April 16, 2012

**The Disclosure Department** 3/F Philippine Stock Exchange Plaza Ayala Triangle, Ayala Ave. Makati City, Philippines 1226

Attention: Ms. JANET A. ENCARNACION

Head, Disclosure Department

# Gentlemen:

Please find herewith Annual Report (on SEC Form 17-A) for year ended December 31, 2011 of South China Resources, Inc. and Subsidiary.

We hope that you may find the above in order. Thank you very much.

Yours faithfully,

**DAVID R. BALADAD**Corporate Information Officer/

Danflet of

VP – Operations

# **COVER SHEET**

A S 0 9 2 0 6 4 1 1 SEC Registration Number O U T Η Η A R E O R Е S U C (Company's Full Name) W  $\mathbf{O}$ S D G Е G I Е A K  $\mathbf{C}$ T (Business Address: No., Street City / Town / Province) Atty. Magilyn T. Loja 8922049 Contact Person Company Telephone Number **SEC FORM 17-A 2011** (last Friday of May) 0 | 5 Month FORM TYPE Month Day Day Fiscal Year **Annual Meeting** Not Applicable Secondary License Type, If Applicable Dept Requiring this Doc Amended Articles Number / Section Total Amount of Borrowings Total No. of Stockholders Foreign Domestic To be accomplished by SEC Personnel concerned File Number LCU Cashier Document ID STAMPS Remarks: Please use BLACK ink for scanning purposes

# **SECURITIES AND EXCHANGE COMMISSION**

# SEC FORM 17-A

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

1.	For the fiscal year ended	011	
2.	SEC Identification Number ASO92-06441	3. BIR Tax Identification N	No. <b>001-945-016</b>
4.	Exact name of issuer as specified in its charter	SOUTH CHINA RESOUR	CES, INC.
5.	Not Applicable Province, Country or other jurisdiction of Incorporation or organization	6. (SEC Use Or Industry Classification (	* ·
7.	3/F Low Rise Pacific Star Bldg., Sen. Gil Pu Ave., Makati City	yat Ave. cor. Makati	1200
	Address of principal office		Postal Code
8.	(632) 812-2383 / 892-2049 Issuer's telephone number, including area code		
	issuer's telephone number, including area code	•	
9.	12/F Pacific Star Bldg., Sen. Gil Puyat Ave. of Former name, former address and former fiscal		
0.	Securities registered pursuant to Sections 8 and	d 12 of the SRC, or Sec. 4 and	d 8 of the RSA
	Title of Each Class	Number of Shares of C Outstanding and Amount of	
	Common Shares		906,059,568
1.	Are any or all of these securities listed on a Sto	ck Exchange?	
	Yes [ √ ] No [ ]		
	Name of Stock Exchange	Class of Securities Lis	sted
	Philippine Stock Exchange	<u> </u>	

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the issuer was required to file such reports);					
Yes [ √ ] No [ ]					
(b) has been subject to such filing requirements for the past ninety (90) days.					

Yes [ √ ] No [ ]

12.

Check whether the issuer:

13. Aggregate market value of the voting stock held by non-affiliates is ₽283,335,260.00 as of March 30,2012.

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# **ITEM 1: BUSINESS**

The Company was incorporated and registered with the SEC on September 25, 1992 primarily to undertake oil and gas exploration, development and production. Starting in 1995, South China Resources, Inc. (South China) opted to strengthen its core business by diversifying into investments in banking and telecommunications.

The Securities and Exchange Commission (SEC) on October 30, 2003 approved the amendment of the Company's Articles of Incorporation so as to change the primary purpose thereof to that of a holding company and to include its then existing primary purpose of oil exploration as among the secondary purposes of the Company, the latter has continued to maintain its oil exploration assets and activities until the Company is able to spin-off the same to a wholly owned subsidiary to be established by the Company.

Since its incorporation, the Company has been actively involved in the review and exploration of the different sedimentary basins in the Philippines. As of December 31, 2011, the company has 15% participating interest in SC-60/GSEC-99 Northeast Palawan with expected expiration date of February 10,2012.

South China continues to be a significant player in oil exploration in the country. The Company operates prudently by reducing upfront costs in frontier exploration. South China has proven that the exploration strategy and the technical concepts using data driven models are effective in opening up frontier areas like Northeast Palawan. On January 27, 2006, in joint agreement, South China and SPEX (Shell Philippines Exploration B. V.) together with KUFPEC (Kuwait Foreign Petroleum Co. ksc) signed with the Department of Energy (DOE), Service Contract No. 60 (SC-60). KUFPEC is a wholly owned subsidiary of the national company Kuwait Petroleum Company (KPC) and its entry into eastern offshore Palawan is a significant development in proving this new playing ground for oil exploration in the country. On July 8, 2008, the SC - 60 Joint Operations, in a letter to the DOE, elected to enter the second sub-phase of SC -60. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase. The Joint Operations on July 20, 2010 spudded and drilled the Silangan-1 well. During the second half of November 2010, the Joint Operations launched a CSEM (Controlled Source Electro-Magnetics) survey in line with a request to the DOE to extend the decision period whether or not to enter the third sub-phase. The DOE approved the request to defer commitment to enter the third subphased to February 10, 2012 and upon exercise of a commitment to enter the third sub-phase, relinquish 25% of the original area. South China retains 15% interest in the block.

South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3) and together with operator UK company Pitkin Petroleum Ltd. was awarded Service Contract No. 71 on April 2009, covering the offshore Mindoro-Cuyo. A thorough geophysical analysis, including intensive seismic reprocessing mapping and magnetic study, was conducted over the area. The lack of identifiable large structures that could hold significant amounts of hydrocarbon concluded the group's exit from the service contract prior to its entry into the second phase of the service contract. South China had 15% participating interest in the block.

Oil exploration is a high risk, high reward endeavor which the company is actively involved in. The Company primarily explores in frontier areas where data constraints and costs are relatively lower as against areas that have had substantial exploration consideration. The Company is considered one of the most active players in local oil exploration and is involved in several exploration areas.

The Company is, at present, still engaged only in oil exploration and has not realized any production or sale of any crude oil or gas yet. Exploration is done through a Service Contract (SC), which is contracted

from government through the Department of Energy (DOE). Under the Service Contract, the Contractor (in this case, the Company) undertakes to furnish the necessary services, technology and financing of the exploration and assumes all exploration risks. Before any contract is awarded by the DOE, a company is assessed that it has the financial resources, technical competence and professional skills to carry out its operations.

Government regulations that govern oil exploration are considered to be stable and have been in force for the last decade.

In order to minimize risk in the exploration of an area, exploration companies usually form consortiums or partnerships with other companies specially when undertaking full exploration operations. Environmental considerations are taken into account only when there is a drilling activity as required by the DOE, to which costs for environmental studies and compliance thereto are built-in in the drilling costs.

On December 18, 2009, the Company sold to Two Cassandra-CCI Conglomerates, Inc. the Company's Investment in 3,240,000 shares of the capital stock of Bell Telecommunication Philippines, Inc. at a selling price of P1,227,825,489.00.

On May 26, 2010, the Board of Directors in a special meeting, adopted a resolution authorizing the purchase by the Company of a 24,022.90 sq.m. parcel of land located at the East Service Road of South Superhighway, Brgy. Buli, Muntinlupa City, Metro Manila and registered in the names of, among others, the Company's majority Directors, and major stockholders, Edgardo P. Reyes, Wilfrido P. Reyes and Belen R. Castro at a purchase price of P312,298,000.00.

The Board of Directors, at its special meeting held November 11, 2010, directed Management to cause the registration with the Securities and Exchange Commission of SOC Land Development Corporation (SOC Land) as a wholly-owned subsidiary of the issuer with an authorized capital stock of One Hundred Sixty Million Pesos (PHP 160,000,000.00), a subscribed capital stock of Forty Million Pesos (PHP 40,000,000.00) and a paid-up capital of Ten Million Pesos (PHP 10,000,000.00). The subsidiary will be the property development arm of the company, that will develop a 2.4-hectare community, called Anuva Residences (the Project), situated near Sucat Interchange and will have four (4) tandem buildings, with the first building targeted to be completed by 2013. The total estimated cost of the Project is P2.0 billion and is targeted for completion within five (5) years from the start of its construction. On July 12, 2011, the groundbreaking ceremony for the Project were held and construction for the Project's Tandem Building 1 commenced thereafter. As of December 31, 2011, structural works has an accomplishment rate of 11.4%.

