COVER SHEET

845

SEC Registration Number

SOLID GROUP, INC.

(Company's Full Name)

SOLID HOUSE BLDG., 2285

PASONG TAMO EXT. MAKATI CITY

(Business Address: No., Street City / Town / Province)

Contact Person

843-1561

Company Telephone Number

SEC FORM 20-IS
(Definitive Information Statement)

12	31		05	
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Secondary License Type, If Applicable

Dept Requiring this Doc

Amended Articles Number / Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes

CC: PHILIPPINE STOCK EXCHANGE

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 Thursday, June 26, 2014 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, 2013
5. Amendment of Articles of Incorporation to Change the Place of Principal Office
6. Ratification of Previous Corporate Acts
7. Election of Directors
8. Appointment of External Auditors
9. Others Matters
10. Adjournment

For purposes of the meeting, stockholders of record as of May 23, 2014 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 June 16, 2014. 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 June 20, 2014 at the office of the Company's stock transfer agent.

Makati City, Metro Manila, Philippines, May 19, 2014.

ROBERTO V. SAN JOSE
Corporate Secretary

SECURITIES AND EXCHANGE COMMISSION
SEC FORM 20
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 1231

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

8. Date, time and place of the meeting of security holders: June 26, 2014 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 June 4, 2014

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 **June 27, 2013** 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 **June 4, 2013.**

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 May 23, 2014.

As of record date May 23, 2014, 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.

Equity Ownership of Foreigners

As of record date May 23, 2014, there are a total of 626 shareholders who are foreigners. Collectively, they own 14,503,265 outstanding common shares which constitutes 0.796208% of the total outstanding common shares.

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

The owners of more than 5% of the Company's voting securities as of record date May 23, 2014 are as follows:

(1) Title of Class	(2) Name and address of record owner and relationship with issuer	(3)Name of Beneficial Owner and Relationship with Record Owner	(4)Citizen-ship	(5) No. of Shares Held [record (r) or beneficial (b)]	(6) Percent
Common	AA Commercial, Inc. [1] 1172 Edsa, Balintawak Quezon City Affiliate	Vincent S. Lim Treasurer of AA Commercial Inc.	Filipino	583,377,817 (r) [1]	32.03
Common	AV Value Holdings Corporation 2285 Pasong Tamo Ext, Makati Affiliate	David S. Lim President of AV Value Holding Corp.	Filipino	499,999,999 (r) [2]	27.45
Common	PCD Nominee Corporation (F) [2] G/F MSE Bldg., 6767 Ayala Ave., Makati Stockholder	Various stockholders None	Filipino	332,874,626 (r) [3]	18.27
Common	Lim, David S c/o Solid House, 2285 Pasong Tamo Ext, Makati	Not applicable	Filipino	179,488,591 (r and b)	9.85

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

2: AV Value Holdings Corporation is owned by the Lim Family. Mr. David S. Lim is authorized to vote the shares of stock registered in the name of AV Value Holdings Corporation. Mr. David S. Lim is President of AV Value Holdings Corporation. Mr. David S. Lim is also the President and Chief Executive Officer of Solid Group Inc.

3. To the best knowledge of the Company, there is no beneficial owner of shares 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 record date May 23, 2014 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) % to Total Outstanding
Common	Lim, Elena S.	1,894 (direct)	Filipino	-
Common	Tan, Susan L.	78,645 (direct)	Filipino	-
		7,300,000 (indirect)[3]		0.40
Common	Lim, David S.	179,488,591 (direct)	Filipino	9.85
		5,000,000 (indirect)[3]		0.27
		499,999,999 (indirect)[2]		27.45
Common	Lim, Vincent S.	71,887,187 (direct)	Filipino	3.95
		583,377,817 (indirect)[1]		32.03
		5,996,000 (indirect)[3]		0.33
Common	Lim, Jason S.	65,176,160 (direct)	Filipino	3.58
Common	Chua, Quintin	1,505,000 (direct)	Australian	0.08
Common	Zabaljauregui, Luis-Maria	5,000 (direct)	Filipino	-
Common	Lim, Joseph	2 (direct)	Filipino	-
Common	Beda T. Manalac	1,001 (direct)	Filipino	-
Common	San Jose, Roberto V.	242,000 (direct)	Filipino	0.01
Common	Katigbak, Ana Maria	-	Filipino	-
Common	Joaquin, Lita	7,010,000 (direct)	Filipino	0.38
Common	Corpuz, Mellina T.	-	Filipino	-
Common	Santiago, Josephine T.	7,000 (direct)	Filipino	-

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

<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.

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

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	13	84	Filipino
Chairman of the Board	Susan L. Tan	13	60	Filipino
Director and President and Chief Executive Officer	David S. Lim	13	58	Filipino
Director and Sr. VP and Chief Operating Officer	Jason S. Lim	12	57	Filipino
Director and Sr. VP and Chief Financial Officer	Vincent S. Lim	4	55	Filipino
Director	Quintin Chua	20	54	Australian
Director	Luis-Maria Zabaljauregui	6	66	Filipino
Director	Joseph Lim	4	87	Filipino
Director and VP for Business Development and Investor Relations	Beda T. Manalac	4	53	Filipino
VP and Treasurer	Lita Joaquin	12	53	Filipino
Corporate Secretary	Roberto V. San Jose	18	71	Filipino
Assistant Corporate Secretary	Ana Maria Katigbak-Lim	17	45	Filipino
VP and Chief Accounting Officer	Mellina T. Corpuz	8	47	Filipino
Chief Information Officer	Josephine T. Santiago		46	Filipino

The following is a brief write-up on the background and business experience of the Company's directors and executive officers during the last five (5) years:

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 has been 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. Mrs. 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 has been a Director since 1996. She was Chief Operating Officer of the Company from 1996 until 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. Mrs. 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 has also been a Director since 1996. He was also Vice-President from 1996 until April 2001. He is currently the President and Chief Executive Officer of Solid Broadband Inc., Chairman of Zen Towers Corporation and Vice-President of Solid Corporation. He was formerly Chairman of Destiny Cable Inc. and VP/Managing Director of Solid Video 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 has been a Director since May 1998. He is also currently President of Kita Corporation and Solid Manila Finance Inc. Previously, he was the EVP and Chief Operating Officer of Destiny Cable Inc., and VP/Managing Director of Clark Plastics Manufacturing Corporation and Solid City Industrial and Commercial Corporation. 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 has been a Director since 1996. He was previously the Company's Sr. Vice President for Finance and Investments from June 2006 up to September 2010. Prior to this, he was Sr. VP and Chief Financial Officer of the Company from May 2002 up to June 2006. He simultaneously serves as VP Finance and Treasurer for Solid Laguna Corporation and Solid Distributors, Inc., Solid Electronics Corporation, AA Electronics Corporation, Kita Corporation, Solid Video Corporation and Solid Manila Corporation. He has also previously served as VP Finance, Treasurer and Corporate Secretary for Solid 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 Quantum Capital Management, Inc. (formerly 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 is a Consultant of Roxas Holdings Inc. since February 2012. 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 and Vice-President for the Ethanol Project of Roxol Bioenergy Corporation from July 2008 up to June 2011.

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. During the past five years to the 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 was re-elected 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 President of Solid Manila Corporation effective January 2012. 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 elected director from 2006–2007 and 1997-1998. She also served the Corporation as Comptroller in 1996 to April 2002. She simultaneously acts as Assistant Treasurer of Solid Corporation, 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 Chairman of Mabuhay Holdings Corporation; a director of Interport Resources Corporation and Anglo-

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

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

Mellina T. Corpuz is the Chief Accounting Officer and has held the position since June 2006. Prior to that, she was the Company's Senior Accounting Manager since 2002 and was the Accounting Manager since 1996.

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

Nominees for Election

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

Position	Name	Age	Citizenship
Director	Elena S. Lim	84	Filipino
Director	Susan L. Tan	60	Filipino
Director	David S. Lim	58	Filipino
Director	Jason S. Lim	57	Filipino
Director	Vincent S. Lim	55	Filipino
Independent Director	Quintin Chua	54	Australian
Independent Director	Luis-Maria L. Zabaljauregui	66	Filipino
Director	Joseph Lim	87	Filipino
Director	Beda T. Mañalac	53	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. 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.

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 Corporate Governance & Nominations Committee was constituted with the following as current members:

1. Mr. Vincent S. Lim (Chairman)
2. Mr. Quintin Chua (Vice Chairman; Independent Director)
3. Ms. Susan L. Tan
4. Ms. Mellina T. Corpuz (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.

Attached as **Exhibit 1** hereto is a certification that none of the Company's directors and officers are connected with any government agencies or instrumentalities.

In compliance with SEC Notice dated October 20, 2006, the Company will submit updated Certifications of Qualification for the Independent Directors within 30 days from their election.

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

See full discussion on related party-transactions disclosed in Note 26 of the 2013 annual audited consolidated financial statements.

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. There were no revenues recognized for this transaction since SBC sold significant portion of its assets to a third party as of December 31, 2012.

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.

Solid Electronic Corporation purchases (SE Corp.) parts and supplies from CPD.

Solid Manila Corporation leases out certain land and buildings to Avid Sales Corporation. Also, SE Corp. leases out office space to CPD and Avid.

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

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.

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

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

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

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

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

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

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

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

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.

		Annual Compensation		
(a)	(b)	(c)	(d)	(e)
Name and Principal Position	Year	Salary (₱)	Bonus (₱)	Other Annual Compensation Income (₱)
Chairman and four most highly compensated executive officers	2014 (est.)	20,000,000	3,500,000	1,500,000
	2013	16,543,113	2,954,729	1,174,113

Susan L. Tan	Chairman of the Board
David S. Lim	Director, President and Chief Executive Officer
Jason S. Lim	Director, Senior VP and Chief Operating Officer
Vincent S. Lim	Director, Senior VP and Chief Financial Officer
Beda T. Manalac	Director, VP for Business Development

Chairman and four most highly compensated executive officers	2012	20,334,875	2,167,880	811,367

Susan L. Tan	Chairman of the Board
David S. Lim	Director, President and Chief Executive Officer
Jason S. Lim	Director, Senior VP and Chief Operating Officer
Vincent S. Lim	Director, Senior VP and Chief Financial Officer
Lita Joaquin	VP and Treasurer

All officers and directors as a group unnamed	2014 (Est.)	6,000,000	1,000,000	1,500,000
	2013	4,795,000	848,203	1,184,456
	2012	3,460,000	629,591	2,198,296

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 & Remuneration Committee. The members of the Compensation & Remuneration Committee are the following:

Chairman:	David S. Lim
Vice Chairman:	Susan L. Tan
Members:	Quintin Chua (Ind. Director)
	Vincent S. Lim

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 30,000 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 2013. 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 2013 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. Beginning audit year 2011 and including the current audit year 2014, Ms. Mailene Sigue-Bisnar has been designated as audit partner-in-charge. A two-year cooling off period shall be observed in the re-engagement of the same signing partner or individual.

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

Chairman:	Quintin Chua (Independent Director)
Vice Chairman:	Vincent S. Lim
Members:	Susan L. Tan
	Luis Ma. L. Zabaljauregui (Independent Director)
	Mellina T. Corpuz (non-director)

Audited Financial Statements

Attached as Exhibit 2 is a copy of the Company's audited financial statements for the year ended December 31, 2013.

Interim Financial Statements

Attached as Exhibit 3 is a copy of the Company's SEC Form 17-Q for the first quarter of 2014 ended March 31, 2014. The Company's SEC Form 17-Q contains the company's financial statements for the first quarter of 2014 ended March 31, 2014.

Financial Soundness Indicators

The Company's Financial Soundness Indicators for the comparative years ended December 31, 2012 and December 31, 2013 is attached as Annex J of the Company's audited financial statements for the year ended December 31, 2013.

C. AMENDMENT OF ARTICLES OF INCORPORATION

The Securities and Exchange Commission ("SEC"), in SEC Memorandum Circular No. 6 (Series of 2014) has required all corporations to amend their respective Articles of Incorporation to change the principal place of office from a general place to its current specific address.

In compliance with SEC Memorandum Circular No. 6 (Series of 2014), Management is requesting the stockholders to amend the Third Article of the Articles of Incorporation to specify the principal place of office to:

"Solid House, 2285 Chino Roces Avenue Extension, Makati City, Metro Manila"

D. OTHER MATTERS

Action with Respect to Reports:

The 2013 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 June 27, 2013 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 2012 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 audited and interim financial statements; approval of cash dividends; opening and closure of bank accounts; approval of the Code of Business Conduct; investment in Solid Video Corporation; investment of corporate funds; and approval of corporate governance matters.

Voting Procedure:

For the amendment of the Articles of Incorporation to change the principal place of office from "Municipality of Makati, Province of Rizal, Philippines" to the specific address of "Solid House, 2285 Chino Roces Avenue Extension, Makati City, Metro Manila", the approval by the stockholders representing at least two-thirds (2/3) of the outstanding capital stock will be required.

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 at least 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 May 29, 2014.

Solid Group, Inc.

By:

Ana Maria A. Katigbak
Asst. Corporate Secretary

Exhibit 1
Certification on the connections of the Company's directors and officers with any government agencies or instrumentalities

Exhibit 2
The Company's audited financial statements for the year ended December 31, 2013

Exhibit 3
The Company's SEC Form 17-Q

SOLID GROUP INC.

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

For the 2013 Annual Stockholders' Meeting

A. Audited Financial Statements for Fiscal Year Ended December 31, 2013

Please refer to the accompanying audited financial statements for year ended December 31, 2013 and first quarter report on SEC Form 17Q for the quarter ended March 31, 2014.

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

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

a. Full Fiscal Years

Key Performance Indicators

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

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

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

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

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

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

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

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

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

	December 31, 2012	Dec. 31, 2011	Dec. 31, 2010
Revenue growth	(13%)	18%	53%
Asset turnover	32%	40%	37%
Operating expense ratio	17%	14%	16%
EBITDA	P225 million	P1,565 million	P659 million
Earnings (loss) per share	P0.68	P0.68	P0.24
Current ratio	2.60:1	3.14:1	2.47:1
Debt to equity ratio	0.39:1	0.33:1	0.36 : 1

<u>2013</u>

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

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

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

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

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

Current ratio stood lower at 2.60:1 as of December 31, 2013 and 3.14 : 1 as of December 31, 2012 mainly due to higher current liabilities.
Debt to equity ratio stood at 0.39: 1 as of December 31, 2013 from 0.33: 1 as of December 31, 2012 primarily due to higher liabilities

2012

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

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

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

EBITDA reached P1,574 million in 2012 as compared with P660 million in 2011. The Company reported one-time gain on sale of assets of P267 million and gain on reversal of asset impairment of P437 million from the sale of assets by the broadband segment. Moreover, profits on the My|Phone business improved as it increased sales and managed its inventory levels and earnings of the investing and financing business segment from additional fund placements.

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

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

Debt to equity ratio stood at 0.33 : 1 as of December 31, 2012 from 0.36 : 1 as of December 31, 2010 primarily due to improved equity position this year.

2011

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

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

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

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

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

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

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

Results of Operations 2013

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

Sale of goods amounted to P3,513 million in 2013, lower by11% from P3,959 million for the same period in 2012 mainly due lower volume of sales of the digital products.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Financial Position 2013

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Results of Operations 2012

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

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

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

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

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

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

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

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

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

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

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

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

Other operating expenses (income) amounted to P116 million other operating income in 2012 against P412 million other operating expenses in 2011 as explained below.

General and administrative expenses amounted to P 343 million in 2012 from P366 million in 2011. The decline was principally due to lower operating expenses of the broadband segment after it disposed of its assets.

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

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

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

Operating profit amounted to P 1,345 million in 2012 from P577 million in 2011, improving by 133% from higher gross profit and other operating income and gain of sale of asset as discussed above.

Other income (charges) amounted to P 172 million gain in 2012 against P3.5 million loss in 2011 mainly from the following:

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

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

Other gains amounted to P57 million in 2012 versus P21 million in 2011 primarily due to gain on derecognition of liabilities.

Income before tax reached P1,517 million in 2012, or higher by 165% from P573 million in 2011 mainly due to higher operating profit as explained above. The sale of assets of the broadband segment posted P267 million one time-gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense amounted to P276 million in 2012 from P139 million in 2011 due to higher pre-tax income.

Profit from continuing operations amounted to P1,241 million in 2012 against P434 million in 2011 due to the factors discussed above.

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

Net profit for the year reached P1,241 million in 2012 against P430 million in 2011.

Net income attributable to equity holders of the parent amounted to P1,244 million in 2012 against P439 million in 2011 as discussed above.

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

<u>Financial Position 2012</u>

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

Trade and other receivables reached P1,287 million as of December 31, 2012 against P1,137 million as of December 31, 2011. The increase was principally due to higher receivable position of the distribution segment.

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

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

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

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

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

Other current assets amounted to P252 million as of December 31, 2012 compared with P267 million as of December 31, 2011, or a decrease of 6% was mainly due to lower input VAT and creditable withholding taxes.

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

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

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

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

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

Retirement benefit assets amounted to P73 million as of December 31, 2012 and P79 million as of December 31, 2011. The decrease was principally due to claims and refund by the broadband segment.

Deferred tax assets - net amounted to P63 million as of December 31, 2012 and P69 million as of December 31, 2011, a decrease of 10% principally due to lower allowances for inventory obsolescence and provision for warranty.

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

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

Total assets reached P12,848 million as of December 31, 2012 from P11,716 million as of December 31, 2011 as discussed above.

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

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

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

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

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

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

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

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

Retirement benefit obligation amounted to P 12 million as of December 31, 2012 and P6 million December 31, 2011. The increase was due to unfunded retirement benefit obligation of the distribution segment.

Deferred tax liabilities -net amounted to P 920 million as of December 31, 2012 and P861 million as of December 31, 2011. The increase was primarily from provision for fair value gains on investment property.

Total non-current liabilities amounted to P948 million as of December 31, 2012 from P882 million as of December 31, 2012 and December 31, 2011.

Total liabilities amounted to P3,176 million as of December 31, 2012 from P3,160 million as of December 31, 2011.

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

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

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

Revaluation reserves amounted to P46 million loss as of December 31, 2012 from P29 million loss as of December 31, 2011 due to other comprehensive income for the period mainly from currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss.

Retained earnings amounted to P2,758 million as of December 31, 2012 from P1,623 million as of December 31, 2011 as a result of net income and dividend declaration during the period.

Total equity attributable to Equity holders of Parent amounted to P9,269 million as of December 31, 2012 from P8,151 million as of December 31, 2011 due to higher retained earnings.

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

Total equity amounted to P9,671 million as of December 31, 2012 from P8,556 million as of December 31, 2011.

Results of Operations 2011

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Other income (charges) amounted toP3.5 million loss in 2011 or an increase of 92% from P46 million loss in 2010 mainly from the following:

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

Finance income amounted to P61 million in 2011, up by 58% compared with P38 million in 2010 mainly due to the higher interest income from higher placements of the real estate segment, higher impairment reversals, interest income from financing the condominium units and foreign currency gains.

Other gains amounted to P24 million in 2011 versus P2.7 million in 2010 principally due to income from common usage area.

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

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

Profit from continuing operations amounted to P434 million in 2011 from P243 million in 2010 mainly from higher operating profit as explained above.
Loss from discontinued operations amounted to P3.8 million loss in 2011 versus P17 million in 2010 as the Company continued to dispose its remaining stocks.

Net income amounted to P430 million in2011 against P227 million in 2010 due to the factors discussed above.

Net income attributable to equity holders of the parent amounted to P439 million in 2011 against P229 million in for the same period of 2010 as discussed above.

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

Financial Position 2011

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

Trade and other receivables reached P1,137 million as of December 31, 2011 against P890 million as of December 31, 2010, or higher by 28% principally due to higher trade receivables on digital products. Trade customers are generally established and stable companies with reasonable assurance of collectibility of their accounts. Nonetheless, trade accounts are periodically reviewed to assess the possible losses from non-collection and allowance is provided for possible losses on accounts which are considered doubtful of collection.

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

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

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

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

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

Other current assets amounted to P267 million as of December 31, 2011 and P242 million as of December 31, 2010 or a increase of 10% principally from higher prepaid expenses, creditable withholding taxes and advances to suppliers and contractors.

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

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

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

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

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

Retirement benefit assets amounted to P79 million as of December 31, 2011 from P74 million as of December 31, 2010, increasing by 6% from contributions during the year.

Deferred tax assets - net amounted to P69 million as of December 31, 2011, higher by 113% from P32 million December 31, 2010 mainly on higher valuation allowance on inventories.

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

Total non-current assets amounted to P6,100 million as of December 31, 2011 from P5,828 million as of December 31, 2010 as discussed above.

Total assets reached P11,716 million as of December 31, 2011 from P10,642 million as of the December 31, 2010 as discussed above.

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

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

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

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

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

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

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

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

Retirement benefit obligation amounted to P6 million as of December 31, 2011 from P3 million December 31, 2010 mainly from unpaid contributions.

Deferred tax liabilities -net amounted to P861 million as of December 31, 2011 and P798 million as of December 31, 2010, higher by 8% principally arising from fair value gains on investment property for the year.

Total non-current liabilities amounted to P882 million as of December 31, 2011 from P817 million as of December 31, 2010.

Total liabilities amounted to P3,160 million as of December 31, 2011 from P2,530 million as of December 31, 2010 as discussed above.

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

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

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

Revaluation reserves amounted to P29 million loss as of December 31, 2011 from P43 million loss as of December 31, 2010 due to other comprehensive income for the period consisting mainly reclassification adjustments for losses recognized in profit or loss for the year and translation currency adjustments, offset by fair value losses on available for sale financial assets.

Retained earnings amounted to P1,623 million as of December 31, 2011 from P1,183 million as of December 31, 2010 as a result of net income during the period.

Total equity attributable to Equity holders of Parent amounted to P8,151 million as of December 31, 2011 from P7,697 million as of December 31, 2010 due to higher retained earnings.

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

Total equity amounted to P8,556 million as of December 31, 2011 from P8,111 million as of December 31, 2010.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Operations

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

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

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

vii. Causes for any Material Changes from Period to Period

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

Balance Sheet Items (2013 vs. 2012)

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

Cash and cash equivalents – 23% decrease to P2,327 million from P3,019 million
Mostly used for investing activities mainly for acquisitions of FAFVTPL and additions to property and equipment and for operating activities mainly for increase in inventories. This account stood at 17% and 24% as a percentage of total assets for years 2013 and 2012.

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

Trade and other receivables – 7 % decrease to P1,132 million from P1,220 million
Mainly due to collection of receivables of the distribution segment. This account stood at 8% and 10% as a percentage of total assets in 2013 and 2012, respectively.

Advances to related parties – 14% increase to P24 million from P21 million
Principally from additional advances. This account stood at 0.18% and 0.17% as a percentage of total assets in 2013 and 2012, respectively.

Merchandise inventories and supplies – 115 % increase to P844 million from P391million
Mainly due to buildup of inventories of the My|Phone business. This account represented 6% and 3% as a percentage of total assets in 2013 and 2012, respectively.

Real estate inventories – 20% increase to P2,423 million from P2,011 million
The increase was mainly due to the ongoing Fil-Dragon's project in Nanning, China. This account stood at 17% and 15% as a percentage of total assets in 2013 and 2012, respectively.

Other current assets – 33% increase to P425 million from P319 million
Mainly due to higher creditable withholding taxes and input VAT . This account stood at 3% and 2% as a percentage of total assets for years 2013 and 2012.

Non-current trade and other receivables – amounted to P722 million as of December 31, 2013, increased by 14% from P630 million as of December 31, 2012..
Mainly due to increase in cash surrender value of life insurance and finance receivables. This account stood at 5% of total assets for both years.

Non-current available-for-sale financial assets – 20% decrease in 2013 to P7 million from P9 million in 2012
The decrease was due to lower club shares. This account stood at 0.05% and 0.07% as a percentage of total assets for 2013 and 2012.

Property, plant and equipment – 49% increase to P1,560 million from P1,048 million
Mainly due to the transfer of Solid House property from investment property to this account. This represented 11 %% and 8% as a percentage of total assets in 2013 and 2012.

Investment property – P3,648 million from P4,017 million
Mainly from transfer of Solid House property to property and equipment. This account stood at 27% and 31% as a percentage of total assets in 2013 and 2012, respectively.

Retirement benefit assets - 115% increase to P82 million from P71 million
Increase was mainly due to lower present value to obligation. This represented 0.60% and 0.56% of total assets in 2013 and 2012, respectively.

Deferred tax assets –net - 20% increase to P77 million from P64 million
Mainly due to MCIT of MySolid. This account stood at 0.57% and 0.50% of total assets in 2013 and 2012 respectively.

Other non-current assets – 48% increase in 2013 to P32 million from P22 million
Mainly due to higher deferred input VAT. This represented 0.24% and 0.17% as percentage to total assets in 2013 and 2012 respectively.

Interest-bearing loans – 20% increase in 2013 to P684 million from P571 million
Mainly due to additional loans for the Golden Hill project. This account stood at 5% and 4% as a percentage of total liabilities and equity in 2013 and 2012, respectively.

Trade and other payable – 16% increase to P731 million from P 628 million
Increase was primarily due to higher trade payables and other payables of the Golden Hill project and My|Phone business. This account stood at 5% and 4% in 2013 and 2012 respectively as a percentage of total liabilities and equity in 2013 and 2012.

Customers' Deposit – increase to P1,306 million from P881 million
Principally due to additional collection of deposits for real estate sales.

Advances from related parties – 599 % increase to P81 million from P11 million
The increase was due to advances made during the period. This account stood at 0.60% in 2013 and 0.09% in 2012 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change
There was no movement during the period. This account represented 0.50% and 0.53% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

Income tax payable –92% decrease to P4 million as of December 31, 2013 from P65 million as of December 31, 2012.
Mainly due to lower tax expenses. This account was pegged at 0.03% and 0.51% of the total liabilities and equity in 2013 and 2012, respectively.

Non-current refundable deposits – amounted to P15 million from P1.6 million
Mainly from additional deposits. This represented 0.11% and 0.12% of the total liabilities and equity in 2013 and 2012, respectively.

Retirement benefit obligation – 64% increase to P26 million from P16 million
Mainly from unfunded retirement obligation. This account stood at 0.19% and 0.13% of the total liabilities and equity in 2013 and 2012, respectively.

Deferred tax liabilities –Increase to P935 million from P919 million
No material change. This account stood at 6 and 7%% as a percentage of total liabilities and equity for 2013 and 2012.

Capital stock – no change
*T*his account stood at 14% and 15%of total liabilities and equity for 2013 and 2012, respectively.

Additional Paid-In-Capital – no change
This account represented 34 % and 36% of total liabilities and equity for 2013 and 2012, respectively.

Treasury Shares – no change
This account represented 0.85% and 0.90% of total liabilities and equity for 2013 and 2012, respectively.

Revaluation reserves –amounted to (P16 million) from (P63 million)
Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations. This account stood at .012%% and 0.49% total liabilities and equity in 2013 and 2012, respectively.

Retained earnings – 1.75% increase to P2,820 million from P2.772 million
Increase was a result of net income during the period. This account stood at 20% and 21% of total liabilities and equity in 2013 and 2012, respectively.

Income Statement Items (2013 vs. 2012)

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

Sale of goods – 11% decrease to P3,513 million from P3,959 million
Principally form lower volume of digital product sales. As a percentage of total revenues, this account represents 83% and 81% in 2013 and 2012 , respectively.

Service revenue –34% decrease to P414 million from P630 million
Principally due to termination of operations of SBC after its asset sale in 2012. As a percentage of total revenues, this account represents 10% and 13% for years 2013 and 2012.

Rental income – 11% increase to P151 million from P136 million
Principally due to higher occupancy in 2013. As a percentage of total revenues, this account represents 4% and 3% for years 2013 and 2012.

Sale of real estate – 15% increase to P113 million from P98 million
Principally due to higher condominium sales. As a percentage of total revenues, this account stood at 3% in 2013 and 2% in 2012.

Interest income – 39% decrease to P39 million from P64 million
Mainly from lower yield on placements as compared with previous year. As a percentage of total revenues, this account represents 0.93% in 2013 and 1% in 2012.

Cost of sales - P2,983 million from P3,092 million
No material change for this account. As a percentage of total sales, this account represented 70% and 63% in 2013 and 2012 respectively.

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

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

Cost of rentals – P34 million from P35 million
No material change for this account. This account represents 1% as a percentage of total revenues for both years.

Cost of real estate sold – 53% increase to P70 million from P45 million
The increase was mainly in relation to higher sale of real estate. As a percentage of total revenues, this account represents 2% in 2013 and 1% in 2012.

General and administrative expenses – 18% decrease to P288 million from P352 million
Expenses went down after the broadband assets were sold in May 2012. As a percentage of total revenues, this account stood at 7% for both years.

Selling and distribution costs – 25% increase to P451 million from P361 million
Mainly from higher advertising costs. This account represents 11% of total revenues for 2012 and 7% in 2012.

Gain on sale of assets –nil in 2013 and 267 million in 2012
None in 2013, one-time gain from the sale of broadband assets in 2012.

Other operating income –net -90% decrease to P53 million from P553 million
Primarily due to gain on sale of broadband assets (none in 2013). This account decreased to 1% in 2013 from 11% in 2012 as a percentage of total revenues.

Finance income – 62% decrease to P62 million from P163 million
It went down because in 2012 there were reversals of impairment on PPE and trade receivables due to sale of broadband assets in 2012. This account decreased at 1% of total revenues for 2013 from 3% in 2012.

Finance costs – P20 million from P49 million
Primarily due to lower foreign currency losses and lower interest expense. This account decreased at 0.49% of total revenues in 2013 from 1% in 2012.

Other gains - net –P22 million to P60 million
Primarily due to lower gain on derecognition of liabilities in 2013. Also in 2012, there were reversal of allowance on inventory obsolescence (none in 2013). This account stood at 0.54% in 2013 from 1% in 2012 as a percentage of total revenues.

Balance Sheet Items (2012 vs. 2011)

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

Cash and cash equivalents – 76% increase to P3,019 million from P1,720 million
Mainly provided by investing activities mainly from proceeds on the sale of broadband assets and from operating activities principally from decrease in inventories, collection of customers' deposits and advances and it was used for financing activities primarily for payment of interest bearing loans and dividends. This account stood at 24% and 15% as a percentage of total assets for years 2012 and 2011, respectively.

Financial Assets at fair value through fair value and loss – 100% decrease from P70 million
Financial assets at fair value through profit or loss amounted to nil as of December 31, 2012 versus P70 million in 2011 mainly due to disposals made during the period

Trade and other receivables – 12 % increase to P1,220 million from P1,089 million
Mainly from increase in trade receivables on digital products. This account stood at 10% and 9% as a percentage of total assets in 2012 and 2011, respectively.

Advances to related parties – 83% decrease to P21 million from P128 million
Principally from collections of advances made. This account stood at 0.17% and 1% as a percentage of total assets in 2012 and 2011, respectively.

Available-for-sale financial assets – 100% decrease from P51 million
The decrease was principally due to disposal of financial assets. This account stood at nil and 0.4% as a percentage of total assets in 2012 and 2011, respectively.

Merchandise inventories and supplies – 31 % decrease to P391 million from P564 million
Mainly due improved inventory position in the distribution segment. This account represented 3% and 5% as a percentage of total assets in 2012 and 2011, respectively.

Real estate inventories – 20% increase to P2,011 million from P1,675 million
The increase was mainly due to construction of Golden Hill Project. This account stood at 15% and 14% as a percentage of total assets in 2012 and 2011, respectively.

Other current assets – 1% increase to P319 million from P315 million
Mainly due to higher prepayments. This account stood at 2% as a percentage of total assets for years 2012 and 2011.

Non-current trade and other receivables – amounted to P630 million as of December 31, 2012, decreased by 6% from P670 million as of December 31, 2011.
Mainly due to lower translated value of the foreign-currency receivables. This account stood at 5% and 6% as a percentage of total assets for years 2012 and 2011 respectively.

Non-current available-for-sale financial assets – 15% increase in 2012 to P9 million from P7.8 million
Mainly from fair value gains of club shares. This account stood at nil and 0.07% as a percentage of total assets for 2012 and 2011, respectively.

Property, plant and equipment – 24% decrease to P1,048 million from P1,386 million
Mainly due to sale of broadband assets. This represented 8 %% and 12% as a percentage of total assets in 2012 and 2011, respectively.

Investment property – P4,017 million from P3,864 million
Mainly from fair value gains for the year. This account stood at 31% and 33% as a percentage of total assets in 2012 and 2011, respectively.

Retirement benefit assets - 15% decrease to P71 million from P84 million
Decrease was mainly due to claims and refund by SBC. This represented 0.56% and 0.72% of total assets in 2012 and 2011, respectively.

Deferred tax assets –net - 10% decrease to P64 million from P71 million
Mainly due to lower allowances for inventory obsolescence and provision for warranty. This account stood at 0.50% and 0.61% of total assets in 2012 and 2011, respectively.

Other non-current assets – no change
This represented 0.17% and 0.19% as percentage to total assets in 2012 and 2011, respectively.

Interest-bearing loans – 27% decrease in 2012 to P571 million from P779 million
Mainly due to payments of loan during the year. This account stood at 4% and 7% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

Trade and other payable –6% increase to P628 million from P592 million
Increase was due to higher trade payables incurred for the Golden Hill Project. This account stood at 5% as a percentage of total liabilities and equity in 2012 and 2011.

Customers' Deposit –29% increase to P881 million from P686 million
Principally due to additional collection of deposits from real estate and prefabricated modular houses buyers. This account stood at 7% in 2012 and 6% in 2011 as a percentage of total liabilities and equity.

Advances from related parties – 89% decrease to P11 million from P107 million
The decrease was due to payments made during the period. This account stood at 0.09% in 2012 and 0.92% in 2011 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change
There was no movement during the period. This account represented 0.53% and 0.58% as a percentage of total liabilities and equity in 2012 and 2011, respectively.

Income tax payable –50% increase to P65 million as of December 31, 2012 from P43 million as of December 31, 2011.
Mainly due to higher tax expenses. This account was pegged at 0.51% and 0.37% of the total liabilities and equity in 2012 and 2011, respectively.

Non-current refundable deposits – amounted to P16 million from P15.6 million
No material change. This represented 0.12% and 0.13% of the total liabilities and equity in 2012 and 2011, respectively.

Retirement benefit obligation – 21% increase to P16 million from P13 million
Mainly from unfunded retirement obligation of the distribution segment. This account stood at 0.13% and 0.11% of the total liabilities and equity in 2012 and 2011, respectively.

Deferred tax liabilities – 7 % increase to P920 million from P862 million
The increase was principally from provision for fair value gains on investment property. This account stood at 7% as a percentage of total liabilities and equity for 2012 and 2011.

