

# COVER SHEET

							8	4	5
--	--	--	--	--	--	--	---	---	---

S.E.C. Registration Number

S	O	L	I	D	G	R	O	U	P	I	N	C	.	A	N	D				
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--

S	U	B	S	I	D	I	A	R	I	E	S								
---	---	---	---	---	---	---	---	---	---	---	---	--	--	--	--	--	--	--	--

( Company's Full Name)

2	2	8	5	D	O	N	C	H	I	N	O	R	O	C	E	S	A	V	E	.
---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---	---

M	A	K	A	T	I	C	I	T	Y						
---	---	---	---	---	---	---	---	---	---	--	--	--	--	--	--

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

MELLINA T. CORPUZ
-------------------

Contact person

843-1511
----------

Company Telephone Number

1	2
---	---

Month

3	1
---	---

Day

Fiscal Year

SEC FORM 17-Q
---------------

FORM TYPE

0	6
---	---

Month

2	6
---	---

Day

Annual Meeting

Not Applicable
----------------

Secondary License Type, if applicable

--	--	--

Dept. requiring this Doc.

Articles I, II, III, VI & VII
-------------------------------

Amended Articles Number/Section

4,373
-------

Total No. of Stockholders

Total Amount of Borrowings	
0	

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: September 30, 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: 2285 Don Chino Roces Avenue, Postal Code: 1231  
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 nine (9) months period ended September 30, 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:

	<u>2014</u>	<u>2013</u>
Revenue growth(decline)	10%	(11%)
Asset turnover	32%	30%
Operating expense ratio	20%	18%
EBITDA	(P81 million)	P198 million
EPS	(P0.06)	P0.06
Current ratio	2.30:1	2.60 : 1
Debt to equity ratio	0.43:1	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 10% for the first nine months of 2014 vs. 11% decline for the same period in 2013 principally due to higher revenues of the distribution segment and support services and other segment.

Asset turnover stood higher at 32% for the first nine months of 2014 from 30% for the same period in 2013 as a result of higher revenues for the period.

Operating expense ratio was 20% and 18% for the first nine months of 2014 and 2013, respectively principally due to higher operating expenses of the distribution and real estate segments for the period.

EBITDA amounted to P81 million loss for the first nine months of 2014 against P198 million earnings for the same period in 2013. The decrease was mainly due to net loss of the distribution and real estate segments.

Earnings per share amounted to P0.06 loss in 2014 versus P0.06 earnings in 2013 mainly from net loss for the period.

Current ratio stood at 2.30:1 as of September 30, 2014 and 2.60: 1 as of December 31, 2013 mainly due to lower current assets and higher current liabilities.

Debt to equity ratio stood at 0.43: 1 as of September 30, 2014 from 0.39: 1 as of December 31, 2013 primarily due to higher liabilities and lower equity.

### **Results of Operations**

Revenues increased by 10% in the first half of 2014 reaching P3,272 million from P2,989 million for the same period in 2013 principally from higher revenues of the distribution segment from digital product sales and from higher warranty income of support services and other segment.

Sale of goods amounted to P2,788 million for the first nine months of 2014, higher by 14% from P2,439 million for the same period in 2013 mainly due higher volume of sales of the digital products of the distribution segment.

Service revenue went up to P308 million for the first nine months of 2014, increasing by 4% for the same period in 2013 of P297 million due to higher warranty income.

Rental income amounted to P120 million for the first nine months of 2014 from P116 million for the same period in 2013 due to higher occupancy.

Sale of real estate amounted to P28 million for the first nine months of 2014, down by 73% from P106 million for the same period in 2013. This was principally due to lower condominium sales.

Interest income amounted to P15 million for the first nine months of 2014, lower by 47% from P29 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 P8 million for the first nine months 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 P3 million 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 P2,762 million for the first nine months of 2014, or an increase of 19% from P2,324 million for the same period in 2013 as discussed below.

Cost of sales amounted to P2,454 million for the first nine months of 2014, higher by 23%, from P2,003 million for the same period of last year in relation to increase in sales.

Cost of services amounted to P253 million for the first nine months of 2014 from P225 million for the same period of 2013, up by 12% mainly in relation to higher service revenue for the period.

Cost of rentals amounted to P35 million for the first nine months of 2014 from P29 million for the same period in 2013, higher by 19% mainly due to increase in repairs and maintenance for the period.

Cost of real estate sold amounted to P19 million for the first nine months of 2014, down by 70% from P65 million for the same period of 2013. The decrease was mainly in relation to lower sale of real estate.

Gross profit amounted to P510 million for the first nine months of 2014 from P664 million for the same period in 2013. The decrease was principally due to higher cost of sales, services and rentals. Gross margin of the distribution segment declined to 11% from 18% due to market competition.

Other operating expenses (income) amounted to P616 million for the first nine months of 2014 against P515 million for the same period in 2013 as explained below.

General and administrative expenses amounted to P269 million for the first nine months of 2014 from P212 million for the same period of 2013. Expenses went up due to higher salaries and wages, property certificate charges, taxes and licenses and donation expenses.

Selling and distribution costs amounted to P373 million for the first nine months of 2014, up by 15% from P323 million for the same period of 2013 mainly from higher marketing materials of the real estate segment and higher commission and rental expenses of the distribution segment.

Other operating income amounted to P25 million for the first nine months of 2014, up by 31% from P19 million for the same period in 2013 principally due to higher cash surrender value of investment in life insurance and installation warranty income of the support services and others segment for the period.

Operating loss amounted to P106 million for the first nine months of 2014 from P149 million operating profit for the same period in 2013, declining by 171% mainly from losses of the distribution and real estate segments.

Other income (charges) amounted to P42 million loss for the first nine months of 2014 against P9 million loss for the same period in 2013 mainly from the following:

Finance income was lower at P 22 million for the first nine months of 2014 compared with P47 million for the same period of last year mainly due to lower yield on placements.

Finance costs increased to P63 million for the first nine months of 2014 compared with P56 million in 2013 primarily due to higher interest cost for our Golden Hill project and impairment losses of receivables of the distribution segment.

Loss before tax was P148 million for the first nine months of 2014, decreasing by 206% from P139 million profit for the same period in 2013 mainly due to operating loss as explained above.

Tax expense amounted to P11 million for the first nine months of 2014 from P49 million in 2013 due to provision for income taxes of certain subsidiaries.

Net loss amounted to P160 million for the first nine months of 2014 against P90 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 P112 million for the first nine months of 2014 against P114 million net income in for the same period of 2013 as discussed above.

Net loss attributable to minority interest amounted to P47 million for the first nine months of 2014 compared with P24 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 P450 million as of September 30, 2014 down by 81% from P2,327 million as of December 31, 2013. Cash was mostly used for operating activities primarily for increase in financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss amounted to P2,197 million as of September 30, 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 P1,085 million as of September 30, 2014 against P1,132 million as of December 31, 2013. There was no material change for this account. 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 P25 million as of September 30, 2014 and P24 million as of December 31, 2013. There was no material change for this account.

Merchandise inventories and supplies - net amounted to P750 million as of September 30, 2014, compared with P844 million as of December 31, 2013, a decrease of 11% mainly from lower merchandise and finished goods for digital products.

Real estate inventories amounted to P2,429 million as of September 30, 2014 and P2,423 million as of December 31, 2013. There was no material change for this account.

Other current assets amounted to P447 million as of September 30, 2014 compared with P425 million as of December 31, 2013, an increase of 5% mainly from higher prepayments.

Total current assets reached P7,387 million as of September 30, 2014 from P7,472 million as of December 31, 2013 mainly from lower Cash and cash equivalents and merchandise inventories and supplies as discussed above.

Non-current trade and other receivables amounted to P781 million as of September 30, 2014 from P722 million as of December 31, 2013 mainly due to increase in cash surrender value of investment in life insurance and trade receivables.

Non-current available-for-sale financial assets stood at P 9 million as of September 30, 2014 from P7 million as of December 31, 2013 due to purchase of additional club shares.

Property, plant and equipment amounted to P1,705 million as of September 30, 2014 from P1,560 million as of December 31, 2013, an increase of 9% mainly due to transfer from investment property and additions for the Green Sun Place (formerly Solid House).

Investment property decreased to P3,595 million as of September 30, 2014 from P3,648 as of December 31, 2013 due to the transfer to Property, plant and equipment. There was no material variance for this account.

Retirement benefit assets amounted to P 82 million as of September 30, 2014 and December 31, 2013.

Deferred tax assets - net amounted to P99 million as of September 30, 2014 and P77 million as of December 31, 2013 respectively, an increase of 28% principally due to additional provisions for the period.

Other non-current assets amounted to P17 million as of September 30, 2014 or a decrease of 46% from P32 million as of December 31, 2013 primarily due to lower deferred input VAT in 2014.

Total non-current assets amounted to P6,290 million as of September 30, 2014 from P6,131 million as of December 31, 2013 as discussed above.

Total assets reached P13,677 million as of September 30, 2014 from P13,604 million as of December 31, 2013 as discussed above.

Interest-bearing loans amounted to P690 million as of September 30, 2014 from P684 million as of December 31, 2013. There was no material variance for this account.

Trade and other payables amounted to P733 million as of September 30, 2014 against P731 million as of December 31, 2013. There was no material variance for this account.

Customers' deposits amounted to P1,623 million as of September 30, 2014 versus P1,306 million as of December 31, 2013. The increase of 24% was mainly due to additional deposits received from the Golden Hill project.



Advances from related parties amounted to P84 million as of September 30, 2014 and 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 September 30, 2014 and December 31, 2013.

Income tax payable amounted to P11.6 million as of September 30, 2014 from P4.6 million as of December 31, 2013 mainly from provision for income taxes of certain subsidiaries.

Total current liabilities stood at P3,212 million as of September 30, 2014, higher by 12% from P2,875 million as of December 31, 2013 as explained above.

