P3,493 million as of December 31, 2007 or higher by 4% principally due to fair value gains from appraisal of investment property.

Retirement benefit assets amounted to P36 million as of December 31, 2008 and P42 million as of December 31, 2007 or an decrease of 13% from implementation of limit on retirement assets.

Deferred tax assets - net amounted to P26 million as of December 31, 2008 from P13 million as of December 31, 2007. The increase was mainly due to tax assets from temporary differences.

Other non-current assets amounted to P28 million as of December 31, 2008, or down by 8% from P30 million as of December 31, 2007 mainly from lower prepaid expenses.

Total non-current assets amounted to P5,997 million as of December 31, 2008 from P5,524 million as of December 31, 2007 as discussed above.

**Total assets reached P9,317 million as of December 31, 2008 from P9,009 million as of the December 31, 2007 as discussed above.**

Interest-bearing loans amounted to P458 million as of December 31, 2008, higher by 12% from P409 million as of December 31, 2007 mainly from higher US dollar conversion rate as of end of the period.

Trade and other payables amounted to P352 million as of December 31, 2008 against P370 million as of December 31, 2007, down by 5% primarily due to lower trade payables and accrued expenses offset by higher refundable deposits.

Advances from related parties amounted to P111 million as of December 31, 2008 from P179 million as of December 31, 2007 mainly from payments of advances.

Estimated liability for land and land development costs amounted to P68 million as of December 31, 2008 compared with P36 million as of December 31, 2007, or higher by 85% primarily due to recognition of additional project development costs.

Income tax payable amounted to P6 million as of December 31, 2008 from P7 million as of December 31, 2007 mainly from lower tax expense.

Total current liabilities stood at P998 million as of December 31, 2008 from P1,004 million as of December 31, 2007 as explained above.

Non-current refundable deposits amounted to P9 million as of December 31, 2008 from P8 million as of December 31, 2007, up by 15% from additional deposits received.

Retirement benefit obligation amounted to P7 million as of December 31, 2008 from P3 million as of December 31, 2007 from higher present value of plan obligation.

Deferred tax liabilities -net amounted to P812 million as of December 31, 2008 from P867 million as of December 31, 2007 or lower by 6%. The decrease was principally in relation to lower fair value gains.

Total non-current liabilities amounted to P829 million as of December 31, 2008 from P879 million as of December 31, 2007.

Capital stock stood at P2,030 million as of December 31, 2008 and December 31, 2007.

Additional paid-in capital amounted to P4,641 million as of December 31, 2008 and December 31, 2007.

Treasury shares amounted to P115 million as of December 31, 2008 and December 31, 2007.

Revaluation reserves amounted to P213 million loss as of December 31, 2008 from P210 million loss as of December 31, 2007. There was no material variance for this account.

Retained earnings amounted to P751 million as of December 31, 2008 from P524 million as of December 31, 2007 as a result of net income for the year.

Total equity attributable to Equity holders of Parent amounted to P7,095 million as of December 31, 2008 from P6,870 million as of December 31, 2007 due to higher retained earnings.

Minority interest amounted to P394 million as of December 31, 2008 from P254 million as of December 31, 2007, or an increase of 55% principally from additional issuance of shares of a subsidiary.

Total equity amounted to P7,489 million as of December 31, 2008 from P7,125 million as of December 31, 2007.

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

For the years ended December 31, 2010, 2009 and 2008, the Company has consistently maintained 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. It increased its total assets to P10.64 billion in 2010 from P9.82 billion in 2009 and P9.32 billion in 2008. It increased its equity to P8.11 billion in 2010, P7.83 billion in 2009 and P7.49 billion in 2008. It has maintained a low debt to equity ratio of 0.29:1 in 2010, 0.23 : 1 in 2009 and 2008 and even a lower gearing percentage (computed as net financial debt divided by total equity) of 12% in 2010, 7% in 2009 and 6% in 2008) resulting from minimal financial borrowings thereby reducing its credit risk (the risk of default in payment of loans) to minimal level. Additionally, the company kept significant amounts of cash and cash equivalents and short-term cash investments 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 2.81:1 in 2010, 3.94 : 1 in 2009 (from 3.33 : 1 in 2008).

The Company will continue to 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 results of operations of the Group for the year ended December 31, 2010 was a net income of P226.70 million from P226.28 Million in 2009 and P268.71 Million in 2008. Despite higher revenues in 2010, net income remained flat mainly due to higher tax expense in 2010. (Meanwhile, net income in 2009 was lower because the Company reported higher fair value gains in 2009.) Improvement in profitability was posted by the broadband segment in 2010 driven by subscriber growth. (In 2009, profitability was driven by trading and broadband segments).

The Group expects its consolidated operations to continue to be profitable in the future as robust growth is forecasted in its trading business segment as new products and models are introduced and as brand equity continues to grow. This strategic direction is consistent with the company's conscious effort to continue leveraging on its historical core competence in consumer electronics and similar products. The promising results shown by this business segment is a confirmation that the company has retained its long-established business strengths in sourcing, production, marketing, and distribution. Moreover, 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 construction of Tower 2 of the condominium project will start in 2011. Property development project studies of significant properties in the Philippines are being undertaken so that these properties would eventually be converted into higher-value assets to benefit the company's shareholders. Also, the revenue from Broadband business segment is expected to grow at least by 10% annually from Internet subscriptions and data services, and from transport fees.

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.

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

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

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

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

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

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

In 2009, the Company started phasing out its plastic injection manufacturing business. SLC ceased the operations of the plastic injection manufacturing business at the end of 2009. Also, Kita ceased the operations of its injected plastics manufacturing business in December 2010. As a result, the Company reported loss from discontinued operations of P17 million, P2.7 million and P31 million in 2010, 2009 and 2008, respectively.

vii. Causes for any Material Changes from Period to Period

In 2008, the Company's board of directors approved the change in accounting policy for investment property from the cost model to the fair value model in order to present reliable and more relevant information on the carrying amounts of investment property. As a result, the carrying values of investment property increased by P1.8 billion as of January 1, 2008. The retained earnings balance as of January 1, 2008 also increased by P888 million. The Company also reported fair value gains on investment property of 61 million in 2008.

**Balance Sheet Items (2010 vs. 2009)**

The discussion of material changes of the balance sheet accounts was included in the management discussion and analysis.

**Balance Sheet Items (2009 vs. 2008)**
(Increase or decrease of 5% or more in the financial statements)

*Cash and cash equivalents – 13% increase to P1,263 million from P1,118 million*
Mainly provided by operating activities primarily from decrease in merchandise inventories and supplies and by financing activities mainly from proceeds on loans. This account stood at 13% and 12% as a percentage of total assets in 2009 and 2008, respectively.

*Trade and other receivables – 60% increase to P501 million from P313 million*
Mainly from increase in trade receivables on digital products. This account stood at 5% and 3% as a percentage of total assets in 2009 and 2008, respectively.

*Available-for-sale financial assets – 381% increase to P305 million from P63 million*
The increase was principally due to additions and reclassifications of certain held-to-maturity investments to available-for-sale financial assets in 2009. This account stood at 3% and 1% as a percentage of total assets in 2009 and 2008, respectively.

*Held-to-maturity investments – no balances in 2009 and 2008*

*Merchandise inventories and supplies – 62% decrease to P83 million from P219 million*
Mainly from lower merchandise and finished goods. This account represented 1% and 2% as a percentage of total assets in 2009 and 2008, respectively.

*Real estate inventories – 1% increase to P1,046 million from P1,036 million*
There was no material variance for this account. This account stood at 11% as a percentage of total assets for both years.

*Advances to related parties- 162% increase in 2009 to P504 million from P192 million*
Mainly from additional advances. This account stood at 5% and 2% as a percentage of total assets in 2009 and 2008, respectively.

*Other current assets – 21% decrease in 2009 to P299 million from P376 million*
Principally from decrease in advances to suppliers and contractors. This account stood at 3% and 4% as a percentage of total assets in 2009 and 2008, respectively.

*Non-current trade and other receivables – amounted to P679 million as of December 31, 2009, increasing by 2% from P666 million as of December 31, 2008.*
There was no material variance for this account. This account remained at 7% as a percentage of total assets for both years.

*Non-current available-for-sale financial assets – 7% increase in 2009 to P8 million from P7 million*
Mainly from higher club shares. This account stood at 0.08% as a percentage of total assets for 2009 and 2008.

*Non-current held-to-maturity investments – 100% decrease to none from P161 million*
There was no non-current held-to-maturity investments as of end of 2009 against P161 million as of end of 2008 principally due to disposal of financial assets and reclassification to available-for-sale financial assets. This account stood at 2% of total assets in 2008.

*Property, plant and equipment – 3% decrease to P1,397 million from P1,438 million*
There was no material variance for the account. This represented 14% and 15% as a percentage of total assets in 2009 and 2008.

*Investment property – P3,617 million from P3,631 million*
There was no material variance for this account. This account stood at 37% and 39% as a percentage of total assets in 2009 and 2008, respectively.

*Retirement benefit assets -25% increase to P45 million from P36 million*
Increase was primarily due to contributions for the year. This represented 0.46% and 0.39% of total assets for both years.

*Deferred tax assets –net - 2% increase to P27 million from P26 million*
There is no material variance for this account.. This account stood at 0.27% and 0.28% of total assets in 2009 and 2008 respectively.

*Other non-current assets – 11% decrease to P24 million from P28 million*
Mainly from lower prepaid expenses and refundable deposits. This represented 0.25% and 0.30% as percentage to total assets in 2009 and 2008 respectively.

Non-current assets held for sale amounted to P12 million as of December 31, 2009 vs. none in 2008 mainly as a result of reclassification of certain property, plant and equipment of Solid Laguna Corporation.

*Interest-bearing loans – 9% decrease to P419 million from P458 million*
Mainly due to payments during the period. This account stood at 4% and 5% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

*Trade and other payable – 9% decrease to P322 million from P352 million*
Due to decrease in refundable deposits and other payable offset by higher accrued expenses. This account stood at 3% and 4% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

*Advances from related parties – 80% increase to P201 million from P111 million*
The increase was due to advances availed during the period. This account stood at 2% and 1% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

*Estimated liability for land and land development costs – no change*
There was no movement during the period. This account represented 1% as a percentage of total liabilities and equity for both years.

*Income tax payable –amounted to P4 million as of December 31, 2009 from P6 million as of December 31, 2008*
Mainly from payments made. This account was pegged at 0.05% and 0.07% of the total liabilities and equity in 2009 and 2008, respectively.

*Non-current interest-bearing loans – 100% increase to P135 million vs. none in 2008*
The increase was mainly due to availment of loan. This accounted for the 1% of the total liabilities and equity in 2009.

*Non-current refundable deposits – 14% increase to P11 million from P9 million*
The increase was mainly due to additional deposits during the year. This represented 0.11% and 0.10% of the total liabilities and equity in 2009 and 2008, respectively.

*Retirement benefit obligation – 80% decrease to P1 million from P7 million*
Mainly due to payments made. This account stood at 0.01% and 0.08% of the total liabilities and equity in 2009 and 2008, respectively.

*Deferred tax liabilities – 2% increase to P825 million from P812 million*
The increase was principally in relation to additional fair value gains. No material variance for this account. This account stood at 8% and 9% as a percentage of total liabilities and equity in 2009 and 2008, respectively.

*Capital stock – no change*
This account stood at 21% and 22% of total liabilities and equity in 2009 and 2008, respectively.

*Additional Paid-In-Capital – no change*
This account represented 47% and 50% of total liabilities and equity in 2009 and 2008, respectively.

*Treasury Shares – no change*
This account represented 1% of total liabilities and equity in both years

*Revaluation reserves – 52% increase to(P101) million from (P213)million*
Principally due to fair value gains on available for sale financial assets and reclassification adjustments for other losses, gain on reclassification adjustments of financial assets offset by

currency differences on translating financial statements of foreign operations. This account stood at 1% and 2% total liabilities and equity in 2009 and 2008, respectively.

*Retained earnings – 27% increase to P954 million from P751 million*
As a result of net income during the period. This account stood at 10% and 8% of total liabilities and equity in 2009 and 2008, respectively.

Balance Sheet Items (2008 vs. 2007)

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

*Cash and cash equivalents – 7% decrease to P1,118 million from P1,206 million*
Mainly used for operating activities primarily for increase in real estate inventories. This account stood at 12% and 13% as a percentage of total assets in 2008 and 2007, respectively.

*Trade and other receivables – 27% decrease to P313 million from P428 million*
Mainly from advances to suppliers for the purchase of inventories decrease in trade and other receivables. This account stood at 3% and 5% as a percentage of total assets in 2008 and 2007, respectively..

*Advances to related parties – 48% increase to P192 million from P130 million*
Mainly from additional advances. This account represented 2% and 1% as a percentage of total assets in 2008 and 2007, respectively.

*Available-for-sale financial assets – 84% decrease to P63 million from P388 million*
Mainly due to reclassification of certain bonds to held to maturity investments. This account represented 1% and 4% as a percentage of total assets in 2008 and 2007, respectively.

*Merchandise inventories and supplies - net – 25% increase to P219 million from P175 million*
Principally due to higher merchandise and finished goods. This account stood at 2% for both years.

*Real estate inventories – 12% increase to P1,036 million from P925 million*
Primarily from additional cost on property development. This represented 11% and 10% as a percentage of total assets in 2008 and 2007, respectively.

*Other current assets – 113% increase to P376 million from P176 million*
Principally from creditable withholding taxes. This account stood at 4% and 2% of total assets in 2008 and 2007, respectively.

**Non-current trade and other receivable – 38% increase to P666 million from P482 million**

Mainly from higher cash surrender value of life insurance policy. This account represented 7% and 5% in 2008 and 2007, respectively.

*Non-current available-for-sale financial assets –no material change*
This account stood at 0.08 % for both years.

*Non-current held-to-maturity investments – 100% increase to P161 million from none*
Due to the reclassification to held to maturity of the investments in foreign currency denominated bonds in 2008. This account represented 2% of total assets in 2008.

***Property, plant and equipment – 1% decrease to P1,438 million from P1,455 million***
There was no material variance for this account. This account stood at 15% and 16% of total assets in 2008 and 2007, respectively.

*Investment property – 4% increase to P3,631 million from P3,493 million*
Principally due to fair value gains from appraisal of investment property. This account stood at 39% as a percentage of total assets for both years.

*Retirement benefit assets – 13% decrease to P36 million from P42 million*
Decrease was mainly from implementation of limit on retirement assets. This account stood at 0.39% and 0.47%% of total assets in 2008 and 2007, respectively.

*Deferred tax assets – 103% increase to P26 million from P13 million*
The increase was mainly due to tax assets from temporary differences.

*Other non-current assets – 8% decrease to P28 million from P30 million*
Primarily from investments made in relation to the acquisition of the China property project. This account represented 0.30% and 0.34% as a percentage of total assets in 2008 and 2007, respectively.

*Interest-bearing loans – 12% increase to P458 million from P409 million*
Mainly from higher US dollar conversion rate as of end of the period. This account remained at 5% for both years.

*Trade and other payables – 5% decrease to P352 million from P370 million*
Primarily due to lower trade payables and accrued expenses offset by higher refundable deposits. This account stood at 4% of total liabilities and stockholders' equity for both years.

*Advances from related parties – 38% decrease to P111 million from P179 million*
Mainly from payments of advances. This account represented 1% and 2% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

*Estimated liability for land and land development costs – 85% increase to P68 million from P36 million*
Primarily due to recognition of additional project development costs.

*Income tax payable – 12% decrease to P6 million from P7 million*
Mainly from lower tax expense.

*Refundable deposits – 15% increase to P9 million from P8 million*
Mainly from additional deposits received.

*Retirement benefit obligation – 127% increase to P7 million from P3 million*
Principally from higher present value of plan obligation.

*Deferred tax liabilities – 6% decrease to P812 million from P867 million*
Principally in relation to lower fair value gains.

*Capital stock – no change*
Capital stock stood at 22% and 23% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

*Additional paid-in capital – no change*
Additional-paid-in capital stood at 50% and 52% of total liabilities and stockholders' equity in 2008 and 2007, respectively.

*Treasury shares – no change*
Treasury shares remained at 1% of total liabilities and equity in 2008 and 2007.

*Revaluation reserves – 1% decrease to (P213) million from (P210) million*
There was no material variance for this account. This remained at 2% for both years.

*Retained earnings– 43% increase to P751 million from P524 million*
As a result of net income for the year. This account stood at 8% and 6% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

*Minority interest – 55% increase to P394 million from P254 million*
Principally from additional issuance of shares of a subsidiary. This account represented 4% and 3% as a percentage of total liabilities and stockholders' equity in 2008 and 2007, respectively.

**Income Statement Items (2010 vs. 2009)**

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

The discussion of material changes of the income statement accounts was included in the management discussion and analysis.

**Income Statement Items (2009 vs. 2008)**

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

*Service revenue – 7% increase to P630 million from P589 million*
Mainly due to improved broadband revenues. As a percentage of total revenues, this account represents 27% and 37% in 2009 and 2008, respectively.

*Sale of goods – 49% increase to P1,124 million from P754 million*
Mainly due to higher volume of sales of the digital products. As a percentage of total revenues, this account represents 48% and 47% in 2009 and 2008, respectively.

*Rental income – 17% decrease to P112 million from P136 million*
Primarily due to reduction in rates. This account declined to 5% in 2009 from 8% of total revenues in 2008.

*Sale of real estate – 1078% increase to P360 million from P30 million*
The material change was principally due to sale of industrial lots. As a percentage of total revenues, this account increased to 16% in 2009 from 2% in 2008.

*Interest income – 2% decrease to P95 million from P97 million*
Mainly due to lower interest from business loans. As a percentage of total revenues, this account declined to 4% in 2009 from 6% in 2008.

Cost of sales, services and rentals amounted to P1,624 million in 2009, or an increase of 46% from P1,111 million in 2008 as discussed below:

*Cost of services –5% increase to P458 million from P435 million*
Principally in relation to the increase in service revenues. This account decreased to 20% from 27% in 2009 and 2008, respectively, as a percentage of total revenues.

*Cost of sales - 38% increase to P849 million from P616 million*
Mainly in relation to higher sales. As a percentage of total sales, this account represented 37% in 2009 from 38% in 2008.

*Cost of rentals – 7% decrease to P33 million from P36 million*
Primarily from lower taxes and licenses and utilities. This account decreased to 1% in 2009 from 2% in 2008 as a percentage of total revenues.

*Cost of real estate sold – 1159% increase to P282 million from P22 million*

The increase was mainly in relation to higher sale of land. This account increased to 12% in 2009 from 1% in 2008 as a percentage of total revenues.

*General and administrative expenses – 3% decrease to P250 million from P258 million*
No material change for this account. As a percentage of total revenues, this account decreased to 11% in 2009 from 16% in 2008.

*Selling and distribution costs – 38% increase to P97 million from P70 million*
Mainly from higher advertising and warranty expenses. This account remained at 4% of total revenues for both years.

*Other operating income –net - 77% decrease to P22 million from P98 million*
Principally due to lower fair value gains on investment property. This account decreased to 1% in 2009 from 6% in 2008 as a percentage of total revenues.

*Finance income – 52% decrease to P34 million from P72 million*
Primarily due to decrease in foreign currency gains. This account decreased to 1% in 2009 from 5% in 2008 as a percentage of total revenues.

*Finance costs – 196% increase to P118 million from P40 million*
Mainly due to loss on sale of investments offset by lower interest expenses. This account increased to 5% in 2009 from 2% in 2008 as a percentage of total revenues.

Tax expense amounted to P63 million in 2009 from P5 million in 2008 due to higher taxable income of certain subsidiaries.

**Income Statement Items (2008 vs. 2007)**

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

*Service revenue – 6% decrease to P589 million from P625 million*
Mainly due to revenue earned for services rendered for the ASEAN Summit in 2007, partly offset by higher broadband revenues for the current period. As a percentage of total revenues, this account decreased to 37% from 44% in 2008 and 2007, respectively.

*Sale of goods – 59% increase to P754 million from P474 million*
Mainly due to mobile phone sales. As a percentage of total revenues, this account increased to 47% from 33% in 2008 and 2007, respectively.

*Rental income – 15% increase to P136 million from P117 million*
Primarily from higher occupancy. This account remained at 8% of total revenues for both years.

*Sale of land – 70% decrease to P30 million from P102 million*
The decline was principally because of zero sales of industrial lots for the period. As a percentage of total revenues, this account declined to 2% in 2008 from 7% in 2007.

*Interest income – 8% decrease to P97 million from P105 million*
Mainly from lower investible funds and lower average dollar conversion rate for the year. As a percentage of total revenues, this account declined to 6% in 2008 from 7% in 2007.

*Cost of services –10% decrease to P435 million from P482 million*
Principally in relation to the decline in service revenues. This account decreased to 27% from 34% in 2008 and 2007, respectively, as a percentage of total revenues.

*Cost of sales - 53% increase to P616 million from P403 million*

Mainly in relation to higher sales for the period. As a percentage of total sales, this account represented 38% in 2008 from 28% in 2007.

*Cost of rentals – 1% increase to P36 million from P35 million*
Primarily in relation of higher rental income in 2008.

*Cost of land sold – 64% decrease to P22 million from P61 million*
The decrease was mainly in relation to the decline in sale of land. This account decreased to 1% in 2008 from 4% in 2007 as a percentage of total revenues.

*General and administrative expenses – decreased to P258 million from P271 million*
As a percentage of total revenues, this account decreased to 16% in 2008 from 19% in 2007.

*Selling and distribution costs – 129% increase to P70 million from P30 million*
Mainly from higher advertising charges for the mobile phone and digital devices businesses.

*Other operating income – 324% increase to P98 million from P23 million*
Principally due to fair value gains on investment property. This account increased to 6% in 2008 from 2% in 2007 as a percentage of total revenues.

*Finance income – 120% increase to P72 million from P33 million*
Primarily due to higher foreign currency gains.

*Finance costs – 76% decrease to P40 million from P165 million*
Mainly from lower interest rates in 2008 and also due foreign currency losses incurred last year. This account decreased to 2% in 2008 from 12 % in 2007 as a percentage of total revenues.

Tax expense amounted to P5 million in 2008 from P61 million in 2007 or lower by 91% due to lower deferred tax expense resulting from decrease in regular income tax rate to 30%.

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.

***First Quarter Ended March 31, 2011***

Please refer to the discussion and interim financial statements in the accompanying Quarterly Report on SEC Form 17Q for the quarter ended March 31, 2011.

## ***D. General Nature and Scope 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 fifteen 15 wholly-owned subsidiaries as of December 31, 2010, as follows:

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.

Solid Electronics Corporation (SEC), which was incorporated on August 9, 1982. SEC operates the repair and service centers for SONY and AIWA brands of audio and video consumer electronics equipment. 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.

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.

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.

Omni Logistics Corporation (OLC) was incorporated on May 22, 1998. OLC provides warehousing and logistics services to third parties principally the handling and delivery of consumer electronic products. In February 2003, OLC took over from an affiliate, Solid Laguna Corporation, the color TV assembly operations for certain brand owners under toll manufacturing arrangement. OLC's customer opted to import the color television, In October 2010, OLC ceased the color TV assembly operations.

Solid Corporation (SC) was incorporated on May 3, 1965. SC was the exclusive manufacturing licensee and the distributor of SONY products in the Philippines until October 1, 1997 when the marketing and distribution of SONY products were taken over by Sony Philippines, Inc. (SPH), a 33%-owned associated company which was organized jointly with Sony Corporation. On May 3, 1997, SC permanently closed its manufacturing facility located in Valenzuela, Metro Manila and transferred all manufacturing business to an affiliate, Solid Laguna Corporation. Thereafter, Solid Corporation's revenues principally come from the lease of its properties.

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 operations effective April 15, 2001 after its agreement with Aiwa expired in April 1, 2000 and was no longer renewed. Kita has been disposing of its assets to settle liabilities. 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.

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. SLC will operate as lessor of real estate.

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.

Zen Towers Corporation (Zen) was incorporated on July 6, 2005. Zen is engaged in the development and sale of real estate properties. Its initial project is 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.

SolidGroup Technologies Corporation (SGTC) was incorporated on November 17, 1989 to engage in the development and implementation of information technology systems and applications. 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.

My Solid Technologies & Devices Corporation 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.

MyTel Mobility Solutions Inc. (MyTel) was incorporated on July 6, 2009 to engage in the trading and distribution of mobile phones and electronic equipment or devices. On July 30, 2009, the Company's board of directors approved the acquisition of MyTel's 100% ownership interest. The Company's acquisition of MyTel was consummated on January 10, 2010.

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

2. Business of Issuer

Principal Products and Services

Solid Broadband Corp. owns and operates a broadband cable infrastructure, which provides broadband multimedia services such as data transport services, high-speed cable internet access, VSAT, broadcast uplink, leased line services and other multimedia services. The broadband multimedia business reported revenues of P391 million in 2010 or 56 % of service income in, P307 million or 49% of service income in 2009 and P282 million or 48% of service income in 2008.

Market estimates of regular Internet users in the Philippines have surpassed the 1,000,000 mark and continue to rise steadily. Concentrated in the Metro Manila area, the heavy or high end users comprise at least 25% of this total and provide a largely underserved premium market that is willing to pay for unlimited access to broadband level services. Another growing market is the medium sized business and institutional requirements not only for Internet access but also for private data networks and other business services.