Capital stock – no change
*T*his account stood at 16% and 17%of total liabilities and equity for 2012 and 2011, respectively.

Additional Paid-In-Capital – no change
This account represented 36 % and 40% of total liabilities and equity for 2012 and 2011, respectively.

Treasury Shares – no change
This account represented 0.90% and 0.99% of total liabilities and equity for 2012 and 2011, respectively.

Revaluation reserves –amounted to (P63 million) from (P48 million)
Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations offset with reclassification adjustments for losses recognized in profit or loss. This account stood at 0.49%% and 0.41% total liabilities and equity in 2012 and 2011, respectively.

Retained earnings – 69% increase to P2,772 million from P1.641 million
As a result of net income and dividend declaration during the period. This account stood at 22% and 14% of total liabilities and equity in 2012 and 2011, respectively.

Income Statement Items (2012 vs. 2011)

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

Sale of goods – 26% increase to P3,959 million from P3,135 million
Primarily because sales of digital products improved with the introduction of new model lineup and also from higher sales of prefabricated modular house in 2012. As a percentage of total revenues, this account represents 81% and 76% in 2012 and 2011 , respectively.

Rendering of services –8% decrease to P630 million from P682 million
Principally due to broadband's sale of assets and subscriber base in May 2012. As a percentage of total revenues, this account represents 13% and 16% in 2012 and 2011 , respectively.

Sale of real estate – 22% decrease to P98 million from P126 million
Principally since there was no sale of industrial lots for 2012. As a percentage of total revenues, this account represents 2% in 2012 and 3% in 2011.

Rentals – 13% decrease to P136 million from P157 million
Principally due to decrease in occupied spaces as the Company Terminated certain lease contracts since the Solid House Building was renovated. As a percentage of total revenues, this account represents 3% and 4% for years 2012 and 2011.

Interest income – 35% increase to P64 million from P47 million
Mainly from higher investible funds as the Company improved its cash position from the proceeds on the sale of the broadband assets. As a percentage of total revenues, this account represents 1% in 2012 and 2011.

Cost of sales - 22% increase to P3,092 million from P2,524 million
Mainly in relation to higher sales. As a percentage of total revenues, this account represents 63% in 2012 and 61% in 2011.

Cost of services - 2% decrease to P488 million from P499 million
Principally in relation to service revenue. This account decreased to 10% in 2012 and 12% in 2011 as a percentage of total revenues.

Cost of real estate sales – 52% decrease to P45 million from P95 million
The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account represents 1% in 2012 and 2% in 2011.

Cost of rentals – 11% decrease to P35 million from P39 million
Primarily from lower rental and other overhead. This account represents 1% as a percentage of total revenues for years 2012 and 2011.

Gross profit – 24% increase to P1,228 million from P989 million
Primarily due to higher revenues. This account represents 25% in 2012 and 24% in 2011 as a percentage of total revenues

General and administrative expenses – 4% decrease to P352 million from P366 million
Principally due to lower operating expenses of the broadband operations after it disposed of its assets. As a percentage of total revenues, this account decreased to 7% in 2012 from 9% in 2011.

Selling and distribution costs – 30% increase to P361 million from P278 million
Mainly from higher commissions. This account remained at 7% of total revenues for 2012 and 2011, respectively.

Gain on sale of assets – 267 million
One-time gain from the sale of broadband assets, none in 2011.

Other operating income –net - 138% increase to P553 million from P232 million
Primarily due to one-time gains on reversal of asset impairment of P437 million from the sale of broadband assets. This account increased to 11% in 2012 from 6% in 2011 as a percentage of total revenues.

Operating profit –132% increase to P1,336 million in 2012 from P577 million
Primarily from higher gross profit and other operating income and gain of sale of asset

Finance income – 154% increase to P163 million from P64 million
Principally contributed by reversals of impairment loss on trade and other receivables of SBC. This account increased at 3.35% of total revenues for 2012 from 1.55% in 2011.

Finance costs – P49 million from P89 million
Primarily due to lower impairment losses on trade and other receivables and foreign currency losses.

Other gains - net –P60 million to P19 million
Primarily due to gain on derecognition of liabilities. This account increased to 1.25% in 2012 from 0.47% in 2011 as a percentage of total revenues.

Income before tax – P1,511 million in 2012 from P572 million in 2011
Mainly due to higher operating profit. The sale of broadband assets contributed P267 million one-time gain on sale of assets and P437 million reversal of impairment allowances.

Tax expense – P274 million from P139 million
Mainly due to higher pre-tax income

Balance Sheet Items (2011 vs. 2010)

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

Cash and cash equivalents – 6% increase to P1,720 million from P1,620 million
Mainly provided by financing activities from proceeds of loans, by operating activities primarily from increase in receivables and inventories and by investing activities for acquisition of property and equipment. This account stood at 15% as a percentage of total assets for years 2011 and 2010.

Trade and other receivables – 22% increase to P1,089 million from P890 million
Mainly from increase in trade receivables on digital products. This account stood at 10% and 8% as a percentage of total assets in 2011 and 2010, respectively.

Advances to related parties – 36% decrease to P128 million from P201 million
Principally due to collections made. This account stood at 1% and 2% as a percentage of total assets in 2011 and 2010, respectively.

Financial Assets through fair value and loss – 100% amounting to P70 million
Financial assets at fair value through profit or loss amounted to P70 million as of December 31, 2011 versus none in 2010 principally from purchases made during the year.

Available-for-sale financial assets – 62% decrease to P51 million from P138 million
The decrease was principally due to disposal of financial assets. This account stood at .4% and 1% as a percentage of total assets in 2011 and 2010, respectively.

Merchandise inventories and supplies – 43% increase to P564 million from P393 million
Mainly from higher merchandise and finished goods for digital products. This account represented 5% and 4% as a percentage of total assets in 2011 and 2010, respectively.

Real estate inventories – 26% increase to P1,675 million from P1,328 million
The increase was mainly due to additions made during the period offset by real estate sold. This account stood at 14% and 12% as a percentage of total assets in 2011 and 2010, respectively.

Other current assets – 30% increase to P315 million from P242 million
Principally from higher prepaid expenses, creditable withholding taxes and advances to suppliers and contractors. This account stood at 2% as a percentage of total assets for years 2011 and 2010.

Non-current trade and other receivables – amounted to P669 million as of December 31, 2011, increasing by 4% from P640 million as of December 31, 2010.
Mainly from higher cash surrender value of investment in life insurance. This account stood at 6% as a percentage of total assets for years 2011 and 2010.

Non-current available-for-sale financial assets – 35% decrease in 2011 to P7 million from P12 million
Mainly from lower market value of shares. This account stood at 0.067% and 0.11%as a percentage of total assets for 2011 and 2010.

Property, plant and equipment – P1,386 million from P1,396 million
There was no material variance for the account. This represented 12%% and 13% as a percentage of total assets in 2011 and 2010.

Investment property – P3,864 million from P3,646 million
Mainly from fair value gains for the year. This account stood at 33% and 34% as a percentage of total assets in 2011 and 2010, respectively.

Retirement benefit assets -13% increase to P84 million from P74 million
Increase was mainly from contributions made during the year. This represented .67% and 1% of total assets in 2011 and 2010, respectively.

Deferred tax assets –net - 119% increase to P71 million from P32 million
Mainly due to higher valuation allowance on inventories. This account stood at 0.60% and 0.30% of total assets in 2011 and 2010 respectively.

Other non-current assets – 10% decrease in 2011 to P22 million from P24 million.
Mainly due to lower prepaid insurance. This represented 0.19% and 0.23% as percentage to total assets in 2010 and 2009 respectively.

Interest-bearing loans – 21% decrease in 2011 to P779 million from P989 million
Mainly due to payments made to banks as they matured in 2011 offset with loan availments from related parties. This account stood at 7% and 9% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

Trade and other payable –43% increase to P592 million from P413 million
Increase was due to higher trade and accrued expenses, refundable deposits. This account stood at 5% and 4% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

Customers' Deposit – increase to P686 million from P29 million
Principally due to deposits received for the pre-selling of the condominium units of Golden Hill Project in Nanning, China.

Advances from related parties – 36% decrease to P107 million from P168 million
The decrease was due to payments made during the period. This account stood at 0.9% in 2011 and 2% in 2010 as a percentage of total liabilities and equity.

Estimated liability for land and land development costs – no change
There was no movement during the period. This account represented .58% and 0.6% as a percentage of total liabilities and equity in 2011 and 2010, respectively.

Income tax payable –amounted to P43 million as of December 31, 2011 from P44 million as of December 31, 2010.
No material change. This account was pegged at 0.37% and 0.41% of the total liabilities and equity in 2011 and 2010, respectively.

Non-current refundable deposits – 2% increase to P15.6 million from P15.2 million
No material change. This represented 0.13% and 0.14% of the total liabilities and equity in 2011 and 2010, respectively.

Retirement benefit obligation – 327% increase to P13 million from P3 million
Mainly from unpaid contributions. This account stood at 0.05% and 0.03% of the total liabilities and equity in 2011 and 2010, respectively.

Deferred tax liabilities – 8% increase to P862 million from P798 million
The increase was principally from higher accumulated fair value gains on investment property for the year. This account stood at 7% and 8% as a percentage of total liabilities and equity for 2011 and 2010, respectively.

Capital stock – no change
*T*his account stood at 17% and 19%of total liabilities and equity for 2011 and 2010, respectively.

Additional Paid-In-Capital – no change
This account represented 39 and 44% of total liabilities and equity for 2011 and 2010, respectively.

Treasury Shares – no change
This account represented 10% and 1% of total liabilities and equity for 2011 and 2010, respectively.

Revaluation reserves – 12% increase to P48 million loss from P43 million loss
Principally due to other comprehensive income for the period consisting of currency differences on translating financial statements of foreign operations, fair value gains on available for sale financial assets and reclassification adjustments for losses recognized in profit or loss. This account stood at .25%% and 0.41% total liabilities and equity in 2011 and 2010, respectively.

Retained earnings – 39%% increase to P1.641 million from P1.183 million
As a result of net income during the period. This account stood at 13.85% and 11% of total liabilities and equity in 2011 and 2010, respectively.

Income Statement Items (2011 vs. 2010)

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

Sale of goods – 93% increase to P3135 million from P1,622 million
Primarily because digital products sales doubled in 2011. As a percentage of total revenues, this account represents 76% and 60% in 2011 and 2010 , respectively.

Service revenue –P682 million from P694 million
No material change.

Sale of real estate – 39% decrease to P126 million from P207 million
Principally due to lower sale of industrial lots. As a percentage of total revenues, this account decreased to 16% in 2011 and 8% in 2010.

Rental income – 30% increase to P157 million from P121 million
Principally due to more space rented out. As a percentage of total revenues, this account represents 4% for years 2011 and 2010.

Interest income – 24% decrease to P47 million from P63 million
Mainly from lower investible bonds. As a percentage of total revenues, this account declined to.01% in 2011 and 2% in 2010.

Cost of sales - 106% increase to P,2524 million from P1,225 million
Mainly in relation to higher sales. As a percentage of total sales, this account represented 61% in 2011 and 45% in 2010.

Cost of services - increase to P499 million from P460 million
Principally from higher direct charges on broadband maintenance and depreciation. This account increased to12% in 2011 and 17% in 2010 as a percentage of total revenues.

Cost of real estate sold – 37% decrease to P95 million from P151 million
The decrease was mainly in relation to lower sale of real estate. As a percentage of total revenues, this account decreased to 2% in 2011 and 6% in 2010.

Cost of rentals – 3% increase to P39 million from P38 million
Primarily from higher taxes. This account represents 1% as a percentage of total revenues for years 2011 and 2010.

General and administrative expenses – 30% increase to P366 million from P281 million
Principally due to higher provision for warranty and others. As a percentage of total revenues, this account decreased to 9% in 2011 from 10% in 2010.

Selling and distribution costs – 22% increase to P278 million from P227 million
Mainly from higher commissions, personnel and advertising costs. This account remained at 7% and 8% of total revenues for 2011 and 2010, respectively.

Other operating income –net - 166% increase to P232 million from P87 million
Primarily due to higher fair value gains on investment property. This account increased to 6% in 2011 from 3% in 2010 as a percentage of total revenues.

Finance income – 65% increase to P64 million from P38 million
Primarily due to the higher interest income from higher placements of the real estate segment, higher impairment reversals, interest income from financing the condominium units and foreign currency gains.. This account remained at 1% of total revenues for 2011 and 2010.

Finance costs – P89 million from P88 million
There was no material variance for this account

Other gains - net –P19 million to P2.7 million
Primarily due to income from common usage area. This account increased to 0.59% in 2011 from 0.10% in 2010 as a percentage of total revenues.

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

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

D. Brief Description and General Nature and Scope of the Business

1. Business Development

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

On May 31, 1996, the Company's new set of stockholders executed deeds of assignment transferring to the Company their investments in shares of stock of certain companies as full payment for their subscriptions to 1.5 billion shares of the Company's capital stock. On June 18, 1996, the Securities and Exchange Commission approved the assignment of shares and the following amendments to the Company's Articles of

Incorporation: (a) change in the Company's corporate name to Solid Group Inc.; (b) change in its primary purpose to that of a holding company; (c) change of the par value of its shares from P.01 to P1.00; (d) the declassification of its class A and class B capital stock; and (e) the increase in its authorized capital stock from P20 million (divided into P1.2 billion Class A shares and 0.8 billion Class B shares at P0.01 par value) to P5 billion divided into 5 billion shares at P1.00 par value, all of one class.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

2. Business of Issuer

The consumer electronics business of the Company as of December 31, 2013 are:
(1) sale of mobile phones which generated sales of P3,398 million (for 2,454,531 units) or 97% of sales in 2013, P3,836 million (for 2,985,764 units) or 97% of sales in 2012 and P2,908 million (for 2,022,142 units) or 93% of sales in 2011; and (2) after-sales service for principally SONY brands of consumer electronic products and My Phone with its 38 company-owned service centers throughout the Philippines as of end of 2013 which generated service income of P164 million or 40% of service revenues in 2013, P203 million or 32% of service revenues in 2012 and P204 million or 30% of service revenues in 2011; and (3)

warehousing, distribution and product testing of consumer electronic products with service revenue of P116 million or 28% in 2013, P116 million or 18% of service revenue in 2012 and P84 million or 12% of service revenues in 2011 and (4) subcontract or toll manufacturing of color TV sets for other brand owner (i.e. TCL) which generated tolling fee P9 million in 2013 (for 58,000 units) or 2% of service revenues, nil in 2012 and 2011.

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

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

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

Distribution

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

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

Status of any-publicly announced new product or service

None.

Competition

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

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

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

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

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

Raw Materials, Parts and Components

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

Dependency of the business upon a single or few customers

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

Service

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

Related Party Transactions

The Company provides non-interest bearing cash advances to its subsidiaries for their working capital requirements. Subsidiaries of the Company generally depend on one another for supply of services and lease of properties. (See Item 12- Certain Relationships and Related Transactions of form 17-A)

Principal Terms and Expiration Dates of all Licenses and Agreements

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

On July 1, 2003, Solid Electronics Corporation (SEC) entered into a Memorandum of Understanding (MOU) with Sony for network support for Sony products. Under the MOU, Sony authorized the Company to perform in-warranty and out-of warranty services to customers in the Philippines for a fee calculated as a percentage of Sony's annual sales.

In-warranty services shall be rendered free of charge to customers. The actual cost of replacement parts related to in-warranty services shall be shouldered by Sony. In the first quarter of 2009, SEC and Sony agreed to lower the network support fees to be 0.45%. Effective April 2009, SEC and Sony agreed that the network support fees shall be at a fixed rate of P1.25 million per month. The Agreement is effective unless revoked by any of the parties.

- Distributorship Agreement with Sony Corporation

Solid Video Corporation has a non-exclusive Distributor Agreement with Sony Corporation of Hong Kong Limited (Sony HK), a corporation organized and existing under the laws of Hong Kong. Under the agreement , SVC was designated by Sony HK as its non-exclusive distributor of Sony products in the Philippines. In addition, SVC shall provide the customers in the Philippines with repair and parts replacement services, including but not limited to repair and parts replacement services rendered by SVC which are covered under the 12 month warranty period at its own costs and expenses.

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

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

- Agreement with Sky Cable Corporation

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

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

- Option Agreement

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

- Franchise

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

Need for any government approval

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

Effect of existing and probable governmental regulations on the business

None.

Research and development activities

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

Costs and effects of compliance with environmental laws

The Company has complied with environmental laws at minimal costs.

Employees

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

	Number of employees
Management	18
Sales and Distribution	56
Operation	80
Service	108
Administration	80
Finance	46
Total	388

Major Risks involved in the Businesses of the Company

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

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

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

Properties

Description of 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	Building for lease
La Huerta, Bicutan, Paranaque	18,490	Office building & warehouses
San Dionisio, Paranaque	6,690	Warehouses for lease
San Antonio, Paranaque	4,056	Warehouses for lease
Valenzuela, Marulas, Bulacan	10,493	Factory and warehouses; Building for lease
Laguna International Industrial Park, Binan, Laguna	5,141	Building for lease
Pasong Tamo, Makati City	5,000	Building (Under renovation for Hotel and Office use)
Natividad St., Ermita, Manila	4,506	Condominium tower under construction (for sale)
Osmena Blvd., Cebu City	3,859	Service center & office building for lease
Outlook Drive, Baguio City	3,846	Land for sale
Brgy. Tabuco, Naga City	3,059	Raw land (Intended for sale)
Tandang Sora, Quezon City	2,511	Building for lease; (Future site of the pilot project for modular residential housing units)
Barrio Pantal, Dagupan City	1,918	Raw land (Intended for sale)
Barrio San Rafael, Iloilo City	1,750	Service Center and Office building for lease
J. Bocobo St., Ermita, Manila	1,724	Office building and Hotel
Brgy. San Roque, San Pablo City	1,714	Service center and office building
Oliveros, Balintawak, Quezon City	1,400	Raw land (Intended for sale)
Bacoor, Cavite	1,334	Office building for lease
Cabanatuan City, Nueva Ecija	1,212	Service center and building for lease
Brgy. San Rafael, Tarlac, Tarlac	1,000	Warehouse for lease
Calamba Premiere Industrial Park	9,852	Industrial/ Commercial lots for sale
Araneta, Quezon City	1,000	Land (Intended for sale)
Brgy. Parian, Prinza and Barandal, Calamba	132,929	Raw Land

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

P14.97 million to Solid Corporation (or Solid Manila Corporation, the surviving company after the merger of Solid Manila Corporation and Solid Corporation). Solid Manila Corporation agreed to the offer and is complying the documentation requirements as of April 2014.

Solid Manila Corporation also owns a property in Pililla, Rizal with a land area of 645,193 square meters. The Department of Agrarian Reform has informed Solid Manila Corporation that this property is within the coverage of the Comprehensive Agrarian Reform Law which may result in future litigation. Portion of the property that may be subject to future litigation consists of 210,000 square meters. Solid Manila Corporation has filed its opposition with the Provincial Agrarian Reform Adjudication Board (PARAB) on the coverage of the land under agrarian reform. On August 13, 1997, Solid Manila Corporation obtained a certification from the Office of the Municipal Planning and Development Coordinator (Pililla, Rizal) stating that the subject properties belonging to Solid Manila Corporation was reclassified for Agro-industrial & Industrial use as per Sangguniang Bayan Resolution No. 5 dated March 6, 1980 and duly ratified by the government's Housing & Land Use Regulatory Board (HLURB) under their Resolution No. R-42-A-3 series of 1981, which was adopted on February 11, 1981. Thus, according to company's legal counsel, the said properties are exempt from CARP coverage under the provisions of Department of Justice opinion No. 44. The Company's legal counsel believes that the Board will declare the CARP coverage of the subject properties void since Solid Manila Corporation was clearly denied due process of law. In the meantime, Solid Manila Corporation filed for exemption in January 14, 1999 and said application has been indorsed to Center for Land Use Policy Planning Implementation (CLUPPI) -2 DAR Bureau of Agrarian Legal Affairs on March 8, 1999. Solid Manila Corporation's application for exemption was however subsequently withdrawn. In lieu of the withdrawal, Solid Manila Corporation filed a Protest before the Department of Agrarian Reforms on the Notice of Coverage for TCT Nos. 25264, 25265, 25267, 26578 and 25268. It likewise filed a Petition for Higher Valuation before the Provincial Agrarian Reform Adjudication Board last June 24, 2009 on the lot covered by TCT 25264 which is pending resolution as of April 2013. Solid Manila Corp. was able to secure a retention on the Pillilia lot covered by TCT No. 25265 while the remaining area of around 3 hectares more or less was subjected to the Voluntary Land Transfer Program of the Dept. of Agrarian Reform to the Solid Manila Corporation's recognized farmers-beneficiaries. The Pillilia lots covered by TCT Nos. 25267, 25264 and TCT No. 25268 were likewise subjected to the Voluntary Land Transfer Program by the Dept. of Agrarian Reforms and distributed to the recognized farmer-beneficiaries of Solid Manila Corp. On the Pillilia lot covered by TCT No. 26578, the Regional Director of the Department of Agrarian Reform granted our petition for exemption for TCT No. 26578 on January 30, 2012.

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

Franchise

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

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

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

Lease agreements

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

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

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

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

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

Location	Annual Rent (In Thousand Pesos)	Expiration Date
Bacoor, Cavite	4,366	July 31, 2014
Balintawak, Quezon City	33,083	Various up to September, 2015
Cagayan de Oro	1,915	Various up to January 31, 2016
Chino Roces Ave, Makati City	4,372	Various up to July 6, 2019
Clark, Pampanga	28,378	Various up to February 13, 2019
Iloilo	1,921	Various up to March 31, 2016
Laguna International Industrial Park, Binan, Laguna	47,133	Various up to March 31, 2016
Laguna International Industrial Park, Binan, Laguna	3,600	April 30, 2014
La Huerta, Bicutan, Paranaque	7,410	Various up to October 31, 2017
Ermita, Manila	11,859	Various up to September 30, 2018
Ermita, Manila	3,895	Various up to December 14, 2017
San Dionisio, Paranaque City	727	February 14, 2013
Valenzuela, Bulacan	2,644	Various up to December 31, 2013

Properties the Company intends to acquire in the next twelve months

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

Legal Proceedings

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

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 (₱)
2014		
First quarter	1.28	1.16
2013		
First quarter	2.54	1.90
Second quarter	2.24	1.50
Third quarter	1.82	1.51
Fourth quarter	1.70	1.04
2012		
First quarter	1.37	1.10
Second quarter	1.69	1.23
Third quarter	2.71	1.38
Fourth quarter	2.20	1.85

The trading price of Company shares closed at P1.42 as of May 16, 2014 (the latest practicable trading date).

Holders

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

Top 20 stockholders of the Company's common stock as of April 30, 2014:

	Name of Stockholder	No. of Shares Held	% to Total Outstanding
1.	AA Commercial, Inc.	583,377,817	32.03
2.	AV Value Holdings Corporation	499,999,999	27.45
3.	PCD Nominee Corporation (F)	332,874,626	18.27
4.	Lim, David S.	179,488,591	9.85
5.	Lim, Vincent S.	71,887,187	3.95
6.	Lim, Jason S.	65,176,160	3.58
7.	PCD Nominee Corporation (NF)	41,296,633	2.27
8.	Chua, Willington Chua &/or Constantino	11,610,000	0.64
9.	Chua, Constantino &/or Willington &/or George	1,750,000	0.10
10.	Hottick Development Corporation	1,408,000	0.08
11.	Chua, Willington	1,110,000	0.06

12.	Paz, Venson	1,065,000	0.06
13.	Lucio W. Yan &/or Clara Yan	1,000,000	0.05
	Columbian Motors Corporation	1,000,000	0.05
14.	Juan Go Yu &/or Grace Chu Yu	940,000	0.05
15.	Ong, Victoria	632,000	0.03
16.	Union Properties, Inc.	625,000	0.03
17.	Esperanza I. Lim	600,000	0.03
18.	Lim, Julia	590,000	0.03
19.	Castillo Laman Tan Pantaleon & San Jose Law Offices	536,000	0.03
20.	Jacinto, Ray Sy	500,000	0.03
	GMA Farms Inc.	500,000	0.03

Dividends

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

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

Recent Sales of Unregistered Securities in the Past Three Years

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

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 June 27, 2013. In 2008, the company created another committee, the Risk Management Committee in addition to the 3 existing committees composed of four (4) members chaired by an independent director. In 2012, the Company, while retaining the services of Punongbayan & Araullo as external auditor, designated a new engagement partner for the audit of the financial statements of the Company beginning the year ending December 31, 2011 in compliance with its Manual on Corporate Governance, which requires that the Company's external auditor be rotated or the handling partner changed every five (5) years or earlier.

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

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

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

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

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

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

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

H. 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:

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

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

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

None for 2013 and 2012.

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

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

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

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

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

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

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

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

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

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

REPUBLIC OF THE PHILIPPINES)
MAKATI CITY) S.S.

SECRETARY'S CERTIFICATE

I, **ANA MARIA KATIGBAK**, of legal age, Filipino, with office address at the 3rd Floor, The Valero Tower, 122 Valero Street, Salcedo Village, Makati City, after having been duly sworn to in accordance with law, do hereby depose and state that:

1. I am the duly elected and qualified Assistant Corporate Secretary of **SOLID GROUP, INC.** (the "Corporation"), a corporation duly organized and existing under the laws of the Philippines with principal office address at Solid House, 2285 Don Chino Roces Avenue Extension, 1231 Makati City.

2. I hereby certify that none of the Corporation's Regular Directors, Independent Directors and Officers are appointed or employed in any government agency.

MAY 30 2014 IN WITNESS WHEREOF, this Certificate was signed and issued this ____day of May 2014 at Makati City, Philippines.

ANA MARIA KATIGBAK
Assistant Corporate Secretary

SUBSCRIBED AND SWORN to before me this MAY 30 2014 at Makati City by affiant whose identity I have confirmed through her Passport No. EB6978724 issued on December 20, 2012 in Manila, bearing the affiant's photograph and signature, and who showed to me her Community Tax Certificate No. 02259075 issued at Makati City on February 11, 2014.

Doc. No. 277;
Page No. 57
Book No. IV
Series of 2014.

JOHN DAVID C. ATANACIO
NOTARY PUBLIC
ROLL NO. 62236
MAKATI CITY, PHILIPPINES

JOHN DAVID C. ATANACIO
Appointment No. M-517
Notary Public for Makati City
Until December 31, 2014
Castillo Laman Tan Pantaleon
& San Jose Law Firm
The Valero Tower, 122 Valero Street
Salcedo Village, Makati City
PTR No. 4225101; 01-02-2014; Makati City
IBP No. 947574; 01-02-2014; Pangasinan Chapter
Roll No. 62236

Punongbayan & Araullo
An instinct for growth™

Report of Independent Auditors to Accompany Supplementary Information Required by the Securities and Exchange Commission Filed Separately from the Basic Financial Statements

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

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

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

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Solid Group Inc. and subsidiaries for the year ended December 31, 2013, on which we have rendered our report dated April 2, 2014. Our audit was made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The applicable supplementary information (see List of Supplementary Information) is presented for purposes of additional analysis in compliance with the requirements of the Securities Regulation Code Rule 68, and is not a required part of the basic financial statements prepared in accordance with Philippine Financial Reporting Standards. Such supplementary information is the responsibility of the Group's management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 4225004, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 2, 2014

SOLID GROUP INC. AND SUBSIDIARIES
LIST OF SUPPLEMENTARY INFORMATION
DECEMBER 31, 2013

Supplementary Schedules

Independent Auditors' Report on the SEC Supplementary Schedules Filed Separately from the Basic Financial Statements

Schedules Required under Annex 68-E of the Securities Regulation Code Rule 68

Other Required Information

Solid Group Inc. and Subsidiaries
Schedule A - Financial Assets
December 31, 2013

Name of Issuing entity and assocation of each issue	Number of shares of principal amount of bonds and notes	Amount shown in statement financial position	Value based on market quotation at end of reporting period	Income received and accrued
Financial Assets at Fair Value Through Profit or Loss				
Security Bank Unit Investment Trust Fund (UITF)		P **294,286,160**	P **294,286,160**	P **158,692**
Available-for-Sale Financial Assets - Current		P -	P -	P -
Available-for-Sale Financial Assets - Non-Current				
The Tagaytay Country Club	2	P 3,000,000	P 3,000,000	-
Tagaytay Midlands Golf Club	4	1,600,000	1,600,000	-
Alabang Country Club	1	1,900,000	1,900,000	-
Philippine Long Distance Telephone Co.	36,440	364,400	364,400	-
Philam Properties Corporation	1	272,127	272,127	-
Subic Bay Yacht Club Inc.	1	100,000	100,000	-
		P **7,236,527**	P **7,236,527**	P **-**

Solid Group Inc. and Subsidiaries
Schedule C - Amounts Receivable/Payable from/to Related Parties which are Eliminated During the Consolidation of Financial Statements
December 31, 2013

Name and designation of debtor	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance at end of period
			Amounts collected	Amounts written off	Current	Not current	
Trade Receivables:							
Kita Corporation	P 13,600,000	P -	P -	P -	P 13,600,000	P -	P 13,600,000
My Solid Devices & Technologies Corporation	685,755	3,805,382	-	-	4,491,137	-	4,491,137
Solid Electronics Corporation	2,771,384	-	797,504	-	1,973,880	-	1,973,880
SolidGroup Technologies Corporation	2,806,218	-	2,806,218	-	-	-	-
Omni Solid Services Inc.	8,641,592	-	3,276,021	-	5,365,571	-	5,365,571
Solid Manila Corporation	99,903	718,274	-	-	818,177	-	818,177
	P 28,604,852	P 4,523,656	P 6,879,743	P -	P 26,248,765	P -	P 26,248,765
Due from Related Parties:							
Kita Corporation	P 511,759,173	-	P 15,000,000	-	P 496,759,173	-	P 496,759,173
Solid Broadband Corporation	-	-	-	-	-	-	-
Zen Towers Corporation	553,407,157	-	78,400,000	-	475,007,157	-	475,007,157
Solid Manila Corporation	190,043,188	100,000,000	-	-	290,043,188	-	290,043,188
Precos, Inc.	149,511,000	-	-	-	149,511,000	-	149,511,000
Solid Manila Finance Inc.	-	5,000,000	-	-	5,000,000	-	5,000,000
Casa Bocobo Hotel, Inc.	3,000,000	-	-	-	3,000,000	-	3,000,000
Brilliant Reach Limited	133,363,697	10,431,585	-	-	143,795,282	-	143,795,282
Mytel Mobility Solutions Inc.	684,000,000	-	-	-	684,000,000	-	684,000,000
My Solid Devices & Technologies Corporation	140,000,000	358,000,000	-	-	498,000,000	-	498,000,000
SolidGroup Technologies Corporation	23,000,000	3,000,000	-	-	26,000,000	-	26,000,000
	P 2,388,084,215	P 476,431,585	P 93,400,000	P -	P 2,771,115,800	P -	P 2,771,115,800
Trade payables:							
My Solid Devices & Technologies Corporation	P 4,411,863	-	-	-	P 4,411,863	-	P 4,411,863
Solid Electronics Corporation	126,222	-	-	-	126,222	-	126,222
Omni Solid Services Inc.	167,356	-	-	-	167,356	-	167,356
	P 4,705,441	P -	P -	P -	P 4,705,441	P -	P 4,705,441

Solid Group Inc. and Subsidiaries
Schedule F - Indebtedness to Related Parties (Long-term Loans from Related Companies)
December 31, 2013

Title of issue and type of obligation	*Amount authorized by indenture*	*Amount shown under caption "Current portion of long-term debt" in related statement of financial position*	*Amount shown under caption "Long-Term Debt" in related statement of financial position*
Loans:			
Short term loans		P 452,154,772	P -

Solid Group Inc. and Subsidiaries
Schedule H - Capital Stock
December 31, 2013

				Number of shares held by		
Title of Issue	*Number of shares authorized*	*Number of shares issued and outstanding as shown under the related balance sheet caption (A)*	*Number of shares reserved for options, warrants, conversion and other rights*	*Related parties (B)*	*Directors, officers and employees*	*Others*
Common shares - P1 par value						
Authorized - P5,000,000,000 shares	5,000,000,000					
Issued		1,821,542,000	-			
Outstanding				1,083,377,816	343,698,480	394,465,704

A: Number of shares issued and outstanding = 2,030,975,000 issued shares less 209,433,000 treasury shares
B: This represents shares held by AA Commercial and AV Value Holdings Corp., related parties which are ultimately owned by the Lim Family.