Non-current refundable deposits amounted to P20 million as of September 30, 2014 from P15 million as of December 31, 2013 from additional customers' deposits.

Retirement benefit obligation amounted to P26 million as of September 30, 2014 and as of December 31, 2013.

Deferred tax liabilities -net amounted to P935 million as of September 30, 2014 and December 31, 2013. There was no change for this account.

Total non-current liabilities amounted to P982 million as of September 30, 2014 from P976 million as of December 31, 2013.

Total liabilities amounted to P4,194 million as of September 30, 2014 from P3,852 million as of December 31, 2013.

Capital stock stood at P2,030 million as of first half of 2014 and December 31, 2013.

Additional paid-in capital amounted to P4,641 million as of September 30, 2014 and December 31, 2013.

Treasury shares amounted to P115 million as of September 30, 2014 and December 31, 2013.

Revaluation reserves amounted to P15 million loss as of September 30, 2014 from P16 million loss as of December 31, 2013 due to other comprehensive income for the period from translation adjustments of foreign operations.

Retained earnings amounted to P2,599 million as of September 30, 2014 from P2,820 million as of December 31, 2013 as a result of net loss and dividends declared during the period.

Total equity attributable to Equity holders of Parent amounted to P9,140 million as of September 30, 2014 from P9,361 million as of December 31, 2013 mainly due to lower retained earnings.

Minority interest amounted to P342 million as of September 30, 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 P9,483 million as of September 30, 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's 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

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**

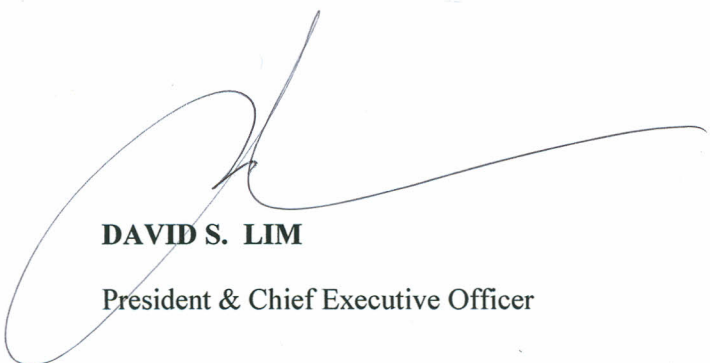
On April 2, 2014, the Board of Directors approved the Code of Business Conduct of the Company and the increase of the authorized capital stock of Solid Video Corporation (SVC), a wholly-owned subsidiary from P10 million to P50 million, of which P30 million will be subscribed and paid-up. The additional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

On August 12, 2014, the Board of Directors approved the incorporation of a new subsidiary, MyApp Corporation, a holding / investment company. It is wholly-owned by SGI with an authorized capital stock of up to P40 million divided into 400,000 shares of which P10 million will be subscribed and paid-up. It will invest in future businesses of the Company.

## 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.

A large, stylized handwritten signature in black ink, consisting of a large loop on the left and a long horizontal stroke extending to the right.

**DAVID S. LIM**

President & Chief Executive Officer

A smaller, more compact handwritten signature in black ink, appearing to be 'Vincent'.

**VINCENT S. LIM**

SVP & Chief Financial Officer

November 14, 2014

# Solid Group Inc. and Subsidiaries

Unaudited Consolidated Financial Statements

September 30, 2014 and December 31, 2013

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**SEPTEMBER 30, 2014 AND DECEMBER 30, 2013**  
*(Amounts in Philippine Pesos)*

	Notes	2014	2013
<b><u>ASSETS</u></b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	5	<b>P 450,840,831</b>	P 2,327,335,632
Financial Assets at Fair Value Through Profit or Loss	6	<b>2,197,227,874</b>	294,286,160
Trade and other receivables - net	7	<b>1,085,746,873</b>	1,132,677,373
Advances to related parties	25	<b>25,637,846</b>	24,735,439
Available-for-sale financial assets - net	8	-	-
Merchandise inventories and supplies - net	9	<b>750,443,723</b>	844,245,080
Real estate inventories - net	10	<b>2,429,619,957</b>	2,423,235,917
Other current assets	13	<b>447,829,061</b>	425,932,898
		<b>7,387,346,165</b>	7,472,448,499
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	7	<b>781,123,322</b>	722,200,488
Available-for-sale financial assets - net	8	<b>9,458,692</b>	7,236,527
Property, plant and equipment - net	11	<b>1,705,041,994</b>	1,560,681,049
Investment property - net	12	<b>3,595,177,531</b>	3,648,811,016
Retirement benefit asset	21	<b>82,223,774</b>	82,223,774
Deferred tax assets - net	22	<b>99,556,356</b>	77,579,849
Other non-current assets - net	13	<b>17,672,427</b>	32,848,159
		<b>6,290,254,096</b>	6,131,580,862
<b>TOTAL ASSETS</b>		<b>P 13,677,600,261</b>	P 13,604,029,361

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>CURRENT LIABILITIES</b>			
Interest-bearing loans	14	<b>P 690,740,809</b>	P 684,002,914
Trade and other payables	15	<b>733,174,026</b>	731,274,757
Customers' deposits	10	<b>1,623,747,171</b>	1,306,036,566
Advances from related parties	25	<b>84,751,117</b>	81,323,563
Estimated liability for land and land development costs	10	<b>68,304,647</b>	68,304,647
Income tax payable		<b><u>11,675,090</u></b>	<u>4,695,146</u>
Total Current Liabilities		<b><u>3,212,392,860</u></b>	<u>2,875,637,593</u>
<b>NON-CURRENT LIABILITIES</b>			
Refundable deposits - net	16	<b>20,185,293</b>	15,127,106
Retirement benefit obligation	21	<b>26,520,678</b>	26,520,678
Deferred tax liabilities - net	22	<b><u>935,309,237</u></b>	<u>935,309,237</u>
Total Non-current Liabilities		<b><u>982,015,208</u></b>	<u>976,957,021</u>
Total Liabilities		<b><u>4,194,408,068</u></b>	<u>3,852,594,614</u>
<b>EQUITY</b>			
Equity attributable to the Parent Company's stockholders			
Capital stock	23	<b>2,030,975,000</b>	2,030,975,000
Additional paid-in capital		<b>4,641,701,922</b>	4,641,701,922
Treasury shares - at cost	23	<b>( 115,614,380 )</b>	( 115,614,380 )
Revaluation reserves	23	<b>( 15,476,013 )</b>	( 16,786,209 )
Retained earnings	23	<b><u>2,599,153,509</u></b>	<u>2,820,926,308</u>
Total equity attributable to the Parent Company's stockholders		<b>9,140,740,038</b>	9,361,202,641
Non-controlling interests		<b><u>342,452,155</u></b>	<u>390,232,106</u>
Total Equity		<b><u>9,483,192,193</u></b>	<u>9,751,434,747</u>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b><u>P 13,677,600,261</u></b>	<b><u>P 13,604,029,361</u></b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

	Notes	2014		2013	
		3rd Quarter	Year to Date	3rd Quarter	Year to Date
<b>REVENUES</b>					
Sale of goods	2	P 1,133,368,064	P 2,788,306,543	P 936,696,229	P 2,439,780,767
Rendering of services	25, 26	109,439,692	308,727,415	111,029,431	297,275,378
Sale of real estate	2	9,376,609	28,315,871	48,449,336	106,374,872
Rentals	12, 27	37,971,536	120,161,335	38,521,464	116,421,581
Interests	20, 25	4,416,405	15,525,707	8,758,440	29,172,405
Fair value gains on FAFVTPL	7	2,146,302	8,470,921	-	-
Gain on redemption of financial assets	7	2,645,208	3,488,098	-	-
		<u>1,299,363,816</u>	<u>3,272,995,890</u>	<u>1,143,454,900</u>	<u>2,989,025,003</u>
<b>COST OF SALES, SERVICES, REAL ESTATE SOLD AND RENTALS</b>					
Cost of sales	17, 19	974,050,876	2,454,838,200	799,811,205	2,003,617,012
Cost of services	17, 19	82,309,842	253,361,684	83,433,070	225,550,440
Cost of real estate sold	19	6,360,922	19,349,195	27,169,584	65,328,800
Cost of rentals	17, 19	9,713,283	35,072,450	5,998,616	29,585,756
		<u>1,072,434,923</u>	<u>2,762,621,529</u>	<u>916,412,475</u>	<u>2,324,082,008</u>
<b>GROSS PROFIT</b>		<u>226,928,893</u>	<u>510,374,361</u>	<u>227,042,425</u>	<u>664,942,995</u>
<b>OTHER OPERATING EXPENSES (INCOME)</b>					
General and administrative expenses	19	72,280,038	269,369,388	72,690,419	212,426,068
Selling and distribution costs	19	129,938,986	373,115,456	114,150,253	323,166,180
Other operating income - net	18	( 11,161,484 )	( 25,809,030 )	( 678,280 )	( 19,665,292 )
		<u>191,057,540</u>	<u>616,675,814</u>	<u>186,162,392</u>	<u>515,926,956</u>
<b>OPERATING PROFIT</b>		<u>35,871,353</u>	<u>( 106,301,453 )</u>	<u>40,880,033</u>	<u>149,016,039</u>
<b>OTHER INCOME (CHARGES)</b>					
Finance costs	20	( 27,675,715 )	( 63,061,487 )	( 26,118,899 )	( 56,425,685 )
Finance income	20	5,337,507	22,705,738	6,636,926	47,110,378
Other gains - net	19	( 1,766,286 )	( 1,766,286 )	199,263	199,263
		<u>( 24,104,494 )</u>	<u>( 42,122,035 )</u>	<u>( 19,282,710 )</u>	<u>( 9,116,044 )</u>
<b>PROFIT (LOSS) BEFORE TAX</b>		<u>11,766,859</u>	<u>( 148,423,488 )</u>	<u>21,597,323</u>	<u>139,899,995</u>
<b>TAX EXPENSE</b>	22	<u>345,685</u>	<u>11,836,742</u>	<u>11,932,696</u>	<u>49,620,182</u>
<b>PROFIT (LOSS) FOR THE PERIOD</b>		<u>11,421,174</u>	<u>( 160,260,230 )</u>	<u>P 9,664,627</u>	<u>P 90,279,813</u>
<b>Profit for the year attributable to the:</b>					
Parent Company's stockholders		P 17,618,613	( P 112,480,279 )	P 24,587,058	P 114,633,892
Non-controlling interests		( 6,197,439 )	( 47,779,951 )	( 14,922,431 )	( 24,354,079 )
		<u>P 11,421,174</u>	<u>( P 160,260,230 )</u>	<u>P 9,664,627</u>	<u>P 90,279,813</u>
<b>Earnings per share attributable to the</b>					
Parent Company's stockholders - basic and diluted	24	<u>P 0.01</u>	<u>( P 0.06 )</u>	<u>P 0.01</u>	<u>P 0.06</u>