The Company's consumer electronic products manufacturing and distribution business was formerly anchored on 2 leading foreign brands, SONY and AIWA. However, shifts in global business practices of brand owners resulted to the drastic reduction and/or cessation of significant portions of this business activity such that: (a) on May 9, 1997, the Company entered into a joint venture agreement with Sony Corporation for the formation of Sony Philippines, Inc. (SPH) to take over the local marketing and distribution of SONY consumer electronic products in the Philippines, with the Company owning 33% of SPH; accordingly, the Company ceased all selling activities of SONY products on October 1, 1997 and transferred this activity to SPH; (b) the Company closed its consumer electronics manufacturing operations located in Laguna International Industrial Park in December 2002 after its manufacturing agreement with SPH expired and was no longer renewed; (c) the Company shut down its color TV manufacturing operations located in the Clark Special Economic Zone in April 2001 when Aiwa Co. Ltd., its principal export customer, stopped its orders after the purchase agreement with the Company expired in April 2000 and was no longer renewed; and (d) the Company stopped the marketing and distribution of AIWA brand effective July 1, 2003 as these activities were taken over by SPH as part of a worldwide business realignment brought on by Sony's takeover and integration of Aiwa as a second brand. However, in August 2007, Solid Broadband Corporation Mobile Division introduced mobile phones in the Philippine market under the MyPhone brand. As a result, the Company's consumer electronic sales had made significant progress in the market.

The consumer electronics business of the Company as of December 31, 2010 are:

(1) sale of mobile phones and LCD televisions which generated sales of P1,495 million in 2010 (for 739,721 units )or 92% of sales in 2010, P1,005 million in 2009 (for 200,362 units), or 90% of sales in 2009 and P514 million in 2008 (for 173,061 units) or 68% of sales in 2008; and (2) after-sales service for principally SONY and AIWA brands of consumer electronic products with its 33 company-owned service centers throughout the Philippines and 125 independent authorized service centers as of end of 2010 which generated service income of P203 million or 29% of service revenues in 2010, P 210 million or 33% of service revenues in 2009 and P203 million or 34% of service revenues in 2008 ; and (3) warehousing and distribution of consumer electronic products with service revenue of P51 million or 7% of service revenues in 2010, P60 million or 10 % of service revenues in 2009, P65 million or 11% of service revenues in 2008 and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee of P10 million in 2010 (for 47,959 units) or 2% of service revenues, P20 million in 2009 (for 121,347 units produced)or 3% of service revenues in 2009, P17 million in 2008 (for 102,604 units produced) or 3% of service revenues; and (5) other service income of P39 million or 6% of service revenues in 2010, P32 million or 6% of service revenues in 2009, and P22 million or 4% of service revenues in 2008.

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, injected plastics parts manufacturing, 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 P112 million or 7 % of sales in 2010, P88 million or 8% of sales in 2009, P87 million or 12% of sales in 2008 ; and other products of P15 million or 1% of sales in 2010, P31 million or 3% of sales in 2009 and P153 million or 20% of sales in 2008. Real estate sales amounted to P207 million or 8% of revenues in 2010, P361 million or 16% of revenues in 2009, P31 million or 2% of revenues in 2008.

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 MyTel Mobility Solutions Inc. (MyTel) through an independent dealer network. As of December 31, 2010, MyTel supplied approximately 200 dealer accounts.

*Status of any-publicly announced new product or service*

None.

Competition

The broadband cable services that the Company offers through the Destiny hybrid fiber coaxial cable infrastructure competes with cable companies, Sky Cable and Home Cable in Metro Manila, and to some extent with other market players in the telecommunication industry such as PLDT, Bayantel, Globe and Eastern.

The cable television service of Global Destiny Inc. operates throughout Metro Manila via the Company's broadband cable network infrastructure. It provides value programming for various markets at competitive monthly service fee rates versus major competitors Sky Cable and Home Cable. Smaller cable companies also compete in smaller or limited franchise areas.

The MyDestiny Internet service is providing Internet users a higher service level through its broadband technology versus the prevailing dial-up system of the some of ISP's operating in

Metro Manila. Unlike some ISP's, which need to use a third party telephone network, MyDestiny uses its own broadband infrastructure and can offer the market an integrated service delivery system.

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

The Company has state of the art hybrid fiber coaxial cable network capable of two-way transmission and strong after-sales service network and that would enable it to effectively compete with other market players.

The broadband cable network is a complex data capable infrastructure using HFC (hybrid fiber and co-axial cables) that covers most of Metro Manila. Planned and built as one integrated and contiguous system, the network's fiber backbone inter-connects 21 hubs in key locations. The various video and data services riding on this network are delivered to customers in the 21 cities and municipalities that compose Metro Manila over its 2,400 strand miles of cable. The network is capable of delivering these services to 500,000 homes and other destinations. The services include cable television, Internet access and email services, virtual private networks; file transfers and downloads, video and audio streaming and Voice over Internet Protocol (VOIP).

The MyPhone brand celphones distributed by SBC competed with other brands in the Philippine market mainly Nokia, Samsung, Sony Ericsson, Motorola and other grey market phones.

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. The Company is not dependent on a single or limited number of suppliers. There is no major existing supply contracts.

Broadband Facilities

The Company operates broadband cable infrastructure assets in Metro Manila from its headend located in Makati City, providing data transport and multimedia services. The broadband cable network is a complex data capable infrastructure using HFC (hybrid fiber and co-axial cables) that covers most of Metro Manila. Planned and built as one integrated and contiguous system, the network's fiber backbone inter-connects 21 hubs in key locations. The various video and data services riding on this network are delivered to customers in the 21 cities and municipalities that compose Metro Manila over its 2,400 strand miles of cable. The network is capable of delivering these services to 500,000 homes and other destinations. The services include cable television, Internet access and email services, virtual private networks; file transfers and downloads, video and audio streaming and Voice over Internet Protocol (VOIP).

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, 2010, it has 33 service centers throughout the Philippines and 125 independent authorized service centers.

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements except for a loan granted to Solid Manila Finance Inc. Subsidiaries of the Company generally depend on one another for supply of certain parts and components and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

The Company provides broadband transport services to a cable television client, which is 49% owned by the ultimate majority stockholder of the Company.

*Principal Terms and Expiration Dates of all Licenses and Agreements*

- 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 15, 2001. SBC has been granted provisional authority to use its franchise by the National Telecommunications Commission.

- Joint Venture Agreement

The Company has a Joint Venture Agreement (JVA) with Sony Corporation until May 8, 2005 as a result of which Sony Philippines, Inc. (SPH) was organized. The Company invested an equivalent share of 33% ownership in SPH which started commercial operations on October 1, 1997 at which date the Company and Solid Corporation (SC) ceased all selling activities direct to dealers and transferred this activity to SPH in accordance with the JVA. Upon expiration of the term or termination of the JVA, Sony Corporation may, at its option, purchase the Company's shares in SPH at its book value or the Company may require Sony to purchase its shares in SPH also at its book value.

The Company received a formal notice that the JVA will expire on May 8, 2005. The Company and Sony Corporation have agreed to pursue negotiation toward an equitable settlement of all matters relating to the JVA and its expiration and in order to ensure continuity and harmony of the good relationship.

- 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 and Aiwa products. Under the MOU, Sony authorized the Company to perform in-warranty and out-of warranty services to customers in the Philippines for a fee calculated as a percentage of Sony's annual sales.

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

- *Distributoship 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.*

*Need for any government approval*

MyTel Mobility Solutions Inc. (MyTel) has a pending application with the Securities and Exchange Commission for the increase in its authorized capital stock from P1 million divided into 100,000 shares with a par value of P10 per share to P5 million divided into 500,000 shares with par value of P10 per share.

Zen Tower Corporation is awaiting the approval of the Housing and Land Use Regulatory Board (HLURB) for its amendment to its licenses to sell.

*Effect of existing and probable governmental regulations on the business*

There are proposed legislations currently pending for congressional action that will reclassify cable infrastructure companies as non-mass media. As such, they will also be removed from the strict foreign investment prohibition that governs Filipino mass media companies. Cable companies with more advanced infrastructure or wider coverage areas are expected to attract more foreign investments to further capitalize the rollout of services to the Filipino market.

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 554 regular employees as at December 31, 2010 as shown in the table below. It estimates to have 600 employees by the end of December 31, 2011. There is no existing union as of December 31, 2010. 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.*

| | ***Number of employees*** |
|---|---|
| Management | 17 |
| Sales and Distribution | 88 |
| Operation | 64 |
| Broadband | 144 |
| Service | 127 |
| Administration | 61 |
| Finance | 53 |
| Total | 554 |

*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.

Certain infrastructure assets, particularly in the broadband business, are subject to technological advances which could affect their economic life and the cost of providing the service/ product to clients /customers. The Company monitors developments in technology advances that could affect its business.

*Properties*

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 | Warehouses 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 | 10,493 | Warehouses |
| Laguna International Industrial Park, Binan, Laguna | 5,141 | Warehouse for lease |
| Pasong Tamo, Makati City | 5,000 | Office building |
| Concepcion St., Ermita, Manila | 4,506 | Condominium tower under construction (for sale) |
| Osmena Blvd., Cebu City | 3,859 | Service center & office building |
| Outlook Drive, Baguio City | 3,846 | Raw land (Intended for lease) |
| Brgy. Tabuco, Naga City | 3,059 | Raw land (Intended for sale) |
| Tandang Sora, Quezon City | 2,511 | Office building |
| Barrio Pantal, Dagupan City | 1,918 | Raw land (Intended for sale) |
| Barrio San Rafael, Iloilo City | 1,750 | Service Center and Office building |
| 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 |
| Cabanatuan City, Nueva Ecija | 1,212 | Service center and office building |
| Brgy. San Rafael, Tarlac, Tarlac | 1,000 | Warehouse for lease |
| Calamba Premiere Industrial Park | 22,061 | Industrial/ Commercial lots for sale |
| Araneta, Quezon City | 1,000 | Land for lease |
| 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 the 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 as of on November 18, 2007. The case is ongoing as of April 2010. Solid Corporation also filed for a Petition for Retention of land with Office of the Regional Director of DAR on July 19, 2007. The petition of Solid Corporation was granted. Municipal Agrarian Reform Officer of the DAR ruled that Solid Corporation is entitled to 5 hectares retention. This is pending the approval the Regional Director as of April 2011.

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 which is pending resolution as of date. 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. The Pillilia lot covered by TCT No. 26578, subject to an on-going Application for Exemption as of June 1, 2009, is still pending approval by the Dept. Of Agrarian Reforms as of April 2011.

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.

*Plant and equipment*

The Company through its subsidiary owns plant and equipment for its broadband operations (See Broadband Facilities). The plant and equipment for broadband operations are located in Makati City and in the various hub sites in Metro Manila and have been written down after recognizing value impairment.

*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. SBC's applications for provisional authority to use its franchise was approved by the National Telecommunications Commission on April 15, 2002. The Company uses the Destiny broadband infrastructure in operating the franchise

*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*

The Company through its subsidiaries has entered into certain lease contracts with several lessors for the following properties:

| Location | Annual Rent (In Thousand Pesos) | Expiration Date |
|---|---|---|

| | | |
|---|---|---|
| Clark, Pampanga | 6,460* | March and August 2019 |
| Dr. A. Santos Ave., Paranaque | 3,099 | October 31, 2010 |
| Metro Manila | 26,046** | December 31, 2011 |
| Metro Manila | 31,689*** | April 15, 2011 |
| Orbital space | 13,195**** | December 31, 2011 |

* 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.

** Represents lease of poles for the operation of cable television in Metro Manila.

*** Represents lease of internet connection.

**** Represents lease of transponder for telecommunication and satellite uplink services

The above lease contracts 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 | 3,971 | July 31, 2012 |
| Balintawak, Quezon City | 14,912 | Various up to September 30, 2012 |
| Cagayan de Oro | 1,162 | Various up to August 1, 2011 |
| Chino Roces Ave, Makati City | 20,006 | Various up to April 30, 2018 |
| Clark, Pampanga | 14,912 | Various up to June 15, 2013 |
| Iloilo | 1,869 | Various up to August 31, 2011 |
| Laguna International Industrial Park, Binan, Laguna | 31,835 | Various up to August 31, 2011 |
| Laguna International Industrial Park, Binan, Laguna | 3,535 | April 30, 2010 |
| Ermita, Manila | 7,835 | Various up to February 14, 2012 |
| San Antonio, Paranaque City | 4,446 | October 31, 2010 |
| San Dionisio, Paranaque City | 2,190 | January 31, 2011 |

*Properties the Company intends to acquire in the next twelve months*

The Company estimates capital expenditures for the year 2011 to amount to P400 million for the construction of Tower 2 of our condominium project, real estate development and upgrade of the broadband infrastructure. The purchase and/or construction of these capital expenditures will be financed through the funds of the Company.
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. In November 2002, Solid Corporation withdrew its appeal at the Court of Appeals preparatory to negotiating with DAR and Landbank. SC filed for a petition for valuation of land with RARAB on November 18, 2007. The case is ongoing as of April 2009. SC also filed for a petition for retention of land with Office of the Regional Director of DAR on July 19, 2007. The petition of SC was granted. DAR ruled that SC is entitled to 5 hectares retention. This is pending the approval of the Regional Director as of April 2009.

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, 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 is being reviewed by the Claims Division of the Bureau of Agrarian Legal Assistance, DAR Central Office. Since the DAR revised its procedures, Solid Manila Corporation amended its application as of March 2004. In the meantime, all farmer-beneficiaries concerned have showed lack of interest in pursuing their claim over the property.

Starworld Corporation, a 50%-owned subsidiary of Solid Manila Corporation, entered into an amended contract dated February 19, 1997 to acquire 79.7 hectares property in Calamba, Laguna for P518.2 million with several mortgages annotated on the titles. On May 4, 2000, Starworld Corporation reduced the area it purchased to 62 hectares. All mortgages and liens on these 62 hectares were released at the expense of the vendors.

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. 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.

*Plant and equipment*

The Company through its subsidiaries owns plant and equipment for its manufacturing operations and broadband operations (See Production and Broadband Facilities). The plant and equipment for manufacturing operations are mostly located in Laguna International Industrial Park (LIIP), Binan, Laguna, Bicutan, Paranaque and Clark Special Economic Zone (CSEZ), Pampanga. The plant and equipment in Pampanga and Laguna have been written down to its estimated net realizable value after recognizing value impairment. The plant and equipment for broadband operations are located in Makati City and in the various hub sites in Metro Manila and have likewise been written down after recognizing value impairment.

*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. SBC's applications for provisional authority to use its franchise was approved by the National Telecommunications Commission on April 15, 2002. The Company uses the Destiny broadband infrastructure in operating the franchise

*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*

The Company through its subsidiaries has entered into certain lease contracts with several lessors for the following properties:

| Location | Annual Rent (In Thousand Pesos) | Expiration Date |
|---|---|---|
| Clark, Pampanga | 6,910* | March and August 2019 |
| Dr. A. Santos Ave., Paranaque | 2,962 | October 31, 2008 |
| Metro Manila | 24,729** | March 14, 2009 |
| Metro Manila | 20,221*** | January 7, 2006 |

| | | |
|---|---|---|
| Orbital space | 13,316**** | December 31, 2008 |

* 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.

** Represents lease of poles for the operation of cable television in Metro Manila.

*** Represents lease of internet connection.

**** Represents lease of transponder for telecommunication and satellite uplink services

The above lease contracts 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 | 3,938 | July 31, 2009 and October 31, 2009 |
| Balintawak, Quezon City | 12,667 | Various up to September 30, 2012 |
| Cagayan de Oro | 1,384 | Various up to August 1, 2011 |
| Chino Roces Ave, Makati City | 18,955 | Various up to November 24, 2016 |
| Clark, Pampanga | 17,230 | Various up to September 30, 2011 |
| Iloilo | 1,351 | Various up to April 30, 2010 |
| Laguna International Industrial Park, Binan, Laguna | 41,184 | Various up to December 31, 2012 |
| Laguna International Industrial Park, Binan, Laguna | 3,379 | April 30, 2009 |
| Ermita, Manila | 7,649 | Various up to February 14, 2012 |
| San Antonio, Paranaque City | 4,232 | October 31, 2009 |

*Properties the Company intends to acquire in the next twelve months*

The Company estimates capital expenditures for the year 2009 to amount P400 million for real estate development and upgrade of the broadband infrastructure. The construction and/ or purchase of these capital expenditures will be financed through the funds of the Company.

## *E. Directors and Executive Officers*

Please see the accompanying Information Statement for a brief summary of the business experience of each director and officer in the last five years.

## F. Market Price of and Dividend on the Registrant's Common Equity

***Principal Market***

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

***Common Equity***

The high and low trading price of the shares for each quarter within the last two years are as follows:

| | High (₱) | Low (₱) |
|---|---|---|
| 2011 | | |
| First quarter | 1.46 | 0.82 |
| 2010 | | |
| First quarter | 0.89 | 0.71 |
| Second quarter | 0.83 | 0.71 |
| Third quarter | 1.04 | 0.68 |
| Fourth quarter | 1.04 | 0.79 |
| 2009 | | |
| First quarter | 0.45 | 0.29 |
| Second quarter | 0.83 | 0.30 |
| Third quarter | 0.75 | 0.60 |
| Fourth quarter | 1.08 | 0.64 |

The trading price of Company shares closed at P1.17 as of June 29, 2011 (the latest practicable trading date).

***Holders***

The number of shareholders of May 31, 2011 was 4,626. Common shares outstanding as of May 31, 2011 were 1,821,542,000 shares. Total issued shares as of May 31, 2011 were 2,030,975,000.

Top 20 stockholders of the Company's common stock as of May 31, 2011:

| | 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) | 352,285,091 | 19.34 |
| 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) | 17,987,800 | 0.99 |
| 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. | John Peter C. Yu &/or Juan G. Yu | 1,210,000 | 0.07 |

| | | | |
|---|---|---|---|
| 12. | Chua, Willington | 1,110,000 | 0.06 |
| 13. | Paz, Venson | 1,065,000 | 0.06 |
| 14. | Lucio W. Yan &/ or Clara Yan | 1,000,000 | 0.05 |
| 15. | Columbian Motors Corporation | 1,000,000 | 0.05 |
| 16. | Juan Go Yu &/or Grace Chu Yu | 760,000 | 0.04 |
| 17. | Ong, Victoria | 632,000 | 0.03 |
| 18. | Union Properties, Inc. | 625,000 | 0.03 |
| 19. | Lim, Florencio I. | 600,000 | 0.03 |
| 20. | Lim, Julia | 590,000 | 0.03 |

***Dividends***

No dividends were declared in 2009 and 2010.

The Company's retained earnings as of December 31, 2010 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, 2010.

***Recent Sales of Unregistered Securities in the Past Three Years***

There was no sale of unregistered or exempt securities in 2008, 2009 and 2010.

## *G. Compliance with Corporate Governance Practices*

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 Renumeration 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 September 30, 2010. 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. During the same year, 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, 2008 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.

The Company complied with the appropriate self-rating assessment and performance evaluation system to determine and measure compliance with the Manual and submitted a certification of its compliance on January 31, 2011. There are no major deviations from the adopted Revised Manual on Corporate Governance.

The Company reappointed Punongbayan and Araullo, CPA's as its independent accountant for the year 2010 during the Annual Stockholders' meeting on September 30, 2010.

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.

## *H. External Audit Fees and Services*

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 :

i. 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, 2010 and 2009 amounted to about P4.08 million and P3.4 million , respectively. The audit fee of Grant Thornton for the examination of Fil-Dragon for the years ended December 31, 2010 and 2009 amounted to 195,000 HK dollars and 24,000 US dollars, respectively.

ii. 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 2010 and 2009.

(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, 2010 and 2009 amounted to P204 thousand for both years.

(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 2010 and 2009 .

(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.

## *I. Request for Annual Report on SEC Form 17-A*

***UPON THE WRITTEN REQUEST OF A STOCKHOLDER, THE COMPANY WILL PROVIDE, FREE OF CHARGE, A COPY OF THE COMPANY'S SEC FORM 17-A (ANNUAL REPORT) DULY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. THE STOCKHOLDER MAY BE CHARGED A REASONABLE COST FOR PHOTOCOPYING THE EXHIBITS.***

***ALL REQUESTS MAY BE SENT TO THE FOLLOWING ADDRESS:***

***Solid Group, Inc.***
***Solid House Bldg. 2285 Pasong Tamo Extn.,***
***Makati City, Metro Manila***
***Attention: Ms. Meline Corpuz***

# CERTIFICATION

KNOW ALL MEN BY THESE PRESENTS:

The undersigned, SUSAN L. TAN and ANA MARIA A. KATIGBAK, being the Chairman and Assistant Secretary, respectively, of SOLID GROUP, INC. (the "Corporation"), a corporation organized and existing under the laws of the Philippines, with principal office at the Solid House 2285 Pasong Tamo Ext., Makati City, under oath, do hereby certify that the summary of the attendance of the members of the Board of Directors of the Corporation during board meetings for the year 2010 shown below is true and correct based on the records of the Corporation:

| Date of Board Meetings<br>Legend: Present (√) Absent (X) Not Applicable (NA) | | |
|---|---|---|
| Name of Directors | 03.30.10 | 09.30.10 |
| Elena S. Lim | √ | √ |
| Susan L. Tan | √ | √ |
| David S. Lim | √ | √ |
| Jason S. Lim | √ | √ |
| Vincent S. Lim | √ | √ |
| Quintin Chua | √ | √ |
| Ireneo D. Tubio, Jr. | X | NA |
| Luis Ma. L. Zabaljauregui | X | √ |
| Joseph Lim | X | √ |

This certification is executed in compliance with the requirements of SEC Memorandum Circular No. 3, Series 2007, and amended by SEC Memorandum Circular No. 6, Series of 2009 of Corporate Governance and the Corporation's Manual on Corporate Governance.

IN WITNESS WHEREOF, I have hereunto affixed my signature this ____ day of JAN 3 1 2011 at Makati City, Metro Manila.

SUSAN L. TAN
Chairman

ANA MARIA A. KATIGBAK-
Asst. Corporate Secretary

SUBSCRIBED AND SWORN to before me this ___ day of JAN 3 1 2011, affiants exhibiting to me their Community Tax Certificates, as follows:

| Name | CTC No. | Issue Date/Place |
|---|---|---|
| Susan L. Tan | 05968636 | Jan 25, 2011/Makati |
| Ana Maria A. Katigbak-Lim | 05973676 | Jan 25, 2011/Makati |

Doc. No. 233;
Page No. 59;
Book No. XLV;
SERIES OF 2011.