On December 21, 2010, the Board of Directors approved an investment and the Company subscribed to, and subsequently fully paid for, 26,086,957 Series A Preferred shares of AGP International at a purchase price of US\$0.23 per share or a total amount of USD\$6,000,000.00. SOC's subscription of AGP International's Series A Preferred Shares is purely for investment purposes. AGP International invested in 40% of the outstanding capital stock of AGP Philippines Holdings I, Inc. ("AGP Philippines"). On 22 December 2010, AGP Philippines finalized the acquisition of all of the shares of DMCI Holdings, Inc. ("DMCI-HI") in Atlantic Gulf & Pacific Company of Manila, Inc. ("AG&P"). The shares comprise of 973,089,025 shares directly owned, and 17 shares beneficially owned, by DMCI-HI representing 98.19% of the outstanding capital stock of AG&P. By investing in AGP International, SOC believes that it will be benefited by a return of the investment of AGP Philippines from AG&P.

Principal products or services and their distribution; competition in the industry; sourcing of raw materials and principal suppliers; dependence on one or few customers; transactions with and/or related parties; and patents, trademarks, licenses, franchises, concessions, royalty agreement, or labor contracts are not applicable with the registrant at this time.

The Company's subsidiary is SOC Land Development Corporation as of yearend 2011. Please refer to

Note 9 of the Financial Statement for information on the business of its associates.

The Company does not expect any significant changes in its number of employees. Presently, the Company has a total of six (6) officers and employees, all working full-time, one (1) Chairman, one (1) Vice-President for Operations, one (1) Vice-President for Finance, one (1) Accountant, one (1) Accounting Assistant and one (1) Messenger. The Company has no Collective Bargaining Agreements (CBA).

Since the company has only six (6) officers and employees, it is not legally required to establish a formal retirement plan for its employees because under Republic Act No. 7641, a company is required to set up a retirement plan if it has ten (10) or more employees.

# **ITEM 2: PROPERTIES**

On May 26, 2010, the Board of Directors in a special meeting, adopted a resolution authorizing the purchase by the Company of a 24,022.90 sq.m. parcel of land located at the East Service Road of South Superhighway, Brgy. Buli, Muntinlupa City, Metro Manila and registered in the names of, among others, the Company's majority Directors, and major stockholders, Edgardo P. Reyes, Wilfrido P. Reyes and Belen R. Castro at a purchase price of P312,298,000.00. On July 28, 2010, South China completed the purchase of the land.

On March 4, 2011, in exchange for 312,298 additional shares in SOC Land, the Parent Company transferred investment property with a fair value of P312.3 million

The Company leases its office space with Bell Telecommunication Philippines, Inc. (BellTel) located at the 3/F Low Rise Pacific Star Building, Sen. Gil Puyat Ave. cor. Makati Ave., Makati City.

# **ITEM 3: LEGAL PROCEEDINGS**

There are no materials pending legal proceedings to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

# ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

There were no matters submitted to a vote of security holders, during the fourth quarter of the calendar year covered by this report through the solicitation of proxies or otherwise.

# PART II - OPERATIONAL AND FINANCIAL INFORMATION

# ITEM 5: MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### (1) Market Information

The Principal Market where the Issuer's common equity is traded is in the Philippine Stock Exchange.

As of the trading date, March 30, 2012, the high and low price is 1.45 and 1.44, respectively. The Corporation has no securities to be issued in connection with an acquisition, business combination or other re-organization. Furthermore, the following are the high and low sales prices for each quarter within the last two years (2011 and 2010).

# **Stock Prices**

2011	High	Low	
First Quarter	1.4500	1.4400	
Second Quarter	1.2700	1.2400	
Third Quarter	1.2100	1.2100	
Fourth Quarter	1.1400	1.1400	
2010	High	Low	
First Quarter	2.7000	2.5500	
Second Quarter	2.7000	2.6000	
Third Quarter	1.3000	1.2800	
Fourth Quarter	1.5600	1.4800	

# (2) Holders

The number of shareholders of record as of December 31, 2011 was 403. Common shares issued and outstanding as of December 31, 2011 were 906,059,568.

# **Top Twenty (20) Stockholders**

As of December 31, 2011

No.	Name of Stockholders	Number of Shares Held	% Owned
1	Castro, Belen R.	231,353,122	25.5199%
2	Reyes, Edgardo P.	229,853,123	25.3544%
3	Reyes, Wilfrido P.	226,853,123	25.0235%
4	PCD Nominee Corp. (FILIPINO)	164,687,734	18.1662%
5	PCD Nominee Corp. (Non-FILIPINO)	15,361,266	1.6945%
6	R. Coyiuto Securities, Inc.	1,825,000	0.2013%
7	Moraza, Jose Mari R.	1,000,000	0.1103%
8	De Villa, Luismi Gala	808,000	0.0891%
9	Escaler, Michael	630,000	0.0695%
10	Perez, Ma. Georgina V.	610,000	0.0673%
11	Manguiat, Remedios J.	580,000	0.0640%
12	Mandarin Securities Corp.	561,000	0.0619%
13	Cruz, Benito T. Dela	520,000	0.0574%
14	Blanco, Jaime M. Jr.	500,100	0.0552%
15	Cabanes, Loreto	500,000	0.0552%
	Chua, Rojas	500,000	0.0552%
	Estrada, Joseph	500,000	0.0552%
	Layosa, Edna L.	500,000	0.0552%
	Mercado, Teresita P.	500,000	0.0552%
	Mitra, Ramon	500,000	0.0552%
	Osmena, Ramon	500,000	0.0552%
16	F Yap Securities	440,000	0.0485%
17	Highland Securities Phils	430,000	0.0474%
	Wealth Securities, Inc	430,000	0.0474%
18	Lim, Jose Antonio	412,000	0.0454%
19	Luys Securities Co., Inc.	410,000	0.0452%
20	Amarnani, Ramesh	400,000	0.0441%
	Bayot, Francisco Jr.	400,000	0.0441%
	Bondoc, Margarita P.	400,000	0.0441%
	Dela Paz, Wenceslao, R.	400,000	0.0441%
	Dee, Anthony	400,000	0.0441%
	Ortigas, Franciso III	400,000	0.0441%
	Pura Trading Corp.	400,000	0.0441%
	Puyat Reyes, Ma. Consuelo	400,000	0.0441%
	Puyat, Aristeo G.	400,000	0.0441%
	Puyat, Jose G. Jr.	400,000	0.0441%
	Santos, Crisanto	400,000	0.0441%

The effect of any transaction on the amount and percentage of present holdings of the registrant's common equity owned beneficially by (i) more than five percent (5%) beneficial owner of the registrant's common equity; (ii) each director and nominee; and (iii) all directors and officers as a group, and the registrant's present commitments to such persons with respect to the issuance of shares, cannot yet be

determined as the Company is still in the process of getting approval on the proposal to spin-off the Corporation's oil exploration assets and activities.

# (3) Recent Sale of Unregistered or Exempt Securities

There had been no sale of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction by the Company in the last three years.

#### ITEM 6: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### **RESULTS AND PLANS OF OPERATIONS**

# SC-60 (GSEC-99 Offshore NE Palawan)

SC-60 joint venture comprised by South China, together with SPEX (Shell Philippines Exploration B.V.) and KUFPEC (Kuwait Foreign Petroleum Co. ksc) entered the second sub-phase of SC – 60 in July 2008. The objective is to continue and further the exploration of the block with a commitment to drill one well during this sub-phase.

The second sub-phase was extended by the DOE to February 10, 2011. This was so the SC60 JV partners would have sufficient time to commence and complete the drilling of the exploration well due to delays attributed to mechanical difficulties on the drillship Frontier Phoenix. To ascertain dependability of the drillship and ensure its proper operation and safety of ship and personnel, Operator SPEX used an alternate drillship. On July 20, 2010, the SC-60 JV spudded the Silangan-1 well, the first deep water drilled in the area using the drillship Atwood Falcon. South China was carried on this first well.

The well was plugged and abandoned without encountering significant hydrocarbons. Operator, SPEX, reviewed the well data to determine the cause of the unexpected results and identified appropriate next steps over the area. Using cutting edge technologies the Joint Operations launched a CSEM (Controlled Source Electro-Magnetics) survey during the second half of November 2010. The survey was undertaken by Electromagnetic Geoservices ASA (EMGS) using the vessel "BOA Galatea". EMGS employed their proprietary EM Technology to support the SC-60 Joint Operations in its search for offshore hydrocarbons. To give enough time to process the data obtained from the survey, a request to the DOE to extend the decision period to enter the third sub-phase by a year was made. The DOE approved the request to defer commitment to enter the third sub-phased to February 10, 2012 and upon exercise of a commitment to enter the third sub-phase, relinquish 25% of the original area. South China retains 15% interest in the block.

A positive outcome of the survey will result in an accelerated exploration program. Within the extension period the Joint group will decide if it is to enter the third sub-phase and commit to drill another well by February 2013.

South China retains 15% interest in the block and will be a paying partner after the first well.

# SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)

South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). On April 1, 2009, the DOE awarded SC-71 to South China and UK company Pitkin Petroleum Ltd. (as operator), a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares.

The joint group embarked on a comprehensive seismic reprocessing of over 3000 line kms of 2D seismic data over the area for the first phase of work. It also included a reprocessing and re-interpretation of available gravity data. The first phase has been extended to April 1, 2011.

The operator was unable to map any significant prospects and made the decision to relinquish SC-71 before April 1, 2011, prior to incurring any further commitments on the area under the succeeding phase. The Service Contract had term of seven (7) years compartmentalized into five (5) phases. South China had 15% participating interest in this block

# Other Energy and Resource Based Opportunities

The Company continues to focus on conventional energy resources as it explores entry into opportunities in other oil exploration areas as well as potential conventional and renewable energy resources.

The global situation in recent years presents opportunities for the Company to seek entry into mineral exploration and exploitation sector. It recognizes that the demand added by China and India into the current global mineral resource market and into the foreseeable future will have a significant impact in the metals and non-metals market.

The following are the estimated cash requirements for South China Operations in the next twelve months. The SC minimum cash requirements are based on work programs as submitted to the Department of Energy while the SC anticipated cash requirements are based on eventualities as expected by the JV groups. Anticipated cash requirements for Other Energy, Mineral and Resource Based Opportunities dependent on opportunity acquisition.

SC-60 NE Palawan	3D Seismic Reprocessing. Anticipate well drilling \$7.5 MM
Other Energy, Mineral & Resources Based Opportunities	\$ 200K for Assessment Studies

The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

# CONSOLIDATED RESULTS OF OPERATIONS 2011 VS 2010

(in Philippine pesos)

PARTICULARS	<u>12/31/2011</u>	12/31/2010	% Change
Revenues	34,335,611	51,498,529	(33.33) %
Sales & Marketing Expense	14,986,749	1,405,395	966.37%
Personnel Cost	10,836,540	3,147,724	244.27%
Depreciation & Amortization	3,419,289	2,576,190	32.73%
Travel & Representation	2,910,628	6,414,361	(54.62) %
Professional Fees	2,021,724	1,209,011	67.22%
Taxes & Licenses	1,396,531	819,629	70.39%
Rent & Utilities	1,478,302	643,931	129.57%
Telecommunication & Postage	742,563	209,938	253.71%
Supplies	885,554	159,376	455.64%
Meetings, Trainings & Seminars	412,276	310,405	32.82%
Outside Services	288,631	-	100.00%
Repairs & Maintenance	282,424	118,964	137.40%
Provision for Impairment on Deferred Cost	-	13,248,734	(100.00) %
Provision for Impairment on AFS	-	499,356	(100.00) %
Others	1,713,358	1,025,812	67.02%
Total Cost and Expenses	41,394,314	31,804,133	30.15%
Equity in Net Losses of Associates	114,740	2,280,818	(94.97) %
Foreign Exchange Losses	-	(13,397)	(100.00) %
Share in unrealized gain on AFS of Assoc	13,393	-	100.00%
Provision for Current Income Tax	86,099	119,358	(27.86) %
Net Income (Loss)	(7,246,149)	17,294,220	(141.90) %
Other Comprehensive Income / (Loss)	(7,296,322)	15,754,755	(146.31) %
Total Comprehensive Income (Loss)	(14,542,471)	33,048,975	(144.00) %

# 2011 VS 2010: RESULTS OF OPERATIONS

For the year ended December 31, 2011, the Parent company posted a net income of ₱22.27M, **13.7%** higher than that of December 31, 2010. With its subsidiary, SOC Land incurring a net loss of ₱29.52M the group's results of operation resulted to a negative outcome of ₱14.54M for the year ended December 31, 2011. SOC Land since its inception on November 25, 2010 has not yet earned revenues.

For the year 2010, a great leap in earnings from interest income for time deposits was realized due to the investment of available cash derived from the sale of Belltel to time deposits. The average interest rate for short term investment was 4.20% for the year 2010.

#### 33.33% Decrease in Revenues

The decline was brought about by the decrease in the amount of interest income earned from money invested in placements. There was a decrease in the amount invested in placements since money has been utilized to finance the capex and operating costs of the subsidiary, increase in equity investments with AGP International and the purchase of Land worth ₱312M. The company earns 11% annual interest VAT inclusive from Puyat Steel for the period January to June 2010 and is then reduced to 8% starting March 2011 brought about by the decreasing trend in interest rate.

Total Revenues generated for 2010 was brought up by the following: (a) Interest Income from Time Deposits of PHP 45M; (b) Interest Income from Cash Deposits PHP 0.13M and (c) Interest Income from Puyat Steel of PHP 5.97M. SOC Land has not yet earned any revenues as it was registered only on November 25, 2010 with the Securities and Exchange Commission (SEC).

# 966.37% increase in Sales & Marketing Expense

In 2011, SOC Land continued to increase public awareness as a developer through print ads, bus ads, local and international road shows, open house, billboards and other promotions. (Please see note 13)

SOC Land, in its pre-selling phase as of December 31, 2011 has gained access in the local market and international market as well.

The change in expenses incurred by the Group for the year 2010 is congruent with the decrease in Revenue as it exhibited a decrease of 68.28%. The great difference of expenses for the two years was caused by the capital gains tax paid on the sale of Belltel Shares. PHP 2.3 M out of the total consolidated PHP 31.79M of expenses pertains to SOC Land which is composed mostly of consultancy fees and salaries and other administrative expenses.

Given the above, income from operations for 2010 was PHP19M translating to an operating margin of 38% during the year.

# 244.27% Increase in Personnel Cost

Salaries and wages of the subsidiary increased to P7 Million due to hiring of 24 organic employees in year 2011. This amount includes employer share on SSS premiums, Philhealth Premium and Pag-ibig Premiums. As of December 31, 2011, there are 25 active employees of the Company.

# 32.73% Increase in Depreciation & Amortization

Depreciation expenses increased due to the acquisition of property and equipment in 2011 amounting to ₱17.7M.

# 54.62% Decrease in Travel & Representation

The decrease was due to the absence of foreign business related travels.

#### 67.22% Increase in Professional Fees

The increase pertains to the audit and other legal expenses incurred for the year ended 2011.

#### 70.39% Increase in Taxes & Licenses

The increase was attributable to the additional licenses and permits incurred by the subsidiary.

# 129.57% Increase in Rent & Utilities

Rental expenses and utilities expenses increased due to the completion of Marketing Office by the subsidiary as well as the additional monthly rental of home office in Makati City.

# 253.71% Increase in Telecommunication & Postage

The increase in telecommunication & postage was brought about by the start of commercial operation of the subsidiary.

# 455.64% Increase in Supplies

Supplies pertain to computer supplies such as printer's ink and other consumables such as copy paper. SOC Land contributed much to the increase in supplies expense.

# 32.82% Increase in Meetings, Trainings & Seminars

Due to increase in meetings, seminars and assembly for various purposes held and attended for the year 2011.

# 137.40% Increase in Repairs & Maintenance

Due to the increase in expenses attributable to repairs on company owned vehicles.

# 100.00% Decrease on Provision for Impairment on Deferred Cost

The Parent Company provided allowance for impairment losses on deferred exploration costs amounting to P13.2 million for SC-41 in 2010. No provision for impairment losses on deferred exploration costs was recognized in 2011.

# 100.00% Decrease on Provision for Impairment on AFS

In 2010, the Parent Company recognized provision for impairment in value of AFS investments on shares in Southwest Resources, Inc. amounting to P0.5 million due to the significant decline in value of the shares. No provision for impairment in value of AFS investments was recognized in 2011. Allowance for impairment in value of unlisted shares amounted to P3.3 million as of December 31, 2011 and 2010.

# 67.02% Increase in Other Cost

In 2010, other noncurrent assets amounting to ₱2.4 million represent advances for the processing of bid documents, costs for pre-bidding conferences and consultancy fees related to Parent Company's participation in the bid submission for the Philippine Mining Development Corporation's Diwalwal Mineral Reservation Project. Additional advances amounting to ₱1.4 million in 2011 represent advances made by the Parent Company for its prospective agriculture-related projects. Other noncurrent assets amounted to ₱3.8 million and ₱2.4 million as of December 31, 2011 and 2010, respectively.

# 94.97% Decrease in equity in Net Losses of Associates

On June 1, 2011, the Parent Company, together with other shareholders, entered into a Share Purchase Agreement with Security Bank Corporation for the sale of its 351,454 common shares in PDB. On January 20, 2012, the Monetary Board of the BSP approved the transaction contemplated in the Agreement. The decrease in the amount of share in equity of associates recognized by the group was due to the reclassification of the investments in associates to noncurrent asset held for sale.