*See Notes to Consolidated Financial Statements.*



**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

Notes	2014		2013	
	3rd Quarter	Year to Date	3rd Quarter	Year to Date
<b>NET PROFIT FOR THE PERIOD</b>	<b>P 11,421,174</b>	<b>( P 160,260,230 )</b>	<b>P 9,664,627</b>	<b>P 90,279,813</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
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	12,038,001	1,310,196	8,144,077	34,415,340
	-	-	-	-
	<u>12,038,001</u>	<u>1,310,196</u>	<u>8,144,077</u>	<u>34,415,340</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>P 23,459,175</b>	<b>( P 158,950,034 )</b>	<b>P 17,808,704</b>	<b>P 124,695,153</b>
<b>Total comprehensive income (loss) for the year attributable to:</b>				
Parent Company's stockholders	P 29,656,614	( P 111,170,083 )	P 32,731,135	P 149,049,232
Non-controlling interests	( 6,197,439 )	( 47,779,951 )	( 14,922,431 )	( 24,354,079 )
	<u>P 23,459,175</u>	<u>( P 158,950,034 )</u>	<u>P 17,808,704</u>	<u>P 124,695,153</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

	<u>Note</u>	<u>2014</u>	<u>2013</u>
<b>EQUITY ATTRIBUTABLE TO THE PARENT COMPANY'S STOCKHOLDERS</b>			
<b>CAPITAL STOCK - P1 par value</b>			
Authorized - 5,000,000,000 shares			
Issued - 2,030,975,000 shares			
Outstanding - 1,821,542,000 shares		<b>P 2,030,975,000</b>	P 2,030,975,000
<b>ADDITIONAL PAID-IN CAPITAL</b>		<b><u>4,641,701,922</u></b>	<u>4,641,701,922</u>
<b>TREASURY SHARES - at cost</b>			
Acquired at P0.5520 per share - 209,433,000 shares		( <u>115,614,380</u> )	( 115,614,380 )
<b>REVALUATION RESERVES</b>			
	23		
Balance at beginning of year		( 16,786,209 )	( 46,319,482 )
Other comprehensive income (loss) for the year		<u>1,310,196</u>	<u>34,415,340</u>
Balance at end of year		( <u>15,476,013</u> )	( 11,904,142 )
<b>RETAINED EARNINGS (DEFICIT)</b>			
Balance at beginning of year			
As previously reported		2,820,926,308	2,758,300,997
Prior period adjustments, net of tax		-	-
As restated		<u>2,820,926,308</u>	<u>2,758,300,997</u>
Profit (loss) for the year attributable to the Parent Company's stockholders		( 112,480,279 )	114,633,892
Cash dividends		( <u>109,292,520</u> )	( <u>109,292,520</u> )
Balance at end of year		<u>2,599,153,509</u>	<u>2,763,642,369</u>
Total Equity Attributable to the Parent Company's stockholders		<u>9,140,740,038</u>	<u>9,308,800,769</u>
<b>NON-CONTROLLING INTERESTS</b>			
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		( <u>47,779,951</u> )	( <u>24,354,079</u> )
Balance at end of year		<u>342,452,155</u>	<u>378,391,744</u>
<b>TOTAL EQUITY</b>		<b><u>P 9,483,192,193</u></b>	<b><u>P 9,687,192,513</u></b>
<b>Total comprehensive income (loss) for the year attributable to:</b>			
Parent Company's stockholders		( P 111,170,083 )	P 149,049,232
Non-controlling interests		( <u>47,779,951</u> )	( <u>24,354,079</u> )
		<b>( P 158,950,034 )</b>	<b>P 124,695,153</b>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2014 AND 2013**  
*(Amounts in Philippine Pesos)*

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Profit before tax	(	148,423,488	139,899,995
Adjustments for:			
Interest income	(	27,552,554	( 66,774,093)
Depreciation and amortization		29,243,070	22,880,422
Losses (gain) on sale of financial assets		-	-
Impairment losses on financial assets			
Impairment losses on trade and other receivables		11,537,201	-
Interest expense		38,252,524	35,726,686
Fair value gains on financial assets at fair value through profit or loss	(	13,024,206	-
Loss (reversal) on inventory obsolescence		47,850,777	( 1,879,944)
Unrealized foreign currency losses (gains) - net	(	811,969	12,455,398
Fair value gains on investment property - net			
Reversals of impairment losses on trade and other receivables		-	( 3,210,377)
Reversals of allowance for inventory obsolescence			
Interest amortization on refundable deposits			
Gain on sale of property and equipment		-	-
Write-off of investment property			
Reversal of impairment loss on property, plant & equipment		-	-
Impairment (reversal) losses on available-for-sale financial assets	(	341,342	-
Operating profit before working capital changes		63,269,987	139,098,087
Decrease (increase) in trade and other receivables	(	22,362,738	121,391,904
Decrease (increase) in available-for-sale financial assets	(	1,880,823	532,296
Decrease (increase) in financial assets at fair value through profit or loss	(	1,889,917,508	-
Decrease (increase) in held-to-maturity investments			
Decrease (increase) in merchandise inventories and supplies		45,950,580	( 561,849,062)
Decrease (increase) in real estate inventories	(	5,073,844	( 75,999,747)
Decrease (increase) in advances to related parties	(	902,407	14,908,925
Decrease (increase) in other current assets	(	21,896,163	( 130,468,170)
Decrease (increase) in retirement benefit asset		-	-
Increase in deferred tax assets	(	21,976,507	( 3,021,501)
Decrease (increase) in other non-current assets		15,175,732	4,397,539
Increase (decrease) in trade and other payables		1,908,987	203,351,982
Increase in estimated liability for land and land development costs		-	
Increase (decrease) in customers' deposits		317,710,605	284,346,537
Increase (decrease) in advances from related parties		3,427,554	3,862,485
Increase (decrease) in refundable deposits		5,058,187	4,100,014
Increase (decrease) in retirement benefit obligation		-	-
Increase in deferred tax liabilities		-	-
Cash generated from (used in) operations	(	1,638,048,332	4,651,289
Interest received		14,358,910	29,172,405
Cash paid for income taxes	(	4,856,798	( 103,879,388)
Net Cash From Operating Activities	(	1,628,546,220	( 70,055,694)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Decrease (Acquisitions) of property and equipment	(	125,245,278	( 120,796,502)
Interest received		12,026,847	43,290,827
Decrease (Additions) to investment property		5,274,748	2,455,098
Net Cash Used in Investing Activities	(	107,943,683	( 75,050,577)

<u>Notes</u>	<u>2014</u>	<u>2013</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from (repayments) of interest-bearing loans - net	6,737,895	128,719,721
Dividends paid	( 109,292,520 )	( 109,292,520 )
Interest paid	( 38,262,242 )	( 39,332,741 )
Net Cash From (Used in) Financing Activities	( 140,816,867 )	( 19,905,540 )
<b>Effect of Currency Rate Changes on Cash and Cash Equivalents</b>	<u>811,969</u>	( 12,455,398 )
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	( 1,876,494,801 )	( 177,467,209 )
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<u>2,327,335,632</u>	<u>3,019,984,213</u>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	<u>P 450,840,831</u>	<u>P 2,842,517,004</u>

*See Notes to Consolidated Financial Statements.*

**SOLID GROUP INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 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"):

Subsidiaries	Percentage of Ownership		Notes	Nature of Business
	2014	2013		
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. (OSSSI) [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, Makati City. The registered offices and principal places of business of the other subsidiaries are as follows:

BRL	-	2 <sup>nd</sup> 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, <i>Consolidated Financial Statements</i> , PFRS 12, <i>Disclosure of Interests in Other Entities</i> and PAS 27, <i>Separate Financial Statements</i>	:	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 Combinations* (effective July 1, 2014). Clarifies that PFRS 3 excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself.
- (b) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.
- (c) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3 and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and explicitly requires an entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

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

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

	2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in consolidated statements of income:</i>			
General and administrative expenses	P 343,002,874	P 9,140,605	P 352,143,479
Other gains	( 57,651,877)	( 3,251,093)	( 60,902,970)
Tax expense	276,164,794	<u>( 1,495,967)</u>	274,668,827

Net decrease in net profit			P	<u>4,393,545</u>	
<i>Change in consolidated statements of comprehensive income</i>					
Remeasurements of post-employment defined benefit plan – net of tax	P	-	P	<u>2,160,626</u>	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 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 reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, entities are deconsolidated from the date that control ceases.

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

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

The excess of the consideration transferred the amount of any NCI in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets

of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss (see Note 2.13).