MARIO R. ESPIRITU, JR.
Commission No. M-230
Notary Public for City of Makati
Until December 31, 2011
4th Floor AMP Bldg.
2283 Pasong Tamo Ext. Makati City
PTR No 111... 01-03-11 Kawit, Cavite
IBP No 742080 01-03-11 Cavite Chapter
MCLE Compliance No III-0017889
Roll No.39509

# SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL STATEMENTS

The management of **Solid Group Inc.** is responsible for all information and representations contained in the consolidated financial statements for the years ended **December 31, 2010, 2009 and 2008** and for each of the three years in the period ended **December 31, 2010.** The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

**SUSAN L. TAN**
Chairman of the Board

**DAVID S. LIM**
President &
Chief Executive Officer

**VINCENT S. LIM**
SVP & Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 29th day of April 2011, affiants exhibiting to me their passport, as follows:

| *Name* | *Passport No.* | *Date/Place Issued* |
|---|---|---|
| Susan L. Tan | EB0123180 | April 20, 2010, Manila |
| David S. Lim | XX2698447 | December 15, 2008, Manila |
| Vincent S. Lim | XX0711071 | March 10, 2008, Manila |

Doc. No. 435 ;
Page No. 87 ;
Book No. LX ;
Series of 2011

MELVYN S. FLORENCIO
NOTARY PUBLIC
UNTIL DECEMBER 31 2011
PTR NO. 0980571
ISSUED ON 1/4/11 AT MANDALUYONG

Punongbayan & Araullo

# Report of Independent Auditors

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 886-5511
F +63 2 886-5506; +63 2 886-5507
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 (the Group), which comprise the consolidated statements of financial position as at December 31, 2010, 2009 and 2008, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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, 2010, 2009 and 2008, and of their consolidated financial performance and their cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

**PUNONGBAYAN & ARAULLO**

Dalisay B. Duque

**By: Dalisay B. Duque**
Partner

CPA Reg. No. 0022692
TIN 140-240-854
PTR No. 2641851, January 3, 2011, Makati City
Partner's SEC Accreditation No. 0012-AR-2 (until Feb. 1, 2012)
BIR AN 08-002511-9-2008 (until Nov. 24, 2011)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2012)
Firm's SEC Accreditation No. 0002-FR-2 (until Feb. 1, 2012)

April 1, 2011

**SOLID GROUP INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**
**DECEMBER 31, 2010, 2009 AND 2008**
***(Amounts in Philippine Pesos)***

| | Notes | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
|---|---|---|---|---|
| **A S S E T S** | | | | |
| **CURRENT ASSETS** | | | | |
| Cash and cash equivalents | 6 | **P 1,620,114,468** | P 1,263,142,145 | P 1,118,462,976 |
| Trade and other receivables - net | 7 | **890,983,646** | 501,285,288 | 313,205,104 |
| Advances to related parties | 26 | **201,193,407** | 504,328,415 | 192,327,778 |
| Available-for-sale financial assets - net | 8 | **138,606,153** | 305,804,353 | 63,519,015 |
| Merchandise inventories and supplies - net | 10 | **392,709,244** | 83,440,928 | 219,260,928 |
| Real estate inventories - net | 11 | **1,328,002,830** | 1,046,881,038 | 1,036,949,872 |
| Other current assets | 14 | **242,126,879** | 299,085,713 | 376,261,035 |
| Total Current Assets | | **4,813,736,627** | 4,003,967,880 | 3,319,986,708 |
| **NON-CURRENT ASSETS** | | | | |
| Trade and other receivables | 7 | **640,911,201** | 679,762,808 | 666,890,976 |
| Available-for-sale financial assets - net | 8 | **12,106,527** | 8,001,527 | 7,461,527 |
| Held-to-maturity investments | 9 | **-** | - | 161,289,378 |
| Property, plant and equipment - net | 12 | **1,396,868,972** | 1,397,744,432 | 1,438,147,224 |
| Investment property - net | 13 | **3,646,518,637** | 3,617,517,861 | 3,631,925,344 |
| Retirement benefit asset | 22 | **74,917,955** | 45,935,962 | 36,658,396 |
| Deferred tax assets - net | 23 | **32,807,044** | 27,240,012 | 26,801,104 |
| Other non-current assets - net | 14 | **24,578,668** | 24,919,357 | 28,148,145 |
| Total Non-current Assets | | **5,828,709,004** | 5,801,121,959 | 5,997,322,094 |
| **NON-CURRENT ASSETS HELD FOR SALE** | 5 | **-** | 12,090,324 | - |
| **TOTAL ASSETS** | | **P 10,642,445,631** | P 9,817,180,163 | P 9,317,308,802 |

| | Notes | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
|---|---|---|---|---|
| **LIABILITIES AND EQUITY** | | | | |
| **CURRENT LIABILITIES** | | | | |
| Interest-bearing loans | 15 | **P 989,502,559** | P 419,206,324 | P 458,760,609 |
| Trade and other payables | 16 | **442,663,550** | 322,604,948 | 352,635,622 |
| Advances from related parties | 26 | **168,911,611** | 201,439,920 | 111,704,972 |
| Estimated liability for land and land development costs | 11 | **68,304,647** | 68,304,647 | 68,304,647 |
| Income tax payable | | **44,020,603** | 4,764,696 | 6,782,075 |
| Total Current Liabilities | | **1,713,402,970** | 1,016,320,535 | 998,187,925 |
| **NON-CURRENT LIABILITIES** | | | | |
| Refundable deposits - net | 17 | **15,252,534** | 11,096,848 | 9,710,038 |
| Retirement benefit obligation | 22 | **3,121,593** | 1,484,596 | 7,362,600 |
| Deferred tax liabilities - net | 23 | **798,720,443** | 825,464,013 | 812,624,346 |
| Interest-bearing loans | 15 | **-** | 135,742,000 | - |
| Total Non-current Liabilities | | **817,094,570** | 973,787,457 | 829,696,984 |
| Total Liabilities | | **2,530,497,540** | 1,990,107,992 | 1,827,884,909 |
| **EQUITY** | | | | |
| 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 | **( 43,480,551 )** | ( 101,653,736 ) | ( 213,026,395 ) |
| Retained earnings | 24 | **1,183,851,839** | 954,505,529 | 751,251,378 |
| Total equity attributable to the Parent Company's stockholders | | **7,697,433,830** | 7,409,914,335 | 7,095,287,525 |
| Non-controlling interests | | **414,514,261** | 417,157,836 | 394,136,368 |
| Total Equity | | **8,111,948,091** | 7,827,072,171 | 7,489,423,893 |
| **TOTAL LIABILITIES AND EQUITY** | | **P 10,642,445,631** | P 9,817,180,163 | P 9,317,308,802 |

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**
***(Amounts in Philippine Pesos)***

| | Notes | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
|---|---|---|---|---|
| **REVENUES** | | | | |
| Sale of goods | 2 | **P 1,622,862,107** | P 1,124,432,782 | P 754,477,429 |
| Rendering of services | 2 | **694,808,001** | 630,591,746 | 589,947,707 |
| Sale of real estate | 2 | **207,355,479** | 360,841,142 | 30,625,359 |
| Rentals | 2 | **121,663,078** | 112,880,787 | 136,222,127 |
| Interest | 2 | **63,089,091** | 95,230,153 | 97,198,817 |
| | | **2,709,777,757** | 2,323,976,610 | 1,608,471,439 |
| **COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS** | | | | |
| Cost of sales | 18 | **1,225,420,110** | 849,411,001 | 616,711,773 |
| Cost of services | 18 | **460,191,618** | 458,164,630 | 435,837,110 |
| Cost of real estate sold | 20 | **151,396,685** | 282,889,925 | 22,470,496 |
| Cost of rentals | 18 | **38,569,193** | 33,568,032 | 36,134,717 |
| | | **1,875,577,607** | 1,624,033,588 | 1,111,154,096 |
| **GROSS PROFIT** | | **834,200,150** | 699,943,022 | 497,317,343 |
| **OTHER OPERATING EXPENSES (INCOME)** | | | | |
| General and administrative expenses | 20 | **281,046,941** | 250,979,458 | 258,160,163 |
| Selling and distribution costs | 20 | **227,552,333** | 97,041,397 | 70,519,743 |
| Other operating income | 19 | **( 87,379,618 )** | ( 22,809,568 ) | ( 98,746,565 ) |
| | | **421,219,656** | 325,211,287 | 229,933,341 |
| **OPERATING PROFIT** | | **412,980,494** | 374,731,735 | 267,384,002 |
| **OTHER INCOME (CHARGES)** | | | | |
| Finance costs | 21 | **( 88,223,148 )** | ( 118,599,858 ) | ( 40,097,465 ) |
| Finance income | 21 | **38,921,553** | 34,748,630 | 72,814,405 |
| Other gains - net | | **2,736,192** | 1,599,175 | 5,503,312 |
| | | **( 46,565,403 )** | ( 82,252,053 ) | 38,220,252 |
| **PROFIT BEFORE TAX** | | **366,415,091** | 292,479,682 | 305,604,254 |
| **TAX EXPENSE** | 23 | **122,651,703** | 63,514,404 | 5,518,931 |
| **PROFIT FROM CONTINUING OPERATIONS** | | **243,763,388** | 228,965,278 | 300,085,323 |
| **LOSS FROM DISCONTINUED OPERATIONS - Net of Tax** | | **( 17,060,653 )** | ( 2,689,659 ) | ( 31,373,810 ) |
| **NET PROFIT FOR THE YEAR** | | **P 226,702,735** | P 226,275,619 | P 268,711,513 |
| **Profit (loss) for the year attributable to the:** | | | | |
| Parent Company's stockholders | | **P 229,346,310** | P 203,254,151 | P 268,304,620 |
| Non-controlling interests | | **( 2,643,575 )** | 23,021,468 | 406,893 |
| | | **P 226,702,735** | P 226,275,619 | P 268,711,513 |
| **Earnings per share attributable to the:** | | | | |
| **Parent Company's stockholders - basic and diluted** | 25 | **P 0.13** | P 0.11 | P 0.15 |

**SOLID GROUP INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**
***(Amounts in Philippine Pesos)***

| | Notes | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
|---|---|---|---|---|
| **NET PROFIT FOR THE YEAR** | | **P 226,702,735** | P 226,275,619 | P 268,711,513 |
| **OTHER COMPREHENSIVE INCOME (LOSS)** | | | | |
| Reclassification adjustments for losses recognized in profit or loss | | **49,498,034** | 62,432,561 | 5,201,422 |
| Fair value gains (losses) on available-for-sale financial assets, net of taxes | 8 | **14,474,181** | 35,128,701 | ( 313,038,441 ) |
| Currency exchange differences on translating balances of foreign operations | 2 | **( 5,799,030 )** | ( 14,426,000 ) | 305,787,998 |
| Fair value gain on reclassification of financial assets | 9 | **-** | 28,237,397 | - |
| | | **58,173,185** | 111,372,659 | ( 2,049,021 ) |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | | **P 284,875,920** | P 337,648,278 | P 266,662,492 |
| **Total comprehensive income (loss) for the year attributable to:** | | | | |
| Parent Company's stockholders | | **P 287,519,495** | P 314,626,810 | P 266,255,599 |
| Non-controlling interests | | **( 2,643,575 )** | 23,021,468 | 406,893 |
| | | **P 284,875,920** | P 337,648,278 | P 266,662,492 |

***See Notes to Consolidated Financial Statements.***

**SOLID GROUP INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**
***(Amounts in Philippine Pesos)***

| | | Attributable to Parent Company's Stockholders | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notes | Capital Stock | Additional Paid-in Capital | Treasury Shares - at Cost | Revaluation Reserves | Retained Earnings | Total | Non-controlling Interest | Total Equity |
| Balance at January 1, 2010 | | | | | | | | | |
| As previously reported | | P 2,030,975,000 | P 4,641,701,922 | (P 115,614,380) | (P 101,653,736) | P 1,065,972,835 | P 7,521,381,641 | P 417,157,836 | P 7,938,539,477 |
| Prior period adjustments, net of tax | 24 | - | - | - | - | (111,467,306) | (111,467,306) | - | (111,467,306) |
| As restated | | 2,030,975,000 | 4,641,701,922 | (115,614,380) | (101,653,736) | 954,505,529 | 7,409,914,335 | 417,157,836 | 7,827,072,171 |
| Transaction between owners - | | | | | | | | | |
| Net loss for the year attributable to non-controlling interests | | - | - | - | - | - | - | (2,643,575) | (2,643,575) |
| Total comprehensive income attributable to the Parent Company's stockholders: | | | | | | | | | |
| Net profit | | - | - | - | - | 229,346,310 | 229,346,310 | - | 229,346,310 |
| Fair value gains | 2, 8, 9 | - | - | - | 58,173,185 | - | 58,173,185 | - | 58,173,185 |
| | | - | - | - | 58,173,185 | 229,346,310 | 287,519,495 | - | 287,519,495 |
| Balance at December 31, 2010 | | 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 |
| Balance at January 1, 2009 | | | | | | | | | |
| As previously reported | | P 2,030,975,000 | P 4,641,701,922 | (P 115,614,380) | (P 213,026,395) | P 834,589,062 | P 7,178,625,209 | P 394,136,368 | P 7,572,761,577 |
| Prior period adjustments, net of tax | 24 | - | - | - | - | (83,337,684) | (83,337,684) | - | (83,337,684) |
| As restated | | 2,030,975,000 | 4,641,701,922 | (115,614,380) | (213,026,395) | 751,251,378 | 7,095,287,525 | 394,136,368 | 7,489,423,893 |
| Transaction between owners - | | | | | | | | | |
| Net profit for the year attributable to non-controlling interests | | - | - | - | - | - | - | 23,021,468 | 23,021,468 |
| Total comprehensive income | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 203,254,151 | 203,254,151 | - | 203,254,151 |
| Fair value gains | 2, 8, 9 | - | - | - | 111,372,659 | - | 111,372,659 | - | 111,372,659 |
| | | - | - | - | 111,372,659 | 203,254,151 | 314,626,810 | - | 314,626,810 |
| Balance at December 31, 2009 | | P 2,030,975,000 | P 4,641,701,922 | (P 115,614,380) | (P 101,653,736) | P 954,505,529 | P 7,409,914,335 | P 417,157,836 | P 7,827,072,171 |
| Balance at January 1, 2008 | | | | | | | | | |
| As previously reported | | P 2,030,975,000 | P 4,641,701,922 | (P 115,614,380) | (P 210,977,374) | (P 350,229,141) | P 5,995,856,027 | P 254,792,475 | P 6,250,648,502 |
| Prior period adjustments, net of tax | 24 | - | - | - | - | 833,175,899 | 833,175,899 | - | 833,175,899 |
| As restated | | 2,030,975,000 | 4,641,701,922 | (115,614,380) | (210,977,374) | 482,946,758 | 6,829,031,926 | 254,792,475 | 7,083,824,401 |
| Transaction between owners: | | | | | | | | | |
| Additional non-controlling interests on acquired subsidiary | | - | - | - | - | - | - | 138,937,000 | 138,937,000 |
| Net profit for the year attributable to non-controlling interests | | - | - | - | - | - | - | 406,893 | 406,893 |
| Total comprehensive income | | | | | | | | | |
| Net profit for the year | | - | - | - | - | 268,304,620 | 268,304,620 | - | 268,304,620 |
| Fair value losses | 2, 8, 9 | - | - | - | (2,049,021) | - | (2,049,021) | - | (2,049,021) |
| | | - | - | - | (2,049,021) | 268,304,620 | 266,255,599 | - | 266,255,599 |
| Balance at December 31, 2008 | | P 2,030,975,000 | P 4,641,701,922 | (P 115,614,380) | (P 213,026,395) | P 751,251,378 | P 7,095,287,525 | P 394,136,368 | P 7,489,423,893 |

***See Notes to Consolidated Financial Statements.***

**SOLID GROUP INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**FOR THE YEARS ENDED DECEMBER 31, 2010, 2009 AND 2008**
***(Amounts in Philippine Pesos)***

| | Notes | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
|---|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | | |
| Profit before tax from continuing operations | | **P 366,415,091** | P 292,479,682 | P 305,604,254 |
| Loss before tax from discontinued operations | 5 | **( 16,445,538 )** | ( 3,542,601 ) | ( 27,736,447 ) |
| Profit before tax | | **349,969,553** | 288,937,081 | 277,867,807 |
| Adjustments for: | | | | |
| Interest income | 21 | **( 86,478,277 )** | ( 121,702,409 ) | ( 128,389,679 ) |
| Depreciation and amortization | 12 | **75,588,976** | 74,998,874 | 79,372,652 |
| Loss on inventory obsolescence | 10 | **59,288,554** | 15,765,265 | 8,114,168 |
| Impairment losses on available-for-sale financial assets | 8 | **33,657,338** | - | 170,000 |
| Fair value gains on investment property - net | 13 | **( 27,648,081 )** | ( 15,136,545 ) | ( 61,436,486 ) |
| Reversals of allowance for inventory obsolescence | 10 | **( 19,184,724 )** | ( 1,796,955 ) | ( 10,860,332 ) |
| Reversals of impairment losses on trade and other receivables | 7 | **( 11,104,219 )** | ( 8,488,254 ) | ( 7,879,232 ) |
| Interest expense | 21 | **10,530,521** | 19,345,255 | 21,161,120 |
| Impairment losses on trade and other receivables | 7 | **9,266,502** | 27,735,676 | 17,603,434 |
| Gain on sale of property, plant and equipment | | **( 6,646,929 )** | ( 222,898 ) | ( 945,857 ) |
| Unrealized foreign currency losses (gains) - net | | **1,119,803** | 9,842,241 | ( 33,374,532 ) |
| Interest amortization on refundable deposits | 17 | **864,519** | 1,386,810 | 1,264,997 |
| Gain on disposal of non-current assets held-for-sale | 5 | **( 452,503 )** | - | - |
| Loss on sale of foreign currency-denominated bonds | 21 | **-** | 59,852,713 | - |
| Write-off of investment property | 13 | **-** | 73,076 | - |
| Operating profit before working capital changes | | **388,771,033** | 350,589,930 | 162,668,060 |
| Decrease (increase) in trade and other receivables | | **( 349,009,034 )** | ( 220,199,438 ) | 41,942,055 |
| Decrease (increase) in advances to related parties | | **303,135,008** | ( 312,000,637 ) | ( 62,236,402 ) |
| Decrease (increase) in available-for-sale financial assets | | **187,609,047** | ( 34,156,408 ) | 161,570,905 |
| Decrease in held-to-maturity investments | | **-** | 4,140,394 | 53,000,000 |
| Decrease (increase) in merchandise inventories and supplies | | **( 349,372,147 )** | 121,851,690 | ( 40,995,505 ) |
| Increase in real estate inventories | | **( 281,121,792 )** | ( 9,931,166 ) | ( 140,652,893 ) |
| Decrease (increase) in other current assets | | **( 47,045,684 )** | 81,823,216 | ( 191,091,967 ) |
| Decrease (increase) in retirement benefit asset | | **( 28,981,993 )** | ( 9,277,566 ) | 5,553,275 |
| Decrease (increase) in other non-current assets | | **( 9,494,057 )** | 33,501,878 | ( 18,301,485 ) |
| Increase (decrease) in trade and other payables | | **120,058,602** | ( 30,030,674 ) | 21,932,081 |
| Increase in estimated liability for land and land development costs | | **-** | - | 31,418,302 |
| Increase (decrease) in advances from related parties | | **( 32,528,309 )** | 89,734,948 | ( 68,292,959 ) |
| Increase in refundable deposits | | **3,291,167** | - | - |
| Increase (decrease) in retirement benefit obligation | | **1,636,997** | ( 5,878,004 ) | 4,114,692 |
| Cash generated from (used in) operations | | **( 93,051,163 )** | 60,168,163 | ( 39,371,841 ) |
| Interest received | | **63,089,091** | 95,230,153 | 97,198,817 |
| Cash paid for income taxes | | **( 12,316,993 )** | ( 56,925,976 ) | ( 37,377,514 ) |
| Net Cash From (Used in) Operating Activities | | **( 42,279,065 )** | 98,472,340 | 20,449,462 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | | |
| Acquisitions of property, plant and equipment | 12 | **( 56,800,567 )** | ( 46,696,633 ) | ( 62,404,867 ) |
| Interest received | 21 | **23,389,186** | 26,472,256 | 31,190,862 |
| Proceeds from disposal of non-current assets held-for-sale | | **9,690,330** | - | - |
| Additions to investment property | 13 | **( 1,352,695 )** | ( 802,138 ) | ( 19,789,527 ) |
| Proceeds from sale of property and equipment | | **1,421,223** | 233,125 | 1,269,817 |
| Loans granted to a related party | 26 | **-** | - | ( 120,783,064 ) |
| Net Cash Used in Investing Activities | | **( 23,652,523 )** | ( 20,793,390 ) | ( 170,516,779 ) |
| *Balance forwarded* | | **( P 65,931,588 )** | P 77,678,950 | ( P 150,067,317 ) |

| | Notes | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
|---|---|---|---|---|
| *Balance brought forward* | | **( P 65,931,588 )** | P 77,678,950 | ( P 150,067,317 ) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | | |
| Net Proceeds from interest-bearing loans | 21 | **434,554,235** | 96,187,715 | 49,325,088 |
| Interest paid | | **( 10,530,521 )** | ( 19,345,255 ) | ( 21,161,120 ) |
| Net Cash From Financing Activities | | **424,023,714** | 76,842,460 | 28,163,968 |
| **Effect of Currency Rate Changes on Cash and Cash Equivalents** | ` | **( 1,119,803 )** | ( 9,842,241 ) | 33,374,532 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | | **356,972,323** | 144,679,169 | ( 88,528,817 ) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | **1,263,142,145** | 1,118,462,976 | 1,206,991,793 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **P 1,620,114,468** | P 1,263,142,145 | P 1,118,462,976 |

**Supplement Information on Noncash Investing Activities**

In 2009, the Board of Directors of Solid Laguna Corporation, a subsidiary, approved the phasing out of its plastic injection manufacturing division. As a result, certain property, plant and equipment with a total carrying amount of P12.1 million were reclassified as Non-current Assets Held for Sale (see Note 5). In 2010, the assets were subsequently sold to third parties.

In 2008, the Group reclassified certain investments in foreign currency-denominated bonds, previously classified as Available-for-sale Financial Assets, to the Held-to-maturity Investments account, with a total fair value of P165.2 million at the time of reclassification. However, in 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with a total carrying amount of P125.2 million back to Available-for-sale Financial Assets (see Notes 5, 8 and 9).

Also, in 2008, Zen Towers Corporation, another subsidiary, reclassified certain assets amounting to P116.9 million, previously classified as part of Real Estate Inventories, to Investment Property (see Note 13).

***See Notes to Consolidated Financial Statements.***

**SOLID GROUP INC. AND SUBSIDIARIES**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**DECEMBER 31, 2010, 2009 AND 2008**
***(Amounts in Philippine Pesos)***

## 1. CORPORATE INFORMATION

### *1.1 Company Background*

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

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

| | Percentage of Ownership | | | | |
|---|---|---|---|---|---|
| Subsidiaries | **2010** | 2009 | 2008 | Notes | Nature of Business |
| Brilliant Reach Limited (BRL) | **100** | 100 | 100 | (a) | Investment company |
| Kita Corporation (Kita) | **100** | 100 | 100 | | Real estate and manufacturing of injected plastics |
| Omni Logistics Corporation (OLC) | **100** | 100 | 100 | | Logistics and assembly of colored televisions |
| Solid Broadband Corporation (SBC) | **100** | 100 | 100 | | Broadband, cable and satellite services, sale of mobile phones and LCD televisions |
| Solid Corporation (SC) | **100** | 100 | 100 | | Real estate |
| Solid Group Technologies Corporation (SGTC) | **100** | 100 | 100 | (c) | Information and communications and technology systems |
| Precos, Inc. (Precos) | **100** | 100 | 100 | (c) | Real estate |
| Solid Electronics Corporation (SE Corp.) | **100** | 100 | 100 | | Repair services for audio and video products |
| Solid Laguna Corporation (SLC) | **100** | 100 | 100 | | Real estate |
| Solid Manila Corporation (SMC) | **100** | 100 | 100 | | Real estate |
| Casa Bocobo Hotel, Inc. (CBHI) [formerly Zen By The Park, Inc.] | **100** | 100 | 100 | (e), (g) | Real estate |
| Solid Manila Finance, Inc. (SMFI) | **100** | 100 | 100 | | Financing |
| Solid Video Corporation (SVC) | **100** | 100 | 100 | | Trading of professional audio and video equipment |
| Zen Towers Corporation (ZTC) | **100** | 100 | 100 | | Real estate |
| Phil-Nanning Consortium, Inc. (PNCI) | **100** | 100 | 100 | (c), (h) | Real estate |
| My Solid Technologies & Devices Corporation (My Solid) | **100** | 100 | - | (j) | Sale of mobile phones |
| Mytel Mobility Solutions, Inc. (Mytel) | **100** | - | - | (k) | Sale of mobile phones |
| 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 | (c), (i) | Real estate |
| Starworld Corporation (Starworld) | **50** | 50 | 50 | (e), (f) | Real estate |
| Laguna International Industrial Park, Inc. (LIIP) | **50** | 50 | 50 | (b), (d) | Real estate |

Notes:

(a) Incorporated and domiciled in the British Virgin Islands
(b) Indirectly owned through SC
(c) Pre-operating or non-operating
(d) LIIP is 22.5% owned by SC and 37.5% owned by Interstar
(e) Indirectly owned through SMC
(f) Starworld is 20% owned by SMC and 40% owned by Skyworld
(g) Incorporated in 2007 and started commercial operations in August 2008
(h) Acquired in 2008; indirectly owned through Precos
(i) Acquired in 2008; indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China
(j) Incorporated in 2009 and started commercial operations in January 2010
(k Incorporated in 2009 and acquired in 2010

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

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

### *1.2 Status of Operations*

*(a) Revaluation of Investment Property*

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

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

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

### *1.3 Other Corporate Information*

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

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

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

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

The consolidated financial statements of the Group for the year ended December 31, 2010 (including the comparatives for the years ended December 31, 2009 and 2008) were authorized for issue by the Parent Company's Board of Directors (BOD) on April 1, 2011.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

The Group presented two comparative periods for the consolidated statement of financial position, i.e., December 31, 2009 and 2008 as a result of the prior period adjustments and reclassification of accounts (see Note 24.3).

(c) *Functional and Presentation Currency*

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

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

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

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

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

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

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

(i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group's adoption of the standard did not result in any adjustment to its consolidated financial statements as there were no transactions covered under the standard during the year.

(ii) PFRS 3 (Revised 2008), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group did not have any business acquisition during the year; hence, the adoption of the revised standard has no effect on the 2010 consolidated financial statements.

(iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*. IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the consolidated financial statements since the Group did not distribute non-cash assets to its stockholders during the current year and in prior years.

(iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not also have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

- PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. The amendment has no significant impact on the Group's consolidated financial statements.

- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

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

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

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

(c) *Effective Subsequent to 2010*

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

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

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

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

(ii) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2011). The amendments will allow users of consolidated financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its consolidated financial statements as they only affect disclosures and the Group usually provides adequate information in its consolidated financial statements in compliance with disclosure requirements.

(iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39*,* will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

Phase 1: Classification and Measurement
Phase 2: Impairment Methodology
Phase 3: Hedge Accounting

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

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

(v) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to PAS 19, *Employee Benefits,* surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually make substantial advance contribution to its retirement fund.

(vi) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in its consolidated financial statements.