# 27.86% Decrease in Provision for Current Income tax

The decrease was due to the decline in the amount of taxable income.

# 146.31% Decrease in Other Comprehensive Income/Loss

Due to the reclassification of the investment in Premiere Development Bank, the group recognized share in equity losses of associates and share in unrealized gain (loss) in AFS of associates only up to May 31,2011.

Premiere Development Bank incurred a net loss of PHP 47.62 for the year 2010 compared to the Net Income earned last year amounting to PHP 6.55M. Though the company exhibited an increase in Revenue for the current year, an increase in operating expenses and recognized impairment losses of PHP 518M and PHP 130M respectively induced the negative bottomline figures.

# CONSOLIDATED RESULTS OF OPERATIONS 2010 VS 2009

(in Philippine pesos)

<u>PARTICULARS</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	% Change
Revenues	51,498,529	1,181,824,628	(95.64) %
Sales & Marketing Expense	1,405,395	-	100.00%
Personnel Cost	3,147,724	2,707,333	16.27%
Travel & Representation	6,414,361	1,374,965	366.51%
Professional Fees	1,209,011	702,944	71.99%
Taxes & Licenses	819,629	91,290,570	(99.10) %
Rent & Utilities	643,931	588,646	9.39%
Supplies	159,376	107,044	48.89%
Trainings & Seminars	310,405	84,796	266.06%
Repairs & Maintenance	118,964	21,833	444.88%
Provision for Impairment on Deferred Cost	13,248,734	-	100.00%
Provision for Impairment on AFS	499,356	270,000	84.95%
Others	1,027,722	343,616	199.09%
Total Cost and Expenses	31,804,133	100,233,434	(68.27) %
Equity in Net Losses of Associates	2,280,818	40,035,540	(94.30) %
Foreign Exchange Losses	(13,397)	5,439	(346.31) %
Provision for Current Income Tax	119,358	159,582	(25.21) %
Net Income (Loss)	17,294,220	1,041,396,072	(98.34) %
Other Comprehensive Income / (Loss)	15,754,755	317,926	4855.48
Total Comprehensive Income (Loss)	33,048,975	1,041,713,998	(96.83) %

# 2010 VS 2009: RESULTS OF OPERATIONS

For the year 2010, a great leap in earnings from interest income for time deposits was realized due to the investment of available cash derived from the sale of Belltel to time deposits. The average interest rate for short term investment was 4.20% for the year 2010. SOC Land having no revenues for 2010 posted a net loss of PHP 2.3M. The net income of the Company for the year end 2009 rose up to PHP 1.041 billion which is a remarkable increment over the preceding year of PHP 112.856 million. The great leap in the net income of the company arose from the sale transaction of the 32.40% ownership shares in Belltel and the corresponding decrease in expenses of the company producing the double effect all favourable to the results of the operation.

# 95.64% Decrease in Revenue

Total Revenues generated for 2010 was brought up by the following: (a) Interest Income from Time Deposits of PHP 45M; (b) Interest Income from Cash Deposits PHP 0.13M and (c) Interest Income from Puyat Steel of PHP 5.97 M.

Total Revenues generated for 2009 reached up to PHP 1.181 billion consisting of the following: (a) Gain on sale of 32.40% (3,240,000 shares) ownership in BellTel to Two Cassandra-CCI Conglomerates, Inc. (TWCCI) for a total of PHP 1.171 billion gross of capital gains tax of PHP 90 million. (b) Interest income from amounts owed by a related party, Puyat Steel Corporation (PSC) amounting to PHP 7.979 million and (c) Interest income on deposits and short-term placements with BPI, Metrobank & Premiere Bank totalling PHP 1.941 million.

#### 100.00% Increase in Sales & Marketing Expenses

The increase was attributed to the start of operation by SOC Land.

# 16.27% Increase in Personnel Cost

The slight increase was brought about by the increase in personnel hired by the Group.

# 366.51% Increase in Travel & Representation

Due to business related foreign travel.

#### 71.99% Increase in Professional Fees

Due to fees related to the sale of Belltel Shares.

# 99.10% Decrease in Taxes & Licenses

On December 18, 2009, a Deed of Sale has been entered by SCRI and Two Cassandra-CCI Conglomerates, Inc. (TWCCI) for the sale of the 32.40% (3,240,000 shares) ownership of the parent company in BellTel for a total consideration of P1.2 billion. Incidental to the sale of shares, SCRI settled its outstanding subscription payable amounting to P171.7 million. Also, on the same date, SCRI collected its advances to BellTel amounting to P368.9 million as of the date of sale. Capital gains tax paid by the company in relation to the sale of the shares amounted to P90.4 million.

# 9.39% Increase in Rent & Utilities

The insignificant increase was due to the rentals and utilities of the subsidiary.

# 48.89% Increase in Supplies

Increase in supplies used by the subsidiary.

# 266.06% in Trainings & Seminars

Due to international seminar attended relating to gas and oil accounting.

# 444.88% Increase in Repairs & Maintenance

Due to the increase in repairs & maintenance by company owned vehicles.

# 100.00% Increase in Provision for Impairment on Deferred Cost

The Group provided allowance for impairment losses on deferred exploration costs amounting to P13.3 million for SC-41 in 2010. No provision was made in 2009.

# 84.95% Increase in Provision for Impairment on AFS

In 2010 and 2009, due to the significant decline in value of the shares, the Group recognized provisions for impairment in value of AFS investments on its Southwest shares and Mt. Malarayat shares amounting to P0.5 million and P0.3 million in profit or loss, respectively.

# 199.09% Increase in Other Cost

Other noncurrent assets represent advances for the processing of bid documents, costs for pre-bidding conferences and consultancy fees related to SRCI's participation in the bid submission of Philippine Mining Development Corporation's (PMDC) Diwalwal Mineral Reservation Project. The project involved the bidding for the 729 hectares of PMDC area located at Monkayo, Compostela Valley.

# 94.30% Decrease in Equity in Net Losses of Associates

Premiere Development Bank incurred a net loss of PHP 47.62 for the year 2010 compared to the Net Income earned last year amounting to PHP 6.55M. Though the company exhibited an increase in Revenue for the current year, an increase in operating expenses and recognized impairment losses of PHP 518M and PHP 130M respectively induced the negative bottomline figures.

Other income and losses recognized last year were as follows: (a) the equity shares in net loss of Bell Telecommunication Phils. Inc. (BellTel) amounting to PHP 40.35 million as well as (b) the equity share in net income of Premiere Bank amounting to PHP 0.314 million.

The PHP 40.35 million equity share in net loss of Belltel was computed as follows-- the 32.40% share of the Company on Belltel's net loss for 2009 amounting to PHP 124.538 million.

An amount of PHP 0.314 million share in equity in net earnings of Premiere Bank for 2009 representing the 4.81% share of the Company signifies a favourable increase as compared to share in net loss of 2008 amounting to PHP 1.048 million.

# 4,855.48% Increase in Other Comprehensive Income

The company recognized increase in fair value of its available for sale financial assets amounting to ₱15.68M as of year ended 2010.

# CONSOLIDATED FINANCIAL POSITION 2011 VS 2010

(in Philippine pesos)

<u>PARTICULARS</u>	12/31/2011	12/31/2010	% Change
Cash & Cash Equivalents	730,161,936	893,083,578	(18.24) %
Accounts Receivable	8,523,434	10,906,687	(21.85) %
Due from Related Parties	70,109,444	45,098,362	55.46 %
Real Estate for Sale	447,615,888	-	100.00%
Prepayments & Other Current Assets	17,684,790	9,127,598	93.75 %
Total Currents Assets	1,274,095,492	958,216,255	32.97 %
Non Current Asset Held For Sale	31,722,243	-	100.00%
Deferred Exploration Cost	21,563,806	1,692,615	1173.99 %
Property & Equipment	21,046,176	6,098,757	245.09 %
Investment in Associate	-	31,836,983	(100.00) %
Investment Property	-	321,048,252	(100.00) %
Other Noncurrent Assets	3,823,191	2,397,351	59.48 %
Total Noncurrent Assets	331,282,298	649,029,963	(48.96) %
Total Assets	1,637,100,033	1,607,246,188	1.86 %
Accounts Payable & other Liabilities	43,311,080	714,368	5962.85 %
Income Tax Payable	21,962	119,358	(81.60) %
Total Current Liabilities	43,333,042	833,726	5097.52 %
Unrealized valuation gain on AFS	10,389,619	17,672,548	(41.21) %
Share in unrealized valuation gain on AFS of Associates		13,393	(100.00) %
Treasury Stocks	578,000	-	100.00 %
Total Equity	1,593,766,991	1,606,412,462	(0.79) %
Total Liabilities & Equity	1,637,100,033	1,607,246,188	1.86 %

# 2011 VS 2010: FINANCIAL CONDITION

There has been a 32.97% increase in the total current assets by the group for the year ended December 31, 2011. The total resources of the group reach up to ₱1.64 Billion exhibiting 1.86% increased as against the previous year 2010.