*(b) Transactions with NCI*

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

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

**2.4 Segment Reporting**

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

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

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

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

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

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

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

## **2.5 Financial Assets**

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

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

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

### *(a) Financial Asset at FVTPL*

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

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

### *(b) Loans and Receivables*

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

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



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

(c) *AFS Financial Assets*

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

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

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

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

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

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange-quoted market bid prices at the close of business on the end of reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another

instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

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

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

## ***2.6 Merchandise Inventories and Supplies***

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

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

## ***2.7 Real Estate Inventories***

Real estate inventories consist of the following:

### ***(a) Land and Land Development Costs***

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

### ***(b) Property Development Costs***

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

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

## **2.8 Other Assets**

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

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

## **2.9 Property, Plant and Equipment**

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

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

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

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

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

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

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

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

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

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

### ***2.10 Investment Property***

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

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

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

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

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

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

### ***2.11 Financial Liabilities***

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

Interest-bearing loans are recognized at proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue

costs, are charged to profit or loss on an accrual basis using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

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

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

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

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

### ***2.12 Offsetting Financial Instruments***

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

### ***2.13 Business Combination***

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

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

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

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

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

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

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

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

#### **2.14 Provisions and Contingencies**

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

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

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

### **2.15 Revenue and Expense Recognition**

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

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

- (a) *Rendering of services* – Revenue is recognized when the performance of contractually agreed services have been substantially rendered.
- (b) *Sale of goods (other than sale of real estate)* – Revenue is recognized when the risks and rewards of ownership of the goods have passed to the buyer i.e., generally when the customer has acknowledged delivery of goods.
- (c) *Rentals* – Revenue is recognized on a straight-line basis over the duration of the term of the lease (see Note 2.16).
- (d) *Warranty and network support fee (shown as part of Rendering of Services)* – Revenue from warranty is recognized upon actual rendering of in-warranty and out-of-warranty services to the customers. Revenue from network support is accrued monthly based on a fixed amount specified in the service contract as agreed with the customer.
- (e) *Sale of real estate* – Revenues from sale of real estate is accounted for using the full accrual method. Under this method, gross profit on sale is fully recognized when: (a) the collectibility of the sales price is reasonably assured; (b) the earnings process is virtually complete; and, (c) the seller does not have a substantial continuing involvement with the subject properties. The collectibility of the sales price is considered reasonably assured when: (a) the related loan documents have been delivered to the banks; or (b) the full down payment comprising a substantial portion (at least 25%) of the contract price is received and the capacity to pay and credit worthiness of buyers have been reasonably established for sales under the deferred cash payment arrangement.

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

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

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of real estate property sold before completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development, as determined by

technical staff. The estimated future expenditures for the development of the real estate property for sale are shown under the Estimated Liability for Land and Land Development Costs account in the consolidated statement of financial position.

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

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

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

- (g) *Commission income (shown as part of Rendering of Services)* – Revenue is recognized on an accrual basis computed based on a certain percentage of sales.
- (h) *Increase in cash surrender value of life insurance* – Revenue is recognized when the increase in cash surrender value occurs and becomes determinable.
- (i) *Service charges and penalties* – Revenue is generally recognized on an accrual basis when the service has been provided and when there is reasonable degree of certainty as to their collectibility.
- (j) *Interest income on cash and cash equivalents* – Revenue is recognized as the interest accrues taking into account the effective yield on the asset.

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



## **2.16 Leases**

The Group accounts for its leases as follows:

### *(a) Group as Lessee*

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

### *(b) Group as Lessor*

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in the consolidated statement of income on a straight-line basis over the lease term (see Note 2.15).

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

## **2.17 Foreign Currency Transactions and Translation**

### *(a) Transactions and Balances*

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

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

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

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

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

- (ii) Income and expenses for each statement of income account are translated at the monthly average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and,
- (iii) All resulting exchange differences are recognized as a separate component of other comprehensive income.

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

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

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

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

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

Impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Group's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

## **2.19 Employee Benefits**

The Group provides post-employment benefits to employees through a defined benefit plan, as well as a defined contribution plan.

### *(a) Defined Benefit Plan*

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

The liability recognized in the consolidated statement of financial position for post-employment defined benefit plans is the present value of the defined benefit obligation (DBO) at the end of the reporting period less the fair value of plan assets. The DBO is calculated annually by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the interest rates of a zero coupon government bonds as published by the Philippine Dealing and Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the consolidated statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Other Gains account in the consolidated statement of income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment.

### *(b) Defined Contribution Plans*

A defined contribution plan is a post-employment plan under which the Group pays fixed contributions into an independent entity (i.e., Social Security System). The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be

recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

(c) *Termination Benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the reporting period are discounted to their present value.

(d) *Compensated Absences*

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

## **2.20 Borrowing Costs**

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

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

For income tax purposes, interest and other borrowing costs are charged to expense when incurred.

## **2.21 Income Taxes**

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

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the 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 7). 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 September 30, 2014 and December 31, 2013 and the related revenue and profit information for the months ended September 30, 2014 and September 30, 2013 (in thousands).

	Distribution	Real Estate	Support Services and Others	Elimination	Total
<b>2014</b>					
<b>SEGMENT RESULTS</b>					
Total revenues	P 2,798,997	P 156,408	P 372,593	(P 55,002)	P 3,272,996
Net profit (loss)	(P 120,183)	(P 76,607)	P 37,142	(P 612)	(P 160,260)
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Total assets	<u>P 2,010,511</u>	<u>P 8,223,589</u>	<u>P 8,832,340</u>	<u>(P 5,388,840)</u>	<u>P 13,677,600</u>
Total liabilities	<u>P 1,494,393</u>	<u>P 4,806,211</u>	<u>P 597,543</u>	<u>(P 2,703,739)</u>	<u>P 4,194,408</u>
<b>2013</b>					
<b>SEGMENT RESULTS</b>					
Total revenues	P 2,454,573	P 243,197	P 337,337	(P 46,082)	P 2,989,025
Net profit (loss)	<u>P 33,756</u>	<u>P 16,374</u>	<u>P 47,004</u>	<u>(P 6,854)</u>	<u>P 90,280</u>
<b>SEGMENT ASSETS AND LIABILITIES</b>					
Total assets	<u>P 2,217,610</u>	<u>P 8,882,306</u>	<u>P 10,749,406</u>	<u>(P 8,245,293)</u>	<u>P 13,604,029</u>
Total liabilities	<u>P 1,611,155</u>	<u>P 4,821,008</u>	<u>P 601,697</u>	<u>(P 3,181,265)</u>	<u>P 3,852,595</u>

## 5. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components:

	<u>2014</u>	<u>2013</u>
Cash on hand and in banks	<b>P 370,027,673</b>	P 424,429,746
Short-term placements	<u>80,813,158</u>	<u>1,902,905,886</u>
	<b><u>P 450,840,831</u></b>	<b><u>P 2,327,335,632</u></b>

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% 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 P3.4 million in 2014 and is presented as part of Revenue and nil in 2013. In 2013, it is presented as part of Finance Income under Other Income (Charges) account in the consolidated statement of income (see Note 20.1). Fair value gains of financial assets at FVTPL amounted to P 8.4 million and the P4.5 million in 2014 were presented as part of Revenue and Finance Income, respectively.

## 7. TRADE AND OTHER RECEIVABLES

This account is composed of the following:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Current:			
	25.3, 25.6,		
Trade receivables	26.1	<b>P 770,290,887</b>	P 796,315,556
Advances to suppliers	25.6	<b>232,048,796</b>	242,349,914
Loans receivables	25.4, 25.7	<b>17,522,552</b>	45,655,849
Due from related parties		<b>0</b>	1,535,862
Interest receivable		<b>20,409,905</b>	20,284,738
Other receivables		<u>93,262,183</u>	<u>65,228,041</u>
		<b>1,133,534,323</b>	1,171,369,960
Allowance for impairment		<u>(47,787,450)</u>	<u>(38,692,587)</u>
		<b><u>1,085,746,873</u></b>	<b><u>1,132,677,373</u></b>

Non-current:			
Trade receivables	25.6	<b>36,421,903</b>	28,932,349
Loans receivables	25.6, 25.7	<b>208,684,228</b>	178,210,751
Cash surrender value of investment in life insurance	13	<u><b>536,017,190</b></u>	<u>515,057,388</u>
		<u><b>781,123,322</b></u>	<u>722,200,488</u>
		<u><b>P 1,866,870,195</b></u>	<u>P 1,854,877,861</u>

Trade receivables include amounts due from the Group's real estate buyers arising from the sale of industrial lots and condominium units. The title to the real estate properties remain with the Group until such time that the Group fully collects its receivables from the real estate buyers. Trade receivables from sale of condominium units are measured at amortized cost and bear effective interests ranging from 9.8% to 18.0% depending on the terms of payment (see Note 20.1).

Interest income recognized in 2014 and 2013 amounting to P15.5 million and P29.1 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:

	<u>2014</u>	<u>2013</u>
Current:		
Investments in foreign currency-denominated bonds	<b>P 13,668,821</b>	P 52,237,573
Allowance for impairment	<b>( 13,668,821)</b>	<b>( 52,237,573)</b>
	<u>-</u>	<u>-</u>
Non-current:		
Club shares	<b>11,252,400</b>	9,252,400
Equity securities	<b>8,580,000</b>	8,580,000
Others	<b><u>856,292</u></b>	<u>634,127</u>
	<b>20,688,692</b>	18,466,527
Allowance for impairment	<b>( 11,230,000)</b>	<b>( 11,230,000)</b>
	<b><u>9,458,692</u></b>	<u>7,236,527</u>
	<b>P 9,458,692</b>	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).