(vii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is the consideration paid in accordance with PAS 39;
- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1, *Presentation of Financial Statements – Clarification of Statement of Changes in Equity* (effective from July 1, 2010). Clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* PAS 28, *Investment in Associates,* PAS 31, *Investments in Joint Ventures – Transition Requirements for Amendments Arising as a Result of* PAS 27, *Consolidated and Separate Financial Statements* (Revised 2008) (effective from July 1, 2010). This amends the transition requirements to apply certain consequential amendments arising from the 2008 PAS 27 amendments prospectively, to be consistent with the related PAS 27 transition requirements.

- PFRS 3, *Business Combinations* (effective from July 1, 2010). This clarifies that contingent consideration balances arising from business combinations that occurred before an entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances.

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

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

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

### *2.3 Basis of Consolidation*

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

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

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

(a) *Investments in Subsidiaries*

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

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

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

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

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

(b) *Transactions with Non-controlling Interests*

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

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

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

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

### *2.4 Segment Reporting*

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

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

### *2.5 Financial Assets*

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

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

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

*(a) Loans and Receivables*

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

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

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

*(b) Held-to-maturity Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Held-to-maturity investments are included in non-current assets section of the consolidated statement of financial position, except those maturing within 12 months from the reporting period, which are presented as part of current assets.

Subsequent to initial recognition, the investments are measured at amortized cost using the effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment, including impairment loss, are recognized in profit or loss.

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

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

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

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

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

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

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

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

### *2.6 Merchandise Inventories and Supplies*

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

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

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

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

### *2.7 Real Estate Inventories*

Real estate inventories consist of the following:

*(a) Land and Land Development Costs*

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

*(b) Property Development Costs*

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

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

### *2.8 Property, Plant and Equipment*

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

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

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

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

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

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

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

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

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

### *2.9 Investment Property*

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

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

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

### *2.10 Financial Liabilities*

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

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

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

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

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

### *2.11 Business Combination*

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

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

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

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

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

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

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

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

*(a)* Transaction costs directly attributable to business acquisition formed part of the acquisition costs;

*(b)* The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets;

*(c)* Business combinations achieved in stages were accounted for as separate steps or acquisitions. Any additional shares acquired of interest did not affect previously recognized goodwill; and,

*(d)* Contingent consideration was recognized if, and only if, payment was probable; i.e., the Group had a present obligation, the economic outflow was more likely than not, and a reliable estimate is determinable. Subsequent adjustment to the contingent consideration was recognized as an adjustment to goodwill.

### *2.12 Provisions and Contingencies*

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

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

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

### *2.13 Revenue and Expense Recognition*

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

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

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

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

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

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

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.

- *Rendering of services and other income from internet subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

- *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

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

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

*(e)* *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks: or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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

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

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

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

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

*(h)* *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.

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

*(j)* *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

### *2.14 Leases*

The Group accounts for its leases as follows:

*(a)* *Group as Lessee*

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

*(b) Group as Lessor*

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

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

### *2.15 Foreign Currency Transactions*

*(a) Transactions and Balances*

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

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

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

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

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

(ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

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

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

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

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

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

### *2.17 Employee Benefits*

*(a) Post-employment Benefit*

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

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

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

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

*(b) Termination Benefits*

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

*(c) Compensated Absences*

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

### *2.18 Borrowing Costs*

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

### *2.19 Income Taxes*

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

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

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

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

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

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

### *2.20 Related Party Transactions*

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

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

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

### *2.21 Equity*

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

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

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

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

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

### *2.22 Earnings per Share*

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

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. As of December 31, 2010, 2009 and 2008, the Parent Company does not have potential dilutive shares.

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

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

*(a) Held-to-maturity Investments*

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

In 2009, the Group disposed of significant portion of its Held-to-maturity Investments; hence, its remaining balance was reclassified to Available-for-sale Financial Assets (see Note 9).

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

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

The carrying amount of the real estate inventories amounted to P1.3 billion as of December 31, 2010 and P1.0 billion as of December 31, 2009 and 2008 (see Note 11).

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

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's available-for-sale financial assets, management concluded that certain assets are impaired as of December 31, 2010, 2009 and 2008. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

Impairment losses on available-for-sale financial assets amounted to P33.7 million in 2010 and P0.2 million in 2008 (see Note 8). There is no impairment loss recognized in 2009.

*(d) 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.

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

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

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

*(f)* *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.

*(g)* *Provisions and Contingencies*

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

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

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

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

### *3.2 Key Sources of Estimation Uncertainty*

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

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories (P392.7 million, P83.4 million and P219.3 million as at December 31, 2010, 2009 and 2008, respectively, as presented in Note 10) is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipments and accessories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

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

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

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

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

The carrying value of trade and other receivables amounted to P1.5 billion, P1.2 billion and P1.0 billion as at December 31, 2010, 2009 and 2008, respectively (see Note 7). Impairment losses on trade and other receivables, as also shown in Note 7, amounted to P9.3 million in 2010, P27.7 million in 2009 and P17.6 million in 2008.

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

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

Fair Value Gains on Available-for-sale Financial Assets of P14.5 million in 2010 and P35.1 million in 2009, and Fair Value Losses on Available-for-sale Financial Assets of P147.9 million in 2008 were reported in the other comprehensive income (see Note 8). The carrying values of the assets are disclosed in Note 8.

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

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The estimated liability for land and development costs amounted to P68.3 million as of December 31, 2010, 2009 and 2008 (see Note 11).

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

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

*(g)* *Reserve for Warranty Costs*

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

Provisions for warranty claims recognized amounted to P35.7 million in 2010, P26.3 million in 2009 and P11.4 million in 2008. As of December 31, 2010, 2009 and 2008, the outstanding balance of Reserve for Warranty Costs amounted to P23.4 million as of December 31, 2010 and P12.8 million as of December 31, 2009 and 2008 (see Note 16).

*(h)* *Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2010, 2009 and 2008 is disclosed in Note 23.2.

*(i)* *Impairment of Non-financial Assets*

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

Based on management's assessment, there were no impairment losses recognized on property, plant and equipment, investment property and other non-financial assets in 2010, 2009 and 2008.

*(j)* *Post-employment Benefit*

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

The estimated present value of the retirement benefit obligation amounted to P91.2 million, P71.6 million and P74.6 million as of December 31, 2010, 2009 and 2008, respectively, while the fair value of plan assets as of those dates amounted to P239.4 million, P210.7 million and P163.5 million, respectively (see Note 22.2).

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

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

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

(b) Manufacturing and related support services segment is engaged in the business of manufacturing plastic injection molding parts and rendering of after sales service operations as the recognized authorized Service Network for products of a third party (see Note 5);

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

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

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

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

### 4.2 *Segment Assets and Liabilities*

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

### 4.3 *Intersegment Transactions*

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

The following tables present certain assets and liability information regarding business segments as of December 31, 2010, 2009 and 2008 and the related revenue and profit information for the years then ended (in thousands).

| | Broadband Services | Related Support Services | Real Estate | Trading | Investing, Financing and Others | Total |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **SEGMENT RESULTS** | | | | | | |
| Sales to external customers | P 390,869 | P 305,540 | P 332,299 | P 1,617,073 | P 64,286 | P 2,710,067 |
| Intersegment sales | - | 5,471 | 34,133 | 28,032 | 15,386 | 83,022 |
| Total revenues | 390,869 | 311,011 | 366,432 | 1,645,105 | 79,672 | 2,793,089 |
| Cost of sales, services and rentals | 260,188 | 226,555 | 211,763 | 1,219,577 | - | 1,918,083 |
| Other operating expense | 38,697 | 20,929 | 92,545 | 316,101 | 23,046 | 491,318 |
| Operating profit | 91,984 | 63,527 | 62,124 | 109,427 | 56,626 | 383,688 |
| Finance income | 4,333 | 7,924 | 22,858 | 2,713 | 9,057 | 46,885 |
| Finance costs | (2,625) | (1,194) | (10,138) | (13,984) | (57,458) | (85,399) |
| Other gains (losses) – net | - | - | 18,292 | 21 | (2,330) | 15,983 |
| Profit before tax | 93,692 | 70,257 | 93,136 | 98,177 | 5,895 | 361,157 |
| Tax expense | (21,457) | (12,842) | (27,112) | (52,142) | (9,098) | (122,651) |
| Profit – continuing operation | 72,235 | 57,415 | 66,024 | 46,035 | (3,203) | 238,506 |
| Loss – discontinued operation | - | (17,061) | - | - | - | (17,061) |
| Net profit (loss) for the year | **P 72,235** | **P 40,354** | **P 66,024** | **P 46,035** | **(P 3,203)** | **P 221,445** |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Total assets | **P 762,404** | **P 830,225** | **P 6,345,462** | **P 1,787,307** | **P 8,145,375** | **P 17,870,770** |
| Total liabilities | **P 211,242** | **P 215,015** | **P 2,340,528** | **P 1,562,209** | **P 642,037** | **P 4,971,031** |

| | Broadband Services | Related Support Services | Real Estate | Trading | Investing, Financing and Others | Total |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Capital expenditures | P 42,427 | P 7,701 | P 4,053 | P 2,037 | P 393 | P 56,611 |
| Depreciation and amortization | 49,307 | 11,553 | 5,351 | 9,826 | 155 | 76,372 |
| Impairment losses | 32,015 | - | - | 10,909 | - | 42,924 |
| Other non-cash expenses | - | - | ( 5,631) | - | - | ( 5,631) |
| **2009** | | | | | | |
| **SEGMENT RESULTS** | | | | | | |
| Sales to external customers | P 307,685 | P 489,087 | P 318,235 | P 1,121,807 | P 87,163 | P 2,323,978 |
| Intersegment sales | - | 1,677 | 20,341 | 1,000 | 25,723 | 48,741 |
| Total revenues | 307,685 | 490,764 | 502,094 | 1,122,807 | 112,886 | 2,372,719 |
| Cost of sales, services and rentals | 213,082 | 385,354 | 196,311 | 842,746 | - | 1,637,493 |
| Other operating expense (income) | 54,056 | 105,372 | 55,986 | 125,938 | 23,904 | 365,257 |
| Operating profit | 40,547 | 38 | 86,279 | 154,123 | 88,984 | 369,969 |
| Finance income | 7,073 | 4,797 | 19,742 | 2,684 | 1,601 | 35,898 |
| Finance costs | ( 20,007) | ( 6,024) | ( 3,199) | ( 8,435) | ( 82,072) | ( 119,737) |
| Other gains – net | - | - | 1,412 | - | - | 1,412 |
| Profit (loss) before tax | 27,613 | ( 1,189) | 104,234 | 148,372 | 8,513 | 287,542 |
| Tax expense | ( 7,982) | ( 3,264) | ( 23,597) | ( 31,765) | ( 5,400) | ( 72,009) |
| Profit – continuing operation | 19,631 | ( 4,453) | 80,637 | 116,607 | 3,113 | 215,533 |
| Loss – discontinued operation | - | ( 2,690) | - | - | - | ( 2,690) |
| Net profit (loss) for the year | **P 19,631** | **(P 7,143)** | **P 80,637** | **P 116,607** | **P 3,113** | **P 212,843** |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Total assets | **P 777,361** | **P 822,899** | **P 6,861,492** | **P 540,242** | **P 12,505,255** | **P 21,507,249** |
| Total liabilities | **P 221,409** | **P 237,776** | **P 1,968,163** | **P 137,107** | **P 783,963** | **P 3,348,418** |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Capital expenditures | P 36,946 | P 5,942 | P 5,353 | P 1,538 | P 100,585 | P 150,364 |
| Depreciation and amortization | 44,080 | 7,375 | 8,504 | 3,263 | 133 | 63,355 |
| Impairment losses | 18,955 | 3,637 | - | 14,079 | - | 36,671 |
| Other non-cash expenses | - | 15,836 | 13,869 | 3,290 | 167,566 | 200,561 |
| **2008** | | | | | | |
| **SEGMENT RESULTS** | | | | | | |
| Sales to external customers | P 281,742 | P 474,889 | P - | P 759,589 | P 107,380 | P 1,623,600 |
| Intersegment sales | - | 3,201 | 17,200 | 178 | 154,879 | 175,458 |
| Total revenues | 281,742 | 478,090 | 17,200 | 759,767 | 262,259 | 1,799,058 |
| Cost of sales, services and rentals | 224,769 | 399,979 | 32,476 | 621,488 | - | 1,278,712 |
| Other operating expense (income) | 47,824 | ( 28,554) | ( 55,942) | 85,954 | 37,743 | 87,025 |
| Operating profit | 9,149 | 106,665 | 40,666 | 52,325 | 224,516 | 433,321 |
| Finance income | 1,844 | 7,675 | 5,996 | 2,206 | 33,224 | 50,945 |
| Finance costs | ( 4,973) | ( 14,189) | ( 1,273) | ( 2,131) | ( 26,473) | ( 48,039) |
| Other gains – net | - | - | - | - | 110 | 110 |
| Profit before tax | 6,020 | 100,151 | 45,389 | 52,400 | 231,377 | 436,337 |
| Tax expense (income) | ( 3,407) | ( 40,060) | 47,556 | ( 6,626) | ( 8,699) | ( 11,236) |
| Profit – continuing operation | 2,613 | 60,091 | 92,945 | 45,774 | 222,678 | 425,101 |
| Loss – discontinued operation | - | ( 31,374) | - | - | - | ( 31,374) |
| Net profit (loss) for the year | P 2,613 | P 28,717 | P 92,945 | P 45,774 | P 222,678 | P 393,727 |
| **SEGMENT ASSETS AND LIABILITIES** | | | | | | |
| Total assets | P 866,884 | P 878,561 | P 6,669,941 | P 355,497 | P 7,313,655 | P 16,084,538 |
| Total liabilities | P 308,993 | P 240,861 | P 2,071,142 | P 178,238 | P 735,392 | P 3,534,626 |
| **OTHER SEGMENT INFORMATION** | | | | | | |
| Capital expenditures | P 33,930 | P 11,073 | P 177,759 | P 1,867 | P 40 | P 224,669 |
| Depreciation and amortization | 48,457 | 18,293 | 6,640 | 1,884 | 149 | 75,423 |
| Impairment losses | 4,038 | 15,748 | - | 8,090 | - | 27,876 |
| Other non-cash expenses | - | 319 | 1,502 | 1,728 | 19,757 | 23,306 |

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):

| | Segment Totals | Intercompany Accounts | Consolidated Balances |
|---|---|---|---|
| 2010 | | | |
| Revenues | P 2,793,089 | (P 83,022) | P 2,710,067 |
| Net profit for the year | 221,445 | 5,258 | 226,703 |
| Total assets | 17,870,770 | ( 7,228,324) | 10,642,446 |
| Total liabilities | 4,971,031 | ( 2,440,533) | 2,530,498 |
| Other segment information: | | | |
| Capital expenditures | 70,700 | ( 13,899) | 56,801 |
| Depreciation and amortization | 68,449 | 7,140 | 75,589 |
| Impairment losses | 12,527 | 30,397 | 42,924 |
| Other non-cash expenses | ( 57,545) | 51,914 | ( 5,631) |
| 2009 | | | |
| Revenues | P 2,372,719 | (P 48,741) | P 2,323,978 |
| Net profit for the year | 212,843 | 13,883 | 226,276 |
| Total assets | 21,507,249 | ( 11,690,069) | 9,817,180 |
| Total liabilities | 3,348,418 | ( 1,358,310) | 1,990,108 |
| Other segment information: | | | |
| Capital expenditures | 150,364 | ( 103,667) | 46,697 |
| Depreciation and amortization | 63,355 | 11,644 | 74,999 |
| Impairment losses | 36,671 | ( 8,936) | 27,735 |
| Other non-cash expenses | 200,561 | ( 176,677) | 23,884 |
| 2008 | | | |
| Revenues | P 1,799,058 | (P 190,587) | P 1,608,471 |
| Profit for the year | 393,727 | ( 125,015) | 268,712 |
| Total assets | 16,084,538 | ( 6,767,229) | 9,317,309 |
| Total liabilities | 3,534,626 | ( 1,706,741) | 1,827,885 |
| Other segment information: | | | |
| Capital expenditures | 224,669 | ( 162,264) | 62,405 |
| Depreciation and amortization | 75,423 | 3,950 | 79,373 |
| Impairment losses | 27,876 | ( 10,103) | 17,773 |
| Other non-cash expenses | 23,306 | 31,605 | 54,911 |

## 5. DISCONTINUED OPERATIONS

As mentioned in Note 1.2, Kita and SLC ceased the operations of their plastic injection manufacturing business as of December 31, 2010. Termination benefits paid to employees who accepted voluntary redundancy amounted to P1.1 million in 2010 and P9.7 million in 2009 (see Note 22.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented in the consolidated statements of income under the loss from Discontinued Operations account.

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

Certain machinery and equipment of SLC with total carrying amounts of P12.1 million as of December 31, 2009 were reclassified as Non-current Assets Held for Sale in the 2009 consolidated statement of financial position. The fair value was determined as the amount for which the assets could be exchanged between knowledgeable willing parties in an arm's length transaction. These assets were subsequently sold to third parties for P9.7 million in June 2010. At the time of sale, the assets had carrying value of P9.2 million. The resulting gain related to the sale of these assets is presented as part of Miscellaneous under Other Operating Income in the 2010 consolidated statement of income (see Note 19).

The analysis of the revenue, expenses and tax expense of the discontinued operations for the years ended December 31, 2010, 2009 and 2008 are shown below.

| | Notes | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Sales of goods | | **P 19,912,861** | P 163,518,013 | P 157,487,826 |
| Cost of sales | 18.1 | **( 31,736,150)** | ( 144,512,497) | ( 154,537,641) |
| Gross profit (loss) | | **( 11,823,289)** | 19,005,516 | 2,950,185 |
| Other operating income (expenses): | | | | |
| General and administrative expenses | 20 | **( 9,271,158)** | ( 22,026,940) | ( 24,314,367) |
| Selling and distribution costs | 20 | **( 413,308)** | ( 4,304,982) | ( 3,893,368) |
| Other operating income - net | 19 | **2,823,829** | 5,131,973 | 3,584,148 |
| | | **( 6,860,637)** | ( 21,199,949) | ( 24,623,587) |
| Other income (charges): | 21 | | | |
| Finance income | | **2,891,714** | 2,530,159 | 4,198,669 |
| Finance costs | | **( 653,326)** | ( 3,878,327) | ( 10,261,715) |
| | | **2,238,388** | ( 1,348,168) | ( 6,063,046) |
| Loss before tax | | **( 16,445,538)** | ( 3,542,601) | ( 27,736,447) |
| Tax income (expense) | 23 | **( 615,115)** | 852,942 | ( 3,637,363) |
| Loss from discontinued operations | | **(P 17,060,653)** | (P 2,689,659) | (P 31,373,810) |

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the year ended December 31, 2010 are shown below.

| | 2010 | | |
|---|---|---|---|
| | Continuing | Discontinued | Total |
| Net Cash From (Used in) Operating Activities | (P 64,190,106) | P 21,911,041 | (P 42,279,065) |
| Net Cash From (Used in) Investing Activities | ( 26,686,111) | 3,033,588 | ( 23,652,523) |
| Net Cash From (Used in) Financing Activities | 444,169,750 | ( 20,146,036) | 424,023,714 |
| Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | ( 1,119,803) | - | ( 1,119,803) |
| Net increase in Cash and Cash equivalents | 352,173,030 | 4,798,593 | 356,972,323 |
| Cash and cash equivalents at beginning of year | 1,248,783,034 | 14,359,111 | 1,263,142,145 |
| Cash and cash equivalents at end of year | **P 1,600,956,764** | **P 19,157,704** | **P 1,620,114,468** |

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the year ended December 31, 2009 are shown below.

| | 2009 | | |
|---|---|---|---|
| Net Cash From Operating Activities | P 70,577,320 | P 27,895,020 | P 98,472,340 |
| Net Cash From (Used in) Investing Activities | ( 21,143,514) | 350,124 | ( 20,793,390) |
| Net Cash From (Used in) Financing Activities | 113,798,516 | ( 36,956,056) | 76,842,460 |
| Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | ( 10,044,847) | 202,606 | ( 9,842,241) |
| Net increase (decrease) in Cash and Cash equivalents | 153,187,475 | ( 8,508,306) | 144,679,169 |
| Cash and cash equivalents at beginning of year | 1,074,392,727 | 44,070,249 | 1,118,462,976 |
| Cash and cash equivalents at end of year | **P 1,227,580,202** | **P 35,561,943** | **P 1,263,142,145** |

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the year ended December 31, 2009 are shown below.

| | 2008 | | |
|---|---|---|---|
| Net Cash Used in Operating Activities | P 48,561,788 | (P 28,112,326) | P 20,449,462 |
| Net Cash Used in Investing Activities | ( 168,698,201) | ( 1,818,578) | ( 170,516,779) |
| Net Cash From Financing Activities | 9,420,646 | 18,743,322 | 28,163,968 |
| Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents | 33,262,000 | 112,532 | 33,374,532 |
| Net decrease in Cash and Cash equivalents | ( 77,453,767) | ( 11,075,050) | ( 88,528,817) |
| Cash and cash equivalents at beginning of year | 1,168,178,696 | 38,813,097 | 1,206,991,793 |
| Cash and cash equivalents at end of year | **P 1,090,724,929** | **P 27,738,047** | **P 1,118,462,976** |

## 6. CASH AND CASH EQUIVALENTS

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Cash on hand and in banks | **P 509,181,468** | P 318,176,809 | P 259,919,934 |
| Short-term placements | **1,110,933,000** | 944,965,336 | 858,543,042 |
| | **P 1,620,114,468** | P 1,263,142,145 | P 1,118,462,976 |

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 96 days and earn effective interest ranging from 0.8% to 6.0% per annum in 2010, 0.5% to 8.0% per annum in 2009 and 3.0% to 9.0% per annum in 2008.

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

| | Notes | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Current: | | | | |
| Trade receivables | 26.1 | **P 658,787,111** | P 492,346,538 | P 282,072,386 |
| Advances to suppliers | | **216,493,690** | - | - |
| Finance receivables | 26.4 | **67,984,157** | 70,966,344 | 67,509,623 |
| Other receivables | | **77,375,904** | 69,467,339 | 78,691,599 |
| | | **1,020,640,862** | 632,780,221 | 428,273,608 |
| Allowance for impairment | | **( 129,657,216)** | ( 131,494,933) | ( 115,068,504) |
| | | **890,983,646** | 501,285,288 | 313,205,104 |
| Non-current: | | | | |
| Trade receivables | | **26,579,435** | 40,460,934 | 11,915,023 |
| Finance receivables | | **163,937,334** | 181,693,263 | 202,291,234 |
| Cash surrender value of investment in life insurance | 15 | **450,394,432** | 457,608,611 | 452,684,719 |
| | | **640,911,201** | 679,762,808 | 666,890,976 |
| | | **P 1,531,894,847** | P 1,181,048,096 | P 980,096,080 |

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired, hence, adequate amount of allowance for impairment have been recognized.

A reconciliation of the allowance for impairment at beginning and end of 2010, 2009 and 2008 is shown below.

| | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Balance at beginning of year | | **P 131,494,933** | P 115,068,504 | P 120,532,570 |
| Reversals of impairment losses | 21.1 | **( 11,104,219)** | ( 8,488,254) | ( 7,879,232) |
| Impairment losses during the year | 21.2 | **9,266,502** | 27,735,676 | 17,603,434 |
| Write-off of receivables | | **-** | ( 2,820,993) | 15,188,268 |
| Balance at end of year | | **P 129,657,216** | P 131,494,933 | P 115,068,504 |

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

Interest rates on finance receivables range from 7.5% to 30.0% in 2010 and 7.5% to 18.0% in 2009 and 2008. Certain finance receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 26.4).

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

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

The balance of Other Receivables as of December 31, 2010, 2009 and 2008 includes interest-bearing cash advances granted by Starworld in 2004 amounting to P23.5 million to a third party which is secured by the third party's stockholdings in a certain company. The proceeds were used to finance the working capital requirements of Land Registration Authority Systems, Inc. (LARES). In 2008, an agreement with the third party was executed specifying the payment terms for both principal and interest.

Other Receivables as at the end of 2008 also included unsecured, noninterest-bearing cash advances granted by Starworld to LARES, amounting to P6.0 million, to finance the latter's operations and expenses pertaining to the arbitration proceedings with the Land Registration Authority (LRA). The P6.0 million advances to LARES were collected in full in 2009 (see Note 28.1).