SOLID GROUP INC.
Schedule I

Reconciliation of Retained Earnings Available for Dividend Declaration
For the Year Ended December 31, 2013

Unappropriated Retained Earnings at Beginning of Year		P	656,525,263
Prior Years' Outstanding Reconciling Items, net of tax			-
Unappropriated Retained Earnings Available for Dividend Declaration at Beginning of Year, as Adjusted			656,525,263
Net Profit Realized during the Year			
Net profit per audited financial statements	P 343,768,527		
Non-actual / unrealized income, net of tax			
Unrealised foreign exchnage gain	(10,431,710)		
Deferred tax income	(203,878)		333,132,939
Other Transactions During the Year			
Dividends declared		(	109,292,520)
Retained Earnings Restricted for Treasury Shares		(	115,614,380)
Unappropriated Retained Earnings Available for Dividend Declaration at End of Year		**P**	**764,751,302**

SOLIDGROUP INC. AND SUBSIDIARIES
Schedule J - Financial Soundness Indicators

	FORMULA	DECEMBER 31, 2013	DECEMBER 31, 2012
Liquidity Ratios			
Current ratio	Current Assets / Current Liabilities	2.60:1	3.14:1
Acid Test ratio	Cash & Cash Equivalents + Trade Receivables FAFVPL + AFS / Current Liabilities	1.31:1	1.90:1
Solvency Ratios			
Debt to Equity ratio	Total Liabilites (excluding advances from related parties) / Total Equity	0.39:1	0.33:1
Gearing Ratio	Financial Debt / Total Equity	0.07:1	0.06:1
Asset-to-Equity Ratios	Total Assets / Total Equity	1.40:1	1.33:1
Interest Rate Coverage Ratio	EBIT / Interest Expense	69.34:1	225.76:1
Profitability Ratios			
Operating Margin	Operating Profit / Total Revenues	3%	27%
Net Profit Margin	Net Income after Tax / Total Revenues	3%	25%
Return on Total Assets	Net Income after Tax / Average Total Assets	1%	10%
Return on Equity	Net Income after Tax / Total Equity	1%	13%

SOLID GROUP INC. AND SUBSIDIARIES
Schedule K

Schedule of Philippine Financial Reporting Standards and Interpretations
Adopted by the Securities and Exchange Commission and the
Financial Reporting Standards Council as of December 31, 2013

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements		✓		
Conceptual Framework Phase A: Objectives and Qualitative Characteristics		✓		
Practice Statement Management Commentary			✓	
Philippine Financial Reporting Standards (PFRS)				
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters	✓		
	Amendment to PFRS 1: Government Loans	✓		
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
PFRS 4	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Transition	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(deferred application)*			✓
PFRS 8	Operating Segments	✓		
PFRS 9	Financial Instruments* *(deferred application)*			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures* *(deferred application)*			✓
PFRS 10	Consolidated Financial Statements	✓		
	Amendment to PFRS 10: Transition Guidance	✓		
	Amendment to PFRS 10: Investment Entities* *(effective January 1, 2014)*			✓
PFRS 11	Joint Arrangements	✓		
	Amendment to PFRS 11: Transition Guidance			✓
PFRS 12	Disclosure of Interests in Other Entities	✓		
	Amendment to PFRS 12: Transition Guidance	✓		
	Amendment to PFRS 12: Investment Entities* *(effective January 1, 2014)*			✓
PFRS 13	Fair Value Measurement	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Accounting Standards (PAS)				
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
PAS 2	Inventories	✓		
PAS 7	Statement of Cash Flows	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 11	Construction Contracts			✓
PAS 12	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
PAS 16	Property, Plant and Equipment	✓		
PAS 17	Leases	✓		
PAS 18	Revenue	✓		
PAS 19 (Revised)	Employee Benefits	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs	✓		
PAS 24 (Amended)	Related Party Disclosures	✓		
	Disclosure of Key Management Personnel* *(effective July 1, 2014)*			✓
PAS 26	Accounting and Reporting by Retirement Benefit Plans			✓
PAS 27 (Revised)	Separate Financial Statements	✓		
	Amendment to PAS 27: Investment Entities* *(effective January 1, 2014)*			✓
PAS 28 (Revised)	Investments in Associates and Joint Ventures			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities* *(effective January 1, 2014)*			✓

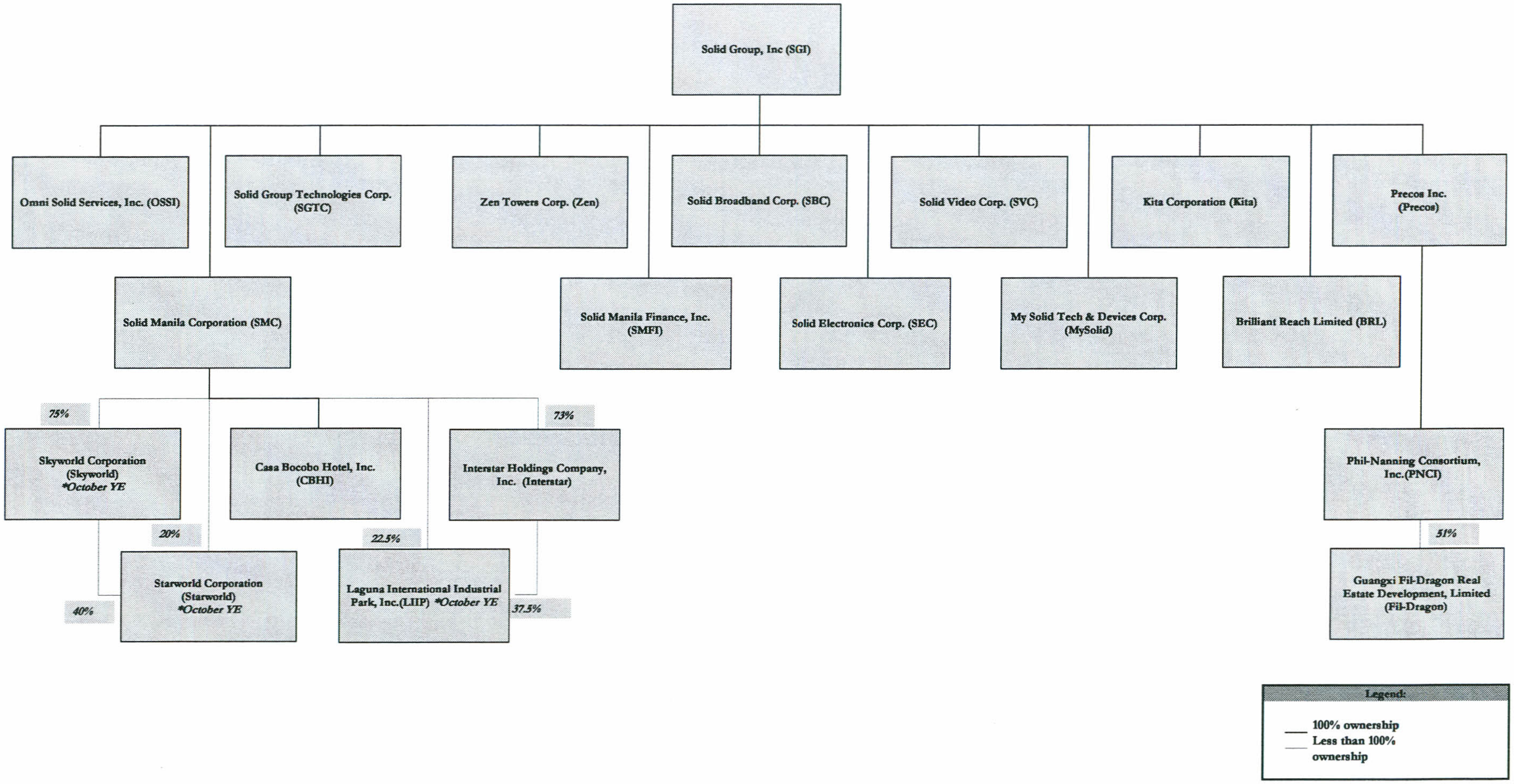
PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
PAS 33	Earnings per Share	✓		
PAS 34	Interim Financial Reporting	✓		
PAS 36	Impairment of Assets	✓		
	Amendment to PAS 36: Recoverable Amount Disclosures for Non-financial Assets* *(effective January 1, 2014)*			✓
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
PAS 39	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC 9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
	Amendment to PAS 39: Novation of Derivatives and Continuation of Hedge Accounting* *(effective January 1, 2014)*			✓
PAS 40	Investment Property			✓
PAS 41	Agriculture			✓
Philippine Interpretations - International Financial Reporting Interpretations Committee (IFRIC)				
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities Arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives**	✓		
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives**	✓		
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 13	Customer Loyalty Programmes			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC - 14, Prepayments of a Minimum Funding Requirement and their Interaction**	✓		
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners**	✓		
IFRIC 18	Transfers of Assets from Customers**	✓		
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments**	✓		
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine**	✓		
IFRIC 21	Levies**	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Philippine Interpretations - Standing Interpretations Committee (SIC)				
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders**	✓		
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-31	Revenue - Barter Transactions Involving Advertising Services**	✓		
SIC-32	Intangible Assets - Web Site Costs**	✓		

* These standards will be effective for periods subsequent to 2013 and are not early adopted by the Company.

** These standards have been adopted in the preparation of financial statements but the Company has no significant transactions covered in both years presented.

Solid Group Inc. and Subsidiaries
Map Showing the Relationships Between and Among the Company and its Related Parties



SOLID GROUP INC.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

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

Management's responsibility on the consolidated financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

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

Signed this APR 15 2014 day of ________ 2014.

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

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

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

Punongbayan & Araullo

An instinct for growth™

Report of Independent Auditors

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

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

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

We have audited the accompanying consolidated financial statements of Solid Group Inc. and subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Solid Group Inc. and subsidiaries as at December 31, 2013 and 2012, and their consolidated financial performance and their cash flows for each of the three years in the period ended December 31, 2013 in accordance with Philippine Financial Reporting Standards.

PUNONGBAYAN & ARAULLO

By: Mailene Sigue-Bisnar
Partner

CPA Reg. No. 0090230
TIN 120-319-128
PTR No. 4225004, January 2, 2014, Makati City
SEC Group A Accreditation
Partner - No. 0396-AR-2 (until Aug. 8, 2015)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-20-2012 (until May 15, 2015)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

April 2, 2014

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

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

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

See Notes to Consolidated Financial Statements.

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

		Attributable to the Parent Company's Stockholders							
	Notes	Capital Stock	Additional Paid-in Capital	Treasury Shares - at Cost	Revaluation Reserves	Retained Earnings	Total	Non-controlling Interests	Total Equity
Balance at January 1, 2013									
As previously reported		P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 46,319,482)	P 2,758,300,997	P 9,269,044,057	P 402,745,823	P 9,671,789,880
Effect of adoption of PAS 19 (Revised)		-	-	-	(17,235,042)	14,095,941	(3,139,101)	(211,269)	(3,350,370)
As restated		2,030,975,000	4,641,701,922	(115,614,380)	(63,554,524)	2,772,396,938	9,265,904,956	402,534,554	9,668,439,510
Transactions between owners –									
Dividends declared	24	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Total comprehensive income for the year	2, 9	-	-	-	46,768,315	157,821,890	204,590,205	(12,302,448)	192,287,757
Balance at December 31, 2013	24	**P 2,030,975,000**	**P 4,641,701,922**	**(P 115,614,380)**	**(P 16,786,209)**	**P 2,820,926,308**	**P 9,361,202,641**	**P 390,232,106**	**P 9,751,434,747**
Balance at January 1, 2012									
As previously reported		P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 29,242,370)	P 1,623,289,267	P 8,151,109,439	P 405,372,818	P 8,556,482,257
Effect of adoption of PAS 19 (Revised)		-	-	-	(19,395,668)	18,451,882	(943,786)	(173,665)	(1,117,451)
As restated		2,030,975,000	4,641,701,922	(115,614,380)	(48,638,038)	1,641,741,149	8,150,165,653	405,199,153	8,555,364,806
Transactions between owners –									
Dividends declared	24	-	-	-	-	(109,292,520)	(109,292,520)	-	(109,292,520)
Total comprehensive income for the year	2, 9	-	-	-	(14,916,486)	1,239,948,309	1,225,031,823	(2,664,599)	1,222,367,224
Balance at December 31, 2012	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 63,554,524)	P 2,772,396,938	P 9,265,904,956	P 402,534,554	P 9,668,439,510
Balance at January 1, 2011									
As previously reported		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
Effect of adoption of PAS 19 (Revised)		-	-	-	(14,732,416)	19,537,679	4,805,263	(168,082)	4,637,181
As restated		2,030,975,000	4,641,701,922	(115,614,380)	(58,212,967)	1,203,389,518	7,702,239,093	414,346,179	8,116,585,272
Total comprehensive income for the year	2, 9	-	-	-	9,574,929	438,351,631	447,926,560	(9,147,026)	438,779,534
Balance at December 31, 2011	24	P 2,030,975,000	P 4,641,701,922	(P 115,614,380)	(P 48,638,038)	P 1,641,741,149	P 8,150,165,653	P 405,199,153	P 8,555,364,806

See Notes to Consolidated Financial Statements.

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

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

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

Supplemental Information on Non-cash Investing Activities:

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

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

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

See Notes to Consolidated Financial Statements.

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

1. CORPORATE INFORMATION

1.1 Company Background

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

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

Subsidiaries	Percentage of Ownership 2013	2012	2011	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	100	(a)	Investment holding company
Kita Corporation (Kita)	**100**	100	100		Real estate and manufacturing of injected plastics
Solid Broadband Corporation (SBC)	**100**	100	100		Broadband, cable and satellite services, sale of LCD televisions
Solid Group Technologies Corporation (SGTC)	**100**	100	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	**100**	100	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100	100		Repair services for audio and video products
Solid Manila Corporation (SMC)	**100**	100	100	(i)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	100	(e)	Hotel operations
Solid Manila Finance, Inc. (SMFI)	**100**	100	100		Financing
Solid Video Corporation (SVC)	**100**	100	100		Trading of professional audio and video equipment
Zen Towers Corporation (ZTC)	**100**	100	100		Real estate
Phil-Nanning Consortium, Inc. (PNCI)	**100**	100	100	(g)	Investment holding company
My Solid Technologies & Devices Corporation (My Solid)	**100**	100	100	(k)	Sale of mobile phones
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)]	**100**	100	100	(j)	Logistics and assembly of consumer electronics products
Skyworld Corporation (Skyworld)	**75**	75	75	(c), (e)	Investment holding company
Interstar Holdings Company, Inc. (Interstar)	**73**	73	73	(b), (c)	Investment holding company
Fil-Dragon Real Estate Development, Ltd. (Fil-Dragon)	**51**	51	51	(h)	Real estate
Starworld Corporation (Starworld)	**50**	50	50	(e), (f)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	50	(b), (d)	Real estate
Solid Corporation (SC)	**-**	-	100	(i)	Real estate
Mytel Mobility Solutions, Inc. (Mytel)	**-**	-	100	(k)	Sale of mobile phones
Omni Logistics Corporation (OLC)	**-**	-	100	(j)	Logistics and assembly of consumer electronics products

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

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

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

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

1.2 Status of Operations and Mergers

(a) Sale of SBC's Assets

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

(b) Mergers of Certain Subsidiaries

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

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

1.3 Other Corporate Information

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

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

1.4 Approval for Issuance of Consolidated Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Consolidated Financial Statements*

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

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

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

(c) *Functional and Presentation Currency*

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

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

(d) *Reclassification of Accounts*

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

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

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

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

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

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

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in assets and liabilities:			
Retirement benefit asset	P 73,164,772	(P 1,603,165)	P 71,561,607
Retirement benefit obligation	(12,582,159)	(3,554,296)	(16,136,455)
Deferred tax assets	63,135,755	1,373,404	64,509,159
Deferred tax liabilities	(920,063,448)	433,687	(919,629,761)
Net decrease in equity		(P 3,350,370)	
Changes in components of equity:			
Revaluation reserves	(P 46,319,482)	(P 17,235,042)	(P 63,554,524)
Retained earnings	2,758,300,997	14,095,941	2,772,396,938
Non-controlling interests	402,745,823	(211,269)	402,534,554
Net decrease in equity		(P 3,350,370)	

	January 1, 2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in assets and liabilities:			
Retirement benefit asset	P 79,281,451	P 5,300,086	P 84,581,537
Retirement benefit obligation	(6,111,141)	(7,210,089)	(13,321,230)
Deferred tax assets	69,982,489	1,790,244	71,772,733
Deferred tax liabilities	(861,145,243)	(997,692)	(862,142,935)
Net decrease in equity		(P 1,117,451)	
Changes in components of equity:			
Revaluation reserves	(P 29,242,370)	(P 19,395,668)	(P 48,638,038)
Retained earnings	1,623,289,267	18,451,882	1,641,741,149
Non-controlling interests	405,372,818	(173,665)	405,199,153
Net decrease in equity		(P 1,117,451)	

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

	2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in consolidated statements of income:			
General and administrative expenses	P 343,002,874	P 9,140,605	P 352,143,479
Other gains	(57,651,877)	(3,251,093)	(60,902,970)
Tax expense	276,164,794	(1,495,967)	274,668,827
Net decrease in net profit		P 4,393,545	
Change in consolidated statements of comprehensive income			
Remeasurements of post-employment defined benefit plan – net of tax	P -	P 2,160,626	P 2,160,626

	2011		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in consolidated statements of income:			
General and administrative expenses	P 366,950,584	(P 745,787)	P 366,204,797
Other gains	(21,439,128)	2,120,953	(19,318,175)
Tax expense	139,364,314	(283,786)	139,080,528
Net decrease in net profit		P 1,091,380	
Change in consolidated statements of comprehensive income			
Remeasurements of post-employment defined benefit plan – net of tax	P -	(P 4,663,252)	(P 4,663,252)

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

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

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

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

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

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

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

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

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

(vi) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, related notes to the opening consolidated statement of financial position are not required to be presented.

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

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it has been recognizing the effect of distributions to holders of equity investments and transaction costs of an equity transaction in accordance with PAS 12.

(d) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. This amendment had no significant impact on the Group's consolidated financial statements.

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

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

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

(c) Effective Subsequent to 2013 but not Adopted Early

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

(i) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have impact on the consolidated financial statements.

(v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

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

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

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

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

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

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

(c) PFRS 8 (Amendment), *Operating Segments* (effective July 1, 2014). Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies that the reconciliations of segment assets are only required if segment assets are reported regularly.

(d) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(e) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 3 (Amendment), *Business Combination*s (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

(b) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

(c) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

(b) Transactions with NCI

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

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

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and,
- revenue, costs and fair value gains from investment property.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

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

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

A more detailed description of the categories currently relevant to the Group is as follows:

(a) *Financial Asset at FVTPL*

This category includes financial assets that are either classified as held-for-trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) *Loans and Receivables*

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

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred), discounted at the financial assets' original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

(c) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of reporting period. The Group's financial assets include country club shares, golf club shares, equity securities and corporate bonds.

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

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

The fair value of AFS financial asset is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS financial assets are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Except for interest income earned by SGI, SMFI, BRL, Starworld and Interstar which is presented as Interest under the Revenues section of the consolidated statement of income, all income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the consolidated statement of income line item Finance Income and Finance Costs, respectively.

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

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

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

2.6 Merchandise Inventories and Supplies

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Merchandise inventories, service parts, supplies, and others include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value of merchandise inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of spare parts, supplies and others is the current replacement cost.

2.7 Real Estate Inventories

Real estate inventories consist of the following:

(a) Land and Land Development Costs

Land and land development costs include the acquisition cost of raw land intended for future development and sale, as well as other costs and expenses incurred to effect the transfer of property title.

(b) Property Development Costs

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

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

2.8 Other Assets

Other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

2.9 Property, Plant and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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

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

The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

2.10 Investment Property

Investment property represents property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 31).

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains or losses on investment property under Other Operating Income in the consolidated statement of income.

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

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

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans, trade and other payables [excluding output value-added tax (VAT) and other tax-related liabilities, advances from customers, reserve for warranty costs and unearned subscription income], advances from related parties and refundable deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and other payables, advances from related parties and refundable deposits, with maturities beyond one year, are initially recognized at their fair values and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company's BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 Business Combination

Business acquisitions are accounted for using the acquisition method of accounting.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

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

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

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

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

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

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

(c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.

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

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

If the transaction does not yet qualify as a sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

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

(f) *Interest income on loans receivables* – Revenue is recognized as the interest accrues using the effective interest method.

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

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

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

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

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

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

Cost and expenses are recognized in the consolidated statement of income upon receipt of the goods or utilization of services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20), on an accrual basis.

2.16 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

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

(b) *Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term (see Note 2.15).

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

2.17 Foreign Currency Transactions and Translation

(a) Transactions and Balances

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

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

(b) Translation of Financial Statements of Foreign Subsidiaries

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

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

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

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

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

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

2.18 Impairment of Non-financial Assets

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

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Defined Benefit Plan

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

The liability recognized in the consolidated statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Gains account in the consolidated statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) Defined Contribution Plans

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Compensated Absences

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

2.20 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

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

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

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

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Transactions and Relationships

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

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

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

2.23 Equity

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

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related profit tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the remeasurements of post-employment defined benefit plan, cumulative translation adjustments and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared, if any.

2.24 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

2.25 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

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

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are permanently impaired as of December 31, 2013 and 2012. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

An analysis of the allowance for impairment recognized on the Group's AFS financial assets is disclosed in Note 9.

(b) Distinguishing Investment Property, Owner-occupied Properties and Real Estate Inventories

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

(c) Distinguishing Operating and Finance Leases

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

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Note 28.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Trade and Other Receivables and Advances to Related Parties

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, their current credit status, average age of accounts, collection experience and historical loss experience.

The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 8.

(b) *Fair Value Measurement of Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 7 and 9, respectively.

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

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 10). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

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

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

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

The carrying amounts of the real estate inventories are disclosed in Note 11.

(e) Costing of Merchandise Inventories and Supplies

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

(f) Estimating Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant and equipment are analyzed in Note 12. Based on management's assessment as at December 31, 2013, and 2012, there is no change in the estimated useful lives of property, plant and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(g) Fair Value Measurement of Investment Property

The Group's investment property composed of parcels of land and buildings and improvements are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 31.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Notes 13 and 19.1.

(h) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying value of deferred tax assets, which management assessed may be fully utilized in the coming years, as of December 31, 2013 and 2012 is disclosed in Note 23.2. Further, certain deferred tax assets were not recognized since management believes that there is no assurance that the related tax benefit could be realized in the coming years.

(i) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on other non-financial assets in 2013, 2012 and 2011.

(j) Estimating Liability for Land and Land Development Costs

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2013 and 2012 is disclosed in Note 11.

(k) Estimating Reserve for Warranty Costs

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

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are disclosed in Note 16.

(l) Valuation of Post-employment Defined Benefit

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 22.2 and include, among others, discount rates and expected rate of salary increases. In accordance with PFRS, actual results that differ from the assumptions are recognized immediately in the period in which they arise.

The amounts of the present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 22.2.

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones, and prefabricated modular houses;

(b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties; and,

(c) Other related services segment is presently engaged in the business of broadband services, after sales services, investing, financing and others.

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

4.2 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

The following tables present certain assets and liability information regarding business segments as of December 31, 2013, 2012 and 2011 and the related revenue and profit information for the years then ended (in thousands).

	Distribution	Real Estate	Other Related Services	Total
2013				
SEGMENT RESULTS				
Sales to external customers	P 3,511,868	P 276,037	P 445,464	P 4,233,369
Intersegment sales	30,847	16,620	32,234	79,701
Total revenues	3,542,715	292,657	477,698	4,313,070
Cost of sales, services, and rentals	2,984,075	136,210	314,383	3,434,668
Other operating expenses	558,004	75,297	121,655	754,956
Operating profit	636	81,150	41,660	123,446
Finance income	3,587	26,096	33,067	62,750
Finance costs	(13,812)	(717)	(6,069)	(20,598)
Other gains – net	3,514	2,101	17,069	22,684
Profit (loss) before tax	(6,075)	108,630	85,727	188,282
Tax expense	760	22,996	21,147	44,903
Net profit (loss) for the year	(P 6,835)	P 85,634	P 64,580	P 143,379
SEGMENT ASSETS AND LIABILITIES				
Total assets	P 2,217,610	P 8,882,306	P 10,749,406	P 21,849,322
Total liabilities	P 1,611,155	P 4,821,008	P 601,697	P 7,033,860
OTHER SEGMENT INFORMATION				
Capital expenditures	P 6,913	P 133,321	P 19,627	P 159,861
Depreciation and amortization	5,751	11,942	14,636	32,328
Impairment losses	10,158	505	2,937	13,600
Other non-cash expenses	24,329	212	-	24,541

	Distribution	Real Estate	Other Related Services	Total
2012, As Restated – see Note 2.2				
SEGMENT RESULTS				
Sales to external customers	P 3,956,743	P 258,611	P 675,029	P 4,890,383
Intersegment sales	6,300	14,200	40,790	61,290
Total revenues	3,963,043	272,811	715,819	4,951,673
Cost of sales, services, and rentals	3,094,531	106,973	474,922	3,676,426
Other operating expenses (income)	496,230	118,946	175,412	790,588
Operating profit	372,282	46,892	65,485	484,659
Finance income	2,389	39,531	121,782	163,702
Finance costs	(22,742)	(5,169)	(21,178)	(49,089)
Other gains – net	4,860	229,132	678,651	912,643
Profit before tax	356,789	310,386	844,740	1,511,915
Tax expense	105,061	93,588	75,922	274,571
Net profit for the year	P 251,748	P 216,798	P 768,818	P 1,237,344
SEGMENT ASSETS AND LIABILITIES				
Total assets	P 1,867,473	P 7,369,709	P 11,146,872	P 20,390,711
Total liabilities	P 1,249,849	P 3,962,200	P 568,502	P 5,780,551
OTHER SEGMENT INFORMATION				
Capital expenditures	P 9,234	P 84,602	P 54,683	P 148,519
Depreciation and amortization	4,162	11,768	30,779	46,709
Impairment losses	9,414	-	3,354	12,768
Other non-cash expenses	1,982	1,431	1,027	4,440

	Distribution	Real Estate	Other Related Services	Total
2011, As Restated – see Note 2.2				
SEGMENT RESULTS				
Sales to external customers	P 3,122,839	P 261,951	P 764,700	P 4,149,490
Intersegment sales	7,657	33,148	56,456	97,261
Total revenues	3,130,496	295,099	821,156	4,246,751
Cost of sales, services, and rentals	2,530,457	162,802	506,077	3,199,336
Other operating expenses	422,193	113,890	208,348	744,431
Operating profit	177,846	18,407	106,731	302,984
Finance income	17,449	43,300	21,999	82,748
Finance costs	(8,622)	(761)	(56,226)	(65,609)
Other gains – net	3,608	227,304	46,310	277,222
Profit before tax	190,281	288,250	118,814	597,345
Tax expense	(31,053)	(89,075)	(18,952)	(139,080)
Profit – continuing operation	159,228	199,175	99,862	458,265
Loss – discontinued operation	-	-	(3,864)	(3,864)
Net profit for the year	P 159,228	P 199,175	P 95,998	P 454,401
SEGMENT ASSETS AND LIABILITIES				
Total assets	P 2,203,509	P 6,955,140	P 10,174,987	P 19,333,636
Total liabilities	P 1,797,033	P 3,392,932	P 1,863,879	P 7,053,844
OTHER SEGMENT INFORMATION				
Capital expenditures	P 7,559	P 17,787	P 80,103	P 105,449
Depreciation and amortization	2,688	9,515	65,124	77,327
Impairment losses	3,430	-	16,168	19,598
Other non-cash expenses	48,582	1,238	28,990	78,810

4.5 Reconciliations

The total segment balances presented for the Group's operating segments reconciled to the Group's consolidated balances as presented in the consolidated financial statements are as follows (in thousands):

	Segment Totals	Intercompany Accounts	Consolidated Balances
2013			
Revenues	P 4,313,070	(P 79,701)	P 4,233,369
Net profit for the year	143,379	2,140	145,519
Total assets	21,849,322	(8,245,293)	13,604,029
Total liabilities	7,033,860	(3,149,945)	3,883,915
Other segment information:			
Capital expenditures	159,861	-	159,861
Depreciation and amortization	32,328	-	32,328
Impairment losses	13,600	-	13,600
Other non-cash expenses	24,541	-	24,541
2012			
Revenues	P 4,951,673	(P 61,290)	P 4,890,383
Net profit for the year	1,237,344	(95)	1,237,249
Total assets	20,390,711	(7,542,848)	12,847,863
Total liabilities	5,780,551	(2,601,128)	3,179,423
Other segment information:			
Capital expenditures	148,519	317	148,836
Depreciation and amortization	46,709	(242)	46,467
Impairment losses	12,768	-	12,768
Other non-cash expenses	4,440	-	4,440
2011			
Revenues	P 4,246,751	(P 97,261)	P 4,149,490
Net profit for the year	454,401	(25,196)	429,205
Total assets	19,333,636	(7,609,863)	11,723,773
Total liabilities	7,053,844	(3,869,226)	3,168,408
Other segment information:			
Capital expenditures	105,449	663	106,112
Depreciation and amortization	77,327	846	78,173
Impairment losses	19,598	20,544	40,142
Other non-cash expenses	78,810	(35,852)	42,958

5. DISCONTINUED OPERATIONS

As of December 31, 2010, Kita and SLC (now OSSI – see Note 1.1) ceased the operations of their plastic injection manufacturing business. Termination benefits paid to employees who accepted voluntary redundancy amounted to P0.8 million in 2011 (see Note 22.1). The results of operations of the discontinued operations of the Group pertaining to the plastic injection manufacturing division are presented as Loss from Discontinued Operations – Net of Tax. There were no revenues generated and costs and expenses incurred relating to the Group's discontinued operations in 2013 and 2012.

Machinery and equipment relating to the discontinued operations of Kita with total cost amounting to P25.2 million and a total carrying value of P0.2 million were sold in 2011 for a total consideration of P1.5 million. The resulting gain from the disposal of such asset is presented as part of Miscellaneous under Other Operating Income in the 2011 consolidated statement of income (see Note 19.1).

An analysis of the revenue, expenses and tax expense of the discontinued operations for the year ended December 31, 2011 is shown below.

	Notes	
Sale of goods		P 4,047,684
Cost of sales	18.1	(14,307,547)
Gross loss		(10,259,863)
Other operating income (expenses):		
General and administrative expenses	20	(385,540)
Selling and distribution costs	20	(671,435)
Other operating income	19.1	8,353,416
		3,963,422
Other income (charges):		
Finance income	21.1	84,448
Finance costs	21.2	(636,010)
		(551,562)
Loss before tax		(3,514,984)
Tax expense	23.2	(348,839)
Loss from discontinued operations		(P 3,863,823)

The net cash flows attributable to the operating, investing, and financing activities of continuing and discontinued operations for the year ended December 31, 2011 are shown below.

	2011		
	Continuing	Discontinued	Total
Net Cash From Operating Activities	P 354,066,628	P 4,355,587	P 358,422,215
Net Cash From (Used in) Investing Activities	(38,042,351)	284,513	(37,757,838)
Net Cash Used in Financing Activities	(211,230,466)	(7,076,714)	(218,307,180)
Effect of Foreign Exchange Rate Changes on Cash and Cash Equivalents	(1,723,719)	116	(1,723,603)
Net increase (decrease) in cash and cash equivalents	103,070,092	(2,436,498)	100,633,594
Cash and cash equivalents at beginning of year	1,618,111,420	2,003,048	1,620,114,468
Cash and cash equivalents at end of year	P 1,721,181,512	(P 433,450)	P 1,720,748,062

6. CASH AND CASH EQUIVALENTS

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

	2013	2012
Cash on hand and in banks	**P 424,429,746**	P 274,888,192
Short-term placements	**1,902,905,886**	2,745,096,021
	P 2,327,335,632	P 3,019,984,213

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual interest ranging from 1.4% to 4.0% in 2013, 0.8% to 4.7% in 2012 and 0.5% to 6.0% in 2011 (see Note 21.1).

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2013, the Group acquired unit investments in trust funds (UITF) which have been classified as financial assets at FVTPL upon initial recognition. Total costs of acquisition amounted to P868.2 million.

Financial assets at FVTPL are stated at their fair values which have been determined directly by reference to published prices. Fair value is derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period) published by banks and the Investment Company Association of the Philippines.

The Company recognized gain on redemption of financial assets at FVTPL amounting to P1.0 million in 2013 and is presented as part of Finance Income under Other Income (Charges) account in the 2013 consolidated statement of income (see Note 21.1).

In 2012, BRL and Fil-Dragon disposed of all of their investments classified as financial assets at FVTPL. The disposals of financial assets at FVTPL resulted in a gain of P8.6 million in 2012 which is presented as part of Gain sale of financial assets – net shown under Finance Income in the 2012 consolidated statement of income (see Note 21.1).

Gains on fair value changes of financial assets at FVTPL amounted to P0.1 million in 2013 and losses on fair value changes amounted to P5.9 million in 2011 and are presented as part of Finance Income and Finance Cost, respectively, under Other Income (Charges) in the 2013 and 2011 consolidated statements of income (see Notes 21.1 and 21.2).

8. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2013	2012 As Restated (see Note 2.2)
Current:			
Trade receivables	26.3, 26.6, 27.1	**P 796,315,556**	P 913,697,568
Advances to suppliers	26.6	**242,349,914**	223,559,332
Loans receivables	26.4, 26.7	**45,655,849**	45,836,453
Due from related parties		**1,535,862**	2,734,223
Interest receivable		**20,284,738**	-
Other receivables		**65,228,041**	66,287,945
		1,171,369,960	1,252,115,521
Allowance for impairment		**(38,692,587)**	(31,512,861)
		1,132,677,373	1,220,602,660
Non-current:			
Trade receivables	26.6	**28,932,349**	26,168,353
Loans receivables	26.6, 26.7	**178,210,751**	145,381,293
Cash surrender value of investment in life insurance	14	**515,057,388**	458,908,456
		722,200,488	630,458,102
		P 1,854,877,861	P 1,851,060,762

Trade receivables include amounts due from the Group's real estate buyers arising from the sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Group fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment (see Note 21.1).

Interest income recognized in 2013, 2012, and 2011 amounting to P10.3 million, P12.0 million and P5.2 million, respectively, are presented as part of Interest under the Revenue section of the consolidated statements of income. Interest rates on loans receivables range from 7.5% to 30.0% in 2013, 2012 and 2011.

Advances to suppliers mainly pertain to the advance payments received by Solid Trading Limited (STL) for My Solid's future purchase of inventories (see Note 26.6), various contractors for the construction of ZTC's Tri Towers (see Note 11) and various suppliers for CBHI's acquisition of supplies.

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 19.1). The difference between the initial cash surrender value and the premiums paid amounting to P1.2 million in 2012 (nil in 2013) represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 14). As of December 31, 2013, Prepaid insurance account was fully amortized.

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 15).

Other receivables consist primarily of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the Unit Owners, interest receivable, rental receivable and income tax recoverable.

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recognized.

A reconciliation of the allowance for impairment at beginning and end of 2013 and 2012 is shown below.

	Note	**2013**	2012
Balance at beginning of year		**P 31,512,861**	P 117,015,673
Impairment losses during the year	21.2	**13,599,854**	12,767,663
Reversal of impairment losses	21.1	**(6,336,140)**	(75,708,696)
Write-off of receivables previously provided with allowance		**(83,988)**	(22,561,779)
Balance at end of year		**P 38,692,587**	P 31,512,861

Certain loans receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 26.4).

9. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	2013	2012
Current:		
Investments in foreign currency-denominated bonds	**P 52,237,573**	P 52,237,573
Allowance for impairment	**(52,237,573)**	(52,237,573)
	-	-
Non-current:		
Club shares	**9,252,400**	10,292,400
Equity securities	**8,580,000**	8,580,000
Others	**634,127**	634,127
	18,466,527	19,506,527
Allowance for impairment	**(11,230,000)**	(10,430,000)
	7,236,527	9,076,527
	P 7,236,527	P 9,076,527

A reconciliation of the allowance for impairment at the beginning and end of 2013 and 2012 is shown below.

	Note	2013	2012
Balance at beginning of year		**P 62,667,573**	P 63,658,216
Impairment loss	21.2	**800,000**	-
Reversal of impairment	21.1	**-**	(990,643)
Balance at end of year		**P 63,467,573**	P 62,667,573

A reconciliation of the carrying amounts of AFS financial assets is shown below.

	Notes	2013	2012
Balance at beginning of year		**P 9,076,527**	P 59,875,894
Disposals		**(2,501,842)**	(63,081,233)
Impairment loss	21.2	**(800,000)**	-
Reclassification adjustments for losses recognized in profit or loss	24.3	**-**	12,145,053
Reversal of impairment	21.1	**-**	990,643
Fair value gains (losses) – net	24.3	**1,461,842**	(853,830)
Balance at end of year		**P 7,236,527**	P 9,076,527

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Company's investment in SPI expired on May 8, 2005. On April 11, 2005, the Parent Company received a formal notice of the expiry of the JVA. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of the above events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, it reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS financial assets in 2005.