	<u>2014</u>	<u>2013</u>
Merchandise and finished goods	<b>P 790,856,004</b>	P 846,213,717
Raw materials	<b>362,856</b>	362,856
Service parts, supplies and others	<u><b>68,379,435</b></u>	<u>61,985,161</u>
	<b>859,598,295</b>	908,561,734
Allowance for inventory obsolescence	<u><b>( 109,154,572)</b></u>	<u>( 64,316,654)</u>
Balance at end of year	<u><b>P 750,443,723</b></u>	<u>P 844,245,080</u>

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:

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Land and land development costs:			
Land		<b>P 9,725,593</b>	P 9,725,593
Land development costs		<u><b>438,431,578</b></u>	<u>457,288,818</u>
		<b>448,157,171</b>	467,014,411
Allowance for impairment		<u><b>( 2,022,800)</b></u>	<u>( 2,022,800)</u>
		<b>446,134,371</b>	464,991,611
Property development costs –			
Construction in progress			
and development costs	12	<u><b>1,983,485,586</b></u>	<u>1,958,244,306</u>
		<u><b>P 2,429,619,957</b></u>	<u>P 2,423,235,917</u>

Land and land development costs pertain to cost of land and related improvements, held by Starworld and LIIP, which are held for sale. Property development costs pertain to cost of land used as a building site and the accumulated construction costs of the condominium building project being developed by ZTC and Fil-Dragon, which are also for sale.

Borrowing costs incurred from loans availed of by Fil-Dragon were capitalized as part of Property development costs. Borrowing cost incurred in 2013 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 September 30, 2014 and December 31, 2013 amounting to P1,557 million (RMB213 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
September 30, 2014												
Cost	P 1,277,854,682	P 73,184,710	P 38,576,378	P 108,600,046	P 83,489,182	P -	P 15,058,472	P 30,691,976	P 74,235,855	P 23,042,876	P 346,150,599	P 2,070,884,776
Accumulated depreciation and amortization	-	( 25,554,493)	( 25,214,080)	( 104,902,947)	( 67,394,108)	-	( 11,726,333)	( 27,689,278)	( 51,654,484)	( 16,707,059)	-	( 330,842,782)
Accumulated impairment loss	-	( 35,000,000)	-	-	-	-	-	-	-	-	-	( 35,000,000)
Net carrying amount	<u>P 1,277,854,682</u>	<u>P 12,630,217</u>	<u>P 13,362,298</u>	<u>P 3,697,099</u>	<u>P 16,095,074</u>	<u>P -</u>	<u>P 3,332,139</u>	<u>P 3,002,698</u>	<u>P 22,581,371</u>	<u>P 6,335,817</u>	<u>P 346,150,599</u>	<u>P 1,705,041,994</u>
	Land	Buildings and Improvements	Machinery and Equipment	Furniture, Fixtures and Office Equipment	Transportation Equipment	Cable System Equipment	Test, Communication and Other Equipment	Computer System	Leasehold Improvements	Tools and Equipment	Construction in Progress	Total
December 31, 2013												
Cost	P 1,207,854,682	P 155,408,061	P 46,032,938	P 154,774,686	P 109,596,633	P -	P 103,054,255	P 68,158,644	P 80,393,594	P 29,038,254	P 177,773,048	P 2,132,084,795
Accumulated depreciation and amortization	-	( 30,678,741)	( 30,703,750)	( 136,263,157)	( 89,006,051)	-	( 101,851,777)	( 67,254,980)	( 56,402,307)	( 24,242,983)	-	( 536,403,746)
Accumulated impairment loss	-	( 35,000,000)	-	-	-	-	-	-	-	-	-	( 35,000,000)
Net carrying amount	<u>P 1,207,854,682</u>	<u>P 89,729,320</u>	<u>P 15,329,188</u>	<u>P 18,511,529</u>	<u>P 20,590,582</u>	<u>P -</u>	<u>P 1,202,478</u>	<u>P 903,664</u>	<u>P 23,991,287</u>	<u>P 4,795,271</u>	<u>P 177,773,048</u>	<u>P 1,560,681,049</u>

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)	( 834,892)	( 6,760,282)	( 2,199,580)	-	( 32,328,211)
Balance at December 31, 2013	<u>P 1,207,854,682</u>	<u>P 89,729,320</u>	<u>P 15,329,188</u>	<u>P 18,511,529</u>	<u>P 20,590,582</u>	<u>P -</u>	<u>P 1,202,478</u>	<u>P 903,664</u>	<u>P 23,991,287</u>	<u>P 4,795,271</u>	<u>P 177,773,048</u>	<u>P 1,560,681,049</u>

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:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Cost of services	17.2	<b>P 7,681,802</b>	P 7,861,469
Cost of rentals	17.3	<b>1,610,459</b>	2,374,501
General and administrative expenses		<b>19,950,809</b>	12,644,452
Discontinued operations		<u>-</u>	<u>-</u>
	19	<b><u>P 29,243,070</u></b>	<b><u>P 22,880,422</u></b>

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 September 30, 2014 and December 31, 2013.

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 were 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 September 30, 2014 and December 31, 2013:

	<u>Land and Improvements</u>	<u>Buildings and Improvements</u>	<u>Total</u>
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)	16,366,515	( 53,633,485)
Balance at end of year	<b><u>P 2,912,289,350</u></b>	<b><u>P 682,888,181</u></b>	<b><u>P 3,595,177,531</u></b>
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	<b><u>P 2,982,289,350</u></b>	<b><u>P 666,521,666</u></b>	<b><u>P 3,648,811,016</u></b>

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 September 30, 2014 and December 31, 2013 is shown below.

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Current:			
Creditable withholding taxes		<b>P 48,203,147</b>	P 174,610,896
Prepayments		<b>229,157,729</b>	112,297,479
Input VAT - net		<b>112,412,783</b>	110,967,327
Refundable deposits		<b>11,348,926</b>	14,803,019
Advances to suppliers and contractors		<b>3,368,991</b>	4,526,215
Restricted cash		<b>6,173,337</b>	6,173,337
Others		<b><u>15,420,030</u></b>	<u>2,554,625</u>
		<b><u>447,829,061</u></b>	<u>425,932,898</u>
Non-current:			
Deferred input VAT		-	13,987,869
Land under litigation	13, 28.3	<b>4,935,606</b>	4,935,606
Deposits to suppliers		-	3,661,213
Refundable deposits - net		<b>7,523,443</b>	3,263,084
Rental deposits		<b>2,317,562</b>	2,979,363
Investment in shares		<b>1,303,591</b>	1,375,290
Cash bond		<b>568,234</b>	568,234
Others		<b><u>1,023,991</u></b>	<u>2,077,500</u>
		<b><u>17,672,427</u></b>	<u>32,848,159</u>
		<b><u>P 466,579,271</u></b>	<u>P 458,781,057</u>

Prepayments include prepaid insurance, rentals and other business taxes.

Restricted cash pertains to bank deposits pledged by Fil-Dragon as security in favor of banks and financial institutions in the PRC which provided mortgage loan to purchasers of properties. Such charges would be released when the certificates for housing ownership are granted to the property purchasers. This deposit earns interest at floating rates based on daily bank deposit rates (see Note 20.1).

### 14. INTEREST-BEARING LOANS

Short-term interest-bearing loans and borrowings as of September 30, 2014 and December 31, 2013 are broken down as follows:

	<u>2014</u>			<u>2013</u>		
	<u>USD</u>	<u>RMB</u>	<u>Total in PHP</u>	<u>USD</u>	<u>RMB</u>	<u>Total in PHP</u>
BRL	\$ 5,273,940	¥ -	P 237,147,985	\$ 5,220,159	¥ -	P 231,848,142
Fil-Dragon	-	62,039,120	453,592,824	-	61,842,434	452,154,772
	<b><u>\$ 5,273,940</u></b>	<b><u>¥ 62,039,120</u></b>	<b><u>P 690,740,809</u></b>	<b><u>\$ 5,220,159</u></b>	<b><u>¥ 61,842,434</u></b>	<b><u>P 684,002,914</u></b>

The Group's short-term interest-bearing loans as of September 30, 2014 and December 31, 2013 amounting to P690.7 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 is 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 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:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Trade payables	25.2, 25.6	<b>P 444,749,968</b>	P 516,484,923
Accrued expenses		<b>95,723,992</b>	38,435,027
Advances from customers		<b>30,743,762</b>	36,488,366
Accrued dealers' incentives		<b>40,793,075</b>	31,347,206
Refundable deposits	16	<b>14,765,788</b>	18,617,735
Rentals payable		<b>17,078,256</b>	17,656,928
Due to a related party	25.6	-	17,121,707
Reserve for warranty costs		<b>2,223,641</b>	9,290,348
Deferred output VAT		<b>5,966,305</b>	6,197,121
Retention payable		<b>1,694,672</b>	1,756,300
Output VAT		<b>8,188,648</b>	798,877
Other payables		<b>71,245,919</b>	37,080,219
		<b><u>P 733,174,026</u></b>	<b><u>P 731,274,757</u></b>

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:

	<u>Notes</u>	<u>2013</u>
Balance at beginning of year		<b>P 14,545,332</b>
Provisions for warranty claims during the year	19	<b>34,108,528</b>
Actual warranty claims during the year		<b>( 38,425,198)</b>
Reversals during the year	18	<b>( <u>938,314</u>)</b>
Balance at end of year		<b><u>P 9,290,348</u></b>

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.