# 18.24% Decrease in Cash & Cash Equivalents

Cash and cash equivalents decreased by ₱162.92 million in 2011 from 2010 due to the net effect of the following:

#### Cash Inflows:

- Collections representing Customer's Deposits and Advances increased by P19 Million in 2011 for SOC Land pre-selling phase. On December 14, 2011, SOC Land obtained its License to Sell for the Project;
- Interest Received from amount owed to Puyat Steel, IPI as well as placements on time deposits amounted to ₱39.78M; and
- Collections of subscription receivable amounting to ₱2.5M.

#### Cash Outflows:

- Real estate held for sale increased to ₱135 Million as of December 31, 2011;
- Construction of Anuva Marketing Office having a cost of ₱15 Million;
- Acquisition of Property and Equipment amounting to ₱3 Million in 2011;
- Increase in deferred exploration cost of ₱19.87M;
- Advances to International Pipes Industries, Corp. amounting to ₱25M; and
- Acquisition of Treasury Shares amounting to ₱0.6M.

# 21.85% Decrease in Accounts Receivable

The decrease in accounts receivable represents the lesser interest income accrued on placements as of the year ending December 31,2011.

# 55.46% Increase in Due from Related Parties

In May 2011, the BOD has authorized the Group to enter into a related party agreement with International Pipe Industries Corporation (IPIC) to provide a standby fund facility in the amount of up to ₱50.0 million for the acquisition of raw materials to be processed into finished steel pipe products. The Group will receive a guaranteed return on investment of at least 8% per annum. The 55.46% increase was due to the amount owed by IPIC amounting to ₱25M.

#### 100.00% Increase in Real Estate For Sale

Real estate for sale increased to P447 Million from 2010 due to the commencement of construction of Anuva Tandem Building 1. As of December 31, 2011, Real estate for sale is composed of Land amounting to P312 Million and Development cost of P135 Million. From the project's ground breaking ceremonies last July 12, 2011, the structural works of the first tandem building has a completion of 11.42% as of December 31, 2011. As of year-end, 57.87% of the Thirty Five (35) construction packages have been awarded to various contractors and suppliers. Among the awarded packages consist of civil and structural works, supply of reinforcing steel bars, ready mix concrete, plumbing and sanitary works, electrical and auxiliary works, mechanical works, fire protection works, and supply and delivery of pipes.

# 93.75% in Prepayments & Other Current Assets

Other current assets increased in 2011 due to the increase in VAT from purchases of materials and services for the year.

# 100.00% Increase in Noncurrent Assets Held for Sale

As of December 31, 2011, the Group reclassified its investment in PDB amounting to P31.7 million as held for sale and presented it under "Noncurrent asset held for sale" account in the consolidated statement of financial position.

#### 1173.99% Increase in Deferred Cost

Due to the cash call requested by Shell for SC60 amounting to US\$456,500.

# 245.09% Increase in Property & Equipment

Increase in property and equipment to P17.7 Million is due to the construction of Anuva Marketing Office Building amounting to P15 Million, and acquisition of transportation, office furniture and equipment amounting to P2 Million.

#### 100.00% Decrease in Investment in Associate

Due to the reclassification of investment in associate to noncurrent asset held for sale as previously discussed.

# 100.00% Decrease in Investment Property

Due to reclassification of Land classified previously under this category to Real Estate For Sale.

## 59.48% Increase in Other Noncurrent Assets

In 2010, other noncurrent assets amounting to ₱2.4 million represent advances for the processing of bid documents, costs for pre-bidding conferences and consultancy fees related to Parent Company's participation in the bid submission for the Philippine Mining Development Corporation's Diwalwal Mineral Reservation Project. Additional advances amounting to ₱1.4 million in 2011 represent advances made by the Parent Company for its prospective agriculture-related projects. Other noncurrent assets amounted to ₱3.8 million and ₱2.4 million as of December 31, 2011 and 2010, respectively.

# 5,962.85% Increase in Accounts Payable & Other Liabilities

Increase in Accounts Payable for 2011 is due to the following:

- Increase in customers' deposits related to pre-selling of Anuva project amounting to P19 Million
- Accrual of progress billings from contractors related to construction works pertaining to 2011 amounting to P17 Million
- Retention payable to contractors amounting to P4 Million
- Unpaid balance of transportation equipment purchased in 2011

# 41.21% Decrease in Unrealized Valuation Gain on AFS

Due to the decline in market value of the group's available for sale financial asset.

# 100.00% Increase in Treasury Stocks

The Board of Directors of the Parent Company at its special meeting held on 21 December 2011 approved the repurchase of the Company's shares in the open market. The Board of Directors and Management of the Company believe that the Company's shares are trading at a price that is much lower level than the fair value thereof. The total budget allocated for the program is ₱120M pesos covering a period of 24 months that started last December 22, 2011.

# CONSOLIDATED FINANCIAL POSITION 2010 VS 2009

(in Philippine pesos)

PARTICULARS	12/31/2010	12/31/2009	% Change
Cash & Cash Equivalents	893,083,578	1,434,171,590	(37.73) %
Accounts Receivable	10,906,687	94,492	11442.44 %
Due from Related Parties	45,098,362	70,088,109	(35.65) %
Prepayments & Other Current Assets	9,127,598	390,493	2237.45 %
Total Currents Assets	958,216,255	1,504,744,684	(36.32) %
Deferred Exploration Cost	1,692,615	14,961,956	(88.69) %
Property & Equipment	6,098,757	8,286,155	(26.40) %
Investment in Associate	31,836,983	33,698,598	(5.52) %
Investment Property	321,048,252	-	100.00%
Other Noncurrent Assets	3,410,248	-	100.00%
Total Noncurrent Assets	650,042,860	63,719,165	920.17 %
Total Assets	1,607,246,188	1,568,463,849	2.47 %
Income Tax Payable	119,358	159,582	(25.21) %
Unrealized valuation gain on AFS	17,672,548	1,989,643	788.23 %
Share in unrealized valuation gain			
on AFS of Associates	13,393	(58,457)	122.91%
Total Equity	1,606,412,462	1,567,603,487	2.48 %
Total Liabilities & Equity	1,607,246,188	1,568,463,849	2.47 %

# 2010 VS 2009: FINANCIAL CONDITION

The upward movement of the company's noncurrent assets for 2010 as compared to 2009 was mainly due to: (1) Additional 3016 shares purchased from PDB; (2) purchase of preferred shares from AGP International as discussed previously; (3) purchase of land property' and (4) and great leap in market value of listed shares owned by the company.

The group's revenues from short term investments for the year 2010 of PHP 17.29 million has contributed to the 2.48% increase in the total equity of the group for 2010 as compared with the last year 2009.

# 37.73% Decrease in Cash & Cash Equivalents

The decrease was due to the purchase of other assets as well as to finance the organizational cost of the subsidiary. On July 28, 2010 a purchase of land situated at the East Service Road of South Superhighway containing an area of 24,022.90 was consummated as per absolute deed of sale for a price of PHP 312.30M. The land was then classified as investment property for the company has plans of developing it in the future or for subsequent disposal. It has been noted in the previous years that the

company has reaped outstanding income from disposal of property. Also on 21 December 2010, SOC subscribed to, and subsequently fully paid for, 26,086,957 Series A Preferred shares of AGP International at a purchase price of US\$0.23 per share or a total amount of USD\$6,000,000.00 or 264M in Philippine Peso.

#### 11,442.44% Increase in Accounts Receivable

Receivables from officers and employees pertain to unliquidated advances and are collectible upon demand. The change was due to increase in marketing and selling activities such as roadshows, open house and other advances.

# 35.65% Decrease in Due from Related Parties

A corresponding decrease in Due from Related Parties from ₱70.10 million for 2009 to ₱45 million for 2010 was due to the payment of Puyat Steel Corp. of its advances from the company.

# 2237.45% Increase in Prepayments & Other Assets

The increase of 2,237.45% in prepayments and other current asset was due to increase in consolidated input taxes, medical benefits, insurance, dues and supplies inventories during the year as well as the advances made by the subsidiary to its contractors amounting to PHP 7.8 million.

# 88.69% Decrease in Deferred Exploration Cost

The Group provided allowance for impairment losses on deferred exploration costs amounting to ₽13.3 million for SC-41 in 2010. No provision was made in 2009.

# 26.40% Decrease in Property & Equipments - Net

The decrease was due to the depreciation recognized for the year.

#### 5.52% Decrease in Investment in Associates

On November 5, 2010, the Parent Company subscribed to and paid for 3,016 additional shares at the subscription price of ₱0.4 million. The group recognized ₱2.28M share in equity losses of Premiere Bank and ₱0.072M share in its unrealized fair value gain on AFS.