The Parent Company's management has determined that there is an objective evidence that the decline in the fair values of SPI shares and of some of its club shares is permanent. Accordingly, the Parent Company recognized impairment losses on the SPI shares and such club shares in prior years. The Parent Company's investment in SPI is fully provided with allowance for impairment losses as of December 31, 2013 and 2012.

Impairment losses recognized on the Group's AFS financial assets are presented as part of Finance Costs in the 2013 consolidated statement of income (see Note 21.2).

The fair values of the Group's investments in club shares, which represent proprietary membership club shares, as of December 31, 2013 and 2012 have been determined directly by reference to published prices in active markets (see Note 31).

10. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Notes 18.1 and 26.2).

	2013	2012
Merchandise and finished goods	**P 846,213,717**	P 406,495,008
Raw materials	**362,856**	362,856
Service parts, supplies and others	**61,985,161**	26,589,434
	908,561,734	433,447,298
Allowance for inventory obsolescence	**(64,316,654)**	(41,584,410)
Balance at end of year	**P 844,245,080**	P 391,862,888

The movements in allowance for inventory obsolescence are as follows:

	Note	**2013**	2012
Balance at beginning of year		**P 41,584,410**	P 103,832,347
Loss on inventory obsolescence	18.1	**24,880,491**	3,009,207
Reversal of allowance for inventory obsolescence	18.1	**(2,148,247)**	(65,257,144)
		P 64,316,654	P 41,584,410

In 2012, SBC reversed the allowance for obsolescence on materials and supplies inventories amounting to P13.3 million following the sale of those inventories to a third party. The gain on reversal of allowance for inventory obsolescence is separately recorded as part of Other Gains under Other Income in the 2012 consolidated statement of income (see Notes 19.2 and 27.3).

SLC and Kita's inventory write-down with no previous allowance for inventory obsolescence amounted to P1.7 million and P7.6 million in 2011, respectively, and is presented as Loss on inventory obsolescence on discontinued operations under Cost of Sales in the 2011 consolidated statement of income (see Notes 5 and 18.1).

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as of December 31, 2013 and 2012.

11. REAL ESTATE INVENTORIES

This account is composed of:

	Note	2013	2012
Land and land development costs:			
Land		**P 9,725,593**	P 9,725,593
Land development costs		**457,288,818**	17,695,475
		467,014,411	27,421,068
Allowance for impairment		**(2,022,800)**	(2,022,800)
		464,991,611	25,398,268
Property development costs – Construction in progress and development costs	13	**1,958,244,306**	1,985,667,173
		P2,423,235,917	P 2,011,065,441

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

Borrowing costs incurred from loans availed of by Fil-Dragon were capitalized as part of Property development costs. Borrowing cost incurred in 2013 and 2012 relating to these loans amounted to RMB6.8 million (P46.9 million) and RMB5.0 million (P32.9 million), respectively, and are capitalized as part of Real Estate Inventories (see Notes 15 and 26.8).

The allowance for impairment recognized in prior years pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2013, 2012 and 2011.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2013 and 2012, lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005. The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2013.

In addition, the balances of Property development costs as of December 31, 2013 and 2012 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 28.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of December 31, 2013 and 2012 amounting to P1,228.6 million (RMB168.0 million) and P840.1 million (RMB127.2 million), respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2013 and 2012 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 28.4).

12. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of 2013 and 2012 are shown below.

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2013												
Cost	P 1,207,854,682	P 155,408,061	P 46,032,938	p 154,774,686	P 109,596,633	P -	P 103,054,255	P 68,158,644	P 80,393,594	P 29,038,254	P 177,773,048	P 2,132,084,795
Accumulated depreciation and amortization	-	(30,678,741)	(30,703,750)	(136,263,157)	(89,006,051)	-	(101,851,777)	(67,254,980)	(56,402,307)	(24,242,983)	-	(536,403,746)
Accumulated impairment loss	-	(35,000,000)	-	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	**P 1,207,854,682**	**P 89,729,320**	**P 15,329,188**	**P 18,511,529**	**P 20,590,582**	**P -**	**P 1,202,478**	**P 903,664**	**P 23,991,287**	**P 4,795,271**	**P 177,773,048**	**P 1,560,681,049**
December 31, 2012												
Cost	P 897,854,682	P 78,478,803	P 42,488,916	P 145,637,594	P 102,727,626	P -	P 102,529,259	P 67,729,139	P 66,254,133	P 26,627,769	P 57,155,448	P 1,587,483,369
Accumulated depreciation and amortization	-	(30,032,581)	(26,878,414)	(126,470,571)	(81,867,374)	-	(100,721,086)	(66,420,081)	(49,642,025)	(22,043,403)	-	(504,075,535)
Accumulated impairment loss	-	(35,000,000)	-	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	P 897,854,682	P 13,446,222	P 15,610,502	P 19,167,023	P 20,860,252	P -	P 1,808,173	P 1,309,058	P 16,612,108	P 4,584,366	P 57,155,448	P 1,048,407,834
January 1, 2012												
Cost	P 897,854,682	P 107,157,571	P 30,124,265	P 132,342,425	P 94,388,131	P 1,337,286,751	P 153,787,380	P 68,446,028	P 56,557,182	P 25,169,630	P -	P 2,903,114,045
Accumulated depreciation and amortization	-	(64,546,364)	(24,762,932)	(115,711,989)	(76,436,056)	(621,928,012)	(96,970,837)	(65,369,216)	(45,470,846)	(19,982,984)	-	(1,131,179,236)
Accumulated impairment loss	-	(35,000,000)	-	-	-	(350,000,000)	-	-	-	-	-	(385,000,000)
Net carrying amount	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	P 1,386,934,809

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 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, 2013 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 13,446,222	P 15,610,502	P 19,167,023	P 20,860,252	P -	P 1,808,173	P 1,309,058	P 16,612,108	P 4,584,366	P 57,155,448	1,048,407,834
Additions		105,374	3,544,022	9,137,092	6,869,007		524,996	429,505	12,039,258	2,410,485	122,717,803	157,777,542
Reclassification (see Note 13)	310,000,000	76,823,884	-	-	-	-	-	-	2,100,203	-	(2,100,203)	386,823,884
Depreciation and amortization charges for the year	-	(646,160)	(3,825,336)	(9,792,586)	(7,138,677)	(-)	(1,130,691)	(834,899)	(6,760,282)	(2,199,580)	-	(32,328,211)
Balance at December 31, 2013 net of accumulated depreciation, amortization and impairment loss	**P 1,207,854,682**	**P 89,729,320**	**P 15,329,188**	**P 18,511,529**	**P 20,590,582**	P **-**	**P 1,202,478**	**P 903,664**	**P 23,991,287**	**P 4,795,271**	**P 177,773,048**	**P 1,560,681,049**
Balance at January 1, 2012 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 7,611,207	P 5,361,333	P 16,630,436	P 17,952,075	P 365,358,739	P 56,816,543	P 3,076,812	P 11,086,336	P 5,186,646	P -	1,386,934,809
Additions	-	6,321,232	12,903,587	14,677,574	12,142,765	27,343,618	1,023,283	574,747	7,734,842	723,925	60,236,560	143,682,133
Reclassification	-	-	(538,936)	-	-	-	538,936	-	2,346,898	734,214	(3,081,112)	-
Disposals	-	-	-	(1,382,405)	(3,803,270)	(726,059,448)	(52,820,340)	(1,291,636)	(384,789)	-	-	(785,741,888)
Reversal of impairment loss	-	-	-	-	-	350,000,000	-	-	-	-	-	350,000,000
Depreciation and amortization charges for the year	-	(486,217)	(2,115,482)	(10,758,582)	(5,431,318)	(16,642,909)	(3,750,249)	(1,050,865)	(4,171,179)	(2,060,419)	-	(46,467,220)
Balance at December 31, 2012 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 13,446,222	P 15,610,502	P 19,167,023	P 20,860,252	P -	P 1,808,173	P 1,309,058	P 16,612,108	P 4,584,366	P 57,155,448	P 1,048,407,834

`

In 2013, the Group transferred certain land and building improvements from Investment Property to Property, Plant, and Equipment as the Company intends to use such properties for the expansion of the Groups' hotel operations. The amount recognized as deemed cost represents the fair value of the properties at the time of transfers (see Note 13).

Construction in progress pertains to the ongoing construction of a hotel of SMC to be named Green Sun Hotel. Further, construction in progress also includes costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use.

In 2012, SBC reversed the allowance for impairment provided on its cable system, following the sale of its assets used in business operations (see Notes 1.3 and 27.3). The reversal amounted to P350.0 million and is presented as part of Other Operating Income in the 2012 consolidated statement of income (see Note 19.1).

No additional impairment losses were recognized in 2013, 2012 and 2011 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2013 and 2012, the fair values of the Group's land and building and improvements amounted to P3,161.5 million and P3,560.3 million, respectively.

The amount of depreciation and amortization computed on property, plant and equipment is presented as part of the following accounts:

	Notes	**2013**	2012	2011
Cost of services	18.2	**P 13,860,376**	P 29,405,353	P 63,913,859
Cost of rentals	18.3	**2,199,631**	3,428,898	4,119,796
General and administrative expenses		**16,268,204**	13,632,969	9,439,774
Discontinued operations		**-**	-	699,821
	20	**P 32,328,211**	P 46,467,220	P 78,173,250

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of December 31, 2013 and 2012.

Fully depreciated property, plant and equipment still in use in the Group's operations amounted to P139.0 million and P109.9 million as of December 31, 2013 and 2012, respectively.

13. INVESTMENT PROPERTY

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

The fair values of the Group's investment property as of December 31, 2013, 2012 and 2011 were determined based on appraisal reports dated March 20, 2014, February 5, 2013, and February 29, 2012, respectively. Management obtains annual appraisal reports on its investment property from independent appraisers (see Note 31).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position can be summarized as follows as of December 31:

	Land and Improvements	Buildings and Improvements	Total
2013:			
Balance at beginning of year	P 3,288,117,049	P 729,324,057	P 4,017,441,106
Fair value gains on investment property – net (see Note 19.1)	4,172,301	19,612,035	23,784,336
Additions	-	2,083,670	2,083,670
Disposal	-	(2,461,000)	(2,461,000)
Transfers to real estate inventories and property, plant and equipment	(310,000,000)	(82,037,096)	(392,037,096)
Balance at end of year	**P 2,982,289,350**	**P 666,521,666**	**P 3,648,811,016**
2012:			
Balance at beginning of year	P 3,047,677,774	P 816,656,012	P 3,864,333,786
Fair value gains (losses) on investment property – net (see Note 19.1)	242,054,661	(92,485,479)	149,569,182
Additions	-	5,153,524	5,153,524
Reclassification	(1,615,386)	-	(1,615,386)
Balance at end of year	P 3,288,117,049	P 729,324,057	P 4,017,441,106

Certain real estate properties owned by SMC are the subject of litigations brought up by third parties against the subsidiary (see Notes 14 and 28.3).

In 2013, SMC transferred investment properties with a carrying amount of P386.8 million to Property, Plant and Equipment account, while ZTC transferred investment properties with carrying amount of P5.2 million to Real Estate Inventories account (see Notes 11 and 12).

In 2012, the Company transferred a parcel of land located in Pamaldan City with carrying amount of P1.6 million as of December 31, 2012 to Other Non-current Assets.

In 2010, SMC entered into a contract to sell three parcels of land to a customer under an installment sales scheme. The contract price of the land amounting to P30.0 million, inclusive of VAT, is payable within 29 months. In 2011, the land was transferred and the corresponding gain was recognized. The carrying value of the land on the date of disposal is P12.2 million. Consequently, the Group recognized a gain amounting to P17.8 million, which is presented as part of Other Gains in the 2011 consolidated statement of income (see Note 19.2).

14. OTHER ASSETS

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

	Notes	2013	2012 As Restated – (see Note 2.2)
Current:			
Creditable withholding taxes		**P 174,610,896**	P 61,878,986
Prepayments		**112,297,479**	132,585,128
Input VAT - net		**110,967,327**	73,056,951
Refundable deposits		**14,803,019**	10,988,982
Advances to suppliers and contractors		**4,526,215**	33,632,728
Restricted cash		**6,173,337**	5,141,100
Others		**2,554,625**	1,744,129
		425,932,898	319,028,004
Non-current:			
Deferred input VAT		**13,987,869**	-
Land under litigation	13, 28.3	**4,935,606**	4,935,606
Deposits to suppliers		**3,661,213**	-
Refundable deposits - net		**3,263,084**	10,765,679
Rental deposits		**2,979,363**	-
Investment in shares		**1,375,290**	1,375,290
Cash bond		**568,234**	568,234
Others		**2,077,500**	4,586,895
		32,848,159	22,231,704
		P 458,781,057	P 341,259,708

Prepayments include prepaid insurance, rentals and other business taxes.

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates (see Note 21.1).

15. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of December 31, 2013 and 2012 are broken down as follows:

	2013			2012		
	USD	**RMB**	**Total in PHP**	USD	RMB	Total in PHP
BRL	**$ 5,220,159**	**¥ -**	**P 231,848,142**	$ 5,155,223	¥ -	P 212,353,946
Fil-Dragon	**-**	**61,842,434**	**452,154,772**	-	54,396,030	359,312,976
	$ 5,220.159	**¥ 61,842,434**	**P 684,002,914**	$ 5,155,223	¥ 54,396,030	P 571,666,922

The Group's short-term interest-bearing loans as of December 31, 2013 and 2012 amounting to P684.0 million and P571.7 million, respectively, are denominated in U.S. dollar and Chinese yuan RMB, and are currently due within 12 months after the end of reporting period; hence, classified as part of the Group's current liabilities in the consolidated statements of financial position.

Information relating to significant loan transactions of the Group are as follows:

(a) Loans of BRL

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 8). The loans bear interest at prevailing market rates per annum of 1.3% in 2013, 1.8% to 3.0% in 2012 and 2.0% to 2.3% in 2011. Interest expense arising from these loans amounted to P2.6 million, P6.2 million and P8.0 million in 2013, 2012 and 2011, respectively, and is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2).

In 2013, BRL extended the terms of various loans it obtained from Bank of Singapore. The loans are extended for one year up to June 30, 2014.

(b) Loans of Fil-Dragon

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan RMB from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance of the loan amounted to RMB61.8 million (P452.2 million) and RMB54.4 million (P359.3 million) as of December 31, 2013 and 2012, respectively. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 15.0% in 2013, 2012 and 2011. Borrowing cost incurred in 2013 and 2012 relating to these loans amounted to RMB6.8 million (P46.9 million) and RMB5.0 million (P32.9 million), respectively, and are capitalized as part of Real Estate Inventories (see Notes 11 and 26.8).

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 30.1). As of December 31, 2013, the Group is not subjected to any covenants relating to the above loans.

16. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	2013	2012
Trade payables	26.2, 26.6	**P 516,484,923**	P 335,534,348
Accrued expenses		**38,435,027**	58,423,762
Advances from customers		**36,488,366**	9,542,619
Accrued dealers' incentives		**31,347,206**	24,375,822
Refundable deposits	17	**18,617,735**	16,181,595
Rentals payable		**17,656,928**	17,671,797
Due to a related party	26.6	**17,121,707**	18,706,344
Reserve for warranty costs		**9,290,348**	14,545,332
Deferred output VAT		**6,197,121**	1,505,635
Retention payable		**1,756,300**	16,061,269
Output VAT		**798,877**	48,843,309
Unearned subscription income		**-**	18,143,581
Accrued municipal taxes		**-**	14,357,151
Other payables		**37,080,219**	35,010,087
		P 731,274,757	P 628,902,651

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

In 2013, SEC, SVC, OSSI and SBC derecognized certain accrued expenses and other payables. In 2012, SMC derecognized certain accrued expenses and other payables which were acquired by SMC from the merger with SC (see Note 1.2). Management believes that the possibility of cash outflows is remote since the purpose for which the liabilities were recognized no longer exists. The Gain on Derecognition of Liabilities amounting to P15.8 million and P25.1 million is presented as Other Gains under Other Income account in the 2013 and 2012 consolidated statements of income (see Note 19.2).

In October 2011, the obligation to provide warranties was transferred by My Solid to Mytel when the latter was handed over the ownership of the brand and consequently became importer of the inventories from Mytel's supplier. As a result, Mytel derecognized the outstanding balance of provision for warranty claims from previous year amounting to P10.8 million. The income arising from the derecognition of this liability is presented as part of Reversal of warranty provision under Other Operating Income in the 2011 consolidated statement of income (see Note 19.1). My Solid and Mytel subsequently merged in 2012 (see Note 1.2).

The outstanding deferred output VAT arises from the outstanding receivables on the Group's sale of goods and services.

The movements in the Reserve for Warranty Costs account are as follows:

	Notes	2013	2012
Balance at beginning of year		**P 14,545,332**	P 18,354,383
Provisions for warranty claims during the year	20	**34,108,528**	41,465,997
Actual warranty claims during the year		**(38,425,198)**	(36,118,916)
Reversals during the year	19.1	**(938,314)**	(9,156,132)
Balance at end of year		**P 9,290,348**	P 14,545,332

Accrued expenses include accrued rentals, accrued outside services, accrued salaries and other operating expenses which remained unpaid as at the end of the reporting period. Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

17. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P15.1 million and P16.0 million as at December 31, 2013 and 2012, respectively. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.48% to 15.77% at the inception of the lease terms. The interest expense recognized amounting to P0.2 million in 2013, P1.4 million in 2012 and P0.6 million in 2011 is presented as part of Finance Costs in the consolidated statements of income (see Note 21.2). The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

18. COST OF SALES, SERVICES AND RENTALS

18.1 Cost of Sales

The details of this account are shown below.

	Notes	**2013**	2012	2011
Merchandise and finished goods at beginning of year	10	**P 406,495,008**	P 621,292,896	P 412,507,056
Net purchases of merchandise during the year	20, 26.6 26.2	**3,400,761,914**	2,925,915,239	2,700,622,823
Cost of goods manufactured:				
Raw materials at beginning of year	10	**362,856**	362,856	10,757,863
Work- in-process at beginning of year		**-**	-	2,256,191
Net purchases of raw materials during the year		**-**	-	3,811,972
Direct labor	22.1	**-**	-	1,715,564
Manufacturing overhead	22.1	**-**		1,831,269
Raw materials at end of year	10	**(362,856)**	(362,856)	(362,856)
Work-in-process at end of year		**-**	-	-
		-	-	20,010,003
Goods available for sale		**3,807,256,922**	3,547,208,135	3,133,139,882
Merchandise and finished goods at end of year	10	**(846,213,717)**	(406,495,008)	(621,292,896)
Net provision (reversal of allowance) for inventory obsolescence	10	**22,732,244**	(48,583,419)	27,304,279
	20	**P 2,983,775,449**	P 3,092,129,708	P 2,539,151,265

The allocation of cost of sales between continuing and discontinued operations is shown below.

	Note	**2013**	2012	2011
Continuing operations	20	**P 2,983,775,449**	P 3,092,129,708	P 2,524,843,718
Discontinued operations	5	**-**	-	14,307,547
		P 2,983,775,449	P 3,092,129,708	P 2,539,151,265

18.2 Cost of Services

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

	Notes	2013	2012	2011
Materials, supplies and other consumables		**P 75,893,537**	P 94,017,131	P 90,295,728
Service fees	27.3 (a)	**53,624,045**	59,347,325	-
Salaries and employee benefits	22.1	**52,970,338**	80,725,659	92,304,067
Subcontracting services		**48,267,737**	48,254,650	30,841,268
Outside services		**31,139,187**	24,560,909	37,481,054
Communication, light and water		**15,236,009**	33,262,444	50,503,338
Depreciation and amortization	12	**13,860,376**	29,405,353	63,913,859
Transponder rental and leased line		**11,756,596**	27,803,313	46,122,992
Repairs and maintenance		**7,673,524**	10,731,747	19,949,027
Rentals	28.2	**6,941,302**	36,602,623	29,463,835
Transportation and travel		**1,244,466**	18,032,263	18,442,548
Cable services		**-**	3,901,463	6,696,429
Others		**13,896,734**	21,757,882	13,280,724
	20	**P 332,503,851**	P 488,402,762	P 499,294,869

18.3 Cost of Rentals

The details of this account are as follows:

	Notes	2013	2012	2011
Taxes and licenses		**P 9,337,528**	P 9,835,266	P 9,571,471
Outside services		**7,399,654**	7,397,150	5,856,501
Rentals		**7,353,293**	8,043,416	10,040,302
Repairs and maintenance		**4,069,623**	3,461,720	3,487,349
Depreciation and amortization	12	**2,199,631**	3,428,898	4,119,796
Salaries and employee benefits	22.1	**999,943**	1,194,501	1,144,438
Utilities and communication		**-**	-	3,324,709
Others		**3,611,989**	2,021,990	2,336,182
	13, 20	**P 34,971,661**	P 35,382,941	P 39,880,748

Cost of rentals – others primarily consists of supplies and transportation and travel expenses.

19. OTHER INCOME

19.1 Other Operating Income

The breakdown of this account is as follows:

	Notes	2013	2012	2011
Fair value gains on investment property	13	**P 23,784,336**	P 149,569,182	P 191,644,597
Increase in cash surrender value of investment in life insurance	8	**19,231,829**	18,365,563	19,110,728
Gain on insurance settlement		**1,546,124**	353,338	55,000
Reversal of warranty provision	16	**938,314**	9,156,132	11,904,405
Reversal of impairment losses on property and equipment	12	**-**	350,000,000	-
Miscellaneous	5	**7,835,782**	26,481,792	18,411,703
		P 53,336,385	P 553,926,007	P 241,126,433

The allocation of other operating income between continuing and discontinued operations is shown below.

	Note	2013	2012	2011
Continuing operations		**P 53,336,385**	P 553,926,007	P 232,773,017
Discontinued operations	5	**-**	-	8,353,416
		P 53,336,385	P 553,926,007	P 241,126,433

19.2 Other Gains – Net

The breakdown of this account is as follows:

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Gain on derecognition of liabilities	16	**P 15,825,655**	P 25,117,698	P -
Foreign currency exchange gains		**3,159,239**	7,767,563	-
Net interest gain (loss) on retirement benefit asset	22.2	**1,641,760**	3,251,093	(2,120,953)
Gain on sale of investment property	13	**-**	-	17,802,607
Reversal of allowance for inventory obsolescence	10	**-**	13,334,706	-
Gain on disposal of property, plant, and equipment		**-**	1,071,310	-
Others		**2,057,041**	10,360,600	3,636,521
		P 22,683,695	P 60,902,970	P 19,318,175

Other gains relate to continuing operations for all the years presented.

20. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Net purchases of merchandise inventories	18.1	**P 3,400,761,914**	P 2,925,915,239	P 2,700,622,823
Changes in merchandise, finished goods and work-in-process inventories		**(439,718,709)**	214,797,888	(208,785,840)
Salaries and employee benefits	22.1	**219,517,826**	266,115,015	260,527,805
Advertising and promotions		**167,120,420**	130,977,514	132,187,080
Outside services		**132,939,229**	194,934,604	149,697,511
Subcontracting services		**126,467,788**	110,298,465	86,887,735
Materials, supplies and other consumables		**76,982,915**	78,028,164	110,419,752
Cost of real estate sold		**70,127,647**	45,917,227	95,886,118
Service fees	27.3(a)	**53,624,045**	59,347,325	-
Rentals	28.2	**43,028,069**	60,820,460	42,785,957
Taxes and licenses		**42,803,859**	52,113,634	46,839,422
Utilities and communication		**35,505,747**	54,590,325	72,208,053
Provision for warranty	16	**34,108,528**	41,465,997	45,072,286
Transportation and travel		**33,565,112**	44,072,915	43,880,536
Depreciation and amortization	12	**32,328,211**	46,467,220	78,173,250
Net provision (reversal of allowance) for inventory obsolescence	18.1	**22,732,244**	(48,583,419)	27,304,279
Repairs and maintenance		**22,051,837**	31,640,652	45,966,836
Transponder rental and leased line		**-**	7,070,544	44,719,890
Miscellaneous		**87,171,647**	59,052,375	45,453,877
		P 4,161,118,329	P 4,375,042,144	P 3,819,847,370

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	2013	2012	2011
Continuing operations:				
Cost of sales	18.1	**P 2,983,775,449**	P 3,092,129,708	P 2,524,843,718
Cost of services	18.2	**332,503,851**	488,402,762	499,294,869
Cost of rentals	18.3	**34,971,661**	35,382,941	39,880,748
Cost of real estate sales		**70,127,647**	45,917,227	95,886,118
Selling and distribution costs		**451,129,327**	361,066,027	278,372,598
General and administrative expenses		**288,610,394**	352,143,479	366,204,797
		4,161,118,329	4,375,042,144	3,804,482,848
Discontinued operations:				
Cost of sales	5, 18.1	**-**	-	14,307,547
General and administrative expenses	5	**-**	-	385,540
Selling and distribution costs	5	**-**	-	671,435
		-	-	15,364,522
		P 4,161,118,329	P 4,375,042,144	P 3,819,847,370

21. OTHER INCOME (CHARGES)

21.1 Finance Income

This account consists of the following:

	Notes	2013	2012	2011
Interest income from cash and cash equivalents	6, 14	**P 33,327,776**	P 56,862,020	P 28,088,868
Foreign currency gains – net		**12,633,424**	827,155	5,624,590
Interest income from financing	8	**9,301,544**	26,458,136	11,990,898
Reversal of impairment losses on trade and other receivables	8	**6,336,140**	75,708,696	17,014,146
Gain on redemption of financial assets at FVTPL	7	**1,006,736**	-	-
Fair value gains on financial assets at FVTPL	7	**144,292**	-	-
Gain on sale of financial assets – net	7	**-**	2,095,315	-
Reversal of impairment losses on AFS financial assets	9	**-**	990,643	-
Others		**-**	760,514	1,842,653
		P 62,749,912	P 163,702,479	P 64,561,155

The allocation of finance income between continuing and discontinued operations is shown below.

	Note	2013	2012	2011
Continuing operations		**P 56,872,172**	P 163,702,479	P 64,476,707
Discontinued operations	5	**-**	-	84,448
		P 56,872,172	P 163,702,479	P 64,561,155

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P39.3 million in 2013, P64.4 million in 2012 and P47.8 million in 2011 are presented as Interest under the Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

21.2 Finance Costs

This account consists of the following:

	Notes	2013	2012	2011
Impairment losses on trade and other receivables	8	**P 13,599,854**	P 12,767,663	P 21,145,641
Foreign currency losses		**2,771,014**	22,738,154	33,124,222
Interest expense arising from interest–bearing loans	15	**2,610,444**	6,227,444	7,996,557
Impairment losses on AFS financial assets	9	**800,000**	-	18,995,887
Interest amortization on refundable deposits	17	**388,412**	1,930,812	820,928
Loss on write off of trade receivables		**326,860**	-	-
Fair value loss on financial assets at FVTPL	7	**-**	-	5,909,803
Others		**101,870**	5,424,022	2,069,475
		P 20,598,454	P 49,088,095	P 90,062,513

The allocation of finance costs between continuing and discontinued operations is shown below.

	Note	2013	2012	2011
Continuing operations		**P 17,936,865**	P 49,088,095	P 89,426,503
Discontinued operations	5	**-**	-	636,010
		P 17,936,865	P 49,088,095	P 90,062,513

22. EMPLOYEE BENEFITS

22.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 20 and 26.10).

	Note	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Short-term benefits		**P 205,531,568**	P 247,679,694	P 250,166,545
Post-employment benefit	22.2	**13,986,258**	16,967,011	9,596,475
Termination benefits		**-**	1,468,310	764,785
		P 219,517,826	P 266,115,015	P 260,527,805

22.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Group maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Company's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012 which have been restated in line with the adoption of PAS 19 (Revised) [see Note 2.2(a)(ii)].

The components of the retirement benefit asset of SGI and certain subsidiaries at the end of the reporting periods are shown below.

	2013	2012 (As Restated – see Note 2.2)
Fair value of plan assets	**P 181,854,959**	P 195,334,214
Present value of obligation	**(67,512,401)**	(96,955,783)
	114,342,558	98,378,431
Effect of asset ceiling	**(32,118,784)**	(26,816,824)
	P 82,223,774	P 71,561,607

The components of the retirement benefit obligation of certain subsidiaries at the end of the reporting periods are shown below.

	2013	2012 (As Restated – see Note 2.2)
Present value of obligation	**P 26,520,678**	P 29,632,031
Fair value of plan assets	**-**	(14,080,141)
	26,520,678	15,551,890
Effect of asset ceiling	**-**	584,565
	P 26,520,678	P 16,136,455

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

	2013	2012 (As Restated – see Note 2.2)
Balance at beginning of year	**P 126,587,814**	P 111,242,417
Current service costs	**13,986,258**	16,967,011
Interest costs	**6,600,575**	6,743,569
Benefits paid	**(42,764,356)**	(1,597,216)
Remeasurements – actuarial losses (gains) arising from:		
Experience adjustments	**(13,751,877)**	(6,105,750)
Changes in financial assumptions	**3,374,665**	-
Transfers	**-**	(662,217)
Balance at end of year	**P 94,033,079**	P 126,587,814

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

	2013	2012 (As Restated – see Note 2.2)
Balance at beginning of year	**P 209,414,356**	P 198,370,421
Interest income	**10,227,100**	12,011,577
Return on plan assets (excluding amounts included in net interest)	**1,787,287**	(1,509,299)
Contributions paid into the plan	**3,190,572**	659,116
Benefits paid by the plan	**(42,764,356)**	(117,460)
Balance at end of year	**P 181,854,959**	P 209,414,355

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

	2013	2012
Debt securities:		
Philippines government bonds	**P 151,568,091**	P 174,714,397
Corporate bonds	**15,775,830**	16,732,207
UITF	**9,839,466**	11,330,598
Mutual funds	**4,671,572**	6,637,153
	P 181,854,959	P 209,414,355

UITF and mutual funds are composed of short-term and money-market funds denominated in Philippine peso.

The fair values of the above debt securities and investments are determined based on quoted market prices in active markets.

The plan assets earned net return of P12.0 million, P10.5 million and P15.4 million in 2013, 2012 and 2011, respectively.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Reported in consolidated statements of income:				
Current service cost	22.1	**P 13,986,258**	P 16,967,011	P 9,596,475
Net interest expense (income)	19.2	**(1,641,760)**	(3,251,093)	2,120,953
Effect of asset ceiling		**-**	(662,217)	-
		P 12,344,498	P 13,053,701	P 11,717,428
Reported in consolidated statements of comprehensive income:				
Actuarial losses from changes in:				
- Experience adjustments		**13,751,877**	6,105,750	(27,574,538)
- Financial assumptions		**(3,374,665)**	-	-
Return on plan assets (excluding amounts included in net interest expense)		**1,787,287**	(1,509,299)	1,036,203
Effect of asset ceiling		**(4,807,592)**	(1,509,842)	19,876,546
		P 7,356,907	P 3,086,609	(P 6,661,789)

Current service cost is allocated to and presented under the General and Administrative Expenses account in the consolidated statements of income.

The net interest expense is included in Other Gains account in the consolidated statements of income (see Note 19.2). Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

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

	2013	2012	2011
Discount rates	**4% - 5%**	4% - 6%	6% - 7%
Expected rate of salary increases	**9%**	9%	10%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working life of employees before retirement at the age of 60 is 20 years for males and 21 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of sa zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

In 2011 and prior years, SBC maintained a wholly funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee covering all regular full-time employees. As a result of the sale its business, SBC ceased operations immediately thereafter and requested the release of the remaining balance in the trust fund account under the multi-employer retirement plan. The retirement plan assets were withdrawn in 2012 since all of the employees were terminated during such year. Accordingly, SBC's plan assets had a nil balance as of December 31, 2013 and 2012.

(c) Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has generally concentrated on investment in debt securities.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) Inflation Risk

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+1.0 -12.1%/-1.0-10.6%	(2,807,111)	6,929,061
Salary increase rate	+1.0-10.5%/-1.0-9.5%	4,042,157	(532,170)

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2013 and 2012 consists of debt securities, although the Group also invests in UITF and mutual funds.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P55.7 million based on the latest actuarial valuations.

The Group expects to make contribution of P3.2 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan as of December 31, 2013 follows:

Within one year	P 200,288
More than one year but not more than five years	3,677,711
More than five years but not more than ten years	29,445,696
More than ten years but not more than 15 years	141,233,917
More than 15 years but not more than 20 years	164,831,255
More than 20 years	2,199,952,487
	P2,539,341,354

23. TAXES

23.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation

(a) Registration with Clark Development Corporation (CDC)

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

(b) Registration with Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

(c) Fil-Dragon Taxation

Pursuant to the relevant laws and regulations in the PRC, Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as Fil-Dragon did not generate any assessable profits in 2013, 2012 and 2011.

23.2 Current and Deferred Taxes

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

	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Consolidated statements of income			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 23,536,894**	P 190,483,882	P 105,566,741
Final taxes at 20% and 7.5%	**8,592,626**	17,657,651	9,686,979
Preferential tax at 5%	**1,921,077**	2,035,898	1,165,853
Minimum corporate income tax (MCIT) at 2%	**11,063,933**	222,424	784,751
	45,114,530	210,399,855	117,204,324
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(211,422)**	64,268,972	22,225,043
	P 44,903,108	P 274,668,827	P 139,429,367
Consolidated statements of comprehensive income:			
Remeasurements of defined benefit post-employment obligation	**P 2,207,070**	P 925,983	(P 1,998,537)
Deferred tax income on changes in fair value of AFS financial assets	**(1,156,237)**	(300,000)	(1,458,000)
	P 1,050,833	P 625,983	(P 3,456,537)

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

	2013	2012 (As Restated - see Note 2.2)	2011 (As Restated - see Note 2.2)
Tax on pretax profit at 30%	**P 57,126,765**	P 453,575,261	P 171,644,687
Adjustment for income subjected to lower tax rates	**(10,493,932)**	(13,388,166)	(6,615,150)
Tax effects of:			
Unrecognized deferred taxes from net operating loss carry-over (NOLCO) and MCIT	**8,933,328**	567,373	1,430,215
Loss (income) of foreign subsidiary not subject to taxes	**(6,218,370)**	(547,491)	9,739,812
Unrecognized deductible temporary differences	**(5,512,277)**	3,504,041	1,761,138
Nondeductible expenses and losses	**3,869,521**	2,513,046	5,437,096
Nontaxable income	**(2,601,399)**	(2,640,899)	(5,563,691)
Benefit from previously unrecognized NOLCO, MCIT and other temporary differences	**(295,738)**	(142,098,292)	(26,314,832)
Excess of optional standard deduction over itemized deductions	**-**	(27,893,962)	-
Reversal of previously recognized deferred tax liability	**-**	-	(11,409,417)
Others	**95,210**	1,077,916	(680,491)
	P 44,903,108	P 274,668,827	P 139,429,367

The allocation of the tax expense relating to profit or loss from continuing and discontinued operations in 2013 is shown below.