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Merchandise and finished goods at beginning of year	9	<b><u>P 846,213,717</u></b>	<u>P 406,495,008</u>
Net purchases of merchandise during the year	19, 25	<b><u>2,351,629,710</u></b>	<u>2,561,264,894</u>
Cost of goods manufactured:			
Raw materials at beginning of year	9	362,856	362,856
Manufacturing overhead		-	
Raw materials at end of year	9	<b>( 362,856)</b>	( 362,856)
Work-in-process at end of year		<u>-</u>	<u>-</u>
		<u>-</u>	<u>-</u>
Goods available for sale		<b>3,197,843,427</b>	<b>2,967,759,992</b>
Merchandise and finished goods at end of year	9	<b>( 790,856,004)</b>	( 962,263,036)
Net provision (reversal of allowance) for inventory obsolescence		<u>47,850,777</u>	<u>( 1,879,944)</u>
	19	<b><u>P 2,454,838,200</u></b>	<b><u>P 2,003,617,012</u></b>

### 17.2 Cost of Services

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

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Materials, supplies and other consumables		<b>P 57,427,732</b>	P 42,376,923
Salaries and employee benefits	21	<b>33,841,024</b>	36,478,537
<b>Subcontracting services</b>		<b>29,917,250</b>	30,918,973
Outside services		<b>28,777,029</b>	23,619,638
Communication, light and water		<b>11,546,628</b>	12,579,237
Depreciation and amortization	11	<b>7,681,802</b>	7,861,469
Broadband reimbursement cost		<b>39,574,897</b>	42,633,177
<b>Transponder rental and leased line</b>		<b>185,450</b>	
Repairs and maintenance		<b>3,227,337</b>	394,530
Rentals	27	<b>29,765</b>	18,281
Transportation and travel		<b>1,358,701</b>	1,611,422
Cable services		<b>314,546</b>	376,731
Others		<u>39,479,523</u>	<u>26,681,522</u>
	19	<b><u>P 253,361,684</u></b>	<b><u>P 225,550,440</u></b>



### 17.3 Cost of Rentals

The details of this account are as follows:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Taxes and licenses		<b>P 9,713,041</b>	P 9,248,899
Outside services		<b>5,836,867</b>	5,547,422
Rentals		<b>5,514,977</b>	5,514,977
Repairs and maintenance		<b>7,512,785</b>	3,281,147
Depreciation and amortization	11	<b>1,610,459</b>	2,374,501
Salaries and employee benefits	21	<b>405,022</b>	1,640,255
Others		<b><u>4,479,299</u></b>	<u>1,978,555</u>
	12, 19	<b><u>P 35,072,450</u></b>	<u>P 29,585,756</u>

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:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Increase in cash surrender value of investment in life insurance	7	<b>14,306,976</b>	P 8,358,647
Gain on sale of PPE			1,546,124
Miscellaneous	5	<b><u>11,502,054</u></b>	<u>9,760,521</u>
		<b><u>P 25,809,030</u></b>	<u>P 19,665,292</u>

## 19. OPERATING EXPENSES BY NATURE

The details of operating expenses by nature are shown below.

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Net purchases of merchandise inventories	17	<b>P 2,351,629,710</b>	P 2,561,264,984
Salaries and employee benefits	21	<b>254,817,509</b>	184,497,981
Net provision (reversal) on inventory Obsolescence		<b>47,850,777</b>	( 1,879,944)
Outside services		<b>95,871,340</b>	99,724,000
Subcontracting Services		<b>29,917,250</b>	30,918,973
Broadband reimbursement cost		<b>39,574,897</b>	42,633,177
Materials, supplies and other consumables		<b>63,193,595</b>	48,114,992
Cost of real estate sold		<b>19,349,195</b>	65,328,800
Rentals	27	<b>37,957,455</b>	29,976,801
Taxes and licenses		<b>55,834,412</b>	35,758,916
Transponder rental & leased line		<b>185,450</b>	
Utilities and communication		<b>27,758,646</b>	28,407,135
Repairs and maintenance		<b>15,420,388</b>	11,263,715
Transportation and travel		<b>16,297,157</b>	14,774,257
Depreciation and amortization	11	<b>29,243,070</b>	22,880,422
Change in merchandise, finished goods and work-in-process inventories		<b>55,357,713</b>	( 555,768,028)
Miscellaneous		<b><u>264,847,809</u></b>	<u>241,778,075</u>
		<b><u>P 3,405,106,373</u></b>	<u>P 2,859,674,256</u>

Items classified under the miscellaneous account primarily consist of advertising and promotions, subcontracting services, taxes and licenses, cable services and insurance expenses incurred by the Group.

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

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Cost of sales	17	P 2,454,838,200	P 2,003,617,012
Cost of services	17	253,361,684	225,550,440
Cost of rentals	17	35,072,450	29,585,756
Cost of real estate sales		19,349,195	65,328,800
Selling and distribution costs		373,115,456	323,166,180
General and administrative expenses		<u>269,369,388</u>	<u>212,426,068</u>
		<u>P 3,405,106,373</u>	<u>P 2,859,674,256</u>

## 20. OTHER INCOME (CHARGES)

### 20.1 Finance Income

This account consists of the following:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Interest income from cash and cash equivalents	5,	P 12,026,847	P 37,601,688
FV gains of FA at FVTPL		5,445,771	5,411,622
Foreign currency gains – net			3,210,377
Reversal of impairment losses on trade and other receivables			3,210,377
Reversal of impairment losses on FA		679,835	
FV gains of FA at FVTPL		4,553,285	
Others			886,691
		<u>P 22,705,738</u>	<u>P 47,110,378</u>

Interest income earned by SGI, SMFI, BRL, Starworld, and Interstar from cash and cash equivalents amounting to P39.3 million in 2013, is presented as Interest under the Revenues account in the consolidated statements of income, as this was generated from the entities' primary business operations.

### 20.2 Finance Costs

This account consists of the following:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Impairment losses on trade and other receivables	7	P 11,537,201	P 17,867,020
Foreign currency losses		11,609,103	
Interest expense arising from interest-bearing loans	14	38,252,524	35,726,686
Impairment losses on AFS financial assets	8	338,493	
Others		<u>1,324,166</u>	<u>2,831,979</u>
		<u>P 63,061,487</u>	<u>P 56,425,685</u>

## 21. EMPLOYEE BENEFITS

### 21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are summarized below (see Notes 19).

	<u>Note</u>	<u>2014</u>	<u>2013</u>
Short-term benefits		<u>P 254,817,509</u>	<u>P 184,497,981</u>

### 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.

	<u>2013</u>
Fair value of plan assets	<u>P 181,854,959</u>
Present value of obligation	<u>( 67,512,401)</u>
	114,342,558
Effect of asset ceiling	<u>( 32,118,784)</u>
	<u>P 82,223,774</u>

The components of the retirement benefit obligation of certain subsidiaries at the end of the reporting periods are shown below.

	<u>2013</u>
Present value of obligation	<b><u>P 26,520,678</u></b>

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

	<u>2013</u>
Balance at beginning of year	<b>P 126,587,814</b>
Current service costs	<b>13,986,258</b>
Interest costs	<b>6,600,575</b>
Benefits paid	<b>( 42,764,356)</b>
Remeasurements – actuarial losses (gains) arising from:	
Experience adjustments	<b>( 13,751,877)</b>
Changes in financial assumptions	<b>3,374,665</b>
Transfers	<b>-</b>
Balance at end of year	<b><u>P 94,033,079</u></b>

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

	<u>2013</u>
Balance at beginning of year	<b>P 209,414,356</b>
Interest income	<b>10,227,100</b>
Return on plan assets (excluding amounts included in net interest)	<b>1,787,287</b>
Contributions paid into the plan	<b>3,190,572</b>
Benefits paid by the plan	<b>( 42,764,356)</b>
Balance at end of year	<b><u>P 181,854,959</u></b>

The plan assets consist of the following as of December 31:

	<u>2013</u>
Debt securities:	
Philippines government bonds	<b>P 151,568,091</b>
Corporate bonds	<b>15,775,830</b>
UITF	<b>9,839,466</b>
Mutual funds	<b>4,671,572</b>
	<b><u>P 181,854,959</u></b>

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 in 2013.

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:

	<u>Notes</u>	<u>2013</u>
<i>Reported in consolidated statements of income:</i>		
Current service cost	22.1	P 13,986,258
Net interest expense (income)	19.2	( 1,641,760 )
Effect of asset ceiling		<u>-</u>
		<u><b>P 12,344,498</b></u>
<i>Reported in consolidated statements of comprehensive income:</i>		
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		<u>( 4,807,592 )</u>
		<u><b>P 7,356,907</b></u>

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:

	<u>2013</u>
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:

	<u>Impact on Post-employment Benefit Obligation</u>		
	<u>Change in Assumption</u>	<u>Increase in Assumption</u>	<u>Decrease in Assumption</u>
Discount rate	+1.0 -12.1%/-1.0-10.6%	( 2,807,111)	6,929,061
Salary increase rate	+1.0-10.5%/-1.0-9.5%	4,042,157	( 532,170)

The sensitivity analysis above is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in

assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

*(ii) Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Group through its Management Committee, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2013 and 2012 consists of debt securities, although the Group also invests in UITF and mutual funds.

*(iii) Funding Arrangements and Expected Contributions*

The plan is currently overfunded by P55.7 million based on the latest actuarial valuations.

The Group expects to make contribution of P3.2 million to the plan during the next reporting period

The maturity profile of undiscounted expected benefit payments from the plan as of December 31, 2013 follows:

Within one year	P	200,288
More than one year but not more than five years		3,677,711
More than five years but not more than ten years		29,445,696
More than ten years but not more than 15 years		141,233,917
More than 15 years but not more than 20 years		164,831,255
More than 20 years		<u>2,199,952,487</u>
		<b><u>P2,539,341,354</u></b>

## 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:

	<u>2014</u>	<u>2013</u>
<i>Consolidated statements of income</i>		
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%	<u>11,063,933</u>	<u>11,063,933</u>
	<u>45,114,530</u>	<u>45,114,530</u>
Deferred tax expense (income) relating to		
origination and reversal of		
temporary differences	<u>(211,422)</u>	<u>(211,422)</u>
	<u>P 44,903,108</u>	<u>P 44,903,108</u>
<i>Consolidated statements of comprehensive income:</i>		
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	<u>(1,156,237)</u>	<u>(1,156,237)</u>
	<u>P 1,050,833</u>	<u>P 1,050,833</u>

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

	<u>2013</u>
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	<u>95,210</u>
	<u>P 44,903,108</u>

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

	<u>2013</u>
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	<u>-</u>
Deferred tax assets – net	<u>P 77,579,849</u>

The net deferred tax liabilities of the other subsidiaries which have a net deferred tax liability position as of December 31 relate to the following:

	<u>2013</u>
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	<u>-</u>
Deferred tax liabilities – net	<u>(P 935,309,237)</u>

The components of net deferred tax expense (income) reported in the consolidated statements of income are as follows:

	<u>2013</u>
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	<u>54,271</u>
	<u>(P 211,422)</u>

The deferred tax income recognized in the consolidated statements of comprehensive income pertains to the tax effect of the changes in fair value of AFS financial assets and remeasurements of post-employment defined benefit plan.