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

## 8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Current: | | | |
| Investments in foreign currency-denominated bonds | **P 172,263,491** | P 305,804,353 | P 63,519,015 |
| Allowance for impairment | **( 33,657,338)** | - | - |
| | **138,606,153** | 305,804,353 | 63,519,015 |
| Non-current: | | | |
| Club shares | **13,095,000** | 9,030,000 | 8,670,000 |
| Equity securities | **8,580,000** | 8,580,000 | 8,580,000 |
| Others | **1,436,518** | 1,396,518 | 1,216,518 |
| Allowance for impairment | **( 11,004,991)** | ( 11,004,991) | ( 11,004,991) |
| | **12,106,527** | 8,001,527 | 7,461,527 |
| | **P 150,712,680** | P 313,805,880 | P 70,980,542 |

The movements in the allowance for impairment as of December 31, 2010, 2009 and 2008 are as follows:

| | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Balance at beginning of year | | **P 11,004,991** | P 11,004,991 | P 10,834,991 |
| Impairment loss during the year | 21.2 | **33,657,338** | - | 170,000 |
| Balance at end of year | | **P 44,662,329** | P 11,004,991 | P 11,004,991 |

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

| | Notes | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Balance at beginning of year | | **P 313,805,880** | P 70,980,542 | P 396,059,846 |
| Disposals | | **( 145,624,585)** | ( 20,944,780) | ( 11,870,863) |
| Impairment losses during the year | 21.2 | **( 33,657,338)** | - | ( 170,000) |
| Reclassification from (to) held-to-maturity investments | 9 | **-** | 153,411,308 | ( 165,185,417) |
| Fair value gains (losses) – net | 24.2 | **14,474,181** | 35,128,701 | ( 147,853,024) |
| Additions | | **1,714,554** | 75,230,109 | - |
| Balance at end of year | | **P 150,712,692** | P 313,805,880 | P 70,980,542 |

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

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Parent Company's investment in SPI expired on May 8, 2005 in which the Parent Company received a formal notice of the expiry of the JVA on April 11, 2005. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of these events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, in 2005, the Parent Company reclassified its remaining investment in shares of stock of SPI with total cost of P8,580,000 to Available-for-sale Financial Assets. The Parent Company's investment in SPI is fully provided with allowance for impairment loss as of December 31, 2010, 2009 and 2008.

Impairment losses recognized on the Group's Available-for-sale Financial Assets are presented as part of Finance Costs in the 2010 and 2008 consolidated statements of income (see Note 21.2).

The fair values of the Group's investments in club shares, which represents proprietary membership club shares, as of December 31, 2010, 2009 and 2008 have been determined directly by reference to published prices in active markets.

## 9. HELD-TO-MATURITY INVESTMENTS

In 2008, the Group reclassified its investments in foreign currency-denominated bonds (previously classified as available-for-sale financial assets in the 2007 consolidated statement of financial position) as held-to-maturity investments (see Note 8) as allowed under the amendments to PAS 39, and PFRS 7, which was effective from July 1, 2008. These investments in bonds had a total fair value of P165.2 million when the reclassification was made on October 31, 2008; maturities range from 6 to 493 months and interest range from 8.00% to 11.75%. As of December 31, 2008, these investments had a total carrying amount of P161.3 million and are presented under the non-current assets section of the 2008 consolidated statement of financial position.

In 2009, the Group disposed of a significant portion of its held-to-maturity investments. Accordingly, management reclassified the remaining held-to-maturity investments with total carrying amount of P125.2 million back to Available-for-sale Financial Assets to comply with PFRS. The fair value of the investments at the time of reclassification on August 31, 2009 amounted to P153.4 million. The reclassification resulted in a gain of P28.2 million, which is presented as Fair Value Gain on Reclassification of Financial Assets in the 2009 consolidated statement of comprehensive income.

## 10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below.

| | Note | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Merchandise and finished goods | 18.1 | **P 412,507,056** | P 62,462,687 | P 174,848,218 |
| Work-in-process | 18.1 | **2,256,191** | 1,665,047 | 6,023,600 |
| Raw materials | 18.1 | **10,757,863** | 20,252,525 | 26,812,225 |
| Service parts, supplies and others | | **57,097,648** | 48,866,353 | 49,504,835 |
| | | **482,618,758** | 133,246,612 | 257,188,878 |
| Allowance for inventory obsolescence | | **( 89,909,514)** | ( 49,805,684) | ( 37,927,950) |
| | | **P 392,709,244** | P 83,440,928 | P 219,260,928 |

The movements in allowance for inventory obsolescence are as follows:

| | Note | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Balance at beginning of year | | **P 49,805,684** | P 37,927,950 | P 40,674,114 |
| Allowance for inventory obsolescence from newly acquired subsidiary | | **51,343,691** | - | - |
| Reversals of allowance for inventory obsolescence | 18.1 | **( 19,184,724)** | ( 1,796,955) | ( 10,860,332) |
| Loss on inventory obsolescence | 18.1 | **7,944,863** | 15,765,265 | 8,114,168 |
| Write-off of inventory previously provided with allowance | | **-** | ( 2,090,576) | - |
| Balance at end of year | | **P 89,909,514** | P 49,805,684 | P 37,927,950 |

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

In 2010, Mytel reversed a portion of the inventory write-down recognized in 2009 amounting to P8.1 million following the sale of the inventory items. The reversal is included as part of Cost of Sales in the 2010 consolidated statement of income (see Note 18.1).

SLC's and Kita's inventory write-down with no previous allowance for inventory obsolescence amounted to P2.0 million and P5.9 million, respectively, in 2010 and is presented as Loss on inventory obsolescence on discontinued operations under Cost of Sales in the 2010 consolidated statement of income.

## 11. REAL ESTATE INVENTORIES

This account is composed of:

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Land and land development costs: | | | |
| Land | **P 46,985,838** | P 60,940,229 | P 152,664,544 |
| Land development costs | **36,046,751** | 104,735,932 | 259,366,856 |
| | **83,032,589** | 165,676,161 | 412,031,400 |
| Allowance for impairment | **( 2,022,800)** | ( 2,022,800) | ( 2,022,800) |
| | **81,009,789** | 163,653,361 | 410,008,600 |
| Property development costs - Construction in progress and development costs | **1,246,993,041** | 883,227,677 | 626,941,272 |
| | **P 1,328,002,830** | P 1,046,881,038 | P 1,036,949,872 |

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

The allowance for impairment was the amount recognized in 2005 pertaining to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2010, 2009 and 2008.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba, Laguna. As of December 31, 2010, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. As of December 31, 2010, 2009 and 2008, the construction of Tower 1 which started in 2007, is fully completed. The construction of Towers 2 and 3 has not yet started as of December 31, 2010.

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

In addition, the balances of Property Development Costs as of December 31, 2010, 2009 and 2008 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, People's Republic of China. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the People's Republic of China. Pre-sale of the condominium units has been commenced for two of the residential towers in December 2010. Customer deposits relating to the pre-selling activities in 2010 are shown as part Trade and Other Payables in the 2010 consolidated statement of financial position (see Note 16).

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Balance at beginning of year | **P 68,304,647** | P 68,304,647 | P 27,886,345 |
| Additions | **-** | - | 60,000,000 |
| Payments made | **-** | - | ( 19,581,696) |
| Balance at end of year | **P 68,304,647** | P 68,304,647 | P 68,304,647 |

## 12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses at the beginning and end of 2010, 2009 and 2008 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, 2010 | | | | | | | | | | | | |
| Cost | P 897,854,682 | P 227,896,093 | P 54,731,671 | P 126,509,662 | P 86,920,710 | P 1,281,118,081 | P 145,693,981 | P 66,396,464 | P 46,690,676 | P 18,292,269 | P 1,090,679 | P 2,953,194,968 |
| Accumulated depreciation and amortization | - | ( 188,016,433) | ( 48,742,034) | ( 109,698,115) | ( 70,628,188) | ( 578,531,307) | ( 88,187,124) | ( 63,558,745) | ( 42,916,185) | ( 16,047,865) | - | ( 1,171,325,996) |
| Accumulated impairment loss | - | - | - | - | - | ( 350,000,000) | - | - | - | - | - | ( 350,000,000) |
| Net carrying amount | **P 897,854,682** | **P 39,879,660** | **P 5,989,637** | **P 16,811,547** | **P 16,292,522** | **P 352,586,774** | **P 57,506,857** | **P 2,837,719** | **P 3,774,491** | **P 2,244,404** | **P 1,090,679** | **P 1,396,868,972** |
| December 31, 2009 | | | | | | | | | | | | |
| Cost | P 897,854,682 | P 241,450,890 | P 71,660,520 | P 125,625,714 | P 78,682,842 | P 1,246,598,385 | P 121,166,643 | P 65,101,920 | P 43,145,046 | P 16,551,005 | P 521,261 | P 2,908,358,908 |
| Accumulated depreciation and amortization | - | ( 143,965,176) | ( 71,434,898) | ( 108,671,988) | ( 65,651,485) | ( 537,711,107) | ( 82,068,142) | ( 61,590,859) | ( 39,275,825) | ( 15,244,996) | - | ( 1,125,614,476) |
| Accumulated impairment loss | - | ( 35,000,000) | - | - | - | ( 350,000,000) | - | - | - | - | - | ( 385,000,000) |
| Net carrying amount | P 897,854,682 | P 62,485,714 | P 225,622 | P 16,953,726 | P 13,031,357 | P 358,887,278 | P 39,098,501 | P 3,511,061 | P 3,869,221 | P 1,306,009 | P 521,261 | P 1,397,744,432 |
| December 31, 2008 | | | | | | | | | | | | |
| Cost | P 897,854,682 | P 241,233,694 | P 143,244,219 | P 121,627,714 | P 76,863,644 | P 1,220,733,104 | P 113,525,125 | P 63,735,966 | P 39,841,558 | P 15,945,039 | P 2,627 | P 2,934,607,372 |
| Accumulated depreciation and amortization | - | ( 133,384,040) | ( 130,585,662) | ( 102,273,939) | ( 57,521,708) | ( 499,677,089) | ( 77,504,658) | ( 59,431,327) | ( 36,523,222) | ( 14,558,503) | - | ( 1,111,460,148) |
| Accumulated impairment loss | - | ( 35,000,000) | - | - | - | ( 350,000,000) | - | - | - | - | - | ( 385,000,000) |
| Net carrying amount | P 897,854,682 | P 72,849,654 | P 12,658,557 | P 19,353,775 | P 19,341,936 | P 371,056,015 | P 36,020,467 | P 4,304,639 | P 3,318,336 | P 1,386,536 | P 2,627 | P 1,438,147,224 |
| January 1, 2008 | | | | | | | | | | | | |
| Cost | P 897,854,682 | P 240,161,515 | P 142,173,590 | P 110,701,600 | P 70,243,765 | P 1,187,347,152 | P 111,482,648 | P 61,929,213 | P 38,221,392 | P 14,759,461 | P 2,627 | P 2,874,877,645 |
| Accumulated depreciation and amortization | - | ( 120,631,439) | ( 128,831,970) | ( 95,666,773) | ( 53,349,960) | ( 458,643,067) | ( 72,319,021) | ( 56,730,284) | ( 34,648,817) | ( 13,617,345) | - | ( 1,034,438,676) |
| Accumulated impairment loss | - | ( 35,000,000) | - | - | - | ( 350,000,000) | - | - | - | - | - | ( 385,000,000) |
| Net carrying amount | P 897,854,682 | P 84,530,076 | P 13,341,620 | P 15,034,827 | P 16,893,805 | P 378,704,085 | P 39,163,627 | P 5,198,929 | P 3,572,575 | P 1,142,116 | P 2,627 | P 1,455,438,969 |

A reconciliation of the carrying amounts at the beginning and end of 2010, 2009 and 2008 of property, plant and equipment is shown below.

| | Land | Buildings and Improvements | Machinery and Equipment | Furniture, Fixtures and Office Equipment | Transportation Equipment | Cable System Equipment | Test, Communication and Other Equipment | Computer System | Leasehold Improvements | Tools and Equipment | Construction in Progress | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Balance at January 1, 2010, net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 62,485,714 | P 225,622 | P 16,953,726 | P 13,031,357 | P 358,887,278 | P 39,098,501 | P 3,511,061 | P 3,869,221 | P 1,306,009 | P 521,261 | P 1,397,744,432 |
| Additions | | 981,174 | 3,481,384 | 7,958,815 | 7,590,358 | 34,503,392 | 24,534,937 | 1,343,937 | 3,550,618 | 2,034,923 | 569,418 | 86,548,956 |
| Reclassification | - | - | 2,852,497 | - | - | - | - | - | - | - | - | 2,852,497 |
| Disposals | - | ( 14,556,893) | - | ( 120,003) | ( 11,041) | - | - | | - | - | - | ( 14,687,937) |
| Depreciation and amortization charges for the year | - | ( 9,030,335) | ( 569,866) | ( 7,980,991) | ( 4,318,152) | ( 40,803,896) | ( 6,126,581) | ( 2,017,279) | ( 3,645,348) | ( 1,096,528) | - | ( 75,588,976) |
| **Balance at December 31, 2010 net of accumulated depreciation, amortization and impairment loss** | **P 897,854,682** | **P 39,879,660** | **P 5,989,637** | **P 16,811,547** | **P 16,292,522** | **P 352,586,774** | **P 57,506,857** | **P 2,837,719** | **P 3,774,491** | **P 2,244,404** | **P 1,090,679** | **P 1,396,868,972** |
| Balance at January 1, 2009, net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 72,849,654 | P 12,658,557 | P 19,353,775 | P 19,341,936 | P 371,056,015 | P 36,020,467 | P 4,304,639 | P 3,318,336 | P 1,386,536 | P 2,627 | P 1,438,147,224 |
| Additions | - | 203,108 | 394,120 | 4,626,568 | 2,045,531 | 25,865,281 | 7,641,518 | 1,365,953 | 3,303,488 | 732,432 | 518,634 | 46,696,633 |
| Reclassification | - | - | ( 12,090,324) | - | - | - | - | - | - | - | - | ( 12,090,324) |
| Disposals | - | - | | ( 9,227) | ( 1,000) | - | - | - | - | - | - | ( 10,227) |
| Depreciation and amortization charges for the year | - | ( 10,567,048) | ( 736,731) | ( 7,017,390) | ( 8,355,110) | ( 38,034,018) | ( 4,563,484) | ( 2,159,531) | ( 2,752,603) | ( 812,959) | - | ( 74,998,874) |
| Balance at December 31, 2009 net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 62,485,714 | P 225,622 | P 16,953,726 | P 13,031,357 | P 358,887,278 | P 39,098,501 | P 3,511,061 | P 3,869,221 | P 1,306,009 | P 521,261 | P 1,397,744,432 |
| Balance at January 1, 2008, net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 84,530,076 | P 13,341,620 | P 15,034,827 | P 16,893,805 | P 378,704,085 | P 39,163,627 | P 5,198,929 | P 3,572,575 | P 1,142,116 | P 2,627 | P 1,455,438,969 |
| Additions | | 1,072,179 | 1,070,629 | 10,926,114 | 9,295,019 | 33,385,952 | 2,042,477 | 1,806,753 | 1,620,166 | 1,185,578 | - | 62,404,867 |
| Disposals | - | - | - | | ( 323,960) | - | - | - | - | - | - | ( 323,960) |
| Depreciation and amortization charges for the year | - | ( 12,752,601) | ( 1,753,692) | ( 6,607,166) | ( 6,522,928) | ( 41,034,022) | ( 5,185,637) | ( 2,701,043) | ( 1,874,405) | ( 941,158) | - | ( 79,372,652) |
| Balance at December 31, 2008 net of accumulated depreciation, amortization and impairment loss | P 897,854,682 | P 72,849,654 | P 12,658,557 | P 19,353,775 | P 19,341,936, | P 371,056,015 | P 36,020,467 | P 4,304,639 | P 3,318,336 | P 1,386,536 | P 2,627 | P 1,438,147,224 |

No additional impairment losses were recognized in 2010, 2009 and 2008 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2010, the fair values of the Group's land and building and improvements amounted to P203.1 million. Fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date.

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

| | Notes | | **2010** | | 2009 | | 2008 |
|---|---|---|---|---|---|---|---|
| Cost of services | 18.2 | **P** | **61,817,018** | P | 58,325,498 | P | 52,499,225 |
| Cost of sales | 18.1 | | **-** | | 5,110,155 | | 5,037,009 |
| General and administrative expenses | | | **10,438,234** | | 11,563,221 | | 18,394,317 |
| Selling and distribution costs | | | **-** | | - | | 3,442,101 |
| Discontinued operations | | | **3,333,724** | | - | | - |
| | 20 | **P** | **75,588,976** | P | 74,998,874 | P | 79,372,652 |

## 13. INVESTMENT PROPERTY

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

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

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

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

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

| | Land and Improvements | Buildings and Improvements | Total |
|---|---|---|---|
| 2010: | | | |
| Balance at beginning of year | P 2,831,596,567 | P 785,921,294 | P 3,617,517,861 |
| Fair value gains (losses) on investment property | 53,175,228 | ( 25,527,147) | 27,648,081 |
| Additions | 556,979 | 795,716 | 1,352,695 |
| Balance at end of year | **P 2,885,328,774** | **P 761,189,863** | **P 3,646,518,637** |
| 2009 – As Restated (see Note 24.3) | | | |
| Balance at beginning of year | P 2,805,314,643 | P 826,610,701 | P 3,631,925,344 |
| Fair value gains (losses) on investment property | 26,355,000 | ( 41,491,545) | 15,136,545 |
| Write-off during the year | ( 73,076) | - | ( 73,076) |
| Additions | - | 802,138 | 802,138 |
| Balance at end of year | P 2,831,596,567 | P 785,921,294 | P 3,617,517,861 |
| 2008 – As Restated (see Note 24.3): | | | |
| Balance at beginning of year | P 2,750,353,372 | P 683,438,564 | P 3,433,791,936 |
| Fair value gains on investment property | 48,590,022 | 12,846,464 | 61,436,486 |
| Additions | 6,371,249 | 130,325,673 | 136,696,922 |
| Balance at end of year | P 2,805,314,643 | P 826,610,701 | P 3,631,925,344 |

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

## 14. OTHER ASSETS

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

| | Notes | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Current: | | | | |
| Input VAT | | **P 108,582,573** | P 94,981,851 | P 101,273,524 |
| Creditable withholding taxes | | **66,263,869** | 65,526,967 | 76,631,574 |
| Prepaid expenses | | **28,770,446** | 2,636,231 | 2,412,969 |
| Advances to suppliers and contractors | 11 | **3,815,376** | 118,645,531 | 189,879,840 |
| Refundable deposits | | **2,650,877** | 3,368,991 | 3,368,991 |
| Others | | **32,043,738** | 13,926,142 | 2,694,137 |
| | | **P 242,126,879** | P 299,085,713 | P 376,261,035 |
| Non-current: | | | | |
| Refundable deposits - net | | **P 9,735,153** | P 9,706,912 | P 12,147,733 |
| Prepaid insurance | 7 | **7,907,839** | 11,040,916 | 12,742,696 |
| Others | | **6,935,676** | 4,171,529 | 3,257,716 |
| | | **P 24,578,668** | P 24,919,357 | P 28,148,145 |

## 15. INTEREST-BEARING LOANS

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Current | **P 989,502,559** | P 419,206,324 | P 458,760,609 |
| Non-current | **P -** | P 135,742,000 | P - |

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

| Date Obtained | Original U.S. Dollar Amount | Term |
|---|---|---|
| July 2, 2010 | $ 3,078,989 | One year |
| July 2, 2010 | 1,995,635 | One year |
| July 2, 2010 | 1,297,574 | One year |
| July 2, 2010 | 1,882,014 | One year |
| July 2, 2010 | 80,934 | One year |
| | **$ 8,335,146** | |

The loans are secured by investment in cash surrender value of investment in life insurance and all outstanding investments in foreign currency-denominated bonds (see Notes 7, 8, 9 and 11). The loans bear interest at prevailing market rates per annum ranging 1.75% to 4.62% in 2010 and 2009 and 3.60% to 5.99% in 2008. Interest expense arising from these loans is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2).

Fil-Dragon obtained a secured, two-year interest-bearing loan denominated in Chinese yuan renminbi from a local bank in the People's Republic of China amounting to RMB92.9 million (P615.7 million) and RMB20.0 million (P132.6 million) in 2010 and 2009, respectively. These loans are secured by Fil-Dragon's property development cost amounting to RMB15.2 million (P103.3 million). Further, certain related parties of the Group entered into a guarantee contract with the creditor bank whereby the related parties guarantee that the principal amount and related interests will be paid as the payments fall due (see Note 26.8). None of the companies under the Group, including the Parent Company, are included in the guarantee contract.

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

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

## 16. TRADE AND OTHER PAYABLES

This account consists of:

| | Notes | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Trade payables | 26.2 | **P 125,426,944** | P 99,972,038 | P 98,424,639 |
| Accrued expenses | | **100,379,580** | 79,681,728 | 52,994,927 |
| Refundable deposits | 17 | **56,544,740** | 22,532,420 | 65,597,071 |
| Advances from customers | 11 | **47,918,246** | 17,792,746 | - |
| Output tax payable | | **44,661,218** | 36,345,891 | 28,404,116 |
| Reserve for warranty costs | | **23,359,511** | 12,828,936 | 12,828,388 |
| Unearned subscription income | | **7,884,337** | 8,981,371 | 9,638,030 |
| Other payables | | **36,488,974** | 44,469,817 | 84,748,451 |
| | | **P 442,663,550** | P 322,604,948 | P 352,635,622 |

Reserve for warranty costs pertains to amounts recognized by My Solid, SVC and SBC for expected warranty claims on products sold based on their past experience of the level of repairs and returns. In addition, provision for warranty also includes the amounts recognized by OLC for expected warranty claims on consumer electronic products sold by a certain company owned by the Group's majority stockholders. The changes in the Reserve for Warranty Costs account are as follows:

| | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Balance at beginning of year | | **P 12,828,936** | P 12,828,388 | P 9,367,443 |
| Additional provision for warranty claims during the year | 20 | **35,696,455** | 26,344,466 | 11,405,645 |
| Actual warranty claims during the year | | **( 20,576,375)** | ( 22,056,293) | ( 3,744,676) |
| Reversals during the year | | **( 4,589,505)** | ( 4,287,625) | ( 4,200,024) |
| Balance at end of year | | **P 23,359,511** | P 12,828,936 | P 12,828,388 |

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

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

## 17. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P13.0 million as at December 31, 2010 that pertain to leases with terms ending in 2010 to 2012. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception of the lease terms. Interest expense recognized amounted to P0.9 million in 2010, P1.4 million in 2009 and P1.3 million in 2008 is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2). The amortized cost of the refundable deposits amounting to P15.3 million, P11.1 million and P9.7 million as of December 31, 2010, 2009 and 2008, respectively, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 16).