	Note	2013	2012	2011
Continuing operations		**P 44,903,108**	P 274,668,827	P 139,080,528
Discontinued operations	5	**-**	-	348,839
		P 44,903,108	P 274,668,827	P 139,429,367

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

	2013	2012 (As Restated – see Note 2.2)
Deferred tax assets:		
Fair value losses on investment property	**P 23,831,400**	P 23,831,400
Allowance for inventory obsolescence	**17,814,389**	11,462,608
Accrued expenses	**14,604,251**	14,721,085
MCIT	**10,810,770**	-
Allowance for impairment on trade and other receivables	**7,881,003**	6,483,910
Retirement benefit obligation	**6,074,118**	4,440,371
Unrealized foreign currency loss (gain)	**(3,960,690)**	2,982,141
Provision for warranty claims	**524,608**	2,181,337
Unamortized pre-operating expenses	**-**	54,271
Deferred tax liability –		
Retirement benefit asset	**-**	(1,647,964)
Deferred tax assets – net	**P 77,579,849**	P 64,509,159

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:

	2013	2012 (As Restated – see Note 2.2)
Deferred tax assets:		
Fair value loss on investment property	**P 44,826,279**	P -
Provision for warranty claims	**2,262,388**	2,012,749
Allowance for impairment on trade and other receivables	**1,372,343**	688,083
Unamortized past service costs	**1,336,337**	1,657,651
Loss on investment in subsidiaries	**838,709**	-
Allowance for inventory obsolescence	**627,149**	324,678
Accrued expenses	**413,699**	867,374
Unearned rent income	**47,083**	257,395
Refundable deposits	**22,192**	-
Deferred rent expense – PAS 17	**-**	408,033
Retirement benefit obligation	**-**	314,196
Deferred tax liabilities:		
Fair value gains on investment property	**(820,983,996)**	(772,747,918)
Accumulated depreciation on investment property	**(132,910,575)**	(132,666,733)
Retirement benefit asset	**(31,129,133)**	(20,380,804)
Deferred rent income – PAS 17	**(1,988,775)**	(213,056)
Unrealized foreign currency gains	**(42,937)**	(19,409)
Changes in fair value of AFS financial asset	**-**	(132,000)
Deferred tax liabilities – net	**(P 935,309,237)**	(P 919,629,761)

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

	2013	2012 As Restated - (see Note 2.2)	2011 As Restated - (see Note 2.2)
Benefits from previously unrecognized MCIT	**(P 10,810,770)**	(P 1,812,952)	(P 47,888)
Unrealized foreign currency gains - net	**6,966,359**	(2,749,471)	(677,951)
Allowance for inventory obsolescence	**(6,654,252)**	14,668,089	(19,956,486)
Retirement benefit obligation	**4,945,352**	81,094	(6,114,724)
Fair value gains on investment property	**3,409,799**	49,991,128	54,506,870
Allowance for impairment on trade and other receivables	**(2,081,353)**	3,395,556	(2,896,526)
Deferred rent expense – PAS 17	**1,896,896**	(2,627,509)	34,412
Deferred rent income – PAS 17	**1,717,719**	(556,364)	(1,752,527)
Provision for warranty claims	**1,407,090**	3,169,076	(1,214,422)
Change in fair value of AFS	**(1,024,237)**	-	-
NOLCO	**(432,914)**	-	-
Unamortized past service costs	**321,314**	173,828	344,910
Accumulated depreciation on investment property	**(253,842)**	6,337,868	6,651,556
Unearned rent income	**210,312**	(165,041)	
Accrued expenses	**116,834**	(5,694,710)	(6,702,344)
Unamortized pre-operating expenses	**54,271**	58,380	50,163
	(P 211,422)	P 64,268,972	P 22,225,043

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS financial assets and remeasurements of post-employment defined benefit plan.

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2013	P 36,638,281	P -	P -	P -	P 36,638,281	2016
2012	15,862,462	-	-	-	15,862,462	2015
2011	31,305,517	-	5,501,441	-	25,804,076	2014
2010	3,283,221	2,008,326	331,953	942,942	-	2013
	P 87,089,481	P 2,008,326	P 5,833,394	P 942,942	P 78,304,819	
MCIT:						
2013	P 255,337	P -	P -	P -	P 255,337	2016
2012	222,424	-	-	-	222,424	2015
2011	832,637	-	611,343	-	221,294	2014
2010	4,774,835	-	4,774,835	-	-	2013
	P 6,085,233	P -	P 5,385,178	P -	P 699,055	

Fil-Dragon has incurred tax losses amounting to P30.0 million (RMB4.3 million), P22.8 million (RMB3.5 million) and P32.5 million (RMB4.8 million) in 2013, 2012, and 2011 respectively. Similar to NOLCO, these tax losses can be applied as deductions from future taxable income of Fil-Dragon. However, the benefits from the tax losses expire within five years from the year such tax losses are incurred.

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

	2013		2012		2011	
	Amount	**Tax Effect**	Amount	Tax Effect	Amount	Tax Effect
NOLCO	**P 70,997,903**	**p 21,299,371**	P 41,220,143	P 12,366,043	P 41,027,061	P 12,308,118
Unrealized foreign currency loss	**(13,745,572)**	**(4,123,672)**	12,211,081	3,663,324	1,606,837	482,051
Allowance for impairment of trade receivables	**13,600,000**	**4,080,000**	-	-	-	-
Retirement benefit obligation	**4,686,238**	**1,405,871**	1,001,270	300,381	875,601	(262,680)
Unearned income	**1,170,000**	**351,000**	1,170,000	351,000	4,920,000	1,476,000
Allowance for inventory obsolescence	**914,262**	**274,279**	362,856	108,857	15,504,733	4,651,420
MCIT	**640,139**	**640,139**	3,679,121	3,679,121	5,545,272	5,545,272
Allowance for impairment loss on AFS financial assets	**-**	**-**	5,060,000	1,518,000	5,420,000	1,626,000
Allowance for impairment of financial assets classified as loans and receivables	**-**	**-**	22,555,186	6,766,555	113,897,224	34,169,167
Accumulated impairment losses on property, plant, and equipment	-	**-**	**-**	-	350,000,000	105,000,000
Fair value loss in investment property	**-**	**-**	-	-	10,167,900	3,050,370
Unamortized past service cost	**-**	**-**	**-**	-	976,947	293,084
	P 78,262,970	**P 23,926,988**	P 87,259,657	P 28,753,281	P 549,941,575	P 168,864,162

Except for SBC, the Group opted to claim itemized deductions in computing for its income tax due in 2013, 2012, and 2011. SBC used itemized deductions in 2013 while it opted to claim the optional standard deduction in 2012 and 2011.

24. EQUITY

24.1 Capital Stock

The Parent Company has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consisted of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of December 31, 2013 and 2012, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 394,465,704 and 392,472,704 shares are held by the public, respectively. There are 4,415 and 4,482 holders of the listed shares which closed at P1.18 and P1.98 per share on December 31, 2013 and 2012, respectively.

24.2 Retained Earnings

On August 8, 2013, the BOD of the Parent Company approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million, payable to stockholders of record as of August 30, 2013. The cash dividends were paid on September 24, 2013.

On October 12, 2012, the BOD approved the declaration of cash dividends of P0.06 per share amounting to P109.3 million, payable to stockholders of record as of October 31, 2012. The cash dividends were paid on November 28, 2012.

Retained earnings is restricted in the amount of P115.6 million as of December 31, 2013 and 2012, equivalent to the cost of 209,433,000 shares held in treasury.

24.3 Revaluation Reserves

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

	Notes	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Remeasurement of post-employment:				
Balance at beginning of year		**(P 17,235,042)**	(P 19,395,668)	(P 14,732,416)
Actuarial gain (losses) during the year		**7,356,907**	3,086,609	(6,661,789)
Tax income (expense)		**(2,207,070)**	(925,983)	1,998,537
Balance at the end of the year		**(12,085,205)**	(17,235,042)	(19,395,668)
Cumulative translation adjustments:				
Balance at beginning of year		**49,374,055**	77,477,390	64,979,425
Currency differences on translating financial statements of foreign operations	2	**41,312,873**	(28,103,335)	12,497,965
		90,686,928	49,374,055	77,477,390
Fair value losses on AFS financial assets:				
Balance at beginning of year		**(95,728,537)**	(106,719,760)	(108,459,976)
Fair value gains (losses)	9	**1,461,842**	(853,830)	(9,606,606)
Deferred tax income on changes in fair value of AFS financial assets	23.2	**(1,156,237)**	(300,000)	(1,458,000)
Reclassification adjustments for losses recognized in profit or loss	9	**-**	12,145,053	12,804,822
		(95,422,932)	(95,728,537)	(106,719,760)
Other comprehensive income attributable to non-controlling interest		**35,000**	35,000	-
Balance at end of the year		**(P 16,786,209)**	(P 63,554,524)	(P 48,638,038)

25. EARNINGS PER SHARE

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

	2013	2012 (As Restated – see Note 2.2)	2011 (As Restated – see Note 2.2)
Net profit for the year attributable to the Parent Company's stockholders	**P 157,821,890**	P 1,239,948,309	P 438,351,631
Divided by weighted average shares outstanding:			
Number of shares issued	**2,030,975,000**	2,030,975,000	2,030,975,000
Treasury shares	**(209,433,000)**	(209,433,000)	(209,433,000)
	1,821,542,000	1,821,542,000	1,821,542,000
EPS – basic and diluted	**P 0.09**	P 0.68	P 0.24

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of December 31, 2013, 2012 and 2011; hence, diluted EPS is equal to the basic EPS.

26. RELATED PARTY TRANSACTIONS

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

A summary of the Group's related party transactions as of December 31, 2013 and 2012 and for each of the three years in the period ended is summarized below and in the succeeding pages.

		Amounts of Transaction			Outstanding Balance	
Related Party Category	Note	**2013**	2012	2011	**2013**	2012
Related Parties Under Common Ownership:						
Purchase of mobile phones	26.6	**3,165,472,663**	2,816,688,776	2,582,212,621	**(177,548,009)**	121,141,047
Availment of loans	26.8	**92,841,796**	(44,740,216)	404,053,192	**452,154,772**	359,312,976
Cash advances obtained	26.5	**69,759,951**	(95,931,619)	(61,416,380)	**(81,323,563)**	(11,629,819)
Interest expense	26.8	**46,917,606**	32,874,588	9,714,529	**3,725,553**	3,436,432
Purchase of parts	26.2	**31,349,823**	87,557,687	107,849,402	**(6,694,454)**	(6,412,755)
Lease of real property	26.3	**15,375,161**	1,905,820	485,592	**355,800**	274,060
Interest income	26.4, 26.7	**10,270,326**	12,045,070	5,196,900	**15,939,918**	9,565,856
Advances to suppliers	26.6	**7,264,159**	8,668,237	2,928,899	**218,018,511**	210,754,352
Commissions	26.6	**4,366,100**	1,730,242	2,498,762	**4,366,100**	1,730,242
Cash advances granted	26.5	**3,102,051**	(106,324,516)	(72,650,008)	**24,735,439**	21,633,388
Advances for equipment	26.6	**2,839,816**	20,063	3,070,522	**(250,969)**	(3,090,785)
Collection of receivables	26.6	**1,634,470**	19,627,454	109,898	**(17,121,707)**	(18,756,177)
Use of cable infrastructure	26.1	**-**	81,656,142	228,608,036	**-**	-
Management services	26.1	**-**	1,500,000	1,200,000	**-**	-
Granting of business loans	26.4	**-**	-	-	**67,560,199**	67,560,199
Granting of loans	26.7	**-**	-	-	**112,517,273**	104,354,742

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

None of the Group's outstanding receivables from related parties are impaired.

26.1 Rendering of Services

SBC's broadband cable infrastructure is used by Destiny Cable, Inc. (DCI), a company that is 100% owned by SGI's majority stockholders. SBC bills DCI based on fixed fee per subscriber and based on the type of service rendered. As of December 31, 2012, however, SBC has sold a significant portion of its assets used in its operations to a third party (see Note 27.3). Accordingly, there were no revenues recognized related to this transaction subsequent to such sale of assets.

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

Revenues arising from the above transactions are presented as part of Rendering of Services in the consolidated statements of income. There were no outstanding receivables related to these transactions as of December 31, 2013 and 2012.

26.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P31.3 million in 2013, P87.6 million in 2012 and P107.8 million in 2011 are recorded as part of Cost of Services in the consolidated statements of income (see Note 18.2). The outstanding liability from the above transactions amounted to payable of P6.7 million and P6.4 million as of December 31, 2013 and 2012, respectively, and are presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

26.3 Lease of Real Property

SMC leases out certain land and buildings to Avid Sales Corporation (Avid), a related party under common ownership. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income (see Note 13). Uncollected billings, on the other hand, form part of Trade receivables under the Trade and Other Receivables-net account in the consolidated statements of financial position (see Note 8).

The outstanding receivables from related parties are unsecured and do not bear any interest. Based on management's assessment, all receivables from related parties are fully collectible; hence, no impairment loss was recognized in 2013, 2012 and 2011.

26.4 Granting of Loans

SMFI grants business loans and other loans to its related parties that bear interests ranging from 7.5% to 9.0% in 2013, 2012 and 2011. Total interests earned from these loans amounted to P4.9 million in 2013, P6.3 million in 2012 and P7.6 million in 2011 and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans Receivables under the Trade and Other Receivables-net account in the consolidated statements of financial position (see Note 8).

The outstanding receivables from business loans as of December 31, 2013 and 2012 are as follows:

Avid	P	27,000,000
AA Export and Import Corp. (AA Export)		8,304,380
AA Marine Development Corp. (AA Marine)		8,329,955
Philippine Prawn, Inc. (PPI)		7,975,288
Baybayan Farm, Inc. (BFI)		7,975,288
Kawayan Farm, Inc. (KFI)		7,975,288
	P	**67,560,199**

In prior years, SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment on this loan amounting to P10.1 million and P2.8 million were made in 2012 and 2011, respectively. There was no principal repayment on these loans in 2013. This loan is payable on demand.

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loans for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2013 and 2012.

There were no impairment losses recognized on the outstanding balances of business loans to granted to related parties in 2013, 2012 and 2011 based on management's assessment.

The business loan pertaining to AA Export is secured by its own shares of stock which are owned by a related party. All other business loans granted are unsecured.

Section 9(d) of RA No. 8556, *The Financing Company Act of 1998*, states that the total credit that a financing company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of SMFI decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of SMFI's net worth which is not in accordance with Section 9(d) of RA No. 8556. In 2013 and 2012, the SMFI has not extended credits to any debtor which exceeded such threshold.

26.5 Advances to and from Related Parties

Certain subsidiaries of the Group grant to and obtain unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances of Advances to Related Parties amounted to P24.7 million and P21.6 million as of December 31, 2013 and 2012, respectively, while the outstanding balances of Advances from Related Parties amounted to P81.3 million and P11.6 million as of December 31, 2013 and 2012, respectively.

These advances have no definite repayment dates and are generally settled in cash depending on available resources of the parties involved. No impairment losses were recognized on the outstanding balances of Advances to Related Parties as management has assessed that the such amounts are fully collectible.

26.6 Transactions with STL

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P4.4 million in 2013, P1.7 million in 2012 and P2.5 million in 2011 and is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding receivable from STL amounted to P4.4 million and P1.7 million as of December 31, 2013 and 2012, respectively, and is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections received in behalf of STL in 2013, 2012 and 2011 amounted to P1.6 million, P19.6 million and P0.1 million, respectively. Total obligations arising from this transaction as of December 31, 2013 and 2012 amounting to P17.1 million and P18.8 million, respectively, is presented as Due to a related party under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being made by STL on behalf of SVC. Total payments made by STL on behalf of SVC related to this transaction amounted to P2.8 million in 2013, P0.02 million in 2012 and P3.1 million in 2011. The outstanding balance arising from this transaction amounted to P0.3 million and P3.1 million as of as of December 31, 2013 and 2012, respectively, and is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid purchases mobile phones from STL. Total purchases amounted to P3.2 billion in 2013, P2.8 billion in 2012 and P2.6 billion in 2011 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 18.1). Outstanding liabilities relating to these purchases amounted to P177.5 million as of December 31, 2013 and P121.1 million as of December 31, 2012, which are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 16).

My Solid also made advance payments to STL for its future purchase of mobile phones. The outstanding advances amount to P218.0 million as of December 31, 2013 and P210.8 million as of December 31, 2012 and is presented as part of Advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

26.7 Transactions with Solid Company Limited (SCL)

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to P120.8 million(RMB17.42 million) which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. Also in 2012 and 2013, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

Interests earned from these loans amounted to P5.4 million in 2013, P5.8 million in 2012 and P5.2 million in 2011, and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding balance of the loan amounting to P112.5 million and P104.4 million as of December 31, 2013 and 2012, respectively, is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8). No impairment loss was recognized on these loans in 2013, 2012 and 2011.

26.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balance from these loans amounted RMB 61.8 million (P452.2 million) and RMB54.4 million (P359.3 million) as of December 31, 2013 and 2012, respectively. These loans bear interest at prevailing market rates at 15% in 2013 and 6% to 10% per annum in 2012 and 2011, respectively. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the consolidated statements of financial position. Borrowing costs incurred in 2013 and 2012 relating to these loans amounted to RMB6.8 million (P46.9 million) and RMB5.0 million (P32.9 million) respectively, and are capitalized as part of Real Estate Inventories in the consolidated statements of financial position (see Notes 11 and 15).

26.9 Financial Guarantees

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby they guarantee that the principal amount and related interests will be paid as the payments fall due. The guarantee contract was terminated in 2012 as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 15).

26.10 Key Management Personnel Compensation

Compensation provided to key management personnel significantly consists of short-term benefits amounting to P42.9 million, P29.6 million, and P34.0 million for 2013, 2012 and 2011, respectively. These amounts are shown as part of Salaries and employee benefits account under General and Administrative Expenses in the consolidated statements of income (see Notes 20 and 22).

26.11 Transactions with the Retirement Fund

The Group has established a formal multi-employer retirement plan which is administered by a trustee bank, except for CBHI, My Solid, SGTC and ZTC, whose retirement fund remained unfunded as of December 31, 2013.

The retirement fund consists of government securities, corporate bonds, UITF, mutual and trust funds with fair values totaling P181.9 million and P209.4 million, as of December 31, 2013 and 2012, respectively (see Note 22.2). The retirement fund neither provides any guarantee or surety for any obligation of the Group. The retirement fund also has no investments in the Parent Company's shares of stock which are listed for trading at the PSE (see also Note 1.1).

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 22.2.

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with SPI

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

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

The breakdown of network support fees and in-warranty service fees amounted to P75.1 million, P77.7 million and P56.7 million for the years ended December 31, 2013, 2012 and 2011, respectively. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P3.3 million and P14.7 million as of December 31, 2013 and 2012, respectively, and are included as part of Trade under Trade and Other Receivables in the consolidated statements of financial position (see Note 8).

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

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

27.3 Sale of SBC's Assets

(a) Agreement on Sale of Assets

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 27.3(d)]. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers of SCC and, accordingly, remit to the latter all collections received. Service fees incurred related to this transaction amounted to P53.6 million in 2013 and P59.3 million in 2012 and are presented as Service fees and included as part of Cost of Services in the 2013 and 2012 consolidated statements of income (see Note 18.2).

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

(b) Management Agreement

For continuity of services to subscribers, SBC and SCC agreed that the management and administration of the Assets be entrusted to SCC pending the approval of the NTC of the assignment of the Assets.

SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

In 2013, NTC approved the assignment of assets and accordingly, the Management Agreement is deemed automatically terminated.

(c) Option Agreement

On the same date, SGI entered into an Option Agreement (the Option) with SCC to purchase SGI's shares of stocks which option must be exercised not later than December 31, 2013. As of December 31, 2013, SCC has not exercised the option (see Note 28.8).

(d) Gain on Sale of Assets

SBC sold the Assets to SCC for a gross amount totaling to P1.1 billion. The book value of the assets sold amounted to P827.2 million resulting in the recognition of gain on sale of assets amounting to P267.1 million, which is presented as Gain on Sale of Assets in the 2012 consolidated statement of income (see Notes 6, 10 and 12).

28. COMMITMENTS AND CONTINGENCIES

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

28.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease various properties under various non-cancellable lease agreements with terms ranging from one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are as follows:

	2013	2012
Within one year	**P 96,895,544**	P 114,423,915
After one year but not more than five years	**93,594,153**	198,445,354
More than five years	**2,605,134**	3,261,256
	P 193,094,831	P 316,130,525

Rental income earned from these transactions amounted to P151.9 million, P136.7 million and P157.7 million in 2013, 2012 and 2011, respectively. These amounts are presented as Rentals under Revenues in the consolidated statements of income.

28.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2013	2012
Within one year	**P 10,227,331**	P 12,490,671
After one year but not more than five years	**46,536,524**	47,388,054
More than five years	**-**	15,858,583
	P 56,763,855	P 75,737,308

Rental expense charged to operations from these operating leases amounted to P7.4 million each in 2013, 2012 and 2011, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 18.2 and 20).

Rental deposits received amounted to P17.8 million and P21.6 million in 2013 and 2012, respectively. These amounts are presented as Other Current Assets and Other Non-current Assets in the consolidated statement of financial position.

28.3 Legal Claims

SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:

(i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million is subject to expropriation coverage under the Agrarian Reform Act; and,

(ii) a piece of land, with a carrying value of P309.0 million is the subject of claims by third parties who filed court cases against SMC.

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

28.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2013, 2012 and 2011, for the fulfillment of projects in the development and marketing of CPIP (see Note 11).

28.5 Purchase Commitments

In 2007, ZTC entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 11). The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2013.

28.6 Possible Impact of Government Project

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

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

28.7 Properties Under Development

Fil-Dragon has commitment for about P123.9 million (RMB16.9 million) and P34.0 million (RMB5.2 million) as of December 31, 2013 and 2012, respectively, for the construction of the Golden Hill Project (see Note 11).

28.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2013, SCC has not exercised this option [see Note 27.3(c)]; hence, the Parent Company still holds the ownership interests in SBC.

28.9 Others

As of December 31, 2013, the Group has unused credit facilities amounting to P712.1 million.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. Management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note 30.1. The main types of risks are market risk, credit risk and liquidity risk.

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

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

29.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

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

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

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

	2013		2012	
	U.S. Dollar	**Chinese Yuan Renminbi**	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	**P 350,871,152**	**P 79,075,855**	P 342,359,128	P 48,982,187
Financial liabilities	**(614,218,228)**	**(768,165,522)**	(512,512,383)	(525,912,848)
	(P263,347,076)	**(P689,089,667)**	P 170,153,255	P 476,930,661

The following table illustrates the sensitivity of the Group's profit before tax with respect to changes in Philippine pesos against foreign currencies exchange rates. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

	2013		2012		2011	
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	Reasonably Possible Change in Rate	Effect in Profit Before Tax	Reasonably Reasonably Dollar	Effect in Effect in Renminbi
Php – USD	**23.40%**	**(P 61,623,216)**	13.83%	(P 23,532,195)	16.13%	P 6,939,858
Php – RMB	**23.67%**	**(163,107,524)**	11.52%	(54,942,412)	13.18%	(43,337,150)
		(P 224,730,740)		(P 78,474,607)		(P 36,397,292)

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

(b) Interest Rate Risk

At December 31, 2013, 2012 and 2011, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 6).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-2.14% in 2013, +/-1.54% in 2012 and +/-1.17% in 2011. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 2.14%, 1.54% and 1.17% profit before tax in 2013, 2012 and 2011 would have increased by P49.8 million, P46.5 million and P20.1 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

(c) Other Price Risk

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets classified as financial assets at FVTPL and AFS financial assets). The Group manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

29.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks and investing in UITF.

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

	Notes	**2013**	2012
Cash and cash equivalents	6	**P 2,327,335,632**	P 3,019,984,213
Financial assets at FVTPL	7	**294,286,160**	-
Trade and other receivables (excluding advances to suppliers) – net	8	**1,612,527,947**	1,061,954,170
Advances to related parties	26	**24,735,439**	21,633,388
Refundable deposits – net	14	**18,066,103**	21,754,661
		P 4,276,951,281	P 4,125,326,432

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 and FVTPL

The credit risk for cash and cash equivalents and financial assets at FVTPL in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) Trade and Other Receivables

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

(c) Advances to Related Parties

The Group is not exposed to any significant credit risk exposure in respect of advances to related parties. These advances are generally receivable in cash upon demand.

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

	2013	2012
Not more than 3 months	**P 22,552,688**	P 160,693,790
More than 3 months but not more than one year	**14,646,174**	77,870,120
More than one year	**-**	131,075
	P 37,198,862	P 238,694,985

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade receivables that are not past due or impaired to be good.

29.3 Liquidity Risk

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

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

As of December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 688,448,933	P -
Trade and other payables	661,703,614	-
Advances from related parties	-	81,323,563
	P 1,350,152,547	**P 81,323,563**

This compares to the maturity of the Group's financial liabilities as of December 31, 2012 as follows:

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 574,215,169	P -
Trade and other payables	563,429,613	-
Advances from related parties	-	11,629,819
	P1,137,644,782	P 11,629,819

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

30. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

30.1 Carrying Amounts and Fair Values by Category

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

	Notes	**2013**		2012	
		Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	6	**P2,327,335,632**	**P2,327,335,632**	P 3,019,984,213	P 3,019,984,213
Trade and other receivables – net	8	**1,612,527,947**	**1,612,527,947**	1,851,060,762	1,851,060,762
Advances to related parties	26	**24,735,439**	**24,735,439**	21,633,388	21,633,388
Refundable deposits	17	**18,066,103**	**18,066,103**	21,754,661	21,754,661
		3,982,665,121	**3,982,665,121**	4,914,433,024	4,914,433,024
Financial assets at FVTPL	7	**294,286,160**	**294,286,160**	-	-
AFS financial assets	9				
Golf club shares – net		**6,602,400**	**6,602,400**	8,442,400	8,442,400
Others		**634,127**	**634,127**	634,127	634,127
		7,236,527	**7,236,527**	9,076,527	9,076,527
		P 4,284,187,808	**P 4,284,187,808**	P 4,923,509,551	P 4,923,509,551
Financial liabilities					
At amortized cost:					
Interest-bearing loans – net	15	**P 684,002,914**	**P 684,002,914**	P 571,666,922	P 571,666,922
Trade and other payables	16	**661,703,614**	**661,703,614**	563,429,613	563,429,613
Advances from related parties	26	**81,323,563**	**81,323,563**	11,629,819	11,629,819
Refundable deposits – net	17	**33,744,841**	**35,645,761**	32,226,991	34,138,070
		P 1,460,774,932	**P 1,462,675,852**	P 1,178,953,345	P 1,180,864,424

For the Group's financial assets and liabilities as of December 31, 2013, 2012 and 2011, management considers that the carrying amounts of these financial instruments approximate their fair values.

See Notes 2.5 and 2.11 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 31.

30.2 Offsetting of Financial Instruments

The Group has not set-off financial instruments in 2013 and 2012 and does not have relevant offsetting arrangements. Currently, financial assets and liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BODs and stockholders or upon instruction by the parent company.

The Group's outstanding cash advances obtained from other related parties amounting to P81.3 million and P11.6 million as of December 31, 2013 and 2012, respectively, and presented as part of Advances to Related Parties account in the consolidated statements of financial position, can be offset by the amount of outstanding cash advances granted to other related parties amounting to P24.7 million and P21.6 million as of December 31, 2013 and 2012, respectively. Further, outstanding liability from purchase of mobile phones amounting to P177.5 million and P121.1 million as of December 31, 2013 and 2012, respectively, and presented as part of Trade and Other Payables in the consolidated statements of financial position, can be offset by the amount of outstanding advances to suppliers amounting to P218.0 million and P210.8 million as of December 31, 2013 and 2012, respectively, and presented as part of Trade and Other Receivables in the consolidated statements of financial position.

31. FAIR VALUE MEASUREMENTS AND DISCLOSURES

31.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

31.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2013 and 2012.

	Notes	Fair Value Hierarchy As At December 31, 2013			
		Level 1	Level 2	Level 3	Total
Financial assets at FVTPL	7	P -	P 294,286,610	P -	P 294,286,610
AFS financial assets	9	-	6,602,400	634,127	7,236,527
		P -	**P 300,889,010**	**P 634,127**	**P 301,523,137**

The Group has no financial liabilities measured at fair value as of December 31, 2013 and 2012.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

31.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

	Notes	Fair Value Hierarchy As At December 31, 2013			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash		P 2,327,335,632	P -	P -	P 2,327,335,632
Trade and other receivables	8			1,612,527,947	1,612,527,947
Advances to related parties	26		-	24,735,439	24,735,439
Security deposits	14	-	-	18,066,103	18,066,103
		P2,327,335,632	**P -**	**P1,655,329,489**	**P 3,982,665,121**
Financial Liabilities					
At amortized cost:					
Interest-bearing loans – net	15	P -	P -	P 684,002,914	P 684,002,914
Trade and other payables	16	-	-	661,703,614	661,703,614
Advances from related parties	26			81,323,563	81,323,563
Refundable deposits - net	17	-	-	33,744,841	33,744,841
		P -	**P -**	**P 1,460,774,932**	**P 1,477,012,416**

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

31.4 Fair Value Measurements of Non-financial Assets

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31, 2013.

	Note	Fair Value Hierarchy As At December 31, 2013			
		Level 1	Level 2	Level 3	Total
Land	13	P -	P 2,982,289,350	P -	P2,982,289,350
Building and building improvements	13	-	-	666,521,666	666,521,666
		P -	**P2,982,289,350**	**P 666,521,666**	**P3,648,811,016**

The fair value of the Group's land and building and building improvements classified under Investment Property (see Note 13) are determined on the basis of the appraisals performed by Asian Appraisal, Inc., an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

(b) *Fair Value Measurement for Building and Building Improvements*

The Level 3 fair value of the buildings and improvements under Investment Property account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

32. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	2013	2012
Total liabilities (excluding advances from related parties)	**P 3,771,271,051**	P 3,167,793,304
Total equity	**9,751,434,747**	9,668,439,510
Debt-to-equity ratio	**0.39:1**	0.33:1

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

COVER SHEET

			8	4	5				

S.E.C. Registration Number

SOLID GROUP INC.

AND

SUBSIDIARIES

(Company's Full Name)

2285 SOLID HOUSE BLDG. DON

CHINO ROCES.AVE.EXT.MAKATI CIT

(Business Address: No. of Street City/ Town/ Province)

MELLINA T. CORPUZ	843-1511
Contact person	Company Telephone Number

Quarterly Report

0 3	3 1	SEC FORM 17-Q	0 6	2 6
Month	Day	FORM TYPE	Month	Day
Fiscal Year			Annual Meeting	

Not Applicable

Secondary License Type, if applicable

	Articles I, II, VI & VII
Dept. requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

4,407	0	
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remark : Pls. Use black ink for scanning purposes

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, 2014

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 par 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 (3) months period ended March 31, 2014 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 2014 and 2013 are as follows:

	2014	2013
Revenue growth(decline)	23%	(37%)
Asset turnover	25%	21%
Operating expense ratio	23%	24%
EBITDA	(P37 million)	P46 million
EPS	(P0.03)	P0.01
Current ratio	2.51:1	2.60 : 1
Debt to equity ratio	0.40:1	0.39 : 1

Revenue growth (decline) 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, 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 increased by 23% for the first quarter of 2014 vs. 37% decline for the same period in 2013 principally due to higher revenues of the distribution segment on digital product sales and rental revenues.

Asset turnover stood higher at 25% for the first quarter of 2014 from 21% for the same period in 2013 as a result of higher revenues for the period.

Operating expense ratio was 23% and 24% for the first quarter of 2014 and 2013, respectively principally due to higher revenues for the period. Despite significant improvement in revenues, operating expense ratio stood almost the same because operating expenses increased by 19%.

EBITDA amounted to P37 million loss for the first quarter of 2014 against P46 million earnings for the same period in 2013. The decrease was mainly due to net loss of the distribution segment.

Earnings per share amounted to P0.03 loss in 2014 versus P0.01 earnings in 2013 mainly from net loss for the period.

Current ratio stood at 2.51:1 as of March 31, 2014 and 2.60: 1 as of December 31, 2013 mainly due to higher current liabilities.

Debt to equity ratio stood at 0.0.40: 1 as of March 31, 2014 from 0.39: 1 as of December 31, 2013 primarily due to higher liabilities.

Results of Operations

Revenues increased by 23% in the first quarter of 2014 reaching P835 million from P681 million for the same period in 2013 principally from higher revenues of the distribution segment from digital product sales and rentals.

Sale of goods amounted to P672 million for the first quarter of 2014, higher by 29% from P521 million for the same period in 2013 mainly due higher volume of sales of the digital products.

Service revenue went up to P102 million for the first quarter of 2014, increasing by 4% for the same period in 2013 of P97 million. There was no material variance for this account.

Rental income amounted to P41million for the first quarter of 2014 from P37 million for the same period in 2013 due to higher occupancy.

Sale of real estate amounted to P8 million for the first quarter of 2014, down by38% from P14 million for the same period in 2013. This was principally due to lower condominium sales.

Interest income amounted to P6 million for the first quarter of 2014, lower by 36% from P10 million for the same period in 2013 mainly from lower yield on placements as compared with previous year and transfer of cash placements to Unit Investments in Trust Funds (UITF) classified under Financial Assets at Fair Value Through Profit and Loss (FAFVTPL).

Fair value gains on FAFVTPL amounted to P1.9 million for the first quarter of 2014 versus nil in 2013 due to transfer of certain placements to UITF as discussed above.

Gain on redemption of financial assets amounted to P500 thousand in 2014 versus nil in 2013 due to transfer of certain placements to UITF as discussed above.

Cost of sales, services, real estate sold and rentals amounted to P709 million for the first quarter of 2014, or an increase of 40% from P504 million for the same period in 2013 as discussed below.

Cost of sales amounted to P 607 million for the first quarter of 2014, higher by 47%, from P412 million for the same period of last year in relation to increase in sales.

Cost of services amounted to P78 million for the first quarter of 2014 from P65 million for the same period of 2013, up by 20% mainly in relation to higher service revenue for the period.

Cost of rentals amounted to P15 million for the first quarter of 2014 from P16 million for the same period in 2013, lower by 4%. There was no material variance for this account.