# 100.00% Increase in Investment Property

On July 28, 2010, SCRI purchased 24,023 square meters parcel of land located at East Service Road of South Superhighway, Barangay Buli, Muntinlupa City at a price of ₱321M. The cost of the property equals its fair value as of December 31, 2010.

# 100.00% Increase in other Noncurrent Assets

Other noncurrent assets represent advances for the processing of bid documents, costs for pre-bidding conferences and consultancy fees related to SRCI's participation in the bid submission of Philippine Mining Development Corporation's (PMDC) Diwalwal Mineral Reservation Project. The project involved the bidding for the 729 hectares of PMDC area located at Monkayo, Compostela Valley.

# 788.23% Increase in Unrealized Valuation Gain on AFS

This is due to the great leap in market value of listed shares owned by the company. The increase in the valuation of available for sale investment was due to the outstanding increase in the market value of owned listed shares of Petron Corp and Aboitiz Equity Ventures at net increase of PHP 15.68 million.

# 122.91% Increase in Share in Unrealized Valuation Gain on AFS of Associates

The group recognized ₱71,850 share in unrealized valuation gain on AFS of Premiere Bank as of the year ended December 31, 2010.

# **KEY PERFORMANCE INDICATORS**

The following are the major financial ratios of the Company for the years ended December 31, 2011, 2010 and 2009:

KEY FINANCIAL RATIOS	<u>12/31/2011</u>	<u>12/31/2010</u>	<u>12/31/2009</u>
Revenue Growth/ (Decline)	(33.33) %	(95.64) %	882.74 %
Net Income Growth/ (Decline)	(144.00) %	(96.83) %	832.51 %
EBITDA	N/A	22.28 M	1084.13 M
Return on Equity	N/A	2.06%	66.45%
Return on Assets	N/A	2.06%	66.38%
Current Ratio (in x)	29.40 x	1148.10 x	828.29 x
Debt-to-equity ratio (in x)	0.0272 x	0.0005 x	0.0012 x

The group's source of revenue for the period currently on report are the interest income earned from placements and advances made to affiliates such as Puyat Steel Corp. ("Puyat") and IPI Industries Corp. ("IPI").

The 33.33% drop in revenue growth for the year ended 2011 as against last year was due to the decrease in the amount invested in time deposits amounting to ₱666M as of December 31, 2011 against ₱727M as of December 31,2010. The decrease is accounted for in the increase in equity investments with SOC Land, a wholly owned subsidiary as previously discussed. There has been also a decrease in the interest income earned from amount owed by Puyat Steel Corporation.

The decline in net income growth of the group was due to the 33.33% decrease in revenue coupled with increase in total cost and expenses of up to 30.15%.

There was no EBITDA, ROE and ROA as of the year ending 2011 since the group posted a negative bottomline figure. Nevertheless, the stability of the group remains steadfast with its 0.0272X Debt to Equity Ratio. The group was able to maintain its liquidity despite the net loss for the year ending 2011 as evidenced by its ₱730M worth of cash and cash equivalents as against its total liabilities of ₱43M.

There has been a reported decrease in revenue growth and net income for the year 2010 as compared last year. However, this did not entail negative outcome for the current year since what composes the last year bulk of revenue was the gain earned from the sale of Belltel shares.

For the year 2009, there was an improvement in net income growth rates as against the Company's 2008 level as evidenced by the above figures. Profitability was also measured by ROE and ROA reaching 66.45% and 66.38% respectively with a very small difference from the previous period.

The Company posted a very high liquidity ratio of 828.29x in 2009 versus the 289.49 x in 2008. This was due to the astounding increase in cash and cash equivalents brought about by the investment to short term market placements of the whole net proceed of sale of shares in Beltell as previously discussed.

The company exhibited an outstanding leverage ratio for the last three years which means that it can finance its own operation without using or relying from outside financing sources.

Earnings before interest taxes depreciation and amortization (EBITDA) for 2010 was at PHP 22.28 million though the company has negative changes in its revenue growth

The manner by which the Company calculates the foregoing indicators is as follows:

Key Financial Ratios	Formula
Revenue Growth	Total Revenues (current period) - Total Revenues
	(prior period)/ Total Revenues (prior period)
Net Income Growth	Net Income (current period) - Net Income (prior
	period)/ - Net Income (prior period)
EBITDA	Income from operations plus depreciation and
	amortization
Return on Equity (ROE)	Net Income/Equity
Return on Assets (ROA)	Net income/ Total Assets
Current Ratio	Current Assets/ Current Liabilities
Debt- to Equity Ratio	Total Liabilities/ Equity

# PROSPECTS FOR THE FUTURE

The outlook for South China in the coming years is quite optimistic. Even with the dry well in SC-60, exploration continues in that block. A new energy bidding round is expected in 2011. New investments have been made and all look very promising and are discussed below.

# (1) Prospects for Oil and Gas Exploration Investments

# SC-60 (GSEC-99 Offshore NE Palawan)

The joint group of South China, Shell Philippines Exploration B.V. and Kuwait Foreign Petroleum Co. ksc entered the second sub-phase of SC-60 in July 8, 2008. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase.

The Silangan-1 well was spud-in on July 20, 2010 and was the first deep water drilled in the area area using the semi-submersible Atwood Falcon. This well was drilled within the second sub-phase of the service contract and South China was carried on this well.

The well was plugged and abandoned without encountering significant hydrocarbons. Operator, SPEX, reviewed the well data to determine the cause of the unexpected results and identified appropriate next steps over the area. Using Cutting edge technologies the Joint Operations launched a CSEM (Controlled Source Electro-Magnetics) survey during the second half of November 2010. The survey was undertaken by Electromagnetic Geoservices ASA (EMGS) using the vessel "BOA Galatea". EMGS employed their proprietary EM Technology to support the SC-60 Joint Operations in its search for offshore hydrocarbons. To give enough time to process the data obtained from the survey, a request to the DOE to extend the decision period to enter the third sub-phase was made. The DOE approved the request to defer commitment to enter the third sub-phased to February 10, 2012 and upon exercise of a commitment to enter the third sub-phase, relinquish 25% of the original area. South China retains 15% interest in the block.

A positive outcome of the survey will result in an accelerated exploration program. Within the extension period the Joint group will decide if it is to enter the third sub-phase and commit to drill another well by February 2013. A fourth sub-phase with a commitment to drill will continue the term of the SC. If petroleum is discovered during any sub-phase, the joint group may opt for an appraisal program to determine its commerciality. Petroleum declared commercial will then be set for development and eventual production. South China will be paying its pro-rata share of all exploration costs after the first

well.

South China retains 15% interest in the block and is a paying partner after the first well.

# Offshore Mindoro-Cuyo Area 4, NW Palawan Block (former GSEC-83)

South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). On April 1, 2009, the DOE awarded SC-71 to South China and UK company Pitkin Petroleum Ltd. (as operator), a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares.

The joint group embarked on a comprehensive seismic reprocessing of over 3000 line kms of 2D seismic data over the area for the first phase of work. It also included a reprocessing and re-interpretation of available gravity data. The first phase was extended to April 1, 2011.

The operator was unable to map any significant prospects and made the decision to relinquish SC-71 before April 1, 2011, prior to incurring any further commitments on the area under the succeeding phase. The Service Contract had term of seven (7) years compartmentalized into five (5) phases. South China had 15% participating interest in this block

# (2) Prospects for Other Energy, Mineral and Other Resource Based Opportunities

The Company continues to focus on conventional energy resources as it explores entry into opportunities in other oil exploration areas as well as potential conventional and renewable energy resources.

The global situation in recent years presents opportunities for the Company to seek entry into resource based sector. It recognizes that the demand added by China and India into the current global market and into the foreseeable future will have a significant impact.

# (3) Prospects for Premiere Bank

For 2011, the Bank's major goals are as follows: (a) continue to aggressively expand its consumer loans and SME finance portfolio; (b) sustain the program started in 2008 to strengthen its distribution system through the renovation and strategic relocation of its branches; and (3) stepped –up customer acquisition programme via competitive products, quick turnaround times and structured sales activities for the Bank's frontliners.

These thrusts are consistent with the new business model of Premiere Bank that was launched in 2007 and which is anchored on the fundamental principles of improving the Bank's value proposition to its customers and differentiating the bank via its services and needs driven products.

On June 1, 2011 the Company together with other shareholders of Premiere Bank entered into a Share Purchase Agreement with Security Bank Corporation for the sale of its 351,454 common shares in PDB at a per share price of P181.70. The obligations of the parties to complete the sale and purchase of the shares are subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). The approval has yet to be granted as of yearend 2011. The approval is expected to be received anytime soon.