## 18. COST OF SALES, SERVICES AND RENTALS

### *18.1 Cost of Sales*

The details of this account are shown below.

| | Notes | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Merchandise and finished goods at beginning of year | 10 | **P 62,462,687** | P 174,848,218 | P 134,863,612 |
| Net purchases of merchandise during the year | 20, 26.2 | **1,582,453,911** | 709,840,593 | 669,532,022 |
| Cost of goods manufactured: | | | | |
| Raw materials at beginning of year | 10 | **20,252,525** | 26,812,225 | 16,327,723 |
| Work- in-process at beginning of year | 10 | **1,665,047** | 6,023,600 | 3,168,275 |
| Net purchases of raw materials during the year | | **6,759,772** | 83,467,501 | 90,124,352 |
| Direct labor | | **3,709,810** | 30,155,527 | 27,375,112 |
| Manufacturing overhead | 12 | **16,613,479** | 33,187,783 | 39,845,604 |
| Raw materials at end of year | 10 | **( 10,757,863)** | ( 20,252,525) | ( 26,812,225) |
| Work-in-process at end of year | 10 | **( 2,256,191)** | ( 1,665,047) | ( 6,023,600) |
| | | **35,986,579** | 157,729,064 | 144,005,241 |
| Goods available for sale | | **1,680,903,177** | 1,042,417,875 | 948,400,875 |
| Merchandise and finished goods at end of year | 10 | **( 412,507,056)** | ( 62,462,687) | ( 174,848,218) |
| Net provision (reversal) on inventory obsolescence | 10, 18.1 | **( 11,239,861)** | 13,968,310 | ( 2,746,164) |
| Cost of disposed inventories | | - | - | 442,921 |
| | 20 | **P 1,257,156,260** | P 993,923,498 | P 771,249,414 |

The allocation of cost of sales between continuing and discontinued operations is shown below.

| | Note | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Continuing operations | | **P 1,225,420,110** | P 849,411,001 | P 616,711,773 |
| Discontinued operations | 5 | **31,736,150** | 144,512,497 | 154,537,641 |
| | | **P 1,257,156,260** | P 993,923,498 | P 771,249,414 |

### *18.2 Cost of Services*

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

| | Notes | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|---|
| Salaries and employee benefits | | **P 91,449,097** | P 95,675,316 | P 92,915,737 |
| Materials and other consumables | | **73,058,882** | 85,940,616 | 79,959,938 |
| Depreciation and amortization | 12 | **61,817,018** | 58,325,498 | 52,499,225 |
| Transponder rental and leased line | | **49,380,862** | 38,348,825 | 36,221,655 |
| Communication, light and water | | **47,309,256** | 44,302,675 | 43,057,252 |
| Rentals | 28.3 | **42,954,302** | 42,401,829 | 31,401,566 |
| Outside services | | **33,384,542** | 33,432,046 | 32,707,889 |
| Transportation and travel | | **12,640,691** | 12,404,886 | 18,912,913 |
| Cable services | | **6,696,429** | 6,696,429 | 7,232,143 |
| Repairs and maintenance | | **4,567,611** | 9,694,408 | 16,898,043 |
| Others | | **32,660,787** | 30,942,102 | 24,030,749 |
| | 20 | **P 460,191,618** | P 458,164,630 | P 435,837,110 |

### *18.3 Cost of Rentals*

The details of this account are as follows:

| | Notes | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|---|
| Rentals | | **P 10,990,367** | P 9,370,903 | P 10,572,725 |
| Outside services | | **9,728,407** | 4,338,332 | 4,641,417 |
| Taxes and licenses | 13 | **7,706,287** | 9,623,392 | 10,134,002 |
| Utilities and communication | 13 | **4,565,515** | 3,813,399 | 5,872,358 |
| Repairs and maintenance | 13 | **3,488,634** | 2,690,672 | 2,683,965 |
| Salaries and employee benefits | | **1,011,864** | 787,500 | 857,946 |
| Others | | **1,078,119** | 2,943,834 | 1,372,304 |
| | 20 | **P 38,569,193** | P 33,568,032 | P 36,134,717 |

## 19. OTHER OPERATING INCOME

The breakdown of this account is as follows:

| | Notes | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|---|
| Fair value gains on investment property | 13 | **P 27,648,081** | P 15,136,545 | P 61,436,486 |
| Return on retirement plan assets | | **33,041,153** | - | - |
| Increase in cash surrender value of investment in life insurance | 7 | **17,678,362** | 16,172,147 | 13,558,294 |
| Gain on insurance settlement | | **4,694,715** | - | - |
| Miscellaneous | 5 | **7,141,136** | 26,905,939 | 27,335,933 |
| | | **P 90,203,447** | P 27,941,541 | P 102,330,713 |

The allocation of other operating income between continuing and discontinued operations is shown below.

| | Note | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|---|
| Continuing operations | | **P 87,379,618** | P 22,809,568 | P 98,746,565 |
| Discontinued operations | 5 | **2,823,829** | 5,131,973 | 3,584,148 |
| | | **P 90,203,447** | P 27,941,541 | P 102,330,713 |

## 20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

| | Notes | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|---|
| Net purchases of merchandise inventories | 18.1 | **P 1,582,453,911** | P 709,840,593 | P 669,532,022 |
| Salaries and employee benefits | 22.1 | **231,327,047** | 248,692,436 | 245,167,537 |
| Cost of real estate sold | | **151,396,685** | 282,889,925 | 22,470,496 |
| Materials, supplies and other consumables | | **109,721,847** | 226,885,785 | 175,357,667 |
| Outside services | | **97,545,658** | 78,622,318 | 73,680,066 |
| Depreciation and amortization | 12 | **75,588,976** | 74,998,874 | 79,372,652 |
| Utilities and communication | | **72,260,992** | 77,035,717 | 76,133,320 |
| Taxes and licenses | | **55,402,878** | 30,521,377 | 26,742,657 |
| Transponder rental and leased line | | **48,257,021** | 38,348,825 | 36,850,372 |
| Rentals | 26.3, 28.3 | **44,419,377** | 42,401,829 | 46,995,595 |
| Provision for warranty | 16 | **35,696,455** | 26,344,466 | 11,405,645 |
| Transportation and travel | | **29,924,036** | 28,338,500 | 38,813,898 |
| Repairs and maintenance | | **28,229,042** | 26,788,502 | 37,446,499 |
| Net provision (reversal) on inventory obsolescence | 18.1 | **( 11,239,861)** | 13,968,310 | ( 2,746,164) |
| Change in merchandise, finished goods and work-in-process inventories | | **( 338,484,611)** | 116,744,084 | ( 46,145,858) |
| Miscellaneous | | **213,098,043** | 120,477,321 | 131,502,974 |
| | | **P 2,425,597,496** | P 2,142,898,862 | P 1,622,579,378 |

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

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

| | Notes | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|---|
| Continuing operations: | | | | |
| Cost of sales | 18.1 | **P 1,225,420,110** | P 849,411,001 | P 616,711,773 |
| Cost of services | 18.2 | **460,191,618** | 458,164,630 | 435,837,110 |
| Cost of real estate sold | | **151,396,685** | 282,889,925 | 22,470,496 |
| Cost of rentals | 18.3 | **38,569,193** | 33,568,032 | 36,134,717 |
| General and administrative expenses | | **281,046,941** | 250,979,458 | 258,160,163 |
| Selling and distribution costs | | **227,552,333** | 97,041,397 | 70,519,743 |
| | | **2,384,176,880** | 1,972,054,443 | 1,439,834,002 |
| Discontinued operations: | | | | |
| Cost of sales | 18.1 | **31,736,150** | 144,512,497 | 154,537,641 |
| General and administrative expenses | 5 | **9,271,158** | 22,026,940 | 24,314,367 |
| Selling and distribution costs | 5 | **413,308** | 4,304,982 | 3,893,368 |
| | | **41,420,616** | 170,844,419 | 182,745,376 |
| | | **P 2,425,597,496** | P 2,142,898,862 | P 1,622,579,378 |

## 21. OTHER INCOME (CHARGES)

### *21.1 Finance Income*

This account consists of the following:

| | Notes | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Interest income from banks | 6 | **P 23,389,186** | P 26,472,256 | P 31,190,862 |
| Reversal of impairment losses on trade and other receivables | 7 | **11,104,219** | 8,488,254 | 7,879,232 |
| Foreign currency gains | | **1,372,689** | 1,851,732 | 37,942,980 |
| Others | | **5,947,172** | 466,547 | - |
| | | **P 41,813,267** | P 37,278,789 | P 77,013,074 |

The allocation of finance income between continuing and discontinued operations is shown below.

| | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Continuing operations | | **P 38,921,553** | P 34,748,630 | P 72,814,405 |
| Discontinued operations | 5 | **2,891,714** | 2,530,159 | 4,198,669 |
| | | **P 41,813,267** | P 37,278,789 | P 77,013,074 |

Interest income earned by SGI, SMFI and BRL from cash and cash equivalents amounting to P63.1 million in 2010, P95.2 million in 2009 and P97.2 million in 2008 are presented as Interest under Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

### *21.2 Finance Costs*

This account consists of the following:

| | Notes | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Impairment losses on available-for-sale financial assets | 8 | **P 33,657,338** | P - | P 170,000 |
| Foreign currency losses | | **28,649,430** | 11,693,973 | 4,568,448 |
| Interest expense arising from loans | 15 | **10,530,521** | 19,345,255 | 21,161,120 |
| Impairment losses on trade and other receivables | 7 | **9,266,502** | 27,735,676 | 17,603,434 |
| Interest amortization on refundable deposits | 17 | **864,519** | 1,386,810 | 1,264,997 |
| Loss on sale of investments in foreign currency-denominated bonds | | **-** | 59,852,713 | - |
| Others | | **5,908,164** | 2,463,758 | 5,591,181 |
| | | **P 88,876,474** | P 122,478,185 | P 50,359,180 |

The allocation of finance costs between continuing and discontinued operations is shown below.

| | Note | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Continuing operations | | **P 88,223,148** | P 118,599,858 | P 40,097,465 |
| Discontinued operations | 5 | **653,326** | 3,878,327 | 10,261,715 |
| | | **P 88,876,474** | P 122,478,185 | P 50,359,180 |

## 22. EMPLOYEE BENEFITS

### *22.1 Salaries and Employee Benefits Expense*

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

| | Note | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Short-term benefits | | **P 225,608,349** | P 226,961,685 | P 232,064,165 |
| Post-employment benefit | 5 | **4,594,191** | 11,895,740 | 9,447,660 |
| Termination benefits | | **1,124,507** | 9,745,011 | 3,655,712 |
| | | **P 231,327,047** | P 248,692,436 | P 245,167,537 |

### *22.2 Post-employment Benefit*

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Fair value of plan assets | **P 191,634,637** | P 165,590,060 | P 95,963,976 |
| Present value of the obligation | **55,578,427** | 46,764,337 | 36,020,848 |
| Excess of plan assets | **136,056,210** | 118,825,723 | 59,943,128 |
| Withdrawal of fund* | **( 10,015,049)** | - | - |
| Unrecognized actuarial losses (gains) | **( 51,123,206)** | ( 72,889,761) | 23,284,732 |
| | **P 74,917,955** | P 45,935,962 | P 36,658,396 |

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

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Fair value of plan assets | **P 47,775,051** | P 45,104,609 | P 67,553,115 |
| Present value of the obligation | **35,630,324** | 24,860,158 | 38,583,434 |
| Excess of plan assets | **12,144,727** | 20,244,451 | 28,969,681 |
| Unrecognized actuarial gains | **( 15,266,320)** | ( 21,729,047) | ( 36,332,281) |
| Retirement benefit obligation | **P 3,121,593** | P 1,484,596 | P 7,362,600 |

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

| | **2010** | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|
| Fair value of plan assets | **P 239,409,688** | P 210,694,669 | P 163,517,091 | P 152,467,439 | P 151,042,443 |
| Present value of the obligation | **91,208,751** | 71,624,495 | 74,604,282 | 96,143,040 | 78,556,734 |
| Excess in the plan | **P 148,200,937** | P 139,070,174 | P 88,912,809 | P 56,324,399 | P 72,485,709 |

Experience adjustments arising on plan assets amounted to P6.2 million in 2010, P8.9 million in 2009, P2.4 million in 2008 and P2.5 million in 2007. Experience adjustments on plan liabilities amounted to P5.9 million in 2010, P9.1 million in 2009 and P14.8 million in 2008. Management has determined that the experience adjustments on plan liabilities in 2007 and 2006 are not significant.

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

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Balance at beginning of year | **P 71,624,495** | P 74,604,282 | P 96,143,040 |
| Current service and interest costs | **9,397,601** | 15,235,629 | 21,574,350 |
| Benefits paid | **( 3,700,345)** | ( 1,355,624) | ( 409,282) |
| Actuarial gains (losses) | **6,300,611** | ( 16,859,792) | ( 42,703,826) |
| Balance at end of year | **P 91,208,751** | P 71,624,495 | P 74,604,282 |

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

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Balance at beginning of year | **P 210,694,669** | P 163,517,091 | P 152,467,439 |
| Contributions paid into the plan | **6,703,890** | 27,235,347 | 12,222,463 |
| Benefits paid by the plan | **( 3,700,345)** | ( 1,355,624) | ( 409,282) |
| Expected return on plan assets | **( 4,222,401)** | 8,576,874 | 9,148,046 |
| Actuarial gains (losses) | **29,933,875** | ( 12,720,981) | ( 9,911,575) |
| Balance at end of year | **P 239,409,688** | P 210,694,669 | P 163,517,091 |

Actual returns on plan assets amounted to P17.2 million, P13.3 million and P8.8 million in 2010, 2009 and 2008, respectively. The Group expects to contribute a total of P11.6 million to the post-employment defined benefit plan in 2011.

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

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Government securities | **P 229,286,632** | P 191,732,149 | P 148,360,863 |
| Mutual and trust funds | **10,123,056** | 18,962,520 | 15,156,228 |
| | **P 239,409,688** | P 210,694,669 | P 163,517,091 |

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

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Current service cost | **P 6,120,469** | P 7,494,912 | P 13,787,182 |
| Interest cost | **3,277,132** | 7,740,717 | 7,787,168 |
| Expected return on plan assets | **( 4,222,401)** | ( 8,576,874) | ( 9,148,046) |
| Net actuarial gains recognized during the year | **( 581,009)** | ( 9,807,179) | ( 606,878) |
| Effect of asset limit | **-** | 15,044,164 | 10,071,003 |
| | **P 4,594,191** | P 11,895,740 | P 9,447,660 |

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Discount rates | **8% - 9%** | 8% - 9% | 8% - 11% |
| Expected rate of return on plan assets | **6%** | 6% | 5% |
| Expected rate of salary increases | **9%** | 9% | 9% |

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

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

## 23. TAXES

### *23.1 Registration with Economic Zone Authorities*

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

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

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

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

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

### *23.2 Current and Deferred Taxes*

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

| | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|
| *Consolidated statements of income* | | | |
| Current tax expense: | | | |
| RCIT at 30% in 2010 and 2009 and 35% in 2008 | **P 91,903,929** | P 41,898,822 | P23,249,270 |
| Final taxes at 20% and 7.5% | **8,917,837** | 7,710,318 | 8,151,437 |
| Preferential taxes at 5% | **2,718,628** | 4,336,892 | 863,011 |
| Minimum corporate income tax (MCIT) at 2% | **4,269,350** | 865,972 | 4,174,555 |
| | **107,809,744** | 54,812,004 | 36,438,273 |
| Deferred tax expense (income) relating to origination and reversal of temporary differences | **15,457,073** | 7,849,458 | ( 27,281,979) |
| | **P 123,266,817** | P 62,661,462 | P 9,156,294 |
| *Consolidated statements of comprehensive income –* | | | |
| Deferred tax income on changes in fair value of available-for-sale financial assets (see Note 24.1) | **(P 1,110,000)** | (P 150,000) | (P 15,000) |

The 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.

| | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|
| Tax on pretax profit at 30% in 2010 and 2009 and 35% in 2008 | **P 109,924,527** | P 87,743,905 | P 106,961,489 |
| Adjustment for income subject to lower tax rates | **( 17,302,712)** | ( 34,418,042) | 11,905,124 |
| Tax effects of: | | | |
| Nontaxable income | **( 62,238,190)** | ( 19,275,138) | ( 7,220,575) |
| Benefit from previously unrecognized NOLCO, MCIT and deferred tax assets | **( 47,588,087)** | ( 32,929,923) | ( 16,727,970) |
| Nondeductible expenses and losses | **9,597,237** | 7,009,726 | 8,085,502 |
| Income (loss) of foreign subsidiary not subject to taxes | **( 5,563,691)** | 31,810,188 | ( 16,199,869) |
| Unrecognized deferred taxes from NOLCO and MCIT | **4,060,303** | 7,018,190 | 5,993,055 |
| Derecognized and unrecognized deductible temporary differences | **4,004,029** | 15,170,833 | ( 6,667,229) |
| Loss on non-recoverable foreign currency losses | **958,240** | 486,363 | 525,632 |
| Unrecognized benefit from write-off of receivables | **3,735** | | 4,057,815 |
| Decrease in deferred tax assets due to decrease in applicable tax rates | **-** | 717 | ( 81,556,680) |
| Others | **2,935,072** | 44,643 | - |
| | **P 123,266,817** | P 62,661,462 | P 9,156,294 |

The allocation of the tax expense relating to profit or loss from continuing and discontinued operations in 2010 is shown below:

| | Note | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Continuing operations | | **P 122,651,703** | P 63,514,404 | P 5,518,931 |
| Discontinued operations | 5 | **615,114** | ( 852,942) | 3,637,363 |
| | | **P 123,266,817** | P 62,661,462 | P 9,156,294 |

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

| | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|
| Deferred tax assets: | | | |
| Fair value adjustments on investment property | **P 23,831,400** | P 23,831,399 | P 22,612,981 |
| Provision for warranty | **4,264,982** | - | - |
| Accrued municipal taxes | **2,324,032** | - | - |
| Allowance for impairment on trade and other receivables | **1,826,984** | 1,018,217 | 1,200,000 |
| Reserve for warranty costs | **1,809,462** | 956,903 | 463,111 |
| Retirement benefit obligation | **1,370,393** | 1,259,470 | 1,104,868 |
| Allowance for inventory obsolescence | **376,648** | - | - |
| Unamortized past service costs | **264,916** | 340,650 | 385,322 |
| Unamortized pre-operating expenses | **162,812** | 217,082 | - |
| NOLCO | **-** | 107,765 | 445,828 |
| Accrued rentals – PAS 17 | **-** | 4,965 | 95,735 |
| Deferred tax liabilities: | | | |
| Retirement benefit asset | **( 2,886,905)** | ( 496,439) | 493,259 |
| Unrealized foreign currency gain | **( 537,680)** | - | - |
| Deferred Tax Assets – net | **P 32,807,044** | P 27,240,012 | P 26,801,104 |

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:

| | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|
| Deferred tax assets: | | | |
| Allowance for impairment on trade and other receivables | **P 6,770,160** | P 7,818,450 | P 8,238,807 |
| Reserve for warranty costs | | 459,875 | 518,648 |
| Unamortized past service costs | **742,179** | 804,481 | 752,982 |
| Deferred rent expense – PAS 17 | **577,137** | 532,188 | 508,115 |
| Allowance for inventory obsolescence | **297,069** | 228,443 | 162,199 |
| NOLCO | **-** | - | 385,711 |
| Deferred tax liabilities: | | | |
| Fair value gains on investment property | **( 667,813,336)** | ( 707,017,615) | ( 703,810,122) |
| Accumulated depreciation on investment property | **( 119,456,850)** | ( 112,331,376) | ( 106,147,291) |
| Retirement benefit asset | **( 13,265,423)** | ( 9,021,525) | ( 1,249,573) |
| Deferred rent income – PAS 17 | **( 5,348,917)** | ( 6,280,044) | ( 5,370,461) |
| Changes in fair value of available-for-sale | **( 1,212,000)** | ( 90,000) | - |
| Unrealized foreign currency gains | **( 10,462)** | ( 566,890) | ( 1,874,320) |
| Deferred Tax Liabilities – net | **(P 798,720,443)** | (P 825,464,013) | (P 812,624,346) |

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

| | 2010 | 2009 (As Restated – see Note 24.3) | 2008 (As Restated – see Note 24.3) |
|---|---|---|---|
| Fair value gains on investment property | **(P 8,472,450)** | (P 2,378,563) | (P 34,791,369) |
| Accumulated depreciation on investment property | **7,125,475** | 6,184,084 | ( 823,325) |
| Retirement benefit obligation | **6,523,441** | 2,795,573 | ( 147,384) |
| Reserve for warranty costs | **( 4,657,666)** | ( 415,140) | 223,130 |
| Accrued municipal taxes | **( 2,324,032)** | - | - |
| Deferred rent expense – PAS 17 | **( 1,352,937)** | ( 14,965) | 5,853,778 |
| Change in fair value of AFS | **1,122,000** | - | - |
| Allowance for inventory obsolescence | **( 445,274)** | 29,492 | 133,319 |
| Deferred rent income – PAS 17 | **376,861** | 887,629 | ( 4,544,031) |
| Allowance for impairment on trade and other receivables | **239,523** | 602,140 | 7,541,642 |
| Unamortized past service costs | **138,036** | 114,254 | 700,554 |
| NOLCO | **107,764** | 338,063 | ( 819,368) |
| Unamortized preoperating expenses | **54,271** | ( 217,082) | - |
| Unrealized foreign currency losses | **( 18,750)** | ( 76,027) | ( 608,925) |
| | **P 15,457,073** | P 7,849,458 | (P 27,281,979) |

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of Available-for-Sale Financial Assets.

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

| Year | Original Amount | Applied in Previous Years | Applied in Current Year | Expired Balance | Remaining Balance | Valid Until |
|---|---|---|---|---|---|---|
| **NOLCO:** | | | | | | |
| 2010 | P 3,120,173 | P 75,250 | P - | P 75,250 | P 2,969,673 | 2013 |
| 2009 | 29,179,579 | 69,500 | 5,834,420 | 69,500 | 23,206,159 | 2012 |
| 2008 | 26,449,985 | 6,062,745 | 71,437 | 50,500 | 20,265,303 | 2011 |
| 2007 | 176,380,795 | 23,700 | 151,131,268 | 25,225,827 | - | 2010 |
| | P 235,130,532 | P 6,231,195 | P 157,037,125 | P 25,421,077 | P 46,441,135 | |
| **MCIT:** | | | | | | |
| 2010 | P 4,095,361 | P - | P - | P - | P 4,095,361 | 2013 |
| 2009 | 868,871 | - | - | - | 868,871 | 2012 |
| 2008 | 4,174,55 | 71,162 | 3,326,116 | - | 777,277 | 2011 |
| 2007 | 1,875,456 | 6,055 | - | 1,869,401 | - | 2010 |
| | P 11,014,243 | P 77,217 | P 3,326,116 | P 1,869,401 | P 5,741,509 | |

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

| | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **Amount** | **Tax Effect** | Amount | Tax Effect | Amount | Tax Effect |
| Accumulated impairment losses on property, plant, and equipment | **P 350,000,000** | **P 105,000,000** | P 350,000,000 | P 105,000,000 | P 350,000,000 | P 105,000,000 |
| Allowance for impairment of financial assets classified as loans and receivables | **120,021,728** | **36,006,518** | 105,528,652 | 30,158,596 | 98,284,975 | 29,485,492 |
| NOLCO | **44,866,357** | **14,239,113** | 251,122,331 | 75,336,699 | 338,611,024 | 101,583,309 |
| Allowance for inventory obsolescence | **29,729,592** | **8,918,877** | 47,404,857 | 14,221,457 | 35,322,425 | 10,596,728 |
| Unrealized foreign currency loss (gain) | **22,322,126** | **6,696,638** | 9,943,291 | 2,982,987 | ( 6,427,131) | ( 1,928,289) |
| Accrued municipal taxes | **10,607,331** | **3,182,199** | - | - | - | - |
| Retirement benefit obligation | **( 10,207,044)** | **( 3,062,114)** | 1,974,541 | 592,362 | 7,558,321 | 2,267,496 |
| Other accrued expenses | **7,119,287** | **2,135,786** | - | - | - | - |
| Fair value loss in investment properties | **6,586,000** | **1,975,800** | 5,676,000 | 1,702,800 | - | - |
| MCIT | **5,911,763** | **4,620,878** | - | - | - | - |
| Allowance for impairment loss on AFS financial assets | **5,420,000** | **1,626,000** | 5,460,000 | 1,638,000 | 5,320,000 | 1,596,000 |
| Unamortized past service cost | **1,496,952** | **449,086** | 2,077,689 | 623,307 | 2,760,646 | 828,194 |
| Day-one gain | **( 372,906)** | **( 111,872)** | - | - | - | - |
| Amortization of pre-operating expenses | **( 5,135)** | **( 1,541)** | - | - | - | - |
| | **P 593,496,051** | **P 181,675,368** | P 779,187,361 | P 232,256,208 | P 844,284,522 | P 253,285,508 |

### *23.3 Optional Standard Deductions*

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

### *23.4 Change in Applicable Tax Rates*

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

## 24. EQUITY

### *24.1 Capital Stock*

The Group has a total outstanding capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value. As of December 31, 2010, 2009, and 2008, the Company's issued capital stock amounted to P2,030,975,000.

### 24.2 Revaluation Reserves

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

| | Notes | 2010 | 2009 | 2008 |
|---|---|---|---|---|
| Cumulative translation adjustments: | | | | |
| Balance at beginning of year | | **P 70,778,455** | P 85,204,455 | (P 220,583,543) |
| Currency differences on translating financial statements of foreign operations | 2 | **( 5,799,030)** | ( 14,426,000) | 305,787,998 |
| | | **64,979,425** | 70,778,455 | 85,204,455 |
| Fair value gains (losses) on available-for-sale financial assets: | | | | |
| Balance at beginning of year | | **( 172,432,191)** | ( 298,230,850) | 9,606,169 |
| Reclassification adjustments for losses recognized in profit or loss | | **49,498,034** | 62,432,561 | 5,201,422 |
| Fair value gains (losses) – net | 8 | **14,474,181** | 35,278,701 | ( 313,023,441) |
| Gain on reclassification of financial assets | 9 | **-** | 28,237,397 | - |
| Deferred tax income on changes in fair value of available-for-sale financial assets | 23 | **-** | ( 150,000) | ( 15,000) |
| | | **( 108,459,976)** | 172,432,191 | ( 298,230,850) |
| Balance at end of the year | | **(P 43,480,551)** | (P 101,653,736) | (P 213,026,395) |

### 24.3 Prior Period Adjustments

The Retained Earnings (Deficit) balances as of January 1, 2010, 2009 and 2008 were restated to reflect the retrospective effects of a change in the Group's accounting policy on investment property and to correct certain misstatements in the consolidated financial statements.

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

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

The balances of Retained Earnings (Deficit) as of January 1, 2010, 2009 and 2008 were restated to reflect the effects of the change in accounting policy for investment property (see Note 13) made in 2008, as well as the adjustment made in 2010 and 2009 to reduce the fair value gains as initially reported in 2008 by certain subsidiaries, as summarized in the succeeding section.

| | January 1, 2010 | January 1, 2009 | January 1, 2008 |
|---|---|---|---|
| Adjustment to previously recognized fair value gains | **(P 110,510,000)** | (P 83,925,000) | P - |
| Deferred tax effect on fair value gains/adjustment | **33,153,000** | 38,449,500 | ( 760,208,118) |
| Fair value gains – as restated | **-** | - | 1,285,553,921 |
| Reversal of accumulated depreciation based on cost | **-** | - | 403,322,840 |
| Reversal of accumulated impairment losses | **-** | - | 69,321,594 |
| Deferred tax effect on accumulated depreciation based on cost | **-** | - | ( 109,284,234) |
| Total adjustment to equity arising from change in accounting policy | **(P 62,738,298)** | (P 45,475,500) | P 888,706,003 |

The accounting change also resulted in an increase in the Investment property account by P1.8 billion as of January 1, 2008. On the other hand, the adjustments made in 2010 and 2009 resulted in a decrease of P110.5 million and P83.9 million, respectively, in the Investment property account as of December 31, 2009 and 2008 (see Note 13).