Cost of real estate sold amounted to P6 million for the first quarter of 2014, down by 34% from P9 million for the same period of 2013. The decrease was mainly in relation to lower sale of real estate.

Gross profit amounted to P125 million for the first quarter of 2014 from P176 million for the same period in 2013. The decrease was principally due to higher cost of sales and services. Gross margin of the distribution segment declined to 9% from 21% due to market competition.

Other operating expenses (income) amounted to P183 million for the first quarter of 2014 against P155 million for the same period in 2013 as explained below.

General and administrative expenses amounted to P91 million for the first quarter of 2014 from P76 million for the same period of 2013. Expenses went up due to higher warranty charges, repair and maintenance and depreciation of the distribution segment.

Selling and distribution costs amounted to P101 million for the first quarter of 2014, up by 19% from P85 million for the same period of 2013 mainly from higher warranty charges, commission, manpower and outside services and rental expenses of the distribution segment.

Other operating income amounted to P10 million for the first quarter of 2014, up by 62% from P6 million for the same period in 2013 principally due to other income from warranty compensation.

Operating loss amounted to P57 million for the first quarter of 2014 from P20 million operating profit for the same period in 2013, declining by 373% mainly from losses of the distribution and real estate segments.

Other income (charges) amounted to P3 million loss for the first quarter of 2014 against P9 million gain for the same period in 2013 mainly from the following:

Finance income was lower at P 16 million for the first quarter of 2014 compared with P20 million for the same period of last year mainly due to lower yield on placements.

Finance costs increased to P20 million for the first quarter of 2014 compared with P11 million in 2013 primarily due to higher foreign currency losses and higher interest cost for our Golden Hill project.

Loss before tax was P60 million for the first quarter of 2014, decreasing by 302% from P30 million income for the same period in 2013 mainly due to operating loss as explained above.

Tax expense amounted to P4 million for the first quarter of 2014 from P11 million in 2013 due to lower pre-tax income.

Net loss amounted to P64 million for the first quarter of 2014 against P18 million net income for the same period in 2013 due to the factors discussed above.

Net loss attributable to equity holders of the parent amounted to P53.8 million for the first quarter of 2014 against P23.5 million net income in for the same period of 2013 as discussed above.

Net loss attributable to minority interest amounted to P11 million for the first quarter of 2014 compared with P4.9 million loss in 2013 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Financial Position

Cash and cash equivalents amounted to P566 million as of first quarter of 2014 down by 76% from P2,327 million as of December 31, 2013. Cash was mostly used for investing activities mainly for the acquisition of FAFVTPL and additions to property and equipment.

Financial assets at fair value through profit or loss amounted to P2,198 million as of first quarter of 2014, up by 647% from P294 million as of December 31, 2013 from acquisition of unit investments in trust funds.

Trade and other receivables reached P968 million as of first quarter of 2014 against P1,132 million as of December 31, 2013, or a decrease of 15% due to collection of trade 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 P24 as of first quarter of 2014 and as of December 31, 2013. There was no material change for this account.

Merchandise inventories and supplies - net amounted to P857 million as of first quarter of 2014, compared with P844 million as of December 31, 2013. There was no material variance for this account.

Real estate inventories amounted to P2,423 million as of first quarter of 2014 and December 31, 2013. There was no material change for this account.

Other current assets amounted to P 406 million as of first quarter of 2014 compared with P425 million as of December 31, 2013, an increase of 5 % due to lower creditable withholding taxes.

Total current assets reached P 7,445 million as of first quarter of 2014 from P7,472 million as of December 31, 2013 mainly from higher FAFVTPL as discussed above.

Non-current trade and other receivables amounted to P739 million as of first quarter of 2014 from P722 million as of December 31, 2013. There was no material change for this account.

Non-current available-for-sale financial assets stood at P7 million as of first quarter of 2014 and December 31, 2013. There was no material variance for this account.

Property, plant and equipment amounted to P1,658 million as of first quarter of 2014 from P1,560 million as of December 31, 2013, an increase of 6% mainly due to transfer from investment property and additions for the Green Sun Place (formerly Solid House).

Investment property decreased to P3,600 million as of first quarter of 2014 from P3,648 as of December 31, 2013 due to the transfer to Property, plant and equipment.

Retirement benefit assets amounted to P 82 million as of first quarter of 2014 and December 31, 2013.

Deferred tax assets - net amounted to P80 million as of first quarter of 2014 and P77 million as of December 31, 2013 respectively. There was no material change for this account.

Other non-current assets amounted to P18 million as of first quarter of 2014 or a decrease of 45% from P32 million as of December 31, 2013 primarily due to lower input VAT in 2014.

Total non-current assets amounted to P6,186 million as of first quarter of 2014 from P6,131 million as of December 31, 2013 as discussed above.

Total assets reached P13,632 million as of first quarter of 2014 from P13,604 million as of December 31, 2013 as discussed above.

Interest-bearing loans amounted to P682 million as of first quarter of 2014 from P684 million as of December 31, 2013. There was no material change for this account.

Trade and other payables amounted to P671 million as of first quarter of 2014 against P731 million as of December 31, 2013, lower by 8% due to lower trade payables and advances from customers.

Customers' deposits amounted to P1,445 million as of first quarter of 2014 versus P1,306 million as of December 31, 2013. The increase of 11% was mainly due to additional deposits received from the Golden Hill project.

Advances from related parties amounted to P84 million as of First quarter of 2014 , an increase of 3 % from P81 million as of December 31, 2013. There was no material change for this account.

Estimated liability for land and land development costs amounted to P 68 million as of first quarter of 2014 and December 31, 2013.

Income tax payable amounted to P9 million as of first quarter of 2014 from P4 million as of December 31, 2013 mainly because there was no payment yet of income tax payable in 2014.

Total current liabilities stood at P2,962 million as of first quarter of 2014, higher by 3% from P2,875 million as of December 31, 2013 as explained above.

Non-current refundable deposits amounted to P19 million as of first quarter of 2014 from P15 million as of December 31, 2013 from additional customers' deposits.

Retirement benefit obligation amounted to P26 million as of first quarter of 2014 and as of December 31, 2013. This represents the unfunded retirement obligation of certain subsidiaries.

Deferred tax liabilities -net amounted to P935 million as of first quarter of 2014 and P935 million in December 31, 2013. There was no change for this account.

Total non-current liabilities amounted to P981 million as of first quarter of 2014 from P976 million as of December 31, 2013.

Total liabilities amounted to P3,943 million as of first quarter of 2014 from P3,852 million as of December 31, 2013.

Capital stock stood at P2,030 million as of first quarter of 2014 and December 31, 2013.

Additional paid-in capital amounted to P4,641 million as of first quarter of 2014 and December 311, 2013.

Treasury shares amounted to P115 million as of first quarter of 2014 and December 31, 2013.

Revaluation reserves amounted to P14 million loss as of first quarter of 2014 from P16 million loss as of December 31, 2013 due to other comprehensive loss for the period from translation adjustments of foreign operations.

Retained earnings amounted to P2,767 million as of first quarter of 2014 from P2,820 million as of December 31, 2013 as a result of net loss during the period.

Total equity attributable to Equity holders of Parent amounted to P9,309 million as of first quarter of 2014 from P9,361 million as of December 31, 2013 mainly due to lower retained earnings.

Minority interest amounted to P379 million as of first quarter of 2014 and P390 million as of December 31, 2013 primarily due to higher reported losses of the Golden Hill project in Nanning, China.

Total equity amounted to P9,688 million as of first quarter of 2014 from P9,751 million as of December 31, 2013.

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

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

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

As discussed in Notes of the financial statements under Contingencies, certain subsidiaries of the Company are involved in litigation or proceedings, the outcome of which could individually or taken as a whole, not adversely affect the financial results, operations or prospects of the

Company. Except of these contingencies, the Company is not aware of other events that will materially trigger direct or contingent financial obligation.

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

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

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

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

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

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

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

None.

vii. Causes for any Material Changes from Period to Period

None.

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 were 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.

DAVID S. LIM

President & Chief Executive Officer

VINCENT S. LIM

SVP & Chief Financial Officer

May 20, 2014

Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

March 31, 2014 and December 31, 2013

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
MARCH 31, 2014 AND DECEMBER 30, 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	**P 566,360,794**	P 2,327,335,632
Financial Assets at Fair Value Through Profit or Loss	6	**2,198,171,914**	294,286,160
Trade and other receivables - net	7	**968,418,840**	1,132,677,373
Advances to related parties	25	**24,854,257**	24,735,439
Available-for-sale financial assets - net	8	-	-
Merchandise inventories and supplies - net	9	**857,282,380**	844,245,080
Real estate inventories - net	10	**2,423,906,330**	2,423,235,917
Other current assets	13	**406,388,098**	425,932,898
Total Current Assets		**7,445,382,613**	7,472,448,499
NON-CURRENT ASSETS			
Trade and other receivables	7	**739,222,882**	722,200,488
Available-for-sale financial assets - net	8	**7,473,532**	7,236,527
Property, plant and equipment - net	11	**1,658,731,338**	1,560,681,049
Investment property - net	12	**3,600,452,279**	3,648,811,016
Retirement benefit asset	21	**82,223,774**	82,223,774
Deferred tax assets - net	22	**80,836,887**	77,579,849
Other non-current assets - net	13	**18,024,416**	32,848,159
Total Non-current Assets		**6,186,965,108**	6,131,580,862
TOTAL ASSETS		**P 13,632,347,721**	P 13,604,029,361

	Notes	2014	2013
LIABILITIES AND EQUITY			
CURRENT LIABILITIES			
Interest-bearing loans	14	**P 682,956,486**	P 684,002,914
Trade and other payables	15	**671,761,519**	731,274,757
Customers' deposits	10	**1,445,517,210**	1,306,036,566
Advances from related parties	25	**84,044,090**	81,323,563
Estimated liability for land and land development costs	10	**68,304,647**	68,304,647
Income tax payable		**9,516,338**	4,695,146
Total Current Liabilities		**2,962,100,290**	2,875,637,593
NON-CURRENT LIABILITIES			
Refundable deposits - net	16	**19,982,940**	15,127,106
Retirement benefit obligation	21	**26,520,678**	26,520,678
Deferred tax liabilities - net	22	**935,309,237**	935,309,237
Total Non-current Liabilities		**981,812,855**	976,957,021
Total Liabilities		**3,943,913,145**	3,852,594,614
EQUITY			
Equity attributable to the Parent Company's stockholders			
Capital stock	23	**2,030,975,000**	2,030,975,000
Additional paid-in capital		**4,641,701,922**	4,641,701,922
Treasury shares - at cost	23	**(115,614,380)**	(115,614,380)
Revaluation reserves	23	**(14,896,552)**	(16,786,209)
Retained earnings	23	**2,767,116,277**	2,820,926,308
Total equity attributable to the Parent Company's stockholders		**9,309,282,267**	9,361,202,641
Non-controlling interests		**379,152,309**	390,232,106
Total Equity		**9,688,434,576**	9,751,434,747
TOTAL LIABILITIES AND EQUITY		**P 13,632,347,721**	P 13,604,029,361

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
REVENUES			
Sale of goods	2	P 672,831,576	P 521,032,633
Rendering of services	25, 26	102,285,916	97,981,665
Sale of real estate	2	8,796,350	14,250,727
Rentals	12, 27	41,796,631	37,760,486
Interests	20, 25	6,746,573	10,582,941
Fair value gains on FAFVTPL	7	1,966,646	
Gain on redemption of financial assets	7	578,386	-
		835,002,078	681,608,452
COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS			
Cost of sales	17, 19	607,900,515	412,868,800
Cost of services	17, 19	78,970,283	65,808,415
Cost of real estate sold	19	6,476,690	9,776,737
Cost of rentals	17, 19	15,750,480	16,343,220
		709,097,968	504,797,172
GROSS PROFIT		125,904,110	176,811,280
OTHER OPERATING EXPENSES (INCOME)			
General and administrative expenses	19	91,869,457	76,527,548
Selling and distribution costs	19	101,792,230	85,856,872
Other operating income - net	18	(10,519,139)	(6,504,118)
		183,142,548	155,880,302
OPERATING PROFIT		(57,238,438)	20,930,978
OTHER INCOME (CHARGES)			
Finance costs	20	(20,056,022)	(11,236,487)
Finance income	20	16,497,693	20,450,263
		(3,558,329)	9,213,776
PROFIT BEFORE TAX		(60,796,767)	30,144,754
TAX EXPENSE	22	4,093,061	11,500,112
PROFIT (LOSS) FOR THE PERIOD		(64,889,828)	P 18,644,642
Profit for the year attributable to the:			
Parent Company's stockholders		(P 53,810,031)	P 23,596,460
Non-controlling interests		(11,079,797)	(4,951,818)
		(P 64,889,828)	P 18,644,642
Earnings per share attributable to the Parent Company's stockholders - basic and diluted	24	(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, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
NET PROFIT FOR THE PERIOD		**(P 64,889,828)**	P 18,644,642
OTHER COMPREHENSIVE INCOME (LOSS)			
Reclassification adjustments for losses recognized in profit or loss		-	
Fair value gains (losses) on available-for-sale financial assets, net of taxes		-	
Currency exchange differences on translating balances of foreign operations		**1,889,657**	(1,824,637)
		-	-
		1,889,657	(1,824,637)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD		**(P 63,000,171)**	P 16,820,005
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**(P 51,920,374)**	P 21,771,823
Non-controlling interests		**(11,079,797)**	(4,951,818)
		(P 63,000,171)	P 16,820,005

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Note	2014	2013
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	23		
Balance at beginning of year		**(16,786,209)**	(46,319,482)
Other comprehensive income (loss) for the year		**1,889,657**	(1,824,637)
Balance at end of year		**(14,896,552)**	(48,144,119)
RETAINED EARNINGS (DEFICIT)			
Balance at beginning of year			
As previously reported		**2,820,926,308**	2,758,300,997
Prior period adjustments, net of tax		-	-
As restated		**2,820,926,308**	2,758,300,997
Profit (loss) for the year attributable to the Parent Company's stockholders		**(53,810,031)**	23,596,460
Cash dividends		**-**	-
Balance at end of year		**2,767,116,277**	2,781,897,457
Total Equity Attributable to the Parent Company's stockholders		**9,309,282,267**	9,290,815,880
NON-CONTROLLING INTERESTS			
Balance at beginning of year		**390,232,106**	402,745,823
Additional non-controlling interests on acquired subsidiary		-	
Profit for the year attributable to non-controlling interests		**(11,079,797)**	(4,951,818)
Balance at end of year		**379,152,309**	397,794,005
TOTAL EQUITY		**P 9,688,434,576**	P 9,688,609,885
Total comprehensive income (loss) for the year attributable to:			
Parent Company's stockholders		**(P 51,920,374)**	P 21,771,823
Non-controlling interests		**(11,079,797)**	(4,951,818)
		(P 63,000,171)	P 16,820,005

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTHS ENDED MARCH 31, 2014 AND 2013
(Amounts in Philippine Pesos)

	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		(60,796,767)	30,144,754
Adjustments for:			
Interest income		(6,746,573)	(27,824,218)
Depreciation and amortization		10,067,304	7,732,860
Losses (gain) on sale of financial assets		(578,386)	-
Impairment losses on financial assets		-	794
Impairment losses on trade and other receivables			-
Interest expense		13,994,522	7,757,202
Fair value gains on financial assets at fair value through profit or loss		(1,966,646)	-
Loss (reversal) on inventory obsolescence		-	-
Unrealized foreign currency losses (gains) - net		5,589,467	(1,975,348)
Operating profit before working capital changes		(40,437,079)	15,836,044
Decrease (increase) in trade and other receivables		145,566,759	292,626,913
Decrease (increase) in available-for-sale financial assets		(237,005)	522,584
Decrease (increase) in held-to-maturity investments			
Decrease (increase) in merchandise inventories and supplies		(13,037,300)	(563,752,502)
Decrease (increase) in real estate inventories		1,219,244	(15,241,123)
Decrease (increase) in advances to related parties		(118,818)	14,042
Decrease (increase) in other current assets		19,544,800	(66,315,068)
Decrease (increase) in retirement benefit asset		-	-
Increase in deferred tax assets		(3,257,038)	
Decrease (increase) in other non-current assets		14,823,743	2,453,039
Increase (decrease) in trade and other payables		(59,519,994)	305,073,317
Increase in estimated liability for land and land development costs		-	-
Increase (decrease) in customers' deposits		139,480,644	58,411,677
Increase (decrease) in advances from related parties		2,720,527	3,619,884
Increase (decrease) in refundable deposits		4,855,834	4,102,006
Increase (decrease) in retirement benefit obligation		-	-
Increase in deferred tax liabilities		-	-
Cash generated from (used in) operations		211,604,317	37,350,813
Interest received		6,746,573	27,953,748
Cash paid for income taxes		728,131	(8,469,016)
Net Cash From Operating Activities		219,079,021	56,835,545
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at fair value through profit or loss		(1,901,340,722)	
Decrease (Acquisitions) of property and equipment		(59,758,856)	(42,347,612)
Interest received		1,669,380	-
Decrease (Additions) to investment property		-	4,299,888
Net Cash Used in Investing Activities		(1,959,430,198)	(38,047,724)

	Notes	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from (repayments) of interest-bearing loans - net		**(1,046,428)**	(25,977,297)
Interest paid		**(13,987,766)**	(7,559,232)
Net Cash From (Used in) Financing Activities		**(15,034,194)**	(33,536,529)
Effect of Currency Rate Changes on Cash and Cash Equivalents		**(5,589,467)**	1,975,348
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,760,974,838)**	(12,773,360)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**2,327,335,632**	3,019,984,213
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 566,360,794**	P 3,007,210,853

See Notes to Consolidated Financial Statements.

SOLID GROUP INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
MARCH 31, 2014 AND DECEMBER 31, 2013
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Company Background

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

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

	Percentage of Ownership			
Subsidiaries	**2014**	2013	Notes	Nature of Business
Brilliant Reach Limited (BRL)	**100**	100	(a)	Investment holding company
Kita Corporation (Kita)	**100**	100		Real estate and manufacturing of injected plastics
Solid Broadband Corporation (SBC)	**100**	100		Broadband, cable and satellite services, sale of LCD televisions
Solid Group Technologies Corporation (SGTC)	**100**	100		Trading of prefabricated modular house and office units
Precos, Inc. (Precos)	**100**	100	(c)	Real estate
Solid Electronics Corporation (SE Corp.)	**100**	100		Repair services for audio and video products
Solid Manila Corporation (SMC)	**100**	100	(i)	Real estate
Casa Bocobo Hotel, Inc. (CBHI)	**100**	100	(e)	Hotel operations
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	(g)	Investment holding company
My Solid Technologies & Devices Corporation (My Solid)	**100**	100	(k)	Sale of mobile phones
Omni Solid Services, Inc. (OSSI) [formerly Solid Laguna Corporation (SLC)]	**100**	100	(j)	Logistics and assembly of consumer electronics products
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	(h)	Real estate
Starworld Corporation (Starworld)	**50**	50	(e), (f)	Real estate
Laguna International Industrial Park, Inc. (LIIP)	**50**	50	(b), (d)	Real estate
Solid Corporation (SC)	**-**	-	(i)	Real estate
Mytel Mobility Solutions, Inc. (Mytel)	**-**	-	(k)	Sale of mobile phones
Omni Logistics Corporation (OLC)	**-**	-	(j)	Logistics and assembly of consumer electronics products

Notes:

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

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

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

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

1.2 Status of Mergers

(a) Mergers of Certain Subsidiaries

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

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

1.3 Other Corporate Information

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

BRL	-	2nd Floor, Abbott Building, P.O. Box 933, Road Town, Tortola, British Virgin Islands
Kita	-	N7175 Gil Puyat Ave. cor. Feati St., Clark Freeport Zone, Clarkfield, Pampanga
OSSI	-	Solid Street, LIIP, Mamplasan, Biñan, Laguna
SMC and CBHI	-	1000 J. Bocobo St., Ermita, Manila
SE Corp.	-	1172 E. delos Santos Avenue, Balintawak, Quezon City
Starworld	-	Bo. Prinza, Calamba City
ZTC	-	1111 Natividad A. Lopez Street, Brgy. 659-A, Zone 79 District 5, Ermita, Manila
PNCI	-	139 Joy St. Balingasa, Quezon City
Fil-Dragon	-	16 Zhujin Road, ASEAN Commercial Park, Nanning City, Guangxi Province, PRC
My Solid and SGTC	-	2000 East Service Road Bicutan, Parañaque City
SVC	-	Unit 6 & 7 LA Fuerza 2, 2241 Don Chino Roces Ave. corner Sabio St. Brgy. Bangkal Makati City

1.4 Approval for Issuance of Consolidated Financial Statements

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Consolidated Financial Statements

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

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

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of Amendment PFRS

(a) Effective in 2014 that are Relevant to the Group

In 2014, the Group adopted the following amendments to PFRS that are relevant to the Group and effective for consolidated financial statements for the annual period beginning on or after January 1, 2014:

PAS 19 (Amendment)	:	Employee Benefits: Defined Benefit Plans – Employee Contributions
PAS 32 (Amendment)	:	Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities
PAS 36 (Amendment)	:	Impairment of Asset – Recoverable Amount Disclosures for Non-financial Assets

PAS 39 (Amendment) : Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting

Discussed below are relevant information about these amended standards.

(i) PAS 19 (Amendment), *Employee Benefits*: *Defined Benefit Plans – Employee Contributions*. The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has determined that this amendment did not have a significant impact on the Group's consolidated interim financial statements as the Group has not yet made any contributions during the period.

(ii) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*. The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default; and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and provided characteristics of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group determined that the amendment has no significant impact on its consolidated interim financial statements as the Group is not setting off its financial assets and financial liabilities.

(iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets*. The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. This amendment has no significant impact on the Group's consolidated interim financial statements as the Group does not have any impaired non-financial assets.

(iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting*. The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment has no impact on the consolidated interim financial statements.

(b) *Effective in 2014 that are not Relevant to the Group*

The following amendments and interpretations to PFRS are mandatory for accounting periods beginning on or after January 1, 2014 but are not relevant to the Group's consolidated financial statements:

Amendments to PFRS 10, *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities* and PAS 27, *Separate Financial Statements*	:	Consolidation for Investment Entities
Philippine Interpretation International Financial Reporting Interpretations Committee 21	:	Levies

(c) *Effective Subsequent to 2014 but not Adopted Early*

There are new PFRS and annual improvements to existing standards that are effective for periods subsequent to 2014. 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) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

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

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

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

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

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

Annual Improvements to PFRS (2010-2012 Cycle)

(a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(b) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

(c) PFRS 8 (Amendment), *Operating Segments* (effective July 1, 2014). Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies that the reconciliations of segment assets are only required if segment assets are reported regularly.

(d) PAS 24 (Amendment), *Related Party Disclosures.* The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(e) PFRS 13 (Amendment), *Fair Value Measurement.* The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(a) PFRS 3 (Amendment), *Business Combination*s (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

(b) PFRS 13 (Amendment), *Fair Value Measurement.* The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

(c) PAS 40 (Amendment), *Investment Property.* The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

(b) *Effective in 2013 that are Relevant to the Group*

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

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
Consolidation Standards		

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

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

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

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

- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in the reporting period in other comprehensive income;

- changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

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

	December 31, 2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in assets and liabilities:			
Retirement benefit asset	P 73,164,772	(P 1,603,165)	P 71,561,607
Retirement benefit obligation	(12,582,159)	(3,554,296)	(16,136,455)
Deferred tax assets	63,135,755	1,373,404	64,509,159
Deferred tax liabilities	(920,063,448)	433,687	(919,629,761)
Net decrease in equity		(P 3,350,370)	
Changes in components of equity:			
Revaluation reserves	(P 46,319,482)	(P 17,235,042)	(P 63,554,524)
Retained earnings	2,758,300,997	14,095,941	2,772,396,938
Non-controlling interests	402,745,823	(211,269)	402,534,554
Net decrease in equity		(P 3,350,370)	

	January 1, 2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in assets and liabilities:			
Retirement benefit asset	P 79,281,451	P 5,300,086	P 84,581,537
Retirement benefit obligation	(6,111,141)	(7,210,089)	(13,321,230)
Deferred tax assets	69,982,489	1,790,244	71,772,733
Deferred tax liabilities	(861,145,243)	(997,692)	(862,142,935)
Net decrease in equity		(P 1,117,451)	
Changes in components of equity:			
Revaluation reserves	(P 29,242,370)	(P 19,395,668)	(P 48,638,038)
Retained earnings	1,623,289,267	18,451,882	1,641,741,149
Non-controlling interests	405,372,818	(173,665)	405,199,153
Net decrease in equity		(P 1,117,451)	

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

	2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
Changes in consolidated statements of income:			
General and administrative expenses	P 343,002,874	P 9,140,605	P 352,143,479
Other gains	(57,651,877)	(3,251,093)	(60,902,970)
Tax expense	276,164,794	(1,495,967)	274,668,827
Net decrease in net profit		P 4,393,545	

Change in consolidated statements of

comprehensive income			
Remeasurements of post-employment defined benefit plan – net of tax	P -	P 2,160,626	P 2,160,626

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities*. The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. The amendment had no significant impact on the Group's consolidated financial statements as there were no financial assets and liabilities that are subject to offsetting; however, potential netting arrangements are disclosed in Note 29.

(iv) Consolidation, Joint Arrangements, Associates and Disclosures

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

- PFRS 10 changes the definition of control focusing on three elements which determine whether the investor has control over the investee such as the: (a) power over the investee; (b) exposure or rights to variable returns from involvement with the investee; and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining control when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.

- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.

- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

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

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

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

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

(vi) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's consolidated financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, related notes to the opening consolidated statement of financial position are not required to be presented.

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

(b) PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment*. The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory. This amendment had no impact on the Group's consolidated financial statements since it has been recognizing those servicing equipment in accordance with the recognition criteria under PAS 16.

(c) PAS 32 (Amendment), *Financial Instruments: Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity. This amendment had no effect on the Group's consolidated financial statements as it has been recognizing the effect of distributions to holders of equity investments and transaction costs of an equity transaction in accordance with PAS 12.

(d) PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities* (effective from January 1, 2013). This standard clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of IFRS 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if:
(a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. This amendment had no significant impact on the Group's consolidated financial statements.

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

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

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

(e) Effective Subsequent to 2013 but not Adopted Early

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

(iii) PAS 19 (Amendment), *Employee Benefits: Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's consolidated financial statements.

(iv) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its consolidated financial statements.

(v) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal.
It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' consolidated financial statements the changes arising from this relief on disclosure requirements.

(vi) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. As the Group neither enters into transactions involving derivative instruments nor it applies hedge accounting, the amendment will not have impact on the consolidated financial statements.

(vii) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued in November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income.

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

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

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

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

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

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

Annual Improvements to PFRS (2010-2012 Cycle)

(f) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.

(g) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Requires contingent consideration that is classified as an asset or a liability to be measured at fair value at each reporting date.

(h) PFRS 8 (Amendment), *Operating Segments* (effective July 1, 2014). Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies that the reconciliations of segment assets are only required if segment assets are reported regularly.

(i) AS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.

(j) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

Annual Improvements to PFRS (2011-2013 Cycle)

(d) PFRS 3 (Amendment), *Business Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.

(e) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.

(f) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

2.3 Basis of Consolidation

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

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

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

(a) Investments in Subsidiaries

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

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

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

The excess of the consideration transferred, the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

(b) Transactions with NCI

The Group's transactions with NCI that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in equity. Disposals of equity investments to NCI result in gains and losses for the Group that are also recognized in equity.

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

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Group's Executive Committee; its chief operating decision-maker. The strategic steering committee is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Group's products and service lines as disclosed in Note 4, which represent the main products and services provided by the Group.

Each of these operating segments is managed separately as each of these service lines requires different technologies and other resources as well as marketing approaches.
All inter-segment transfers are carried out at arm's length prices.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements, except that the following are not included in arriving at the operating profit of the operating segments:

- post-employment benefit expenses; and,
- revenue, costs and fair value gains from investment property.

In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to any segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

2.5 Financial Assets

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

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

A more detailed description of the categories currently relevant to the Group is as follows:

(a) Financial Asset at FVTPL

This category includes financial assets that are either classified as held-for-trading or that meets certain conditions and are designated by the entity to be carried at fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments. Assets in this category are classified as current if they are either held for trading or are expected to be realized within 12 months from the end of the reporting period.

Financial assets at FVTPL are measured at fair value, and changes therein are recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term.

(b) Loans and Receivables

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

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

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment loss, if any. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the receivables. The amount of the impairment loss is determined as the difference between the assets' carrying amount and the present value of estimated cash flows (excluding future credit losses that have not been incurred), discounted at the financial assets' original effective interest rate or current effective interest rate determined under the contract if the loan has a variable interest rate.

(c) *AFS Financial Assets*

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets. They are included in non-current assets under the Available-for-sale Financial Assets account in the consolidated statement of financial position unless management intends to dispose of the investment within 12 months from the end of reporting period. The Group's financial assets include country club shares, golf club shares, equity securities and corporate bonds.

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

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

The fair value of AFS financial asset is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS financial assets are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Except for interest income earned by SGI, SMFI, BRL, Starworld and Interstar which is presented as Interest under the Revenues section of the consolidated statement of income, all income and expenses, including impairment losses, relating to financial assets that are recognized in profit or loss are presented in the consolidated statement of income line item Finance Income and Finance Costs, respectively.

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

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

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

2.6 Merchandise Inventories and Supplies

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the moving average method. Merchandise inventories, service parts, supplies, and others include all costs directly attributable to acquisitions, such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities.

Net realizable value of merchandise inventories is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Net realizable value of spare parts, supplies and others is the current replacement cost.

2.7 Real Estate Inventories

Real estate inventories consist of the following:

(a) Land and Land Development Costs

Land and land development costs include the acquisition cost of raw land intended for future development and sale, as well as other costs and expenses incurred to effect the transfer of property title.

(b) Property Development Costs

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

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

2.8 Other Assets

Other assets pertain to other resources controlled by the Group as a result of past events. They are recognized in the consolidated financial statements when it is probable that the future economic benefits will flow to the Group and the asset has a cost or value that can be measured reliably.

Other recognized assets of similar nature, where future economic benefits are expected to flow to the Group beyond one year after the end of the reporting period (or in the normal operating cycle of the business, if longer), are classified as non-current assets.

2.9 Property, Plant and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

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

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

Construction in progress represents properties under construction and is stated at cost. This includes cost of construction, applicable borrowing cost (see Note 2.20) and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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

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

The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.18).

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

2.10 Investment Property

Investment property represents property held either to earn rental income or for capital appreciation or both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under the fair value model. It is revalued annually and is included in the consolidated statement of financial position at its fair value. Fair value is supported by market evidence and is determined by independent appraisers with sufficient experience with respect to both the location and the nature of the investment property (see Note 31).

Investment property, which consists mainly of land and improvements and buildings and improvements under operating lease agreements, is initially measured at acquisition cost, including transaction costs.

Any gain or loss resulting from either a change in the fair value or the sale or retirement of an investment property is immediately recognized in profit or loss as Fair value gains or losses on investment property under Other Operating Income in the consolidated statement of income.

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

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

2.11 Financial Liabilities

Financial liabilities, which include interest-bearing loans, trade and other payables [excluding output value-added tax (VAT) and other tax-related liabilities, advances from customers, reserve for warranty costs and unearned subscription income], advances from related parties and refundable deposits, are recognized when the Group becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as an expense in profit or loss under the caption Finance Costs in the consolidated statement of income.

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

Trade and other payables, advances from related parties and refundable deposits, with maturities beyond one year, are initially recognized at their fair values and subsequently measured at amortized cost, using the effective interest method, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Parent Company's BOD.

Financial liabilities are classified as current liabilities if payment is due to be settled within one year or less after the reporting period (or in the normal operating cycle of the business, if longer), or the Group does not have an unconditional right to defer settlement of the liability for at least 12 months after the end of reporting period. Otherwise, these are presented as non-current liabilities.

Financial liabilities are derecognized from the consolidated statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

2.12 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the consolidated statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

2.13 Business Combination

Business acquisitions are accounted for using the acquisition method of accounting.

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

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.18).

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

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

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

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.14 Provisions and Contingencies

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

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

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

2.15 Revenue and Expense Recognition

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

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

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

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

(c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).

(d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.

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

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

If the transaction does not yet qualify as a sale, the deposit method is applied until all conditions for recording the sale are met. Pending the recognition of sale, payments received from buyers are presented under the Customers' Deposits account in the liabilities section of the consolidated statement of financial position.

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

(f) *Interest income on loans receivables* – Revenue is recognized as the interest accrues using the effective interest method.

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

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

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

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

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

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

Cost and expenses are recognized in the consolidated statement of income upon receipt of the goods or utilization of services or at the date they are incurred. Expenditure for warranties is recognized and charged against the associated provision when the related revenue is recognized. All finance costs are reported in the consolidated statement of income, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.20), on an accrual basis.

2.16 Leases

The Group accounts for its leases as follows:

(a) Group as Lessee

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

(b) Group as Lessor

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term (see Note 2.15).

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

2.17 Foreign Currency Transactions and Translation

(a) Transactions and Balances

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

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

(b) Translation of Financial Statements of Foreign Subsidiaries

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

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

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

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

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

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

2.18 Impairment of Non-financial Assets

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

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.19 Employee Benefits

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

(a) *Defined Benefit Plan*

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

The liability recognized in the consolidated statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Gains account in the consolidated statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

(b) *Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) Compensated Absences

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

2.20 Borrowing Costs

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

2.21 Income Taxes

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. For purposes of measuring deferred tax liabilities and deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted, that is, when the investment property is depreciable and is held within the business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Group has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.22 Related Party Transactions and Relationships

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

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

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

2.23 Equity

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

Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from APIC, net of any related profit tax benefits.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Group's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves comprise the remeasurements of post-employment defined benefit plan, cumulative translation adjustments and unrealized fair value gains (losses) arising from the revaluation of certain AFS financial assets.

Retained earnings represent all current and prior period results of operations as reported in the consolidated statement of income, reduced by the amounts of dividends declared, if any.

2.24 Earnings Per Share

Basic earnings per share (EPS) is computed by dividing net profit attributable to equity holders of the parent company by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividends declared, stock split and reverse stock split declared during the current period.

Diluted EPS is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of potential dilutive shares. Currently, the Group does not have potentially dilutive shares outstanding; hence, the diluted earnings per share is equal to the basic earnings per share.

2.25 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Group's consolidated financial position at the end of the reporting period (adjusting event) is reflected in the consolidated financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Impairment of AFS Financial Assets

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

Based on the recent evaluation of information and circumstances affecting the Group's AFS financial assets, management concluded that certain assets are permanently impaired as of December 31, 2013 and 2012. Future changes in those information and circumstance might significantly affect the carrying amount of the assets.