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

<u>Year</u>	<u>Original Amount</u>	<u>Applied in Previous Years</u>	<u>Applied in Current Year</u>	<u>Expired Balance</u>	<u>Remaining Balance</u>	<u>Valid Until</u>
<b>NOLCO:</b>						
2013	P 36,638,281	P -	P -	P -	P 36,638,281	2016
2012	15,862,462	-	-	-	15,862,462	2015
2011	31,305,517	-	5,501,441	-	25,804,076	2014
2010	<u>3,283,221</u>	<u>2,008,326</u>	<u>331,953</u>	<u>942,942</u>	<u>-</u>	2013
	<u>P 87,089,481</u>	<u>P 2,008,326</u>	<u>P 5,833,394</u>	<u>P 942,942</u>	<u>P 78,304,819</u>	
<b>MCIT:</b>						
2013	P 255,337	P -	P -	P -	P 255,337	2016
2012	222,424	-	-	-	222,424	2015
2011	832,637	-	611,343	-	221,294	2014
2010	<u>4,774,835</u>	<u>-</u>	<u>4,774,835</u>	<u>-</u>	<u>-</u>	2013
	<u>P 6,085,233</u>	<u>P -</u>	<u>P 5,385,178</u>	<u>P -</u>	<u>P 699,055</u>	

Fil-Dragon has incurred tax losses amounting to P30.0 million (RMB4.3 million), P22.8 million (RMB3.5 million) and P32.5 million (RMB4.8 million) in 2013, 2012, and 2011 respectively. Similar to NOLCO, these tax losses can be applied as deductions from future taxable income of Fil-Dragon. However, the benefits from the tax losses expire within five years from the year such tax losses are incurred.

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

	<u>2013</u>	
	<u>Amount</u>	<u>Tax Effect</u>
NOLCO	<b>P70,997,903</b>	p 21,299,371
Unrealized foreign currency loss	<b>( 13,745,572)</b>	<b>( 4,123,672)</b>
Allowance for impairment of trade receivables	<b>13,600,000</b>	<b>4,080,000</b>
Retirement benefit obligation	<b>4,686,238</b>	<b>1,405,871</b>
Unearned income	<b>1,170,000</b>	<b>351,000</b>
Allowance for inventory obsolescence	<b>914,262</b>	<b>274,279</b>
MCIT	<b>640,139</b>	<b>640,139</b>
	<u><b>P78,262,970</b></u>	<u><b>P 23,926,988</b></u>

The Group opted to claim itemized deductions in computing for its income tax due in 2013.

## 23. EQUITY

### *23.1 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 September 30, 2014 and December 31, 2013, the Parent Company has issued shares of 2,030,975,000 (with P1 par value), of which, 395,965,704, and 394,465,704 shares are held by the public, respectively. There are 4,373 and 4,415 holders of the listed shares which closed at P1.36 and P1.18 per share on September 30, 2014 and December 31, 2013, respectively.

### *23.2 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 August 12, 2014, 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 29, 2014. The cash dividends were paid on September 24, 2014.

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.

### 23.3 Revaluation Reserves

The components of this account and its movements are as follows:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
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		<u>( 12,085,205)</u>	<u>( 12,085,205)</u>
Cumulative translation adjustments:			
Balance at beginning of year		90,686,928	49,374,055
Currency differences on translating financial statements of foreign operations	2	<u>1,310,196</u>	<u>41,312,873</u>
		<u>91,997,124</u>	<u>90,686,928</u>
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)
		<u>( 95,422,932)</u>	<u>( 95,422,932)</u>
Other comprehensive income attributable to non-controlling interest		<u>35,000</u>	<u>35,000</u>
Balance at end of the year		<u>(P 15,476,013)</u>	<u>(P 16,786,209)</u>

## 24. EARNINGS PER SHARE

Basic and diluted EPS for profit attributable to the Parent Company's stockholders are computed as follows:

	<u>2014</u>	<u>2013</u>
Net profit (loss) for the year attributable to the Parent Company's stockholders	<u>(P 112,480,279)</u>	<u>P 114,633,892</u>
Divided by weighted average shares outstanding:		
Number of shares issued	2,030,975,000	2,030,975,000
Treasury shares	<u>( 209,433,000)</u>	<u>( 209,433,000)</u>
	<u>1,821,542,000</u>	<u>1,821,542,000</u>
EPS – basic and diluted	<u>(P 0.06)</u>	<u>P 0.06</u>

There were no outstanding convertible preferred shares and bonds or other stock equivalents as of September 30, 2014 and December 31, 2013, hence, diluted EPS is equal to the basic EPS.

## 25. 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.

Related Party Category	Notes	2013	
		Amount of Transaction	Outstanding Receivable (Payable)
Related Parties Under Common Ownership:			
Purchase of mobile phones	25.6	3,165,472,663	(177,548,009 )
Availment of loans	25.8	92,841,796	452,154,772
Cash advances obtained	25.5	69,759,951	( 81,323,563 )
Interest expense	25.8	46,917,606	3,725,553
Purchase of parts	25.2	31,349,823	( 6,694,454 )
Lease of real property	25.3	15,375,161	355,800
Interest income	25.4, 25.7	10,270,326	15,939,918
Advances to suppliers	25.6	7,264,159	218,018,511
Commissions	25.6	4,366,100	4,366,100
Cash advances granted	25.5	3,102,051	24,735,439
Advances for equipment	25.6	2,839,816	( 250,969 )
Collection of receivables	25.6	1,634,470	( 17,121,707 )
Use of cable infrastructure	25.1	-	-
Management services	25.1	-	-
Granting of business loans	25.4	-	67,560,199
Granting of loans	25.7	-	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.

### 25.1 Rendering of Services

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.

### 25.2 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).

### ***25.3 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.

### ***25.4 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)		<u>7,975,288</u>
	<b>P</b>	<b><u>67,560,199</u></b>

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.

### ***25.5 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, 2013 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.

### ***25.6 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 7).

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, 2013 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).

### ***25.7 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 P4.2 million in 2014 and P4.0 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 P113.9 million as of September 30, 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 Note 7). No impairment loss was recognized on these loans in 2013.

### ***25.8 Loan Availments***

In 2011, Fil-Dragon obtained loans from companies that are owned by SCL. Outstanding balances from these loans amounted RMB 62.0 million (P453.6 million) and RMB61.8 million (P452.2 million) as of September 30, 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).

### ***25.9 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).

### ***25.10 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).

### ***25.11 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 21.2). 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).

## **26. SIGNIFICANT CONTRACTS AND AGREEMENTS**

### ***26.1 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).

## ***26.2 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.

## ***26.3 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. 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 P39.6 million in 2014 and P42.6 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 27.8).

## 27. COMMITMENTS AND CONTINGENCIES

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

### *27.1 Operating Lease Commitments – Group as Lessor*

Certain subsidiaries lease various properties under various non-cancellable lease agreements with terms ranging from one to ten years. Some of these lease transactions are subject to 5% to 10% escalation rate. The future minimum lease receivables under these non-cancellable operating leases as of December 31 are as follows:

	<u>2013</u>
Within one year	P 96,895,544
After one year but not more than five years	93,594,153
More than five years	<u>2,605,134</u>
	<u>P 193,094,831</u>

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.

### *27.2 Operating Lease Commitments – Group as Lessee*

The Group is a lessee under non-cancellable operating leases covering several parcels of land. These leases have terms of 25 years expiring in 2019. Lease payments are fixed for the first five years. Thereafter, the lease on land is subject to 100% escalation rate every five years while the lease on land improvements is subject to an annual escalation rate of 10%.

	<u>2013</u>
Within one year	P 10,227,331
After one year but not more than five years	46,536,524
More than five years	<u>-</u>
	<u>P 56,763,855</u>

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 17.2 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.

### *27.3 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.

#### ***27.4 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)

#### ***27.5 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.

#### ***27.6 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 2<sup>nd</sup> 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.

#### ***27.7 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 10).

#### ***27.8 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 26.3(c)]; hence, the Parent Company still holds the ownership interests in SBC.

#### ***27.9 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.

## 28. 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 29). 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.

### 28.1 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	<b>P487,720,343</b>	<b>P 11,605,228</b>	P 350,871,152	P 79,075,855
Financial liabilities	<b>( 593,895,439)</b>	<b>( 70,897,895)</b>	<b>( 614,218,228)</b>	<b>( 768,165,522)</b>
	<b>(P106,175,096)</b>	<b>(P59,292,667)</b>	<b>( P 263,347,076)</b>	<b>(P689,089,667)</b>

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	8.39%	(P 8,909,400)	23.40%	(P 61,623,216)
Php – RMB	9.60%	( <u>5,692,567</u> )	23.67%	( <u>163,107,524</u> )
		(P <u>14,601,967</u> )		(P <u>224,730,740</u> )

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 September 30, 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 +/-2.51 % 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 2.51% and 2.14% profit before tax in 2014 and 2013 would have increased by P64.3 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.

**28.2 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:

	<u>Notes</u>	<u>2014</u>	<u>2013</u>
Cash and cash equivalents	5	<b>P 450,840,831</b>	P 2,327,335,632
Financial assets at FVTPL	6	<b>2,197,227,874</b>	294,286,160
Trade and other receivables (excluding advances to suppliers) – net	7	<b>1,634,821,399</b>	1,612,527,947
Advances to related parties	25	<b>25,637,846</b>	24,735,439
Refundable deposits – net	13	<b><u>18,872,369</u></b>	<u>18,066,103</u>
		<b><u>P 4,327,400,319</u></b>	<b><u>P 4,276,951,281</u></b>

The Group continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports and other counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of real estate sales, advance payments are received to mitigate credit risk.