(b) *Correction of Misstatements*

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

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

In 2009, the Group recognized prior period adjustments to restate the beginning balance of Retained Earnings as of January 1, 2009 as follows:

- SE Corp. recognized retirement benefit asset at its full amount in its 2008 financial statements. To comply with the provisions of PAS 19, SE Corp. recognized in 2009 the limit on the retirement benefit asset previously recognized. A prior period adjustment was also made to recognize the related deferred tax liability on the retirement benefit asset. The prior period adjustment resulted in a decrease in the Retirement Benefit Asset account by P8.0 million and an increase in Deferred Tax Liabilities by P3.4 million.

- Starworld restated the beginning balance of its Retained Earnings account as of January 1, 2009 to record unrecognized management fees amounting to P4.0 million relating to 2008 operations.

In 2008, the Group restated the balance of the Retained Earnings account as of January 1, 2008 to correct certain misstatements as follows:

- The balances of Kita's Deficit as of January 1, 2008 were restated to reflect the effects of the prior period adjustments to correct certain misstatements in its financial statements relating to the overstatement of rental income in 2007 and prior years that resulted from the changes in the terms of the lease agreements, and the understatement of depreciation expense and related accumulated depreciation for certain properties in prior years.

- As a result of SBC's change in accounting policy in 2008 relative to the treatment of cable modems as part of the Property, Plant and Equipment account, which assets were initially recorded as part of Inventories in the consolidated statements of financial position, SBC recorded a restatement to reflect the depreciation expense on the cable modems previously not provided when these assets were still part of Merchandise Inventories and Supplies.

- As a result of the Starworld's availment of the tax amnesty under RA 9480, *Tax Amnesty Law*, which covers 2005 and prior taxable years, Starworld recorded a prior period adjustment to the balance of Retained Earnings as of January 1, 2008 to reverse long-outstanding liabilities and to record additional tax expense relating to the tax amnesty availment.

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

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

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

The restatements of certain line items in the consolidated statement of financial position as of January 1, 2009 are summarized below.

| | Notes | As Previously Reported | Prior Period Adjustments | As Restated |
|---|---|---|---|---|
| *Changes in assets:* | | | | |
| Investment property – net | 13 | P 3,622,973,344 | P 8,952,000 | P 3,631,925,344 |
| Property, plant and equipment – net | 12 | 1,544,192,224 | ( 106,045,000) | 1,438,147,224 |
| Retirement benefit asset | 22 | 44,678,755 | ( 8,020,359) | 36,658,396 |
| | | 5,211,844,323 | ( 105,113,359) | 5,106,730,964 |
| *Changes in liabilities:* | | | | |
| Trade and other payables | 16 | 348,652,898 | 3,982,724 | 352,635,622 |
| Deferred tax liabilities | 23 | 838,382,745 | ( 25,758,399) | 812,624,346 |
| | | 1,187,035,643 | ( 21,775,675) | 1,165,259,968 |
| | | P 4,024,808,680 | | P 3,941,470,996 |
| Total adjustment to equity as at January 1, 2009 | | | (P 83,337,684) | |

The restatements of certain line items in the consolidated statement of financial position as of January 1, 2008 are summarized as follows:

| | Notes | As Previously Reported | Prior Period Adjustments | As Restated |
|---|---|---|---|---|
| *Changes in assets:* | | | | |
| Trade and other receivables – net | 7 | P 435,164,654 | (P 6,887,487) | P 428,277,167 |
| Merchandise inventories and supplies – net | 10 | 190,167,830 | ( 14,648,571) | 175,519,259 |
| Investment property – net | 13 | 1,794,205,597 | 1,698,892,347 | 3,493,097,944 |
| Property, plant and equipment – net | 12 | 1,456,897,277 | ( 1,458,308) | 1,455,438,969 |
| | | P 3,876,435,358 | P 1,675,897,981 | P 5,552,333,339 |
| *Change in liabilities:* | | | | |
| Estimated liability for land and land development costs | 11 | 45,886,345 | ( 9,000,000) | 36,886,345 |
| Income tax payable | | 7,699,784 | 21,532 | 7,721,316 |
| Deferred tax liabilities – net | 23 | 16,238,324 | 851,700,550 | 867,938,874 |
| | | 69,824,453 | 842,722,082 | 912,546,535 |
| | | P 3,806,610,905 | | P 4,639,786,804 |
| Total adjustment to equity as at January 1, 2008 | | | P 833,175,899 | |

## 25. EARNINGS PER SHARE

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

| | 2010 | 2009 (As Restated – see Note 24) | 2008 (As Restated – see Note 24) |
|---|---|---|---|
| Net profit for the year attributable to the Parent Company's stockholders | **P 229,346,311** | P 203,254,151 | P 268,304,620 |
| 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 0.13** | P 0.11 | P 0.15 |

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2010, 2009 and 2008, hence, diluted EPS is equal to the basic EPS.

## 26. RELATED PARTY TRANSACTIONS

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

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

| | Amounts of Transactions | | | Outstanding Balances | | |
|---|---|---|---|---|---|---|
| | 2010 | 2009 (As Restated - see Note 24) | 2008 ( As Restated - see Note 24) | 2010 | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
| Rendering of services: | | | | | | |
| Use of cable infrastructure | **P 231,489,895** | P 145,891,071 | P 116,785,714 | **P 88,205,454** | P 73,234,838 | P 69,724,998 |
| Commissions | **5,589,940** | 2,546,771 | 1,455,268 | **48,017,957** | 25,037,739 | 39,057,253 |
| Management services | **1,200,000** | 1,200,000 | 1,200,000 | **-** | - | - |
| | **238,279,835** | 149,637,842 | 119,440,982 | **136,223,411** | 98,272,577 | 108,782,251 |
| Sales of goods - | | | | | | |
| Sale of mobile phones | **1,778,608** | 540,219,872 | - | **1,778,608** | 209,161,769 | - |
| | **P 240,058,443** | P 689,857,714 | P 119,440,982 | **P 138,002,019** | P 307,434,346 | P 108,782,251 |

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 49% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. The outstanding receivables arising from these transactions are presented as part of Trade Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

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

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

In 2010, Mytel sold mobile phone inventories to STL.

In 2009, SBC sold majority of its mobile phone inventories to Mytel. The outstanding receivable related to this transaction is shown as part of Trade Receivables under the Trade and Other Receivables account in the 2009 consolidated statement of financial position (see Note 7).

### *26.2 Purchase of Goods and Services*

| | Amounts of Transactions | | | Outstanding Balances | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| Purchase of goods | **P 85,853,612** | P 86,676,721 | P 80,119,087 | **P -** | P - | P 2,963,292 |

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

### *26.3 Lease of Real Property*

| | Amount of Transactions | | | Outstanding Balances | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 (As Restated - see Note 24) | 2008 ( As Restated - see Note 24) | **2010** | 2009 (As Restated - see Note 24) | 2008 (As Restated - see Note 24) |
| Group as lessor | **P 785,842** | P 584,242 | P 545,296 | **P -** | P - | P - |
| Group as lessee | **P -** | P 600,000 | P 190,269 | **P -** | P - | P - |

SMC leases out certain land and buildings to Avid. Also, SE Corp. leases out its office space to CPD. Income from these leases is shown as part of Rentals in the consolidated statements of income. Uncollected billings, on the other hand, forms part of the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

SLC rents portion of a building of a company owned by the Parent Company's majority stockholders. Rental expense relating to this lease is shown as part of Rentals under General and Administrative Expenses in the consolidated statements of income (see Note 20). There are no outstanding liabilities related to this lease in 2010, 2009 and 2008.

### *26.4 Granting of Loans*

SMFI grants business and other loans to its related parties at an interest rate of 7.5% to 30% in 2010 and 7.5% to 18.0% in 2009 and 2008. Total interests earned from these loans amounted to P8.8 million in 2010, P10.2 million in 2009 and P13.3 million in 2008, and is presented as part of Interest Income under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

The outstanding receivables as of December 31, 2010, 2009 and 2008 are as follows:

| | 2010 | 2009 | 2008 |
|---|---|---|---|
| Business loans: | | | |
| AA Export & Import Corporation | **P 63,695,301** | P 77,061,004 | P 90,191,405 |
| Avid Sales Corporation | **40,000,000** | 46,000,000 | 46,000,000 |
| | **P 103,695,301** | P 123,061,004 | P 136,191,405 |

The business loan to AA Export & Import Corporation is originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loan for an additional period of seven years until December 31, 2015. These business loans are secured by shares of stock of the borrowing companies which are owned by a related party (see Note 7). Total principal repayments received on the loans amounted to P10.4 million in 2010, P13.1 million in 2009 and P15.2 million in 2008.

SMFI also granted unsecured business loan to Avid amounting to P80.0 million. Principal repayment in the amount of P6.0 million was made in 2010 related to the business loan. There were no principal repayments made in 2009 and 2008 related to the business loan.

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

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

### *26.6 Transactions with STL*

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P5.6 million in 2010, P2.5 million in 2009 and P1.5 million in 2008 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 balances arising from these transactions amounted to P48.0 million, P25.0 million and P39.1 million as of December 31, 2010, 2009 and 2008, respectively, and are included as part of Advances from Related Parties in the consolidated statements of financial position (see Note 26.1).

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

My Solid and SBC purchases mobile phones from Solid Company Limited (Hong Kong), a related party owned by the Parent Company's majority stockholders in 2010 and 2009, respectively. Total purchases amounted to P898.3 million in 2010, P547.6 million in 2009 and P405.1 million in 2008 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 18.1). Outstanding liabilities relating to this purchases amounted to P1.0 million as of December 31, 2010 and nil as of December 31, 2009 and 2008.

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

The amount of loan is presented as part of Finance Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

### *26.8 Financial Guarantees*

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) and RMB20.0 million (P132.6 million) as of December 31, 2010 and 2009, respectively, from a local bank in the People's Republic of China to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby it guarantees that the principal amount and related interests will be paid as the payments fall due. The guarantee contract will continue in effect until the end of two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 15).

### *26.9 Key Management Personnel Compensation*

Salaries and other benefits given to key management personnel for 2010, 2009 and 2008 are as follows (see Note 22.1):

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Short-term benefits | **P 34,456,347** | P 23,959,255 | P 23,147,052 |
| Post-employment benefit | **884,848** | 1,447,878 | 1,530,758 |
| | **P 35,341,195** | P 25,407,133 | P 24,677,810 |

## 27. SIGNIFICANT CONTRACTS AND AGREEMENTS

### *27.1 Memorandum of Understanding with SPI*

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

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

The breakdown of network support fees and in-warranty service fees are shown below.

| | Amounts of Transactions | | | Outstanding Balances | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | 2008 | **2010** | 2009 | 2008 |
| SPI Products | **P 43,665,418** | P 37,536,329 | P 27,933,816 | **P 3,196,959** | P 3,180,606 | P 22,207,796 |
| AIWA Products | **-** | 601,080 | 600,000 | **-** | - | 280,000 |
| | **P 43,665,418** | P 38,137,409 | P 28,533,816 | **P 3,196,959** | P 3,180,606 | P 22,487,796 |

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

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

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

## 28. COMMITMENTS AND CONTINGENCIES

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

### *28.1 Planned Acquisition of Investments – LARES*

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

Relative to the planned acquisition, SMFI granted loans to LARES amounting to P2.0 million in 2006 and P0.9 million in 2005. The amount was paid in full by LARES in 2008. Also, Starworld entered into a loan agreement with LARES wherein LARES has requested Starworld for a loan of P6.0 million to finance its operations and expenses pertaining to the arbitration proceedings with the LRA. The use of the proceeds shall be subject to the following limits:

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

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

In September 2008, the Group decided not to pursue the LARES project. Another investor took over the project and would provide the necessary funding requirements. As of December 31, 2010 and 2009, the amount of P6.0 million was fully collected (see Note 7).

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **P 84,506,562** | P 53,682,958 | P 75,120,679 |
| After one year but not more than five years | **159,674,701** | 91,966,581 | 132,001,097 |
| More than five years | **865,866** | 1,810,700 | 5,467,962 |
| | **P 245,047,129** | P 147,460,239 | P 212,589,738 |

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Within one year | **P 6,984,946** | P 6,664,895 | P 5,884,690 |
| After one year but not more than five years | **33,500,497** | 29,065,715 | 28,876,660 |
| More than five years | **36,195,820** | 52,122,286 | 55,692,029 |
| | **P 76,681,263** | P 87,852,896 | P 90,453,379 |

Total rental expense from these operating leases amounted to P7.4 million each in 2010, 2009 and 2008, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 18.2 and 20).

### *28.4 Legal Claims*

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

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

(i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million, subject to expropriation coverage under the Agrarian Reform Act; and,

(ii) a piece of land, with a carrying value of P309.0 million, subject to claims by third parties who filed court cases against SMC.

(b) SC is involved in litigation and is subject to certain claims by third parties. Also, a portion of SC's land located in Pamaldan, Cabanatuan City, with a carrying amount of P7.6 million, is subject to expropriation coverage under the Agrarian Reform Act.

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

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

The Group has commitment of about P68.3 million as of December 31, 2010, 2009 and 2008, for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

### *28.6 Purchase Commitments*

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

### *28.7 Possible Impact of Government Project*

In 2005, ZTC received a notification from the Urban Roads Projects Office (URPO) of the Department of Public Works and Highways (DPWH) that the location of the Tri Towers condominium building project might be affected by the plans of the National Government of the Philippines for the construction of the proposed 2$^{nd}$ 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.

### *28.8 Others*

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

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

### *29.1 Foreign Currency Sensitivity*

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

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

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

| | **2010** | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **U.S. Dollar** | **Chinese Yuan Renminbi** | U.S. Dollar | Chinese Yuan Renminbi | U.S. Dollar | Chinese Yuan Renminbi |
| Financial assets | **P 429,590,753** | **P 129,100,783** | P 637,642,672 | P 106,121,412 | P 326,998,187 | P 154,746,371 |
| Financial liabilities | **( 8,929,698)** | **( 706,843,136)** | ( 430,290,137) | ( 215,074,453) | ( 464,333,436) | ( 110,922) |
| Total net exposure | **P 420,661,055** | **(P 577,742,353)** | P 207,352,535 | (P 108,953,041) | (P 137,335,249) | P 154,635,449 |

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.

| | **2010** | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|
| | **Reasonably Possible Change in Rate** | **Effect in Profit Before Tax** | Reasonably Possible Change in Rate | Effect in Profit Before Tax | Reasonably Reasonably Dollar | Effect in Effect in Renminbi |
| Php – USD | **20.63%** | **P 86,782,376** | 20.17% | P 41,823,006 | 26.18% | (P 35,954,368) |
| Php – RMB | **12.21%** | **( 70,542,341)** | 19.97% | ( 21,757,922) | 25.71% | 39,756,774 |
| | | **P 16,240,035** | | P 20,065,084 | | P 3,802,406 |

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

### *29.2 Interest Rate Sensitivity*

At December 31, 2010, 2009 and 2008, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-1.19% in 2010, +/-7.21% in 2009 and +/-7.25% in 2008. 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 1.19%, 7.21% and 7.25%, profit before tax in 2010, 2009 and 2008 would have increased by P7.5 million, P68.1 million, and P62.2 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

### *29.3 Credit Risk*

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

| | Notes | **2010** | 2009 | 2008 |
|---|---|---|---|---|
| Cash and cash equivalents | 6 | **P 1,620,114,468** | P 1,263,142,145 | P 1,118,462,976 |
| Trade and other receivables - net | 7 | **1,531,894,847** | 1,181,048,096 | 980,096,080 |
| Available-for-sale financial assets- net | 8 | **150,712,692** | 313,805,880 | 70,980,542 |
| Advances to related parties | 26 | **201,193,407** | 504,328,415 | 192,327,778 |
| Refundable deposits - net | 14 | **12,386,030** | 13,075,903 | 15,516,724 |
| Held-to-maturity investments | 9 | **-** | - | 161,289,378 |
| | | **P 3,516,301,444** | P 3,275,400,439 | P 2,538,673,478 |

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

*(a) Cash and Cash Equivalents, Held-to-maturity Investments and Available-for-sale Financial Assets*

The credit risk for cash and cash equivalents and investments in foreign currency denominated bonds, classified as held-to-maturity investments and available-for-sale financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

*(b) Trade and Other Receivables*

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Not more than 3 months | **P 162,017,197** | P 296,399,509 | P 89,878,519 |
| More than 3 months but not more than one year | **68,330,159** | 33,817,343 | 37,143,280 |
| More than one year | **294,468,345** | 96,345 | 33,917,007 |
| | **P 524,815,701** | P 330,313,197 | P 160,938,806 |

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

### *29.4 Liquidity Risk*

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

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

As of December 31, 2010, the Group's financial liabilities have contractual maturities which are presented below.

| | Current | |
|---|---|---|
| | 1 to 6 months | 6 to 12 months |
| Interest-bearing loans | P 993,779,229 | P - |
| Trade and other payables | 442,663,550 | - |
| Advances from related parties | - | 168,911,611 |
| | **P1,436,442,779** | **P 168,911,611** |

This compares to the maturity of the Group's financial liabilities as of December 31, 2009 as follows:

| | Current | |
|---|---|---|
| | 1 to 6 months | 6 to 12 months |
| Interest-bearing loans | P 419,206,324 | P - |
| Trade and other payables | 322,604,948 | - |
| Advances from related parties | - | 201,439,920 |
| | P 741,811,272 | P 201,439,920 |

This compares to the maturity of the Group's financial liabilities as of December 31, 2008 as follows:

| | Current | |
|---|---|---|
| | 1 to 6 months | 6 to 12 months |
| Interest-bearing loans | P 458,760,609 | P - |
| Trade and other payables | 352,635,622 | - |
| Advances from related parties | - | 111,704,972 |
| | P 811,396,231 | P 111,704,972 |

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

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

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

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

| | | 2010 | | 2009 | | 2008 | |
|---|---|---|---|---|---|---|---|
| | Notes | Carrying Values | Fair Values | Carrying Values | Fair Values | Carrying Values | Fair Values |
| ***Financial assets*** | | | | | | | |
| Loans and receivables: | | | | | | | |
| Cash and cash equivalents | 6 | **P 1,620,114,468** | **P 1,620,114,468** | P 1,263,142,145 | P 1,263,142,145 | P 1,118,462,976 | P 1,118,462,976 |
| Trade and other receivables - net | 7 | **1,531,894,847** | **1,531,894,847** | 1,181,048,096 | 1,181,048,096 | 980,096,080 | 980,096,080 |
| Advances to related parties | 26 | **201,193,407** | **201,193,407** | 504,328,415 | 504,328,415 | 192,327,778 | 192,327,778 |
| Held-to-maturity investments | 9 | | | | | | |
| Investments in bonds | | **-** | **-** | - | - | 161,289,378 | 59,500,000 |
| Available-for-sale financial assets: | 8 | | | | | | |
| Investments in bonds | | **138,606,165** | **138,606,165** | 305,804,353 | 305,804,353 | 63,519,015 | 63,519,015 |
| Golf club shares – net | | **10,670,009** | **10,670,009** | 6,605,009 | 6,605,009 | 6,245,009 | 6,245,009 |
| Others | | **1,436,518** | **1,436,518** | 1,396,518 | 1,396,518 | 1,216,518 | 1,216,518 |
| Refundable deposits | 14 | **12,386,030** | **12,386,030** | 13,075,903 | 13,075,903 | 15,516,724 | 15,516,724 |
| | | **P 3,516,301,444** | **P 3,516,301,444** | P 3,275,400,439 | P 3,275,400,439 | P 2,538,673,478 | P 2,538,673,478 |
| ***Financial liabilities*** | | | | | | | |
| At amortized cost: | | | | | | | |
| Interest-bearing loans - net | 15 | **P 989,502,559** | **P 989,502,559** | P 554,948,324 | P 554,948,324 | P 458,760,609 | P 458,760,609 |
| Trade and other payables | 16 | **442,663,550** | **442,663,550** | 322,604,948 | 322,604,948 | 352,635,622 | 352,635,622 |
| Advances from related parties | 26 | **168,911,611** | **168,911,611** | 201,439,920 | 201,439,920 | 111,704,972 | 111,704,972 |
| Refundable deposits - net | 17 | **15,252,534** | **15,252,534** | 11,096,848 | 11,096,848 | 9,710,038 | 9,710,038 |
| | | **P 1,616,330,254** | **P 1,616,330,254** | P 1,090,090,040 | P 1,090,090,040 | P 932,811,241 | P 932,811,241 |

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 29.

### *30.2 Fair Value Hierarchy*

The table below presents the hierarchy of fair value measurements used by the Group as of December 31, 2010, 2009 and 2008.

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| December 31, 2010 | | | | |
| Available-for-sale financial assets | **P 149,276,174** | **P -** | **P 1,436,518** | **P 150,712,692** |
| December 31, 2009 | | | | |
| Available-for-sale financial assets | P 312,409,362 | P - | P 1,396,518 | P 313,805,880 |
| December 31, 2008 | | | | |
| Available-for-sale financial assets | P 69,764,024 | P - | P 1,216,518 | P 70,980,542 |

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).

## 31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

| | **2010** | 2009 | 2008 |
|---|---|---|---|
| Total liabilities (excluding advances from related parties) | **P 2,361,585,929** | P 1,788,668,072 | P 1,716,179,937 |
| Total equity | **8,111,948,091** | 7,827,072,171 | 7,489,423,893 |
| Debt-to-equity ratio | **0.29 : 1** | 0.23 : 1 | 0.23 : 1 |

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

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended: March 31, 2011

2. Commission Identification Number: 845

3. BIR Tax Identification No.: 321-000-508-536

4. Exact name of registrant as specified in its charter **SOLID GROUP INC.**

5. Province, Country or other jurisdiction of incorporation: Philippines

6. _________ (SEC Use Only)
Industry Classification Code

7. Address of principal office: Solid House, Postal Code: 1231
2285 Don Chino Roces Avenue (formerly Pasong Tamo Ext.), Makati City, Philippines

8. Telephone No: (632) 843-15-11

9. Former name, former address and former fiscal year, if changed since last report: N/A

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

| Title of Each Class | Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding |
|---|---|
| Common Stock, P1 pa r value | 1,821,542,000 shares |

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

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

Philippine Stock Exchange Common

12. Indicate by check mark whether the registrant:

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

Yes [ X ]    No [  ]

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

Yes [ X ]    No [  ]

## PART I. – FINANCIAL INFORMATION

### Item 1. Financial Statements

The unaudited consolidated financial statements of the Company and its subsidiaries for the three three (3) months period ended March 31, 2011 are attached to this report.

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

Key Performance Indicators

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

Key performance indicators for 2011 and 2010 are as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

vii. Causes for any Material Changes from Period to Period

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

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

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

## PART II –OTHER INFORMATION

None.

## SIGNATURES

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

**SOLID GROUP INC.**

**JASON S. LIM**

SVP & Chief Operating Officer

**VINCENT S. LIM**

SVP & Chief Financial Officer

May 23, 2011

# Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

March 31, 2011 and December 31, 2010

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

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

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

***See Notes to Consolidated Financial Statements.***

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

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

***See Notes to Consolidated Financial Statements.***

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

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

***See Notes to Consolidated Financial Statements.***

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

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

***See Notes to Consolidated Financial Statements.***

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

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

*Forward*

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

**Supplement Information on Noncash Investing Activities**

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

***See Notes to Consolidated Financial Statements.***

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

## 1. CORPORATE INFORMATION

### *1.1 Company Background*

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

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

| | Percentage of Ownership | | | |
|---|---|---|---|---|
| Subsidiaries | **2011** | 2010 | Notes | Nature of Business |
| Brilliant Reach Limited (BRL) | **100** | 100 | (a) | Investment company |
| Kita Corporation (Kita) | **100** | 100 | | Real estate and manufacturing of injected plastics |
| Omni Logistics Corporation (OLC) | **100** | 100 | | Logistics and assembly of colored televisions |
| Solid Broadband Corporation (SBC) | **100** | 100 | | Broadband, cable and satellite services, sale of mobile phones and LCD televisions |
| Solid Corporation (SC) | **100** | 100 | | Real estate |
| Solid Group Technologies Corporation (SGTC) | **100** | 100 | (c) | Information and communications and technology systems |
| Precos, Inc. (Precos) | **100** | 100 | (c) | Real estate |
| Solid Electronics Corporation (SE Corp.) | **100** | 100 | | Repair services for audio and video products |
| Solid Laguna Corporation (SLC) | **100** | 100 | | Real estate |
| Solid Manila Corporation (SMC) | **100** | 100 | | Real estate |
| Casa Bocobo Hotel, Inc. (CBHI) [formerly Zen By The Park, Inc.] | **100** | 100 | (e), (g) | Real estate |
| Solid Manila Finance, Inc. (SMFI) | **100** | 100 | | Financing |
| Solid Video Corporation (SVC) | **100** | 100 | | Trading of professional audio and video equipment |
| Zen Towers Corporation (ZTC) | **100** | 100 | | Real estate |
| Phil-Nanning Consortium, Inc. (PNCI) | **100** | 100 | (c), (h) | Real estate |
| My Solid Technologies & Devices Corporation (My Solid) | **100** | 100 - | (j) | Sale of mobile phones |
| Mytel Mobility Solutions, Inc. (Mytel) | **100** | 100 - - | (k) | Sale of mobile phones |
| Skyworld Corporation (Skyworld) | **75** | 75 | (c), (e) | Investment holding company |
| Interstar Holdings Company, Inc. (Interstar) | **73** | 73 | (b), (c) | Investment holding company |
| Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon) | **51** | 51 | (c), (i) | Real estate |
| Starworld Corporation (Starworld) | **50** | 50 | (e), (f) | Real estate |
| Laguna International Industrial Park, Inc. (LIIP) | **50** | 50 | (b), (d) | Real estate |

Notes:

(a) Incorporated and domiciled in the British Virgin Islands
(b) Indirectly owned through SC
(c) Pre-operating or non-operating
(d) LIIP is 22.5% owned by SC and 37.5% owned by Interstar
(e) Indirectly owned through SMC
(f) Starworld is 20% owned by SMC and 40% owned by Skyworld
(g) Incorporated in 2007 and started commercial operations in August 2008
(h) Acquired in 2008; indirectly owned through Precos
(i) Acquired in 2008; indirectly owned through PNCI; incorporated and domiciled in the People's Republic of China
(j) Incorporated in 2009 and started commercial operations in January 2010
(k Incorporated in 2009 and acquired in 2010

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

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

### *1.2 Status of Operations*

*(a) Revaluation of Investment Property*

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

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

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

### *1.3 Other Corporate Information*

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

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

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

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

*(b) Presentation of Consolidated Financial Statements*

The consolidated financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1 (Revised 2007), *Presentation of Financial Statements*. The Group presents the consolidated statement of comprehensive income in two statements: a Consolidated Statement of Income and a Consolidated Statement of Comprehensive Income. Two comparative periods are presented for the consolidated statement of financial position when the Group applies an accounting policy retrospectively, makes a retrospective restatement of items in its consolidated financial statements, or reclassifies items in the consolidated financial statements.