An analysis of the allowance for impairment recognized on the Group's AFS financial assets is disclosed in Note 8.

(b) Distinguishing Investment Property, Owner-occupied Properties and Real Estate Inventories

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

(c) Distinguishing Operating and Finance Leases

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

(d) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 2.14 and the disclosures on relevant provisions and contingencies are presented in Note 27.

3.2 Key Sources of Estimation Uncertainty

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

(a) Impairment of Trade and Other Receivables and Advances to Related Parties

Adequate amount of allowance for impairment is provided for specific and groups of accounts, where objective evidence of impairment exists. The Group evaluates the amount of allowance for impairment based on available facts and circumstances affecting the collectability of the accounts, including, but not limited to, the length of the Group's relationship with the counterparties, their current credit status, average age of accounts, collection experience and historical loss experience.
The carrying value of trade and other receivables and the analysis of allowance for impairment on such financial assets are shown in Note 7.

(b) Fair Value Measurement of Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.
Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVTPL and AFS financial assets and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 6 and 8, respectively.

(c) Determining Net Realizable Value of Merchandise Inventories and Supplies

In determining the net realizable value of merchandise inventories and supplies, management takes into account the most reliable evidence available at the time the estimates are made. The Group's core business is continuously subject to rapid technology changes which may cause inventory obsolescence. Moreover, future realization of the carrying amounts of inventories is affected by price changes in different market segments of electronic devices, modular houses, broadcast equipment and accessories (see Note 8). Both aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's merchandise inventories and supplies within the next financial year.

(d) Determining Net Realizable Value of Real Estate Inventories

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

Management's assessment of net realizable value of properties under development requires the estimates of future cash flows to be derived from these properties. These estimates require judgment as to the anticipated sale prices by reference to recent sales transactions in nearby locations, rate of new property sales, marketing costs (including price discounts required to stimulate sales) and the expected costs to completion of properties, the legal and regulatory framework and general market conditions.

The carrying amounts of the real estate inventories are disclosed in Note 10.

(e) Costing of Merchandise Inventories and Supplies

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

(f) Estimating Useful Lives of Property, Plant and Equipment

The Group estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical/commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of property, plant and equipment are analyzed in Note 11. Based on management's assessment as at December 31, 2013, and 2012, there is no change in the estimated useful lives of property, plant and equipment during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(g) Fair Value Measurement of Investment Property

The Group's investment property composed of parcels of land and buildings and improvements are carried at fair value at the end of the reporting period. In determining the fair value of these assets, the Group engages the services of professional and independent appraisers applying the relevant valuation methodologies as discussed in Note 30.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in these elements may affect prices and the value of the assets. The amounts of revaluation and fair value gains recognized on investment property are disclosed in Notes 12 and 18.1.

(h) Determining Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The carrying value of deferred tax assets, which management assessed may be fully utilized in the coming years, as of December 31, 2013 and 2012 is disclosed in Note 22.2. Further, certain deferred tax assets were not recognized since management believes that there is no assurance that the related tax benefit could be realized in the coming years.

(i) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.18). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, there were no impairment losses recognized on other non-financial assets in 2013, 2012 and 2011.

(j) Estimating Liability for Land and Land Development Costs

The Group's liability for land and development cost for future development is determined by technical staff based on updated budgets and available information and circumstances, as well as its previous experience. The amount of estimated liability for land and development costs as of December 31, 2013 and 2012 is disclosed in Note 10.

(k) *Estimating Reserve for Warranty Costs*

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

The amounts of provision for warranty claims recognized and the outstanding balance of Reserve for Warranty Costs are disclosed in Note 15.

(l) *Valuation of Post-employment Defined Benefit*

The determination of the Group's obligation and cost of post-employment benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 21.2 and include, among others, discount rates and expected rate of salary increases. In accordance with PFRS, actual results that differ from the assumptions are recognized immediately in the period in which they arise.

The amounts of the present value of the retirement benefit obligation and the analysis of the movements in the present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

4. SEGMENT INFORMATION

4.1 Business Segments

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

(a) Distribution segment is involved in the sale of professional audio and video equipment and peripherals, mobile phones, and prefabricated modular houses;

(b) Real estate segment is involved in the leasing and development and sale of industrial and other real estate properties; and,

(c) Other related services segment is presently engaged in the business of broadband services, after sales services, investing, financing and others.

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

4.2 Segment Assets and Liabilities

Segment assets include all operating assets used by each business segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and provisions. Similar to segment assets, segment liabilities include all operating liabilities used by each segment and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

4.3 Intersegment Transactions

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

4.4 Analysis of Segment Information

The following tables present certain assets and liability information regarding business segments as of March 31, 2014 and December 31, 2013 and the related revenue and profit information for the years then ended (in thousands).

	Distribution	Real Estate	Support Services and Others	Elimination	Total
2014					
SEGMENT RESULTS					
Total revenues	P 674,181	P 53,486	P 121,353	(P 14,018)	P 835,002
Net profit (loss)	(P 59,284)	(P 21,508)	P 15,902	P	(P 64,890)
SEGMENT ASSETS AND LIABILITIES					
Total assets	P 1,907,141	P 8,161,683	P 8,903,606	(P 5,340,082)	P 13,632,348
Total liabilities	P 1,360,123	P 4,688,524	P 581,012	(P 2,685,747)	P 3,943,912
2013					
SEGMENT RESULTS					
Total revenues	P 525,570	P 62,088	P 109,896	(P 15,946)	P 681,608
Net profit (loss)	P 4,708	(P 1,610)	P 15,547	P	P 18,645
SEGMENT ASSETS AND LIABILITIES					
Total assets	P 2,217,610	P 8,882,306	P 10,749,406	(P 8,245,293)	P 13,604,029
Total liabilities	P 1,611,155	P 4,821,008	P 601,697	(P 3,181,265)	P 3,852,

5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	2014	2013
Cash on hand and in banks	**P 394,914,515**	P 424,429,746
Short-term placements	**171,446,279**	1,902,905,886
	P 566,360,794	P 2,327,335,632

Cash in banks generally earn interest based on daily bank deposit rates. Short-term placements are made for varying periods of between 1 to 90 days and earn annual interest ranging from 1.4% to 4.0% in 2013 (see Note 20.1).

6. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

In 2013, the Group acquired unit investments in trust funds (UITF) which have been classified as financial assets at FVTPL upon initial recognition. Total costs of acquisition amounted to P868.2 million.

Financial assets at FVTPL are stated at their fair values which have been determined directly by reference to published prices. Fair value is derived using the net asset value per unit (computed by dividing the net asset value of the fund by the number of outstanding units at the end of the reporting period) published by banks and the Investment Company Association of the Philippines.

The Company recognized gain on redemption of financial assets at FVTPL amounting to P578 thousand in 2014 and is presented as part of Revenue and P1.0 million in 2013 and is presented as part of Finance Income under Other Income (Charges) account in the 2013 consolidated statement of income (see Note 20.1).

Gains on fair value changes of financial assets at FVTPL amounted to P1.9 million in 2014 and presented as part of Revenue.

7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	Notes	2014	2013
Current:			
Trade receivables	25.3, 25.6, 26.1	**P 622,758,295**	P 796,315,556
Advances to suppliers	25.6	**242,991,663**	242,349,914
Loans receivables	25.4, 25.7	**44,860,716**	45,655,849
Due from related parties			1,535,862
Interest receivable		**17,573,728**	20,284,738
Other receivables		**76,316,544**	65,228,041
		1,004,500,946	1,171,369,960
Allowance for impairment		**(36,082,106)**	(38,692,587)
		968,418,840	1,132,677,373
Non-current:			
Trade receivables	25.6	**31,070,662**	28,932,349
Loans receivables	25.6, 25.7	**181,551,897**	178,210,751
Cash surrender value of investment in life insurance	13	**526,600,323**	515,057,388
		739,222,882	722,200,488
		P 1,707,641,722	P 1,854,877,861

Trade receivables include amounts due from the Group's real estate buyers arising from the sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Group fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment (see Note 20.1).

Interest income recognized in 2014 and 2013 amounting to P6.7 million and P10.5 million respectively, are presented as part of Interest under the Revenue section of the consolidated statements of income. Interest rates on loans receivables range from 7.5% to 30.0% in 2013.

Advances to suppliers mainly pertain to the advance payments received by Solid Trading Limited (STL) for My Solid's future purchase of inventories (see Note 25.6), various contractors for the construction of ZTC's Tri Towers (see Note 10) and various suppliers for CBHI's acquisition of supplies.

Cash surrender value of investment in life insurance pertains to insurance policies purchased by BRL for certain directors of the Parent Company. The investment in life insurance is accounted for under the cash surrender value method. Under this method, the initial cash surrender value of the insurance policies is recognized immediately in the consolidated statements of income (see Note 18.1). The difference between the initial cash surrender value and the premiums paid amounting to P1.2 million in 2012 (nil in 2013) represents insurance service fees which are recorded as Prepaid insurance under the Other Non-current Assets account and is amortized over a period of ten years (see Note 13). As of December 31, 2013, Prepaid insurance account was fully amortized.

The cash surrender value of the investment in life insurance is used as collateral for interest-bearing loans obtained by BRL (see Note 14).

Other receivables consist primarily of unsecured, noninterest-bearing cash advances made to the ZTC's Unit Owners' Association for expenses incurred by the Unit Owners, interest receivable, rental receivable and income tax recoverable.

All of the Group's trade and other receivables have been reviewed for indications of impairment. Certain trade and other receivables, which are mostly due from small business customers, were found to be impaired; hence, adequate amount of allowance for impairment has been recognized.

Certain loans receivables are secured by real estate properties and shares of stock of the borrowing companies which are owned by a related party (see Note 25.4).

8. AVAILABLE-FOR-SALE FINANCIAL ASSETS

This account comprises the following AFS financial assets:

	2014	2013
Current:		
Investments in foreign currency-denominated bonds	**P 13,677,940**	P 52,237,573
Allowance for impairment	**(13,677,940)**	(52,237,573)
	-	-
Non-current:		
Club shares	**20,072,400**	9,252,400
Equity securities	**8,580,000**	8,580,000
Others	**871,132**	634,127
	29,523,532	18,466,527
Allowance for impairment	**(22,050,000)**	(11,230,000)
	7,473,532	7,236,527
	P 7,473,532	P 7,236,527

Investment in equity securities pertains to the Parent Company's 33% ownership interest in the common stock of Sony Philippines, Inc. (SPI). The Joint Venture Agreement (JVA) executed in 1997 with Sony Corporation of Japan covering the Company's investment in SPI expired on May 8, 2005. On April 11, 2005, the Parent Company received a formal notice of the expiry of the JVA. The Parent Company and Sony Corporation have both agreed to pursue negotiations for an equitable settlement of all matters relating to the JVA and its expiration. As a result of the above events, the Parent Company determined that it no longer has significant influence over the investee company. Consequently, it reclassified its remaining investment in shares of stock of SPI with total cost of P8.6 million to AFS financial assets in 2005.

The Parent Company's management has determined that there is an objective evidence that the decline in the fair values of SPI shares and of some of its club shares is permanent. Accordingly, the Parent Company recognized impairment losses on the SPI shares and such club shares in prior years. The Parent Company's investment in SPI is fully provided with allowance for impairment losses as of December 31, 2013 and 2012.

Impairment losses recognized on the Group's AFS financial assets are presented as part of Finance Costs in the 2013 consolidated statement of income (see Note 20.2).

The fair values of the Group's investments in club shares, which represent proprietary membership club shares, as of December 31, 2013 and 2012 have been determined directly by reference to published prices in active markets (see Note 30).

9. MERCHANDISE INVENTORIES AND SUPPLIES

The details of this account are shown below (see Notes 17.1 and 25.2).

	2014	2013
Merchandise and finished goods	**P 880,757,215**	P 846,213,717
Raw materials	**362,856**	362,856
Service parts, supplies and others	**40,478,963**	61,985,161
	921,599,034	908,561,734
Allowance for inventory obsolescence	**(64,316,654)**	(64,316,654)
Balance at end of year	**P 857,282,380**	P 844,245,080

The Group has no outstanding purchase commitment for the acquisition of merchandise inventories and supplies as of December 31, 2013.

10. REAL ESTATE INVENTORIES

This account is composed of:

	Note	2014	2013
Land and land development costs:			
Land		**P 9,725,593**	P 9,725,593
Land development costs		**450,896,000**	457,288,818
		460,621,593	467,014,411
Allowance for impairment		**(2,022,800)**	(2,022,800)
		458,598,793	464,991,611
Property development costs – Construction in progress and development costs	12	**1,965,307,537**	1,958,244,306
		P2,423,906,330	P 2,423,235,917

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

Borrowing costs incurred from loans availed of by Fil-Dragon were capitalized as part of Property development costs. Borrowing cost incurred in 2013 relating to these loans amounted to RMB6.8 million (P46.9 million) and is capitalized as part of Real Estate Inventories (see Notes 14 and 25.8).

The allowance for impairment recognized in prior years pertains to the estimated cost of parcels of land and land development costs which may not be fully realized as a result of the Group's long-outstanding claims against the seller for the transfer of title to the name of LIIP. There were no additional impairment losses recognized in 2013.

Under its registration with the Board of Investments, Starworld shall develop 118 hectares of land in its development project located in Calamba Premiere International Park (CPIP) in Bo. Prinza, Calamba City, Laguna. As of December 31, 2013 lot areas totalling 83 hectares (65 hectares for Phase 1 and 18 hectares for Phase 2) were acquired and fully developed.

The Group, through ZTC, has initiated the planning and construction of the Tri Towers condominium building. The construction was started by SMC in 2005.
The accumulated construction costs (including cost of the land) were eventually transferred to ZTC. The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2013.

In addition, the balances of Property development costs as of December 31, 2013 include costs incurred in the construction of the Group's Golden Hill Project through Fil-Dragon (see Note 27.7). The Golden Hill Project involves the development of multi-storey residential and commercial condominium units within the ASEAN Commercial Park in Nanning City, Guangxi Province, PRC. In 2010, Fil-Dragon has obtained sales permit for selling the property from the local government of the PRC. Customer deposits received as of March 31, 2014 and December 31, 2013 amounting to P1,353 million (RMB 186.9 million) and P1,228.6 million (RMB168.0 million), respectively, are shown as part of Customers' Deposits in the consolidated statements of financial position.

There were no movements in the Estimated Liability for Land and Land Development Costs account in 2013 which was established for the fulfilment of Starworld's projects in the development and marketing of CPIP (see Note 27.4).

11. PROPERTY, PLANT AND EQUIPMENT

The gross carrying amounts and accumulated depreciation, amortization and impairment losses of property, plant and equipment at the beginning and end of 2014 and 2013 are shown below:

	Land	Buildings and Improvements	Machinery and Equipment	Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
March 31, 2014												
Cost	P 1,277,854,682	P 128,854,710	P 38,217,896	p 113,556,841	P 80,242,753	P -	P 14,848,016	P 30,198,732	P 72,646,888	P 16,948,359	P 232,366,811	P 2,005,735,688
Accumulated depreciation and amortization	-	(25,323,035)	(23,079,178)	(107,247,140)	(63,967,200)	-	(4,590,035)	(27,184,808)	(45,396,000)	(15,216,954)	-	(312,004,350)
Accumulated impairment loss	-	(35,000,000)	-	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	**P 1,277,854,682**	**P 68,531,675**	**P 15,138,718**	**P 6,309,701**	**P 16,275,553**	**P -**	**P 10,257,981**	**P 3,013,924**	**P 27,250,888**	**P 1,731,405**	**P 232,366,811**	**P 1,658,731,338**

December 31, 2013

	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2013												
Cost	P 1,207,854,682	P 155,408,061	P 46,032,938	p 154,774,686	P 109,596,633	P -	P 103,054,255	P 68,158,644	P 80,393,594	P 29,038,254	P 177,773,048	P 2,132,084,795
Accumulated depreciation and amortization	-	(30,678,741)	(30,703,750)	(136,263,157)	(89,006,051)	-	(101,851,777)	(67,254,980)	(56,402,307)	(24,242,983)	-	(536,403,746)
Accumulated impairment loss	-	(35,000,000)	-	-	-	-	-	-	-	-	-	(35,000,000)
Net carrying amount	**P 1,207,854,682**	**P 89,729,320**	**P 15,329,188**	**P 18,511,529**	**P 20,590,582**	**P -**	**P 1,202,478**	**P 903,664**	**P 23,991,287**	**P 4,795,271**	**P 177,773,048**	**P 1,560,681,049**

A reconciliation of the carrying amounts at the beginning and end of 2013 and 2012 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, 2013 net of accumulated depreciation, amortization and impairment loss	P 897,854,682	P 13,446,222	P 15,610,502	P 19,167,023	P 20,860,252	P -	P 1,808,173	P 1,309,058	P 16,612,108	P 4,584,366	P 57,155,448	1,048,407,834
Additions		105,374	3,544,022	9,137,092	6,869,007		524,996	429,505	12,039,258	2,410,485	122,717,803	157,777,542
Reclassification (see Note 13)	310,000,000	76,823,884	-	-	-	-	-	-	2,100,203	-	(2,100,203)	386,823,884
Depreciation and amortization charges for the year	-	(646,160)	(3,825,336)	(9,792,586)	(7,138,677)	(-)	(1,130,691)	(834,899)	(6,760,282)	(2,199,580)	-	(32,328,211)
Balance at December 31, 2013 net of accumulated depreciation, amortization and impairment loss	**P 1,207,854,682**	**P 89,729,320**	**P 15,329,188**	**P 18,511,529**	**P 20,590,582**	P **-**	**P 1,202,478**	**P 903,664**	**P 23,991,287**	**P 4,795,271**	**P 177,773,048**	**P 1,560,681,049**

In 2013, the Group transferred certain land and building improvements from Investment Property to Property, Plant, and Equipment as the Company intends to use such properties for the expansion of the Groups' hotel operations. The amount recognized as deemed cost represents the fair value of the properties at the time of transfers (see Note 12).

Construction in progress pertains to the ongoing construction of a hotel of SMC to be named Green Sun Hotel. Further, construction in progress also includes costs incurred for the acquisition of furniture and fixtures and machinery and equipment which are not yet available for use.

No additional impairment losses were recognized in 2014 based on management's assessment. Based on a recent report of independent appraisers as of December 31, 2013 the fair values of the Group's land and building and improvements amounted to P3,161.5 million

The amount of depreciation and amortization computed on property, plant and equipment is presented as part of the following accounts:

	Notes	**2014**	2013
Cost of services	17.2	**P 13,860,376**	P 13,860,376
Cost of rentals	17.3	**2,199,631**	2,199,631
General and administrative expenses		**16,268,204**	16,268,204
Discontinued operations		**-**	-
	19	**P 32,328,211**	P 32,328,211

There were no restrictions on titles and items of property, plant and equipment since there were no items of property, plant and equipment pledged as security as of December 31, 2013 and 2012.

Fully depreciated property, plant and equipment still in use in the Group's operations amounted to P139.0 million as of December 31, 2013..

12. INVESTMENT PROPERTY

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

The fair values of the Group's investment property as of December 31, 2013 was determined based on appraisal reports dated March 20, 2014. Management obtains annual appraisal reports on its investment property from independent appraisers (see Note 30).

The changes in the carrying amounts of investment property as presented in the consolidated statements of financial position can be summarized as follows as of March 31, 2014 and December 31, 2013:

	Land and Improvements	Buildings and Improvements	Total
2014			
Balance at beginning of year	**P 2,982,289,350**	**P 666,521,666**	**P 3,648,811,016**
Fair value gains on investment property – net (see Note 18.1)			
Additions	-		
Disposal	-	( )	( )
Transfers to real estate inventories and property, plant and equipment	(70,000,000)	21,641,263	(48,358,737)
Balance at end of year	**P 2,912,289,350**	**P 688,162,929**	**P 3,600,452,279**

	Land and Improvements	Buildings and Improvements	Total
2013:			
Balance at beginning of year	P 3,288,117,049	P 729,324,057	P 4,017,441,106
Fair value gains on investment property – net (see Note 18.1)	4,172,301	19,612,035	23,784,336
Additions	-	2,083,670	2,083,670
Disposal	-	(2,461,000)	(2,461,000)
Transfers to real estate inventories and property, plant and equipment	(310,000,000)	(82,037,096)	(392,037,096)
Balance at end of year	**P 2,982,289,350**	**P 666,521,666**	**P 3,648,811,016**

Certain real estate properties owned by SMC are the subject of litigations brought up by third parties against the subsidiary (see Notes 13 and 27.3).

In 2013, SMC transferred investment properties with a carrying amount of P386.8 million to Property, Plant and Equipment account, while ZTC transferred investment properties with carrying amount of P5.2 million to Real Estate Inventories account (see Notes 10 and 11).

13. OTHER ASSETS

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

	Notes	2014	2013
Current:			
Creditable withholding taxes		**P 47,338,315**	P 174,610,896
Prepayments		**215,494,709**	112,297,479
Input VAT - net		**110,429,976**	110,967,327
Refundable deposits		**12,223,679**	14,803,019
Advances to suppliers and contractors		**3,368,991**	4,526,215
Restricted cash		**6,115,752**	6,173,337
Others		**11,416,677**	2,554,625
		406,388,098	425,932,898
Non-current:			
Deferred input VAT			13,987,869
Land under litigation	13, 28.3	**4,935,606**	4,935,606
Deposits to suppliers		**3,661,213**	3,661,213
Refundable deposits - net		**3,418,911**	3,263,084
Rental deposits		**2,273,222**	2,979,363
Investment in shares		**1,303,591**	1,375,290
Cash bond		**568,234**	568,234
Others		**1,863,639**	2,077,500
		18,024,416	32,848,159
		P 424,412,514	P 458,781,057

Prepayments include prepaid insurance, rentals and other business taxes.

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates (see Note 20.1).

14. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of March 31, 2014 and December 31, 2013 are broken down as follows:

	2014			2013		
	USD	**RMB**	**Total in PHP**	USD	RMB	Total in PHP
BRL	**$ 5,236,946**	**¥ -**	**P 235,641,608**	$ 5,220,159	¥ -	P 231,848,142
Fil-Dragon	**-**	**61,756,527**	447,314,878	-	61,842,434	452,154,772
	$ 5,236,946	**¥ 61,756,527**	**P 682,956,486**	$ 5,220.159	¥ 61,842,434	P 684,002,914

The Group's short-term interest-bearing loans as of March 31, 2014 and December 31, 2013 amounting to P683.0 million and P684.0 million, respectively, are denominated in U.S. dollar and Chinese yuan RMB, and are currently due within 12 months after the end of reporting period; hence, classified as part of the Group's current liabilities in the consolidated statements of financial position.

Information relating to significant loan transactions of the Group are as follows:

(a) Loans of BRL

The loans of BRL are secured by investment in cash surrender value of investment in life insurance (see Note 7). The loans bear interest at prevailing market rates per annum of 1.3% in 2013. Interest expense arising from these loans amounted to P2.6 million in 2013 respectively, and is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2).

In 2013, BRL extended the terms of various loans it obtained from Bank of Singapore. The loans are extended for one year up to June 30, 2014.

(b) Loans of Fil-Dragon

In 2011, Fil-Dragon obtained loans denominated in Chinese yuan RMB from companies that are owned by Solid Company Limited (SCL), a shareholder owning 19% of the total shares of Fil-Dragon. Outstanding balance of the loan amounted to RMB61.8 million (P452.2 million as of December 31, 2013. The loans bear interest at prevailing market rates per annum ranging from 6.0% to 15.0% in 2013. Borrowing cost incurred in 2013 relating to these loans amounted to RMB6.8 million (P46.9 million) is capitalized as part of Real Estate Inventories (see Notes 10 and 25.8).

The fair value of loans obtained approximates the carrying values since the interest rates are repriced at market rates at the end of the reporting period (see Note 29.1). As of December 31, 2013, the Group is not subjected to any covenants relating to the above loans.

15. TRADE AND OTHER PAYABLES

This account consists of:

	Notes	**2014**	2013
Trade payables	25.2, 25.6	**P 422,489,499**	P 516,484,923
Accrued expenses		**86,452,041**	38,435,027
Advances from customers		**15,982,888**	36,488,366
Accrued dealers' incentives		**39,366,483**	31,347,206
Refundable deposits	16	**14,080,081**	18,617,735
Rentals payable		**17,608,155**	17,656,928
Due to a related party	25.6		17,121,707
Reserve for warranty costs		**3,202,469**	9,290,348
Deferred output VAT		**556,047**	6,197,121
Retention payable		**1,694,672**	1,756,300
Output VAT		**10,452,500**	798,877
Other payables		**59,876,684**	37,080,219
		P 671,761,519	P 731,274,757

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

In 2013, SEC, SVC, OSSI and SBC derecognized certain accrued expenses and other payables. In 2012, SMC derecognized certain accrued expenses and other payables which were acquired by SMC from the merger with SC (see Note 1.2). Management believes that the possibility of cash outflows is remote since the purpose for which the liabilities were recognized no longer exists. The Gain on Derecognition of Liabilities amounting to P15.8 million is presented as Other Gains under Other Income account in the 2013 consolidated statements of income (see Note 18).

The movements in the Reserve for Warranty Costs account are as follows:

	Notes	2013
Balance at beginning of year		**P 14,545,332**
Provisions for warranty claims during the year	19	**34,108,528**
Actual warranty claims during the year		**(38,425,198)**
Reversals during the year	18	**(938,314)**
Balance at end of year		**P 9,290,348**

Accrued expenses include accrued rentals, accrued outside services, accrued salaries and other operating expenses which remained unpaid as at the end of the reporting period. Other payables primarily consist of payroll-related liabilities and due to government agencies for unpaid tax obligations.

16. REFUNDABLE DEPOSITS

SMC and Kita have long-term refundable deposits from various tenants amounting to P15.1 million as at December 31, 2013. The refundable deposits are remeasured at amortized cost using the effective interest ranging from 3.48% to 15.77% at the inception of the lease terms. The interest expense recognized amounting to P0.2 million in 2013 is presented as part of Finance Costs in the consolidated statements of income (see Note 20.2). The non-current refundable deposits is shown as a separate line item under non-current liabilities in the consolidated statements of financial position.

17. COST OF SALES, SERVICES AND RENTALS

17.1 Cost of Sales

The details of this account are shown below.

	Notes	2014	2013
Merchandise and finished goods at beginning of year	9	**P 846,213,717**	P 406,495,008
Net purchases of merchandise during the year	19, 25	**642,444,013**	977,085,872
Cost of goods manufactured:			
Raw materials at beginning of year	9	**362,856**	362,856
Manufacturing overhead		**-**	
Raw materials at end of year	9	**(362,856)**	(362,856)
Work-in-process at end of year		**-**	-
		-	-
Goods available for sale		**1,488,657,730**	1,383,580,880
Merchandise and finished goods at end of year	9	**(880,757,215)**	(970,712,080)
Net provision (reversal of allowance) for inventory obsolescence			(-)
	19	**P 607,900,515**	P 412,868,800

17.2 Cost of Services

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

	Notes	2014	2013
Materials, supplies and other consumables		**P 20,837,707**	P 14,852,124
Service fees	26	**10,330,393**	8,968,808
Salaries and employee benefits	21	**10,673,506**	12,140,842
Subcontracting services			-
Outside services		**18,932,755**	14,855,391
Communication, light and water		**3,346,744**	4,219,493
Depreciation and amortization	11	**3,147,903**	2,494,872
Transponder rental and leased line			-
Repairs and maintenance		**853,511**	410,269
Rentals	27	**12,670**	-
Transportation and travel		**499,925**	571,273
Cable services		**95,393**	153,552
Others		**10,239,776**	7,141,791
	19	**P 78,970,283**	P 65,808,415

17.3 Cost of Rentals

The details of this account are as follows:

	Notes	2014	2013
Taxes and licenses		**P 8,797,633**	P 9,148,919
Outside services		**1,932,276**	1,848,292
Rentals		**1,848,226**	1,838,326
Repairs and maintenance		**1,004,446**	1,401,723
Depreciation and amortization	11	**384,891**	665,880
Salaries and employee benefits	21	**187,291**	190,473
Others		**1,595,717**	1,249,607
	12, 19	**P 15,750,480**	P 16,343,220

Cost of rentals – others primarily consists of supplies and transportation and travel expenses.

18. OTHER INCOME

18.1 Other Operating Income

The breakdown of this account is as follows:

	Notes	2014	2013
Increase in cash surrender value of investment in life insurance	7	**4,782,861**	P 4,289,212
Miscellaneous	5	**5,736,278**	2,214,906
		P 10,519,139	P 6,504,118

19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	Notes	2014	2013
Net purchases of merchandise inventories	17	**P 642,444,013**	P 977,085,872
Salaries and employee benefits	21	**59,890,196**	53,628,920
Advertising and promotions			-
Outside services		**44,320,879**	37,665,341
Subcontracting services			-
Materials, supplies and other consumables		**22,085,422**	17,303,065
Cost of real estate sold		**6,476,690**	9,776,737
Service fees	26)	**10,330,393**	8,968,808
Rentals	27	**14,107,315**	8,002,208
Taxes and licenses		**26,801,576**	20,710,436
Utilities and communication		**7,844,875**	8,335,690
Provision for warranty	15	**7,701,101**	5,081,036
Transportation and travel		**5,366,030**	4,916,340
Depreciation and amortization	11	**10,067,304**	7,732,860
Change in merchandise, finished goods and work-in-process inventories		**(34,543,498)**	(564,217,072)
Miscellaneous		**79,867,359**	72,191,351
		P 902,759,655	P 667,181,592

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	2014	2013
Cost of sales	17	P **607,900,515**	P 412,868,800
Cost of services	17	**78,970,283**	65,808,415
Cost of rentals	17	**15,750.480**	16,343,220
Cost of real estate sales		**6,476,690**	9,776,737
Selling and distribution costs		**101,792,230**	85,856,872
General and administrative expenses		**91,869,457**	76,527,548
		P 902,759,655	P 667,181,592

20. OTHER INCOME (CHARGES)

20.1 Finance Income

This account consists of the following:

	Notes	2014	2013
Interest income from cash and cash equivalents	5, 13	**P 6,316,413**	P 17,241,277
FV gains of FA at FVTPL		**889,903**	
Foreign currency gains – net		**9,291,377**	3,208,986
		P 16,497,693	P 20,450,263

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P39.3 million in 2013, are presented as Interest under the Revenues account in the consolidated statements of income, as these were generated from the entities' primary business operations.

20.2 Finance Costs

This account consists of the following:

	Notes	2014	2013
Impairment losses on trade and other receivables	7	**P**	P 905,229
Foreign currency losses		**5,589,467**	1,233,639
Interest expense arising from interest–bearing loans	14	**13,994,522**	7,757,202
Impairment losses on AFS financial assets	8	**29,159**	794
Others		**442,874**	1,339,623
		P 20,056,022	P 11,236,487

21. EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 19 and 25).

	Note	2014	2013
Short-term benefits		**P 59,890,196**	**P 53,628,920**

21.2 Post-employment Benefit

(a) Characteristics of the Defined Benefit Plan

The Group maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group. The trustee bank managed the fund in coordination with the Group's management who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The Company's post-employment benefit plan provides retirement benefits ranging from 100% to 115% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2013 including the financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012 which have been restated in line with the adoption of PAS 19 (Revised) [see Note 2.2(a)(ii)].

The components of the retirement benefit asset of SGI and certain subsidiaries at the end of the reporting periods are shown below.

	2013
Fair value of plan assets	**P 181,854,959**
Present value of obligation	**(67,512,401)**
	114,342,558
Effect of asset ceiling	**(32,118,784)**
	P 82,223,774

The components of the retirement benefit obligation of certain subsidiaries at the end of the reporting periods are shown below.

	2013
Present value of obligation	**P 26,520,678**

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

	2013
Balance at beginning of year	P 126,587,814
Current service costs	13,986,258
Interest costs	6,600,575
Benefits paid	(42,764,356)
Remeasurements – actuarial losses (gains) arising from:	
Experience adjustments	(13,751,877)
Changes in financial assumptions	3,374,665
Transfers	-
Balance at end of year	P 94,033,079

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

	2013
Balance at beginning of year	P 209,414,356
Interest income	10,227,100
Return on plan assets (excluding amounts included in net interest)	1,787,287
Contributions paid into the plan	3,190,572
Benefits paid by the plan	(42,764,356)
Balance at end of year	P 181,854,959

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

	2013
Debt securities:	
Philippines government bonds	P 151,568,091
Corporate bonds	15,775,830
UITF	9,839,466
Mutual funds	4,671,572
	P 181,854,959

UITF and mutual funds are composed of short-term and money-market funds denominated in Philippine peso.

The fair values of the above debt securities and investments are determined based on quoted market prices in active markets.

The plan assets earned net return of P12.0 million.

Plan assets do not comprise any of the Group's own financial instruments or any of its assets occupied and/or used in its operations.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	Notes	2013
Reported in consolidated statements of income:		
Current service cost	22.1	P 13,986,258
Net interest expense (income)	19.2	(1,641,760)
Effect of asset ceiling		-
		P 12,344,498
Reported in consolidated statements of comprehensive income:		
Actuarial losses from changes in:		
- Experience adjustments		13,751,877
- Financial assumptions		(3,374,665)
Return on plan assets (excluding amounts included in net interest expense)		1,787,287
Effect of asset ceiling		(4,807,592)
		P 7,356,907

Current service cost is allocated to and presented under the General and Administrative Expenses account in the consolidated statements of income.

The net interest expense is included in Other Gains account in the consolidated statements of income (see Note 18.2). Amounts recognized in other comprehensive income, net of tax, were classified within items that will not be reclassified subsequently to profit or loss in the statements of comprehensive income.

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

	2013
Discount rates	4% - 5%
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 20 years for males and 21 years for females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Risks Associated with the Retirement Plan

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has generally concentrated on investment in debt securities.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(iii) Inflation Risk

A significant proportion of the defined benefit obligation is linked to inflation. The increase in inflation will increase the Group's liability. A portion of the plan assets are inflation-linked debt securities which will mitigate some of the effects of inflation.

(c) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described in the succeeding page.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2013:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
Discount rate	+1.0 -12.1%/-1.0-10.6%	(2,807,111)	6,929,061
Salary increase rate	+1.0-10.5%/-1.0-9.5%	4,042,157	(532,170)

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2013 and 2012 consists of debt securities, although the Group also invests in UITF and mutual funds.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P55.7 million based on the latest actuarial valuations.