The Group's management considers that all the above financial assets that are not impaired or past due at the end of each reporting period are of good credit quality.

(a) *Cash and Cash Equivalents and FVTPL*

The credit risk for cash and cash equivalents and financial assets at FVTPL in the consolidated statements of financial position, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

(b) *Trade and Other Receivables*

Except for trade receivables arising from real estate sales, none of the financial assets are secured by collateral or other credit enhancements. Trade receivables are secured by industrial lots and condominium units sold to buyers and are covered by postdated checks.

(c) *Advances to Related Parties*

The Group is not exposed to any significant credit risk exposure in respect of advances to related parties. These advances are generally receivable in cash upon demand.

Some of the unimpaired trade receivables and advances to related parties are past due at the end of the reporting period. Trade receivables and advances to related parties past due but not impaired can be shown as follows:

	<u>2013</u>
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	<u>-</u>
	<b><u>P 37,198,862</u></b>



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.

### ***28.3 Liquidity Risk***

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

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash is invested in time deposits, mutual funds or short-term marketable securities. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

As of December 31, 2013, the Group's financial liabilities have contractual maturities which are presented below.

	<u>Current</u>	
	<u>1 to 6 months</u>	<u>6 to 12 months</u>
Interest-bearing loans	P 688,448,933	P -
Trade and other payables	661,703,614	-
Advances from related parties	<u>-</u>	<u>81,323,563</u>
	<u>P 1,350,152,547</u>	<u>P 81,323,563</u>

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.

## **29. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND LIABILITIES**

### ***29.1 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
<b>Financial assets</b>					
Loans and receivables:					
Cash and cash equivalents	5	P 450,840,831	P 450,840,831	P 2,327,335,632	P 2,327,335,632
Trade and other receivables – net	7	1,634,821,399	1,634,821,399	1,612,527,947	1,612,527,947
Advances to related parties	25	25,637,846	25,637,846	24,735,439	24,735,439
Refundable deposits	16	18,872,369	18,872,369	18,066,103	18,066,103
		<u>2,130,172,445</u>	<u>2,130,172,445</u>	3,982,665,121	3,982,665,121
Financial assets at FVTPL	6	2,197,227,874	2,197,227,874	294,286,160	294,286,160
AFS financial assets					
Golf club shares – net	8	8,602,400	8,602,400	6,602,400	6,602,400
Others		856,292	856,292	634,127	634,127
		<u>9,458,692</u>	<u>9,458,692</u>	7,236,527	7,236,527
		<u>P 4,336,859,011</u>	<u>P 4,336,859,011</u>	<u>P 4,284,187,808</u>	<u>P 4,284,187,808</u>
<b>Financial liabilities</b>					
At amortized cost:					
Interest-bearing loans – net	14	P 690,740,809	P 690,740,809	P 684,002,914	P 684,002,914
Trade and other payables	15	718,408,238	718,408,238	661,703,614	661,703,614
Advances from related parties	25	84,751,117	84,751,117	81,323,563	81,323,563
Refundable deposits – net	16	34,951,081	34,951,081	33,744,841	35,645,761
		<u>P 1,528,851,245</u>	<u>P 1,528,851,245</u>	<u>P 1,460,774,932</u>	<u>P 1,462,675,852</u>

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.

## 29.2 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.

## 30. FAIR VALUE MEASUREMENTS AND DISCLOSURES

### 30.1 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.

### ***30.2 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 September 30, 2014 and December 31, 2013.

	<u>Notes</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
September 30, 2014					
Financial assets at FVTPL	6	P -	P2,197,227,874	P -	P2,197,227,874
AFS financial assets	8	-	8,602,400	856,292	9,458,692
		<u>P -</u>	<u>P2,205,830,274</u>	<u>P 856,292</u>	<u>P2,206,686,566</u>
December 31, 2013					
Financial assets at FVTPL	6	P -	P 294,286,160	P -	P 294,286,160
AFS financial assets	8	-	6,602,400	634,127	7,236,527
		<u>P -</u>	<u>P 300,888,560</u>	<u>P 634,127</u>	<u>P 301,522,687</u>

The Group has no financial liabilities measured at fair value as of September 30, 2014 and December 31, 2013.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both periods.

### ***30.3 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 September 30, 2014			
		Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>					
<i>Loans and receivables:</i>					
Cash		P 450,840,831	P -	P -	P 450,840,831
Trade and other receivables	7			1,612,527,947	1,612,527,947
Advances to related parties	25			25,637,846	25,637,846
Security deposits	13			18,872,369	18,872,369
		<b><u>P 450,840,831</u></b>	<b><u>P -</u></b>	<b><u>P 1,657,038,162</u></b>	<b><u>P 2,107,878,993</u></b>
<b>Financial Liabilities</b>					
<i>At amortized cost:</i>					
Interest-bearing loans – net	14	P -	P -	P 690,740,809	P 690,740,809
Trade and other payables	15			733,174,026	733,174,026
Advances from related parties	25			84,751,117	84,751,117
Refundable deposits - net	16			20,185,293	20,185,293
		<b><u>P -</u></b>	<b><u>P -</u></b>	<b><u>P 1,528,851,245</u></b>	<b><u>P 1,528,851,245</u></b>

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.

### 30.4 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 September 30, 2014 and December 31, 2013.

	Note	Fair Value Hierarchy As At September 30, 2014			
		Level 1	Level 2	Level 3	Total
Land	13	P -	P 2,641,435,217	P -	P2,641,435,217
Building and building improvements	13			953,742,314	953,742,314
		<b><u>P -</u></b>	<b><u>P2,641,435,217</u></b>	<b><u>P 953,742,314</u></b>	<b><u>P3,595,177,531</u></b>
	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
		<b><u>P -</u></b>	<b><u>P2,982,289,350</u></b>	<b><u>P 666,521,666</u></b>	<b><u>P3,648,811,016</u></b>

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.

### 31. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Group's capital management objectives are to ensure the Group's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

The Group monitors capital on the basis of the carrying amount of equity as presented on the face of the consolidated statements of financial position. The Group's goal in capital management is to maintain a debt-to-equity structure ratio of not higher than 1:1 on a monthly basis.

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

	<u>2014</u>	<u>2013</u>
Total liabilities (excluding advances from related parties)	P 4,109,656,951	P 3,771,271,051
Total equity	9,483,192,193	9,751,434,747
Debt-to-equity ratio	<u>0.43:1</u>	<u>0.39:1</u>

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

**SOLID GROUP INC. AND SUBSIDIARIES**  
**SCHEDULE OF RELEVANT RATIOS**  
**2014 3RD QUARTER**

<b>LIQUIDITY RATIOS</b>	<b>FORMULA</b>	<b>2014</b>	<b>2013</b>
<b>LIQUIDITY RATIOS</b>			
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	2.30 : 1	2.60 : 1
Acid Test ratio	$\frac{\text{Cash \& Cash Equivalents + Trade Receivables}}{\text{FAFVPL + AFS}} \div \frac{\text{Current Liabilities}}{\text{Current Liabilities}}$	1.16 : 1	1.31 : 1
<b>SOLVENCY RATIOS</b>			
Debt to Equity ratio	$\frac{\text{Total Liabilities (excluding advances from related parties)}}{\text{Total Equity}}$	0.43 : 1	0.39 : 1
Gearing Ratio	$\frac{\text{Financial Debt}}{\text{Total Equity}}$	0.07 : 1	0.07 : 1
<b>Asset to equity ratio</b>	$\frac{\text{Total Assets}}{\text{Total Equity}}$	1.44 : 1	1.40 : 1
<b>Interest coverage ratio</b>	$\frac{\text{EBIT}}{\text{Interest Expense}}$	-2.88 : 1	4.92 : 1
<b>Profitability Ratios</b>			
Operating Margin	$\frac{\text{Operating Profit}}{\text{Total Revenues}}$	-3%	5%
Net Profit Margin	$\frac{\text{Net Income after Tax}}{\text{Total Revenues}}$	-5%	3%
Return on Total Assets	$\frac{\text{Net Income after Tax}}{\text{Average Total Assets}}$	-1%	1%
Return on Equity	$\frac{\text{Net Income after Tax}}{\text{Total Equity}}$	-2%	1%

**SOLID GROUP INC. & SUBSIDIARIES**  
**AGING OF TRADE AND OTHER RECEIVABLES**  
**SEPTEMBER 30, 2014**

	<u>Current</u>	<u>1-30 days</u>	<u>31-60 days</u>	<u>61-90 days</u>	<u>91 days &amp; over</u>	<u>TOTAL</u>
TRADE	445,144,818	164,767,401	28,632,037	24,112,787	107,633,844	<b>770,290,887</b>
ADVANCES TO SUPPLIERS	226,127,861	737,161	0	96,690	5,087,084	<b>232,048,796</b>
LOANS RECEIVABLES	14,017,087	0	0	0	3,505,465	<b>17,522,552</b>
INTEREST RECEIVABLE	20,409,905	0	0	0	0	<b>20,409,905</b>
OTHER RECEIVABLES	64,751,853	2,789,672	1,012,061	4,403,935	20,304,662	<b>93,262,183</b>
TOTAL	<b>770,451,525</b>	<b>168,294,233</b>	<b>29,644,098</b>	<b>28,613,412</b>	<b>136,531,055</b>	<b>1,133,534,323</b>
ALLOWANCE FOR IMPAIRMENT						<b>47,787,450</b>
<b>TRADE AND OTHER RECEIVABLES, NET</b>						<b>1,085,746,873</b>