*(c) Functional and Presentation Currency*

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

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

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

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

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

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

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

(i) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements*. The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The Group's adoption of the standard did not result in any adjustment to its consolidated financial statements as there were no transactions covered under the standard during the year.

(ii) PFRS 3 (Revised 2008), *Business Combinations*. The revised standard continues to apply the acquisition method to business combination with significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share in the acquiree's identifiable net assets. All acquisition-related costs should be expensed. The Group did not have any business acquisition during the year; hence, the adoption of the revised standard has no effect on the 2010 consolidated financial statements.

(iii) Philippine Interpretation IFRIC 17, *Distribution of Non-cash Assets to Owners*. IFRIC 17 clarifies that dividend payable should be recognized when the dividend is appropriately authorized and is no longer at the discretion of the entity. Also, an entity should measure the dividend payable at the fair value of the net assets to be distributed and the difference between the dividend paid and the carrying amount of the net assets distributed should be recognized in profit or loss. The Group's adoption of this interpretation did not have a material impact on the consolidated financial statements since the Group did not distribute non-cash assets to its stockholders during the current year and in prior years.

(iv) 2009 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2009*. Most of these amendments became effective for annual periods beginning on or after July 1, 2009 or January 1, 2010. Among those improvements, only the following amendments were identified to be relevant to the Group's consolidated financial statements but which did not also have any material impact on its consolidated financial statements:

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies the current and non-current classification of a liability that can, at the option of the counterparty, be settled by the issue of the entity's equity instruments.

- PAS 7 (Amendment), *Statement of Cash Flows*. The amendment clarifies that only an expenditure that results in a recognized asset can be classified as a cash flow from investing activities. Under its current policies, only recognized assets are classified by the Group as cash flow from investing activities.

- PAS 17 (Amendment), *Leases*. The amendment clarifies that when a lease includes both land and building elements, an entity assesses the classification of each element as finance or an operating lease separately in accordance with the general guidance on lease classification set out in PAS 17. The amendment has no significant impact on the Group's consolidated financial statements.

- PAS 18 (Amendment), *Revenue*. The amendment provides guidance on determining whether an entity is acting as a principal or as an agent. Presently, the Group is the principal in all of its business undertakings.

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

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

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

*(c) Effective Subsequent to 2010*

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

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

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

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

(ii) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). Earlier application of the standard, in whole or in part, is permitted but the Group opted not to early adopt the standard. The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group is currently reviewing the impact of the standard on its related party disclosures in time for its adoption of the revised standard in 2011.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures* (effective from July 1, 2011). The amendments will allow users of consolidated financial statements to improve their understanding of transfer transactions of financial assets (e.g., securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken at the end of a reporting period. The Group believes that adoption of the amendments in 2012 will not have any significant effect on its consolidated financial statements as they only affect disclosures and the Group usually provides adequate information in its consolidated financial statements in compliance with disclosure requirements.

(iv) PFRS 9, *Financial Instruments* (effective from January 1, 2013). PAS 39*,* will be replaced by PFRS 9 in its entirety which is being issued in phases. The main phases are (with a separate project dealing with derecognition):

Phase 1: Classification and Measurement
Phase 2: Impairment Methodology
Phase 3: Hedge Accounting

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

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

(v) Philippine Interpretation IFRIC 14 (Amendment), *Prepayments of a Minimum Funding Requirement* (effective from January 1, 2011). This interpretation addresses unintended consequences that can arise from the previous requirements when an entity prepays future contributions into a defined benefit pension plan. It sets out guidance on when an entity recognizes an asset in relation to PAS 19, *Employee Benefits,* surplus for defined benefit plans that are subject to a minimum funding requirement. Management does not expect that its future adoption of the amendment will have a material effect on its consolidated financial statements because it does not usually make substantial advance contribution to its retirement fund.

(vi) Philippine Interpretation IFRIC 15, *Agreements for Construction of Real Estate*, (effective from January 1, 2012). This interpretation provides guidance on how to determine whether an agreement for the construction of real estate is within the scope of PAS 11, *Construction Contracts*, or PAS 18, and accordingly, when revenue from the construction should be recognized. The main expected change in practice is a shift from recognizing revenue using the percentage-of-completion method (i.e., as a construction progresses, by reference to the stage of completion of the development) to recognizing revenue at a single time (i.e., at completion upon or after delivery). The Group will adopt this interpretation in 2012 and is currently evaluating the impact of such adoption in its consolidated financial statements.

(vii) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments* (effective from July 1, 2010). It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of equity instruments to a creditor to extinguish all (or part of a financial liability) is the consideration paid in accordance with PAS 39;

- the entity measures the equity instruments issued at fair value, unless this cannot be reliably measured;

- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,

- the difference between the carrying amount of the financial liability extinguished and the consideration paid is recognized in profit or loss.

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

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

- PAS 1, *Presentation of Financial Statements – Clarification of Statement of Changes in Equity* (effective from July 1, 2010). Clarifies that entities may present the required reconciliations for each component of other comprehensive income either in the consolidated statement of changes in equity or in the notes to the consolidated financial statements.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* PAS 28, *Investment in Associates,* PAS 31, *Investments in Joint Ventures – Transition Requirements for Amendments Arising as a Result of* PAS 27, *Consolidated and Separate Financial Statements* (Revised 2008) (effective from July 1, 2010). This amends the transition requirements to apply certain consequential amendments arising from the 2008 PAS 27 amendments prospectively, to be consistent with the related PAS 27 transition requirements.

- PFRS 3, *Business Combinations* (effective from July 1, 2010). This clarifies that contingent consideration balances arising from business combinations that occurred before an entity's date of adoption of PFRS 3 (Revised 2008) shall not be adjusted on the adoption date. It also provides guidance on the subsequent accounting for such balances.

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

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

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

### *2.3 Basis of Consolidation*

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

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

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

*(a) Investments in Subsidiaries*

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

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

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

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

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

*(b) Transactions with Non-controlling Interests*

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

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

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

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

### *2.4 Segment Reporting*

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

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

### *2.5 Financial Assets*

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

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

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

*(a) Loans and Receivables*

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

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

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

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

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

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

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

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

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

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

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

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

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

### *2.6 Merchandise Inventories and Supplies*

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

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

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

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

### *2.7 Real Estate Inventories*

Real estate inventories consist of the following:

*(a) Land and Land Development Costs*

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

*(b) Property Development Costs*

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

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

### *2.8 Property, Plant and Equipment*

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

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

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

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

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

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

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

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

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

### *2.9 Investment Property*

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

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

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

### *2.10 Financial Liabilities*

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

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

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

to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.
Trade and Other Payables and Advances from Related Parties are initially recognized at their fair value and subsequently measured at amortized cost.

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

### *2.11 Business Combination*

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

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

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

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

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

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

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

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

*(a)* Transaction costs directly attributable to business acquisition formed part of the acquisition costs;

*(b)* The non-controlling interest was measured at the proportionate share of the acquiree's identifiable net assets;

*(c)* Business combinations achieved in stages were accounted for as separate steps or acquisitions. Any additional shares acquired of interest did not affect previously recognized goodwill; and,

*(d)* Contingent consideration was recognized if, and only if, payment was probable; i.e., the Group had a present obligation, the economic outflow was more likely than not, and a reliable estimate is determinable. Subsequent adjustment to the contingent consideration was recognized as an adjustment to goodwill.

### *2.12 Provisions and Contingencies*

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

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

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

### *2.13 Revenue and Expense Recognition*

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

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

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

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

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

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

- *Sale of LCD television* – The allocated revenue is recognized when the risks and rewards are transferred to the buyer. These are recognized fully in the consolidated statement of income as part of Sale of Goods.

- *Rendering of services and other income from internet subscription* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the internet connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

- *Other income* – The allocated revenue is initially recorded as Unearned Subscription Income under the Trade and Other Payables in the consolidated statement of financial position at the time the cable connection is installed and is subsequently recognized on a straight-line basis over the two-year contract period.

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

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

*(e)* *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks: or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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

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

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

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

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

(h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.

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

(j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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

### *2.14 Leases*

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

*(b) Group as Lessor*

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

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

### *2.15 Foreign Currency Transactions*

*(a) Transactions and Balances*

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

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

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

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

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

(ii) Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

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

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

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

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

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

### *2.17 Employee Benefits*

*(a) Post-employment Benefit*

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

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

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

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

*(b) Termination Benefits*

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

*(c) Compensated Absences*

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

### *2.18 Borrowing Costs*

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

### *2.19 Income Taxes*

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

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

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

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

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

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

### *2.20 Related Party Transactions*

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

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

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

### *2.21 Equity*

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

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

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

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

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

### *2.22 Earnings per Share*

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

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

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

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

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

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

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

The determination when an investment is other-than-temporarily impaired requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flows. Based on the recent evaluation of information and circumstances affecting the Group's available-for-sale financial assets, management concluded that certain assets are impaired as of March 31, 2011 and December 31, 2010. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

*(c) Costing of Merchandise Inventories and Supplies*

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

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

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

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

*(e) Operating and Finance Leases*

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

*(f) Provisions and Contingencies*

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

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

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

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

### *3.2 Key Sources of Estimation Uncertainty*

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

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories P713.6 million and P392.7 million, as at March 31, 2011 and December 31, 2010 respectively, as presented in Note 10) is affected by price changes in different market segments of electronic devices, plastic injection parts, broadcast equipments and accessories. Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

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

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

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

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

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

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

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

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

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

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

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

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

(g) *Reserve for Warranty Costs*

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

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

*(h) Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets, which management assessed may be fully utilized within the next two to five years, as of December 31, 2010 is disclosed in Note 23.2.

*(i) Impairment of Non-financial Assets*

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

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

*(j) Post-employment Benefit*

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

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

## 4. SEGMENT INFORMATION

### *4.1 Business Segments*

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

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

*(b)* Related support services segment is engaged in the business of rendering of after sales service operations as the recognized authorized Service Network for products of a third party and warehousing and distribution services (see Note 5);

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

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

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

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

### *4.2 Segment Assets and Liabilities*

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

### *4.3 Intersegment Transactions*

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

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

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

## 5. DISCONTINUED OPERATIONS

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

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

## 6. CASH AND CASH EQUIVALENTS

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

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

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

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

This amount consists of:

| | 2011 | 2010 |
|---|---|---|
| Investment in foreign currency denominated bonds | **P 24,570,472** | **P -** |

## 8. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

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

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

All of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired, hence, adequate amount of allowance for impairment have been recognized.

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

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

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

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

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

## 9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

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

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

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

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

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

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

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

## 10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below.

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

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

## 11. REAL ESTATE INVENTORIES

This account is composed of:

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

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

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

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

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

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

In addition, the balances of Property Development Costs as of March 31, 2011 and December 31, 2010, include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon. The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, People's Republic of China. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the People's Republic of China. Pre-sale of the condominium units has been commenced for two of the residential towers in December 2010. Customer deposits relating to the pre-selling activities in 2010 are shown as part Trade and Other Payables in the 2010 consolidated statement of financial position (see Note 16).

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

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

| | **2011** | 2010 |
|---|---|---|
| Balance at beginning of year | **P 68,304,647** | P 68,304,647 |
| Additions | **-** | - |
| Payments made | **-** | - |
| Balance at end of year | **P 68,304,647** | P 68,304,647 |

## 12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses as of March 31, 2011 & December 30, 2010 are shown below.

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

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

## 13. INVESTMENT PROPERTY

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

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

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

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

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

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

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

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

## 14. OTHER ASSETS

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

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

## 15. INTEREST-BEARING LOANS

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

| | **2011** | 2010 |
|---|---|---|
| Current | P **985,928,099** | P 989,502,559 |
| Non-current | P - | P **-** |

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

| Date Obtained | Original U.S. Dollar Amount | Term |
|---|---|---|
| July 2, 2010 | $ 3,078,989 | One year |
| July 2, 2010 | 1,995,635 | One year |
| July 2, 2010 | 1,297,574 | One year |
| July 2, 2010 | 1,882,014 | One year |
| July 2, 2010 | 80,934 | One year |
| | **$ 8,335,146** | |

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

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

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

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

## 16. TRADE AND OTHER PAYABLES

This account consists of:

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

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

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

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

## 17. REFUNDABLE DEPOSITS

SMC has long-term refundable deposits from various tenants amounting to P13.0 million as at December 31, 2010 that pertain to leases with terms ending in 2010 to 2012. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 7.22% to 15.77% at the inception of the lease terms. The amortized cost of the refundable deposits amounting to P15.3 million, as of December 31, 2010, is shown as a separate line item under non-current liabilities in the consolidated statements of financial position. The current portion of refundable deposits is presented as part of the Trade and Other Payables account (see Note 16).

## 18. COST OF SALES, SERVICES AND RENTALS

### *18.1 Cost of Sales*

The details of this account are shown below.

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

### *18.2 Cost of Services*

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

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

### *18.3 Cost of Rentals*

The details of this account are as follows:

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

## 19. OTHER OPERATING INCOME

The breakdown of this account is as follows:

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

## 20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

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

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

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

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

## 21. OTHER INCOME (CHARGES)

### *21.1 Finance Income*

This account consists of the following:

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

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

### *21.2 Finance Costs*

This account consists of the following:

| | Notes | 2011 | 2010 |
|---|---|---|---|
| Impairment losses on available-for-sale financial assets | 8 | **P 4,808,250** | P - |
| Foreign currency losses | | **1,230,769** | 6,311,363 |
| Interest expense arising from loans | 15 | **2,150,024** | 2,641,175 |
| Impairment losses on trade and other receivables | 7 | **10,000,0000** | - |
| Others | | **218,153** | |
| | | **P 18,407,196** | P 8,952,538 |

## 22. EMPLOYEE BENEFITS

### *22.1 Salaries and Employee Benefits Expense*

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

| | Note | 2011 | 2010 |
|---|---|---|---|
| Short-term benefits | | **P 62,839,560** | P 53,673,484 |
| Retirement benefits | | **709,455** | 1,037,134 |
| | | **P 63,549,015** | P 43,790,182 |

### *22.2 Post-employment Benefit*

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

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

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

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

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

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

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

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

| | 2010 |
|---|---|
| Fair value of plan assets | P 239,409,688 |
| Present value of the obligation | 91,208,751 |
| Excess in the plan | P 148,200,937 |

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

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

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

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

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

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

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

| | 2010 |
|---|---|
| Government securities | P 229,286,632 |
| Mutual and trust funds | 10,123,056 |
| | P 239,409,688 |

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

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

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

| | 2010 |
|---|---|
| Discount rates | 8% - 9% |
| Expected rate of return on plan assets | 6% |
| Expected rate of salary increases | 9% |

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

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

## 23. TAXES

### *23.1 Registration with Economic Zone Authorities*

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

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

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

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

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

### *23.2 Current and Deferred Taxes*

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

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

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

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

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:

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

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

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

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

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

### *23.2 Optional Standard Deductions*

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

### *23.3 Change in Applicable Tax Rates*

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

## 24. EQUITY

### *24.1 Capital Stock*

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

### *24.2 Revaluation Reserves*

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

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

### *24.3 Prior Period Adjustments*

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

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

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

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

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

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

(b) *Correction of Misstatements*

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

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

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

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

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

## 25. EARNINGS PER SHARE

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

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

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

## 26. RELATED PARTY TRANSACTIONS

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

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

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

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

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

### *26.2 Purchase of Goods and Services*

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

### *26.3 Lease of Real Property*

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

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

### *26.4 Granting of Loans*

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

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

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

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

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

### *26.6 Transactions with STL*

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

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

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

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

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

### *26.8 Financial Guarantees*

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

## 27. SIGNIFICANT CONTRACTS AND AGREEMENTS

### *27.1 Memorandum of Understanding with SPI*

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

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

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

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

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

## 28. COMMITMENTS AND CONTINGENCIES

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

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

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

| | | 2010 |
|---|---|---|
| Within one year | P | 84,506,562 |
| After one year but not more than five years | | 159,674,701 |
| More than five years | | 865,866 |
| | P | 245,047,129 |

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

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

| | | 2010 |
|---|---|---|
| Within one year | P | 6,984,946 |
| After one year but not more than five years | | 33,500,497 |
| More than five years | | 36,195,820 |
| | P | 76,681,263 |

***Legal Claims***

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

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

   (i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million, subject to expropriation coverage under the Agrarian Reform Act; and,

   (ii) a piece of land, with a carrying value of P309.0 million, subject to claims by third parties who filed court cases against SMC.

(b) SC is involved in litigation and is subject to certain claims by third parties. Also, a portion of SC's land located in Pamaldan, Cabanatuan City, with a carrying amount of P7.6 million, is subject to expropriation coverage under the Agrarian Reform Act.

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

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

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

***Purchase Commitments***

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

***Possible Impact of Government Project***

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

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

### *Others*

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the financial statements because the possible outflow of economic resource as a result of present obligations is considered improbable or remote or the amount to be provided cannot be measured reliably.

## 29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's risk management is coordinated with its BOD and focuses on actively securing the Group's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate continuous returns.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed to are described below.

### *29.1 Foreign Currency Sensitivity*

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from the Group's foreign currency denominated trade and other receivables, interest-bearing loans and trade and other payables, which are primarily denominated in U.S. dollars and Chinese yuan renminbi. The Group also holds U.S dollar-denominated cash and cash equivalents.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

Foreign currency-denominated financial assets and liabilities, translated into Philippine pesos at the closing rate are as follows:

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **U.S. Dollar** | **Chinese Yuan Renminbi** | U.S. Dollar | Chinese Yuan Renminbi |
| Financial assets | **P 435,362,303** | **P 210,364,052** | P 429,590,753 | P 129,100,783 |
| Financial liabilities | **( 378,076,030)** | **( 823,397,467)** | ( 8,929,698) | ( 706,843,136) |
| Total net exposure | **P 57,286,272** | **(P 613,033,416)** | P 420,661,055 | (P 577,742,353) |

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 3 months at a 99% confidence level.

| | **2011** | | 2010 | |
|---|---|---|---|---|
| | **Reasonably Possible Change in Rate** | **Effect in Profit Before Tax** | Reasonably Possible Change in Rate | Effect in Profit Before Tax |
| Php – USD | **3.75%** | **P 2,148,155** | 20.63% | P 86,782,376 |
| Php – RMB | **4.82%** | **( 29,553,751)** | 12.21% | ( 70,542,341) |
| | | **(P 27,405,596)** | | P 16,240,035 |

Exposures to foreign exchange rates vary during the year depending on the volume of overseas transactions. Nonetheless, the analysis above is considered to be representative of the Group's foreign currency risk.

### *29.2 Interest Rate Sensitivity*

At March 31, 2011 and December 31, 2010, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/- 1.08 in 2011 and +/-1.19% in 2010. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 3 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 1.08 and 1.19%, profit before tax in 2011 and 2010 would have increased by P11.7 million and P7.5 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

### *29.3 Credit Risk*

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements), as summarized below:

| | Notes | **2011** | 2010 |
|---|---|---|---|
| Cash and cash equivalents | 6 | **P 1,552,030,807** | P 1,620,114,468 |
| Trade and other receivables - net | 8 | **1,734,652,313** | 1,531,894,847 |
| Financial assets at fair value through profit and loss | 7 | **24,570,472** | |
| Available-for-sale financial assets- net | 9 | **135,990,794** | 150,712,680 |
| Advances to related parties | 26 | **136,183,250** | 201,193,407 |
| Refundable deposits - net | 14 | **13,906,954** | 12,386,030 |
| | | **P 3,597,334,590** | P 3,516,301,432 |

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

*(a) Cash and Cash Equivalents, Held-to-maturity Investments and Available-for-sale Financial Assets*

The credit risk for cash and cash equivalents and investments in foreign currency denominated bonds, classified as held-to-maturity investments and available-for-sale financial assets in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

*(b) Trade and Other Receivables*

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or other credit enhancements. Trade receivables are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

Some of the unimpaired trade receivables and advances to related parties are past due at the end of the reporting period. Trade receivables and advances to related parties past due but not impaired can be shown as follows:

| | 2010 |
|---|---|
| Not more than 3 months | **P 162,017,197** |
| More than 3 months but not more than one year | **68,330,159** |
| More than one year | **294,468,345** |
| | **P 524,815,701** |

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade receivables that are not past due or impaired to be good.

### *29.4 Liquidity Risk*

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a 6-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

# 30. CATEGORIES AND FAIR VALUES OF FINANCIAL ASSETS AND LIABILITIES

## *30.1 Comparison of Carrying Values and Fair Values*

The carrying amounts and fair values of the categories of assets and liabilities presented in the consolidated statements of financial position are shown below.

| | Notes | 2011 Carrying Values | 2011 Fair Values | 2010 Carrying Values | 2010 Fair Values |
|---|---|---|---|---|---|
| ***Financial assets*** | | | | | |
| Loans and receivables: | | | | | |
| Cash and cash equivalents | 6 | **P 1,552,030,807** | **P 1,552,030,807** | P 1,620,114,468 | P 1,620,114,468 |
| Trade and other receivables - net | 7 | **1,098,802.275** | **1,098,802,275** | 1,531,894,847 | 1,531,894,847 |
| Advances to related parties | 26 | **136,183,250** | **136,183,250** | 201,193,407 | 201,193,407 |
| Financial assets at fair value through profit or loss | 7 | **24,570,472** | **24,570,472** | - | - |
| Available-for-sale financial assets: | 9 | | | | |
| Investments in bonds | | **120,934,267** | **120,934,267** | 138,606,153 | 138,606,353 |
| Golf club shares – net | | **6,476,527** | **6,476,527** | 10,670,009 | 10,670,009 |
| Others | | **3,182,936** | **3,812,936** | 1,436,518 | 1,436,518 |
| Refundable deposits | 14 | **13,906,954** | **13,906,954** | 12,386,030 | 12,386,030 |
| | | **P 2,956,717,488** | **P 2,956,717,488** | P 3,516,301,432 | P 3,516,301,432 |
| ***Financial liabilities*** | | | | | |
| At amortized cost: | | | | | |
| Interest-bearing loans - net | 15 | **P 985,928,099** | **P 985,928,099** | P 989,502,559 | P 959,502,559 |
| Trade and other payables | 16 | **915,873,427** | **915,873,427** | 442,663,550 | 442,663,550 |
| Advances from related parties | 26 | **148,193,026** | **148,193,026** | 168,911,611 | 168,911,611 |
| Refundable deposits - net | 17 | **15,479,665** | **15,479,665** | 15,252,534 | 15,252,534 |
| | | **P 2,065,474,217** | **P 2,065,474,217** | P 1,616,330,254 | P 1,616,330,254 |

See Notes 2.5 and 2.10 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 29.

## *30.2 Fair Value Hierarchy*

The table below presents the hierarchy of fair value measurements used by the Group as of March 31, 2011 and December 31, 2010,

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| March 31, 2011 | | | | |
| Financial asset at fair value through profit or loss | **P 24,570,472** | **P -** | **P -** | **P 24,570,472** |
| Available-for-sale financial assets | **P 134,554,275** | **P -** | **P 1,436,518** | **P 135,990,793** |
| December 31, 2010 | | | | |
| Available-for-sale financial assets | P 149,276,174 | P - | P 1,436,518 | P 150,712,692 |

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).

## 31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

The following is the computation of the Group's debt-to-equity ratio:

| | **2011** | 2010 |
|---|---|---|
| Total liabilities (excluding advances from related parties) | P 2,840,751,677 | P 2,361,585,929 |
| Total equity | 8,158,414,515 | 8,111,948,091 |
| Debt-to-equity ratio | **0.35. : 1** | 0.29 : 1 |

The Group sets the amount of capital in proportion to its overall financing structure, i.e., equity and financial liabilities excluding amounts due to related parties. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.