The Group expects to make contribution of P3.2 million to the plan during the next reporting period.
The maturity profile of undiscounted expected benefit payments from the plan as of December 31, 2013 follows:

Within one year	P 200,288
More than one year but not more than five years	3,677,711
More than five years but not more than ten years	29,445,696
More than ten years but not more than 15 years	141,233,917
More than 15 years but not more than 20 years	164,831,255
More than 20 years	2,199,952,487
	P2,539,341,354

22. TAXES

22.1 Registration with Economic Zone Authorities and Fil-Dragon Taxation

(a) Registration with Clark Development Corporation (CDC)

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

(b) Registration with Philippine Economic Zone Authority (PEZA)

SMC is registered with the PEZA as an Ecozone Facilities Enterprise at the Laguna International Industrial Park – Special Economic Zone (LIIP – SEZ). As an Ecozone Facilities Enterprise, SMC shall lease its building in LIIP – SEZ to PEZA-registered export enterprises located therein. SMC is subject to 5% tax on gross income earned on such facilities in lieu of all national and local taxes.

On July 1, 1998, the PEZA approved Starworld's registration as an Ecozone developer and operator of the CPIP – Special Economic Zone located at Bo. Parian, Calamba City. Under the terms of the registration and subject to certain requirements, Starworld shall be exempt from all national and local taxes and instead will be subject to the 5% preferential tax rate on gross income after allowable deductions.

(c) Fil-Dragon Taxation

Pursuant to the relevant laws and regulations in the PRC, Fil-Dragon is subject to PRC corporate income tax of 25% on the estimated assessable profit for the year. No provision has been provided in the consolidated financial statements as Fil-Dragon did not generate any assessable profits in 2013.

22.2 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:

	2014	2013
Consolidated statements of income		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**P 23,536,894**	P 23,536,894
Final taxes at 20% and 7.5%	**8,592,626**	8,592,626
Preferential tax at 5%	**1,921,077**	1,921,077
Minimum corporate income tax (MCIT) at 2%	**11,063,933**	11,063,933
	45,114,530	45,114,530
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(211,422)**	(211,422)
	P 44,903,108	P 44,903,108
Consolidated statements of comprehensive income:		
Remeasurements of defined benefit post-employment obligation	**P 2,207,070**	**P 2,207,070**
Deferred tax income on changes in fair value of AFS financial assets	**(1,156,237)**	(1,156,237)
	P 1,050,833	P 1,050,833

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

	2013
Tax on pretax profit at 30%	P 57,126,765
Adjustment for income subjected to lower tax rates	(10,493,932)
Tax effects of:	
Unrecognized deferred taxes from net operating loss carry-over (NOLCO) and MCIT	8,933,328
Loss (income) of foreign subsidiary not subject to taxes	(6,218,370)
Unrecognized deductible temporary differences	(5,512,277)
Nondeductible expenses and losses	3,869,521
Nontaxable income	(2,601,399)
Benefit from previously unrecognized NOLCO, MCIT and other temporary differences	(295,738)
Excess of optional standard deduction over itemized deductions	-
Reversal of previously recognized deferred tax liability	-
Others	95,210
	P 44,903,108

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

		2013
Deferred tax assets:		
Fair value losses on investment property	P	23,831,400
Allowance for inventory obsolescence		17,814,389
Accrued expenses		14,604,251
MCIT		10,810,770
Allowance for impairment on trade and other receivables		7,881,003
Retirement benefit obligation		6,074,118
Unrealized foreign currency loss (gain)	(	3,960,690)
Provision for warranty claims		524,608
Unamortized pre-operating expenses		-
Deferred tax liability – Retirement benefit asset		-
Deferred tax assets – net	P	77,579,849

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:

		2013
Deferred tax assets:		
Fair value loss on investment property	P	44,826,279
Provision for warranty claims		2,262,388
Allowance for impairment on trade and other receivables		1,372,343
Unamortized past service costs		1,336,337
Loss on investment in subsidiaries		838,709
Allowance for inventory obsolescence		627,149
Accrued expenses		413,699
Unearned rent income		47,083
Refundable deposits		22,192
Deferred rent expense – PAS 17		-
Retirement benefit obligation		-
Deferred tax liabilities:		
Fair value gains on investment property	(	820,983,996)
Accumulated depreciation on investment property	(	132,910,575)
Retirement benefit asset	(	31,129,133)
Deferred rent income – PAS 17	(	1,988,775)
Unrealized foreign currency gains	(	42,937)
Changes in fair value of AFS financial asset		-
Deferred tax liabilities – net	(P	935,309,237)

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

	2013
Benefits from previously unrecognized MCIT	(P 10,810,770)
Unrealized foreign currency gains - net	6,966,359
Allowance for inventory obsolescence	(6,654,252)
Retirement benefit obligation	4,945,352
Fair value gains on investment property	3,409,799
Allowance for impairment on trade and other receivables	(2,081,353)
Deferred rent expense – PAS 17	1,896,896
Deferred rent income – PAS 17	1,717,719
Provision for warranty claims	1,407,090
Change in fair value of AFS	(1,024,237)
NOLCO	(432,914)
Unamortized past service costs	321,314
Accumulated depreciation on investment property	(253,842)
Unearned rent income	210,312
Accrued expenses	116,834
Unamortized pre-operating expenses	54,271
	(P 211,422)

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS financial assets and remeasurements of post-employment defined benefit plan.

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

Year	Original Amount	Applied in Previous Years	Applied in Current Year	Expired Balance	Remaining Balance	Valid Until
NOLCO:						
2013	P 36,638,281	P -	P -	P -	P 36,638,281	2016
2012	15,862,462	-	-	-	15,862,462	2015
2011	31,305,517	-	5,501,441	-	25,804,076	2014
2010	3,283,221	2,008,326	331,953	942,942	-	2013
	P 87,089,481	P 2,008,326	P 5,833,394	P 942,942	P 78,304,819	
MCIT:						
2013	P 255,337	P -	P -	P -	P 255,337	2016
2012	222,424	-	-	-	222,424	2015
2011	832,637	-	611,343	-	221,294	2014
2010	4,774,835	-	4,774,835	-	-	2013
	P 6,085,233	P -	P 5,385,178	P -	P 699,055	

Fil-Dragon has incurred tax losses amounting to P30.0 million (RMB4.3 million), P22.8 million (RMB3.5 million) and P32.5 million (RMB4.8 million) in 2013, 2012, and 2011 respectively. Similar to NOLCO, these tax losses can be applied as deductions from future taxable income of Fil-Dragon. However, the benefits from the tax losses expire within five years from the year such tax losses are incurred.

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

	2013	
	Amount	Tax Effect
NOLCO	P 70,997,903	p 21,299,371
Unrealized foreign currency loss	(13,745,572)	(4,123,672)
Allowance for impairment of trade receivables	13,600,000	4,080,000
Retirement benefit obligation	4,686,238	1,405,871
Unearned income	1,170,000	351,000
Allowance for inventory obsolescence	914,262	274,279
MCIT	640,139	640,139
	P 78,262,970	P 23,926,988

Except for SBC, the Group opted to claim itemized deductions in computing for its income tax due in 2013. SBC used itemized deductions in 2013.

24. EQUITY

24.1 Capital Stock

The Parent Company has a total authorized capital stock of P5.0 billion divided into 5,000,000,000 shares with P1 par value.

On June 18, 1996, the SEC issued an Order approving the Registration Statement covering the securities which comprised the Parent Company's entire authorized capital stock. On September 4, 1996, the Parent Company's shares were listed in the PSE and the trading of offer shares commenced. The Parent Company offered to the public 665,000,000 shares at an offer price of P5.85 per share. The offer shares consisted of 524,475,000 primary shares (new shares) and 140,525,000 secondary shares (existing shares).

As of March 31, 2014 and December 31, 2013, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 394,465,704 shares are held by the public, for both periods. There are 4,407 and 4,415 holders of the listed shares which closed at P1.26 and P1.18 per share on March 31, 2014 and December 31, 2013, respectively.

24.2 Retained Earnings

On August 8, 2013, the BOD of the Parent Company approved the declaration of cash dividends of P0.06 per share or totaling to P109.3 million, payable to stockholders of record as of August 30, 2013. The cash dividends were paid on September 24, 2013.

Retained earnings is restricted in the amount of P115.6 million in 2013 equivalent to the cost of 209,433,000 shares held in treasury.

24.3 Revaluation Reserves

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

	Notes	2014	2013
Remeasurement of post-employment:			
Balance at beginning of year		**(P 12,085,205)**	(P 17,235,042)
Actuarial gain (losses) during the year			7,356,907
Tax income (expense)		**(**	(2,207,070)
Balance at the end of the year		**(12,085,205)**	(12,085,205)
Cumulative translation adjustments:			
Balance at beginning of year		**90,721,928**	49,374,055
Currency differences on translating financial statements of foreign operations	2	**1,889,657**	41,312,873
		92,611,585	90,686,928
Fair value losses on AFS financial assets:			
Balance at beginning of year		**(95,422,932)**	(95,728,537)
Fair value gains (losses)	9		(1,461,842)
Deferred tax income on changes in fair value of AFS financial assets	23.2	**( )**	(1,156,237)
		(95,422,932)	(95,422,932)
Other comprehensive income attributable to non-controlling interest			35,000
Balance at end of the year		**(P 14,896,552)**	(P 16,786,209)

25. EARNINGS PER SHARE

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

	2014	2013
Net profit (loss) for the year attributable to the Parent Company's stockholders	**(P 53,810,031)**	P 23,596,460
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 0.01

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of March 31, 2014 and December 31, 2013, hence, diluted EPS is equal to the basic EPS.

26. RELATED PARTY TRANSACTIONS

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

A summary of the Group's related party transactions as of December 31, 2013 is summarized below and in the succeeding pages.

		2013	
Related Party Category	Notes	Amount of Transaction	Outstanding Receivable (Payable)
Related Parties Under Common Ownership:			
Purchase of mobile phones	26.6	3,165,472,663	(177,548,009)
Availment of loans	26.8	92,841,796	452,154,772
Cash advances obtained	26.5	69,759,951	(81,323,563)
Interest expense	26.8	46,917,606	3,725,553
Purchase of parts	26.2	31,349,823	(6,694,454)
Lease of real property	26.3	15,375,161	355,800
Interest income	26.4, 26.7	10,270,326	15,939,918
Advances to suppliers	26.6	7,264,159	218,018,511
Commissions	26.6	4,366,100	4,366,100
Cash advances granted	26.5	3,102,051	24,735,439
Advances for equipment	26.6	2,839,816	(250,969)
Collection of receivables	26.6	1,634,470	(17,121,707)
Use of cable infrastructure	26.1	-	-
Management services	26.1	-	-
Granting of business loans	26.4	-	67,560,199
Granting of loans	26.7	-	112,517,273

None of the companies under the Group is a joint venture. The Parent Company is not subject to joint control. Related parties that exercise significant influence over the Parent Company are AA Commercial, Inc. and AV Value Holdings Corporation.

None of the Group's outstanding receivables from related parties are impaired.

26.1 Rendering of Services

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

Revenues arising from the above transactions are presented as part of Rendering of Services in the consolidated statements of income. There were no outstanding receivables related to these transactions as of December 31, 2013.

26.2 Purchase of Goods

SE Corp. purchases parts and supplies from CPD. Total purchases of goods amounting to P31.3 million in 2013 are recorded as part of Cost of Services in the consolidated statements of income (see Note 18.2). The outstanding liability from the above transactions amounted to payable of P6.7 million as of December 31, 2013, and are presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

26.3 Lease of Real Property

SMC leases out certain land and buildings to Avid Sales Corporation (Avid), a related party under common ownership. Also, SE Corp. leases out its office space to CPD and Avid. Income from these leases is shown as part of Rentals in the consolidated statements of income (see Note 12). Uncollected billings, on the other hand, form part of Trade receivables under the Trade and Other Receivables-net account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from related parties are unsecured and do not bear any interest. Based on management's assessment, all receivables from related parties are fully collectible; hence, no impairment loss was recognized in 2013.

26.4 Granting of Loans

SMFI grants business loans and other loans to its related parties that bear interests ranging from 7.5% to 9.0% in 2013. Total interests earned from these loans amounted to P4.9 million in 2013 and is presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding receivables from these business loans are shown as part of Loans Receivables under the Trade and Other Receivables-net account in the consolidated statements of financial position (see Note 7).

The outstanding receivables from business loans as of December 31, 2013 are as follows:

Avid	P	27,000,000
AA Export and Import Corp. (AA Export)		8,304,380
AA Marine Development Corp. (AA Marine)		8,329,955
Philippine Prawn, Inc. (PPI)		7,975,288
Baybayan Farm, Inc. (BFI)		7,975,288
Kawayan Farm, Inc. (KFI)		7,975,288
	P	**67,560,199**

In prior years, SMFI granted unsecured business loan to Avid with the original principal loan amounting to P80.0 million. Principal repayment on this loan amounting to P10.1 million and P2.8 million were made in 2012 and 2011, respectively. There was no principal repayment on these loans in 2013. This loan is payable on demand.

The business loans to AA Export, AA Marine, PPI, BFI and KFI were originally repayable with a lump sum payment in January 2009 of the outstanding principal balance as of December 31, 2008. On January 12, 2009, SMFI's BOD approved the extension of the payment term of the business loans for an additional period of seven years until December 31, 2015. Also, on August 23, 2012, SMFI's BOD approved the suspension of the payment of amortization for the principal amount of these loans. Total principal repayments received on the loans amounted to P4.0 million in 2011. There was no principal repayment on these loans in 2013.

There were no impairment losses recognized on the outstanding balances of business loans to granted to related parties in 2013 based on management's assessment.

The business loan pertaining to AA Export is secured by its own shares of stock which are owned by a related party. All other business loans granted are unsecured.

Section 9(d) of RA No. 8556, *The Financing Company Act of 1998*, states that the total credit that a financing company may extend to any person, company, corporation or firm shall not exceed 30% of its net worth. Since the net worth of SMFI decreased in 2011, the balance of business loan extended to Avid as of December 31, 2011 exceeded thirty percent (30%) of SMFI's net worth which is not in accordance with Section 9(d) of RA No. 8556. In 2013, the SMFI has not extended credits to any debtor which exceeded such threshold.

26.5 Advances to and from Related Parties

Certain subsidiaries of the Group grant to and obtain unsecured, noninterest-bearing cash advances from related parties owned by the Parent Company's majority stockholders for working capital requirements and other purposes. The outstanding balances of Advances to Related Parties amounted to P24.7 million as of December 31, while the outstanding balances of Advances from Related Parties amounted to P81.3 million as of December 31, 2013.

These advances have no definite repayment dates and are generally settled in cash depending on available resources of the parties involved. No impairment losses were recognized on the outstanding balances of Advances to Related Parties as management has assessed that the amounts are fully collectible.

26.6 Transactions with STL

SVC earns commission from sales of STL, a company owned by SGI's majority stockholders, to customers in the Philippines. Commission revenue amounted to P4.4 million in 2013, and is presented as part of Rendering of Services in the consolidated statements of income. SVC also advances funds to STL to pay foreign suppliers. The outstanding receivable from STL amounted to P4.4 million as of December 31, 2013, and is shown as part of Trade receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note 8).

SVC also collects the receivables related to the sales of STL which are payable immediately upon receipt. Total collections received in behalf of STL in 2013 amounted to P1.6 million. Total obligations arising from this transaction as of December 31, 2013 amounting to P17.1 million is presented as Due to a related party under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

SVC also purchases materials and inventories from a foreign supplier, the payment of which is being made by STL on behalf of SVC. Total payments made by STL on behalf of SVC related to this transaction amounted to P2.8 million in 2013. The outstanding balance arising from this transaction amounted to P0.3 million as of as of December 31, 2013, and is presented as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 15).

My Solid purchases mobile phones from STL. Total purchases amounted to P3.2 billion in 2013 and are presented as part of Cost of Sales in the consolidated statements of income (see Note 17). Outstanding liabilities relating to these purchases amounted to P177.5 million as of

December 31, which are shown as part of Trade payables under the Trade and Other Payables account in the consolidated statements of financial position (see Note 14).

My Solid also made advance payments to STL for its future purchase of mobile phones. The outstanding advances amount to P218.0 million as of December 31, 2013 and is presented as part of Advances to suppliers under Trade and Other Receivables account in the consolidated statements of financial position (see Note 7).

26.7 Transactions with Solid Company Limited (SCL)

In 2008, BRL granted an unsecured, interest-bearing loan denominated in Chinese yuan renminbi to SCL, a related party owned by the Parent Company's majority stockholders, amounting to P120.8 million(RMB17.42 million) which matures on March 1, 2011. The loan bears an annual interest rate of 6% payable annually with any unpaid interest compounded annually at the same rate of the principal amount. In 2009, the parties agreed to amend the loan agreement reducing the annual interest rate to 4% and making the loan payable in U.S. dollar. In 2011, the parties agreed to increase the annual interest rate to 5% and extend the loan for another year. Also in 2012 and 2013, another transaction to extend the maturity of the loan for another year was executed between BRL and SCL.

Interests earned from these loans amounted to P1.4 million in 2014 and P1.3 million in 2013 respectively and are presented as part of Interest under the Revenues account in the consolidated statements of income. The outstanding balance of the loan amounting to P114 million as of March 31, 2014 and P112.5 million as of December 31, 2013, is presented as part of Loans Receivables under the Trade and Other Receivables account in the consolidated statements of financial position (see Note7). No impairment loss was recognized on these loans in 2013.

26.8 Loan Availments

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balances from these loans amounted RMB 61.7 million (P447.3 million) and RMB61.8 million (P452.2 million) as of March 31, 2014 and December 31, 2013, respectively. These loans bear interest at prevailing market rates at 6% to 15% in 2013 and 2012 respectively. The liabilities are unsecured and payable on demand. The amount of loan is presented as part of Interest-bearing loans in the consolidated statements of financial position. Borrowing costs incurred in 2013 relating to these loans amounted to RMB6.8 million (P46.9 million), and are capitalized as part of Real Estate Inventories in the consolidated statements of financial position (see Notes 10 and 14).

26.9 Financial Guarantees

Fil-Dragon obtained a secured interest-bearing loan amounting to RMB92.9 million (P615.7 million) as of 2010 from a local bank in the PRC to support the construction of the Golden Hill Project. In relation to this, Solid Industrial (Shenzhen) Co. Ltd., a related party owned by SGI's majority stockholders and an individual who holds 30% ownership interest in Fil-Dragon entered into a guarantee contract with the local bank whereby they guarantee that the principal amount and related interests will be paid as the payments fall due. The guarantee contract was terminated in 2012 as Fil-Dragon fully paid the related obligation, which is two years subsequent to the effectivity of the loan agreement obtained by Fil-Dragon (see Note 14).

26.10 Key Management Personnel Compensation

Compensation provide to key management personnel significantly consists of short-term benefits amounting to P42.9 million for 2013. These amounts are shown as part of Salaries and employee benefits account under General and Administrative Expenses in the consolidated statements of income (see Notes 19 and 21).

26.11 Transactions with the Retirement Fund

The Group has established a formal multi-employer retirement plan which is administered by a trustee bank, except for CBHI, My Solid, SGTC and ZTC, whose retirement fund remained unfunded as of December 31, 2013.

The retirement fund consists of government securities, corporate bonds, UITF, mutual and trust funds with fair values totaling P181.9 million as of December 31, 2013 (see Note 22.2). The retirement fund neither provides any guarantee or surety for any obligation of the group. The retirement fund also has no investments in the Parent Company's shares of stock which are listed for trading at the PSE (see also Note 1.1).

The details of the contributions of the Group and benefits paid out by the plan to employees are presented in Note 21).

27. SIGNIFICANT CONTRACTS AND AGREEMENTS

27.1 Memorandum of Understanding with SPI

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

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

The breakdown of network support fees and in-warranty service fees amounted to P75.1 million for the year ended December 31, 2013. Network support fees and in-warranty services recognized are presented as part of Rendering of Services in the consolidated statements of income. Outstanding balance arising from the transaction amounted to P3.3 million as of December 31, 2013, and are included as part of Trade under Trade and Other Receivables in the consolidated statements of financial position (see Note 7).

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

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

27.3 Sale of SBC's Assets

(a) Agreement on Sale of Assets

On May 11, 2012, SBC entered into an agreement with Sky Cable Corporation (SCC) covering the sale, assignment and transfer of its assets, equipment, contracts, permits, licenses and subscriber base (the "Assets") of SBC used in the operation of its television, broadcasting and broadband business [see Note 27.3(d)]. In connection with such agreement, SBC shall also act as a collecting agent for the existing subscribers of SCC and, accordingly, remit to the latter all collections received. Service fees incurred related to this transaction amounted to P10.3 million in 2014 and P 8.9 million in 2013 respectively, are presented as Service fees and included as part of Cost of Services in the 2013 consolidated statements of income (see Note 17).

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

(b) Management Agreement

For continuity of services to subscribers, SBC and SCC agreed that the management and administration of the Assets be entrusted to SCC pending the approval of the NTC of the assignment of the Assets.

SCC, as the manager of the Assets, was given the overall power and responsibilities to handle all aspects necessary to carry out the administration and operations of the Assets and SBC, to accord the necessary additional authorizations, should the need arise.

(c) Option Agreement

On the same date, SGI entered into an Option Agreement (the Option) with SCC to purchase SGI's shares of stocks which option must be exercised not later than December 31, 2013. As of December 31, 2013, SCC has not exercised the option (see Note 28.8).

28. COMMITMENTS AND CONTINGENCIES

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

28.1 Operating Lease Commitments – Group as Lessor

Certain subsidiaries lease various properties under various non-cancellable lease agreements with terms ranging from one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are as follows:

	2013
Within one year	P 96,895,544

After one year but not more than five years	93,594,153
More than five years	2,605,134
	P 193,094,831

Rental income earned from these transactions amounted to P151.9 million in 2013. These amounts are presented as Rentals under Revenues in the consolidated statements of income.

28.2 Operating Lease Commitments – Group as Lessee

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	2013
Within one year	P 10,227,331
After one year but not more than five years	46,536,524
More than five years	-
	P 56,763,855

Rental expense charged to operations from these operating leases amounted to P7.4 million each in 2013, and are shown as part of Rentals under Cost of Services in the consolidated statements of income (see Notes 17 and 19).

Rental deposits received amounted to P17.8 million in 2013. These amounts are presented as Other Current Assets and Other Non-current Assets in the consolidated statement of financial position.

28.3 Legal Claims

SMC is involved in a number of litigations and is subject to certain claims relating to the following, among others:

(i) a portion of land in Pililla, Rizal, with a carrying value of P3.3 million is subject to expropriation coverage under the Agrarian Reform Act; and,

(ii) a piece of land, with a carrying value of P309.0 million is the subject of claims by third parties who filed court cases against SMC.

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

28.4 Estimated Liability for Land and Land Development Cost

The Group has commitment of about P68.3 million as of December 31, 2013 for the fulfillment of projects in the development and marketing of CPIP (see Note 10)

28.5 Purchase Commitments

In 2007, ZTC entered into several construction contracts with various suppliers for the construction of the Tri Towers condominium building (see Note 10). The construction of Tower 1 and Tower 2 was completed in 2008 and 2012, respectively, while the construction of Tower 3 has not yet started as of December 31, 2013.

28.6 Possible Impact of Government Project

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

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

28.7 Properties Under Development

Fil-Dragon has commitment for about P123.9 million (RMB16.9 million) as of December 31, 2013, for the construction of the Golden Hill Project (see Note 11).

28.8 Option Agreement

Relative to SBC's sale of its broadband assets and subscriber base, SGI granted SCC with an option to purchase SGI'S shares in SBC. The said option is exercisable until December 31, 2013. As of December 31, 2013, SCC has not exercised this option [see Note 27.3(c)]; hence, the Parent Company still holds the ownership interests in SBC.

28.9 Others

As of December 31, 2013, the Group has unused credit facilities amounting to P712.1 million.

There are other commitments, guarantees, litigations and contingent liabilities that arise in the normal course of the Group's operations which are not reflected in the consolidated financial statements. Management is of the opinion that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the Group's consolidated financial statements.

29. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks in relation to financial instruments. The Group's financial assets and financial liabilities by category are summarized in Note29). The main types of risks are market risk, credit risk and liquidity risk.

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

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

29.1 Market Risk

The Group is exposed to market risk through its use of financial instruments and specifically to foreign currency risk, interest rate risk and certain other price risk which result from both its operating, investing and financing activities.

(a) Foreign Currency Risk

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

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

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

	2014		2013	
	U.S. Dollar	**Chinese Yuan Renminbi**	U.S. Dollar	Chinese Yuan Renminbi
Financial assets	**P484,003,343**	**P 77,820,785**	P 350,871,152	P 79,075,855
Financial liabilities	**(869,304,329)**	**(587,352,537)**	(614,218,228)	(768,165,522)
	(P385,300,986)	**(P509,531,752)**	(P 263,347,076)	(P689,089,667)

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.

	2014		2013	
	Reasonably Possible Change in Rate	**Effect in Profit Before Tax**	Reasonably Possible Change in Rate	Effect in Profit Before Tax
Php – USD	**2.40%**	**(P 9,239,311)**	23.40%	(P 61,623,216)
Php – RMB	**2.83%**	**(2,433,886)**	23.67%	(163,107,524)
		(P 11,673,197)		(P224,730,740)

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

(b) Interest Rate Risk

At March 31, 2014 and December 31, 2013, the Group is exposed to changes in market interest rates through its cash and cash equivalents, which are subject to variable interest rates (see Note 5).

The following illustrates the sensitivity of profit before tax for the year to a reasonably possible change in interest rates of +/-2.4 % in 2014, +/-2.14% in 2013. These changes in rates have been determined based on the average market volatility in interest rates, using standard deviation, in the previous 12 months, estimated at 99% level of confidence. The sensitivity analysis is based on the Group's financial instruments held at each reporting date, with effect estimated from the beginning of the year. All other variables held constant, if the interest rate increased by 2.4% and 2.14% profit before tax in 2014 and 2013 would have increased by P23.64 million and P49.8 million, respectively. Conversely, if the interest rate decreased by the same percentages, profit before tax would have been lower by the same amounts.

(c) Other Price Risk

The Group's market price risk arises from its investments carried at fair value (i.e., financial assets classified as financial assets at FVTPL and AFS financial assets). The Group manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

29.2 Credit Risk

Credit risk is the risk that the counterparties may fail to discharge an obligation to the Group. The Group is exposed to this risk for various financial instruments arising from granting loans and selling goods and services to customers including related parties, placing deposits with banks and investing in UITF.

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

	Notes	**2014**	2013
Cash and cash equivalents	6	**P 566,360,794**	P 2,327,335,632
Financial assets at FVTPL	7	**2,198,171,914**	294,286,160
Trade and other receivables (excluding advances to suppliers) – net	8	**1,464,650,059**	1,612,527,947
Advances to related parties	26	**24,854,257**	24,735,439
Refundable deposits – net	14	**15,642,590**	18,066,103
		P 4,269,679,614	P 4,276,951,281

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(a) *Cash and Cash Equivalents and FVTPL*

The credit risk for cash and cash equivalents and financial assets at FVTPL in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) *Trade and Other Receivables*

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

(c) *Advances to Related Parties*

The Group is not exposed to any significant credit risk exposure in respect of advances to related parties. These advances are generally receivable in cash upon demand.

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

	2013
Not more than 3 months	P 22,552,688
More than 3 months but not more than one year	14,646,174
More than one year	-
	P 37,198,862

In respect of trade and other receivables, the Group is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Trade receivables consist of a large number of customers in various industries and geographical areas. Based on historical information about customer default rates, management consider the quality of trade receivables that are not past due or impaired to be good.

29.3 Liquidity Risk

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

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

As of December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

	Current	
	1 to 6 months	6 to 12 months
Interest-bearing loans	P 688,448,933	P -
Trade and other payables	661,703,614	-
Advances from related parties	-	81,323,563
	P 1,350,152,547	P 81,323,563

The contractual maturities reflect the gross cash flows, which may differ with the carrying values of the financial liabilities at the end of reporting period.

30. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES

30.1 Carrying Amounts and Fair Values by Category

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

	Notes	**2014**		2013	
		Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial assets					
Loans and receivables:					
Cash and cash equivalents	5	**P 566,360,794**	**P 566,360,794**	P 2,327,335,632	P 2,327,335,632
Trade and other receivables – net	7	**1,464,650,059**	**1,464,650,059**	1,612,527,947	1,612,527,947
Advances to related parties	*25*	***24,854,257***	*24,854,257*	*24,735,439*	*24,735,439*
Refundable deposits	*16*	***15,642,590***	***15,642,590***	*18,066,103*	*18,066,103*
		2,071,507,700	**2,071,507,700**	3,982,665,121	3,982,665,121
Financial assets at FVTPL	6	**2,198,171,914**	**2,198,171,840**	294,286,160	294,286,160
AFS financial assets	8				
Golf club shares – net		**6,602,400**	**6,602,400**	6,602,400	6,602,400
Others		**634,127**	**634,127**	634,127	634,127
		7,236,527	**7,236,527**	9,076,527	9,076,527
		P 4,284,187,808	**P 4,284,187,808**	P 4,284,187,808	P 4,284,187,808
Financial liabilities					
At amortized cost:					
Interest-bearing loans – net	14	**P 682,956,486**	**P 682,956,486**	P 684,002,914	P 684,002,914
Trade and other payables	15	**661,703,614**	**661,703,614**	661,703,614	661,703,614
Advances from related parties	25	**84,044,090**	**84,044,090**	81,323,563	81,323,563
Refundable deposits – net	16	**33,744,841**	**35,645,761**	35,645,761	35,645,761
		P 1,460,774,932	**P 1,462,675,852**	P1,462,675,852	P 1,462,675,852

See Notes 2.5 and 2.11 for a description of the accounting policies for each category of financial instruments. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 30.

30.2 Offsetting of Financial Instruments

The Group has not set-off financial instruments in 2013 and does not have relevant offsetting arrangements. Currently, financial assets and liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) may have the option to settle all such amounts on a net basis in the event of default of the other party through approval by both parties' BODs and stockholders or upon instruction by the parent company.

The Group's outstanding cash advances obtained from other related parties amounting to P81.3 million as of December 31, 2013, and presented as part of Advances to Related Parties account in the consolidated statements of financial position, can be offset by the amount of outstanding cash advances granted to other related parties amounting to P24.7 million as of December 31, 2013. Further, outstanding liability from purchase of mobile phones amounting to P177.5 million as of December 31, 2013, and presented as part of Trade and Other Payables in the consolidated statements of financial position, can be offset by the amount of outstanding advances to suppliers amounting to P218.0 million as of December 31, 2013, and presented as part of Trade and Other Receivables in the consolidated statements of financial position.

31. FAIR VALUE MEASUREMENTS AND DISCLOSURES

31.1 Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

The different levels have been defined as follows:

(a) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(b) Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

(c) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

31.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of March 31, 2014 December 31, 2013.

	Notes	Level 1	Level 2	Level 3	Total
March 31, 2014					
Financial assets at FVTPL	6	P -	P 294,286,610	P -	P 294,286,610
AFS financial assets	8	-	6,602,400	634,127	7,236,527
		P -	**P 300,889,010**	**P 634,127**	**P 301,523,137**
December 31, 2013					
Financial assets at FVTPL	6	P -	P 294,286,610	P -	P 294,286,610
AFS financial assets	8	-	6,602,400	634,127	7,236,527
		P -	**P 300,889,010**	**P 634,127**	**P 301,523,137**

The Group has no financial liabilities measured at fair value as of March 31, 2014 and December 31, 2013.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both periods.

31.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2013 statement of financial position but for which fair value is disclosed.

	Notes	Fair Value Hierarchy As At March 31, 2014			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash		P 2,327,335,632	P -	P -	P 2,327,335,632
Trade and other receivables	7			1,612,527,947	1,612,527,947
Advances to related parties	25		-	24,735,439	24,735,439
Security deposits	13	-	-	18,066,103	18,066,103
		P2,327,335,632	**P -**	**P1,655,329,489**	**P 3,982,665,121**
Financial Liabilities					
At amortized cost:					
Interest-bearing loans – net	14	P -	P -	P 684,002,914	P 684,002,914
Trade and other payables	15	-	-	661,703,614	661,703,614
Advances from related parties	25			81,323,563	81,323,563
Refundable deposits - net	16	-	-	33,744,841	33,744,841
		P -	**P -**	**P 1,460,774,932**	**P 1,477,012,416**

	Notes	Fair Value Hierarchy As At December 31, 2013			
		Level 1	Level 2	Level 3	Total
Financial Assets					
Loans and receivables:					
Cash		P 2,327,335,632	P -	P -	P 2,327,335,632
Trade and other receivables	7			1,612,527,947	1,612,527,947
Advances to related parties	25		-	24,735,439	24,735,439
Security deposits	13	-	-	18,066,103	18,066,103
		P2,327,335,632	**P -**	**P1,655,329,489**	**P 3,982,665,121**

	Note	Level 1	Level 2	Level 3	Total
Financial Liabilities					
At amortized cost:					
Interest-bearing loans – net	13	P -	P -	P 684,002,914	P 684,002,914
Trade and other payables	14	-	-	661,703,614	661,703,614
Advances from related parties	24			81,323,563	81,323,563
Refundable deposits - net	15	-	-	33,744,841	33,744,841
		P -	**P -**	**P 1,460,774,932**	**P 1,477,012,416**

For financial assets with fair values included in Level 1, management considers that the carrying amounts of these financial instruments approximate their fair values due to their short duration.

The fair values of the financial assets and financial liabilities included in Level 3, which are not traded in an active market, are determined based on the expected cash flows of the underlying net asset or liability based on the instrument where the significant inputs required to determine the fair value of such instruments are not based on observable market data.

31.4 Fair Value Measurements of Non-financial Assets

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013.

	Note	Fair Value Hierarchy As At March 31, 2014			
		Level 1	**Level 2**	**Level 3**	**Total**
Land	13	P -	P 2,982,289,350	P -	P2,982,289,350
Building and building improvements	13	-	-	666,521,666	666,521,666
		P -	**P2,982,289,350**	**P 666,521,666**	**P3,648,811,016**

	Note	Fair Value Hierarchy As At December 31, 2013			
		Level 1	**Level 2**	**Level 3**	**Total**
Land	12	P -	P 2,982,289,350	P -	P2,982,289,350
Building and building improvements	12	-	-	666,521,666	666,521,666
		P -	**P2,982,289,350**	**P 666,521,666**	**P3,648,811,016**

The fair value of the Group's land and building and building improvements classified under Investment Property (see Note 13) are determined on the basis of the appraisals performed by Asian Appraisal, Inc., an independent appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Group's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Group's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value.

(b) Fair Value Measurement for Building and Building Improvements

The Level 3 fair value of the buildings and improvements under Investment Property account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

32. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

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

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

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

	2014	2013
Total liabilities (excluding advances from related parties)	**P 3,909,869,055**	P 3,771,271,051
Total equity	**9,688,434,576**	9,751,434,747
Debt-to-equity ratio	**0.40:1**	0.39:1

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