# (4) Prospects for Real Estate Property

South China completed, on July 28, 2010, the purchase of the 24,022.90 sq.m. parcel of land located at

the East Service Road of South Superhighway, Brgy. Buli, Muntinlupa City, Metro Manila at a purchase price of ₱312,298,000.00.

In the Company's history, it had made good in investments in real estate property, primarily the property investment in Pilipinas Plaza which the Company sold for a profit in January of 2007. It is in this manner that the Company employed the proven business model of acquiring property investments along major and strategic thoroughfares.

# (5) Prospects for SOC Land Development Corporation

South China's investment into property development is seen as an important aspect in enhancing its shareholder value. The government estimates the country's housing backlog at almost 4 million. There lies the opportunity to serve a basic need of Filipinos. In November 2010, SCRI diversified its business and invested into real property development through SOC Land Development Corporation (SOC Land), a wholly-owned subsidiary. SOC Land was incorporated in the Philippines and registered with the Philippine SEC on November 25, 2010. The primary purpose of SOC Land is to deal and engage in real estate business.

SOC Land will develop a 2.4-hectare community, called Anuva Residences (the Project), situated near Sucat Interchange and will have four (4) tandem buildings or eight (8) towers, with the first building targeted to be completed by 2013. The total estimated cost of the Project is P2.0 billion and is targeted for completion within five (5) years from the start of its construction. On July 12, 2011, the groundbreaking ceremonies for the Project were held and construction for the Project's Tandem Building 1 commenced thereafter. As of December 31, 2011, structural works has an accomplishment rate of 11.4%.

# (6) Prospects for AGP International Holdings Inc.

South China subscribed to, and subsequently fully paid for, 26,086,957 Series A Preferred shares of AGP International at a purchase price of US\$0.23 per share or a total amount of USD\$6,000,000.00.

AGP International is a British Virgin Islands business company formed in November 2010 by Icaza, Gonzalez-Ruiz & Aleman (BVI) Trust Limited with registered office at the Vanterpool Plaza, 2nd Floor, Wickhams Cay I, Road Town, Tortola, British Virgin Islands.

AGP International invested in 40% of the outstanding capital stock of AGP Philippines Holdings I, Inc. ("AGP Philippines"). On 22 December 2010, AGP Philippines finalized the acquisition of all of the shares of DMCI Holdings, Inc. ("DMCI-HI") in Atlantic Gulf & Pacific Company of Manila, Inc. ("AG&P"). The shares comprise of 973,089,025 shares directly owned, and 17 shares beneficially owned, by DMCI-HI representing 98.19% of the outstanding capital stock of AG&P.

South China's subscription of AGP International's Series A Preferred Shares is purely for investment purposes. By investing in AGP International, South China believes that it will be benefited by a return of the investment of AGP Philippines from AG&P.

# **DIVIDEND DECLARATION**

The Company has no earnings yet from commercial production pertaining to the oil exploration segment of the business hence there were no dividends declared for the period ending December 31, 2011 and two years ending December 31, 2010 and December 31, 2009.

# KEY VARIABLE AND OTHER QUALITATIVE AND QUANTITATIVE FACTORS

There are no material trends, events or uncertainties that are reasonably expected to occur in the next twelve months that will have a material favorable or unfavorable impact on the results of the Company's liquidity. Should there be material changes in working capital it would be advances from the management to support the Company's operation or a sale of non-current assets.

There are no significant elements of income or loss that did not arise from the Company's continuing operations.

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or accumulation of an obligation.

There were no seasonal aspects that had a material effect on the financial condition or results of operations of the Company.

The Company has no plans of changing the number of employees for the next twelve months.

There are no 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.

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

# **Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis except for AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded off to the nearest peso, except when otherwise indicated.

# **Statement of Compliance**

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretation Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council.

# **Changes in Accounting Policies and Disclosures**

The accounting policies adopted are consistent with those of the previous financial year except, for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011. Adoption of these new and amended standards or interpretations did not have any significant impact to the Group except for the additional required disclosures and use of titles, captions and formats of presentation.

# Amendment to PAS 24, Related Party Transactions

PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

# Amendment to PAS 32, Financial Instruments: Presentation

The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

# Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

#### Improvements to PFRS

The Improvements to PFRS an omnibus of amendments to standards issued in 2010, deals primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments are effective for annual periods beginning on or after January 1, 2011, except if otherwise stated. The Group has adopted the following amendments and concluded that these changes did not have material effect on the consolidated financial statements.

- PFRS 3. Business Combinations
  - Amends the measurement options available for non-controlling interest (NCI). Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011.
- PFRS 7, Financial Instruments Disclosures
  - Intends to simplify the disclosures provided by reducing the volume of disclosures around the collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- PAS 1, Presentation of Financial Statements
  - Clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from the 2010 Improvements to PFRS to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 3, Business Combinations (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, Consolidated and Separate Financial Statements
- PAS 34, Interim Financial Statements
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2011

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

#### Effective in 2012

Amendment to PFRS 7, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011.

# Amendment to PAS 12, Income Taxes - Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.

#### Effective in 2013

Amendment to PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)

The amendment to PAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

## Amendments to PAS 19, Employee Benefits

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

# PAS 27, Separate Financial Statements (as revised in 2011)

As a consequence of the new PFRS 10, Consolidated Financial Statements and PFRS 12, Disclosure of Interests in Other Entities, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

# PAS 28, Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Amendments to PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the balance sheet date:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
- c) The net amounts presented in the balance sheet;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

# PFRS 10. Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, Consolidation - Special Purpose Entities. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

#### PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, Interests in Joint Ventures, and SIC-13, Jointly-controlled Entities - Non-monetary Contributions by Venturers. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods

beginning on or after January 1, 2013.

#### PFRS 12, Disclosure of Interests with Other Entities

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

# PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine*This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

#### Effective in 2014

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

# Effective in 2015

# PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

# Philippine Interpretation IFRIC 15, Agreements for the Construction of Real Estate

This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board

(IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Interpretation.

#### **Basis of Consolidation**

The consolidated financial statements comprise the financial statements of the Group as of December 31 of each year. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

Subsidiaries are entities over which the Parent Company has control or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group or Parent Company directly or through the holding companies.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intragroup transactions that are recognized are eliminated in full.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

# **Cash and Cash Equivalents**

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placements and that are subject to an insignificant risk of change in value.

# **Financial Instruments**

# Date of Recognition

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

# Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value of the consideration given (in the case of an

asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

#### Determination of Fair Value

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and option pricing models.

The Group has financial assets under Levels 1 and 3 of the fair value hierarchy as of December 31, 2011 and 2010 (see Note 19).

#### Classification of Financial Instruments

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

The Group has no financial assets or liabilities at FVPL and HTM investments as of December 31, 2011 and 2010.

# Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the EIR and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables consist of cash and cash equivalents, accounts receivable, due from related parties and refundable deposits (see Notes 4, 5, 7 and 16).

#### AFS Investments

AFS investments include equity investments. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in "Unrealized valuation gains (losses) on

AFS investments" until the investment is derecognized, at which time the cumulative gain or loss is transferred to other income (expenses), or determined to be impaired, at which time the cumulative loss is recognized in the consolidated statement of comprehensive income as other expenses and removed from "Unrealized valuation gains (losses) on AFS investments" under other comprehensive income section.

The Group evaluates its AFS investments whether the ability and intention to sell them in the near term is appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold the financial asset accordingly until maturity.

For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using EIR method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to profit and loss.

The Group's AFS investments consist of listed and unlisted shares (see Note 8).

# Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

This category includes loans and borrowings which are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains or losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

The Group's other financial liabilities consist of accounts payable and other liabilities (see Note 12).

# Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost

has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

# AFS Investments Carried at Fair Value

In the case of equity investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

# AFS Investments at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

# Derecognition of Financial Assets and Liabilities

Financial Assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

#### Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Real Estate for Sale

Real estate for sale is carried at the lower of cost and net realizable value (NRV). Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Subsidiary is the landowner, and includes actual development costs incurred up to the reporting date for projects where the Subsidiary is both the landowner and developer. When the Subsidiary is only a developer, the cost of real estate for sale pertains only to the actual development costs. NRV is the fair value less cost to sell in the ordinary course of business.

# **Prepayments and Other Current Assets**

#### Prepayments

Prepayments are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than 12 months or within the normal operating cycle.

# **Advances to Contractors**

Advances to contractors represent advance payments on services to be incurred in connection with the Subsidiary's operations. Advances to contractors are recognized under "Prepayments and other current assets" account in the consolidated statement of financial position. These are charged to expense in profit or loss, or capitalized to real estate for sale in the consolidated statement of financial position, as appropriate, when the services are rendered, which is normally within 12 months or within the normal operating cycle. Otherwise, these are classified as noncurrent assets.

#### Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. Input VAT is presented as current asset and will be used to offset against the Group's current output VAT liabilities. Any excess which are being claimed as tax credits is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position. Otherwise, these are classified as noncurrent assets. Input VAT is stated at its estimated NRV.

#### **Noncurrent Asset Held for Sale**

Noncurrent asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell

An asset should be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell, and an active program to locate a buyer and complete the plan must have been initiated. Further, the assets must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as completed sale within one year from the date of classification.

#### **Investment in an Associate**

The Group's investment in an associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, investment in an associate are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates.

Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The share in net income or losses of the associate is shown as "Equity in net income (losses) of an associate" in profit or loss. This is the income (loss) attributable to equity holders of the associates and therefore is profit after tax.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and their carrying values and recognizes the amount in the "Equity in net income (losses) of an associate" in profit or loss.

Upon loss of significant influence over an associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

#### **Deferred Exploration Costs**

Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the Group has withdrawn from the consortium, the related deferred exploration costs are provided with valuation allowance or written-off. An SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development.

# **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such equipment when the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, except for leasehold improvements which are amortized on a straight-line basis over the term of the lease or the estimated lives of the improvements, whichever is shorter, as follows:

Category	Number of Years
Building	5
Transportation equipment	5
Office furniture and equipment	3
Leasehold improvements	2

The estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in profit or loss in the year the asset is derecognized. Fully depreciated items are retained as property and equipment until these are no longer in use.

# **Investment Property**

Investment property is measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy on property and equipment up to the date of change in use.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no further economic benefit is expected from its disposal. Any gains or losses on the retirement of disposal of investment property are recognized in profit or loss in the year of retirement or disposal.

#### **Impairment of Nonfinancial Assets**

The Group assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to

their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses from continuing operations are recognized in profit or loss.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

#### **Common Stock**

The Group has issued common stocks that are classified as equity. Incremental costs directly attributable to the issue of new common stocks are shown in equity as a deduction, net of tax, from the proceeds.

#### **Additional Paid-in Capital**

Amount of contribution in excess of par value is accounted for as an additional paid-in capital.

#### **Retained Earnings**

The amount included in retained earnings includes profit attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's stockholders. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### **Treasury Stock**

Own equity instruments which are reacquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference in the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury stock are nullified for the Group and no dividends are allocated to them respectively. When the stocks are retired, the common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-up capital when the shares were issued and to retained earnings for the remaining balance.

#### **Revenue Recognition**

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### **Real Estate Sales**

Real estate sales from completed projects are accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of actual costs incurred to date over the estimated total costs to complete the project. Any excess of collections over the recognized revenue are included under the "Accounts payable and other liabilities" account in the consolidated statement of financial position.

If none of the revenue recognition criteria is met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented as part of "Customers' deposits" included under the "Accounts payable and other liabilities" account in the consolidated statement of financial position.

#### **Interest Income**

Interest income is recognized as it accrues using the EIR.

#### **Dividend Income**

Dividend income is recognized when the Group's right to receive the payment is established.

#### **Costs and Expenses**

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Operating expenses, such as personnel, rent and utilities are generally recognized when the service is used or the expense arises while interest expenses,

if applicable are accrued in the appropriate period. General and administrative expenses are expenses incurred in the direction and general administration of day-to-day operation of the Group and are generally recognized when the service is used or the expense arises.

#### **Commission Expense**

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Sales and marketing" account in the consolidated statement of comprehensive income.

#### **Retirement Benefit Costs**

The Group provides for the estimated retirement costs required to be paid under Republic Act (RA) No. 7641 to qualified employees. Under PAS 19, *Employee Benefits*, the cost of defined retirement benefits, including those mandated under RA No. 7641 should be determined using projected unit credit method to measure its obligations and costs.

#### **Income Taxes**

Current Income Tax

Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.

#### **Deferred Tax**

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and carryforward benefits of unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the 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 based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

# **Foreign Currency-denominated Transactions**

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the reporting date. Foreign currency gains or losses are recognized in profit or loss.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires 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.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the Group's profit or loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized.

#### Basic Earnings (Loss) Per Share (E/LPS)

Basic E/LPS amounts are calculated by dividing net income (loss) attributable to the equity holders of the parent Company by the weighted average number of common shares outstanding during the year.

# Diluted Earnings (Loss) Per Share (E/LPS)

Diluted E/LPS amounts are calculated by dividing the net income (loss) attributable to common equity holders of the Parent Company (after adjusting for interest on convertible preferred shares) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares.

#### **Segment Reporting**

For management purposes, the Group is organized into business units based on its products and services and has three reportable segments. Financial information on business segments is presented in Note 20.

#### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

### **Borrowing Costs**

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed in the period they occur.

# **Contingencies**

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.

#### **Events after the Reporting Date**

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

# **ITEM 7: FINANCIAL STATEMENTS**

The Financial Statements and Schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this SEC Form 17 - A.

# ITEM 8: CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no changes in and disagreements with independent accountants on accounting and financial disclosure and no change in the Company's independent accountants during the two most recent fiscal years or any subsequent interim period.

#### INFORMATION ON INDEPENDENT PUBLIC ACCOUNTANT AND OTHER RELATED MATTERS

# Information on Independent Public Accountant

In compliance with SRC Rule 68 Paragraph 3(b)(iv), the engagement partner from Sycip Gorres Velayo & Co. is Mr. John Nai Peng C. Ong. The Corporation recommends the appointment of Sycip Gorres Velayo & Co. as the Principal Accountant of the Corporation. Sycip Gorres Velayo & Co. is the incumbent Public Accountant of the Company.

Sycip Gorres Velayo & Co. is the incumbent Public Accountant of the Company. The Company, through its Audit Committee, recommends the re-appointment of Sycip Gorres Velayo & Co. as the Principal

Accountant of the Corporation. The Company's Audit Committee is composed of Mr. Manuel G. Arteficio as Chairman, Mrs. Belen R. Castro, Member, and Mr. Wilfrido P. Reyes, Member.

#### **External Audit Fees and Services**

In compliance with SEC Memo Circular No. 14 Series of 2004, External Audit Fees, year ended 2011 audit progress billing for South China Resources and subsidiary, SOC Land Development amounted to ₱430,963 and ₱184,745 respectively External Audit Fees, year ended 2010 audit progress billing for South China Resources and subsidiary, SOC Land Development amounted to ₱422,844.00 and P70,000.00 respectively No other services were provided and billed for by the external auditors for the last two (2) fiscal years.

#### PART III - CONTROL AND COMPENSATION INFORMATION

#### ITEM 9: DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUE

#### (1) Directors and Executive Officers (Information for the last five years)

<u>Position</u>	<u>Name</u>	<b>Birthdate</b>
NAME	POSITION	BIRTHDATE
Edgardo P. Reyes	Chairman/CEO	December 2, 1945
Wilfrido P. Reyes	President	January 21, 1947
Belen R. Castro	VP & Treasurer	April 9, 1948
Manuel G. Arteficio	Director	January 13, 1945
Francisco M. Bayot, Jr.	Director	January 29, 1954
Magilyn T. Loja	Corporate Secretary	May 06, 1968
David R. Baladad	VP – Operations	September 13, 1956
Zosimo L. Padro, Jr.	VP – Finance	August 3, 1959

**EDGARDO P. REYES**, 66 years of age, Filipino, has been the CHAIRMAN of the Board of Directors of the Company since 1992. He has also been the CHAIRMAN of Gonzalo Puyat and Sons, Inc., Puyat Steel Corp., Bell Telecommunication Philippines Inc., Purex Mineral Corp., and Philippine Flour Mills; PRESIDENT of International Pipe Industries Corp., Pipe Machinery Corp., Apo Pipe Industries Corp., Reyson Realty & Development Corp., Puyat Flooring Products Inc., Proleo Realty Inc., and BenePara Realty Inc.; SENIOR VICE PRESIDENT of PFM Agro-Industrial Development Corp., and Armorply Concrete Forming Systems Inc.; and, DIRECTOR of Surigao Development Corp., and Puyat Investment & Realty for the past five (5) years. He is a DIRECTOR of Premiere Development Bank. Mr. Reyes is the brother of Mr. Wilfrido P. Reyes and Ms. Belen R. Castro.

WILFRIDO P. REYES, 65 years of age, Filipino, has been the PRESIDENT of the Company since 1992. He has also been the CHAIRMAN of La Dulcinea Restaurant Inc. and Warrest Realty Inc.; CHAIRMAN/PRESIDENT of WPR Realtv & Management Corp.; **EXECUTIVE** PRESIDENT/DIRECTOR of Gonzalo Puyat & Sons Inc. and Purex Mineral Corp.; EVP/GENERAL MANAGER of Philippine Flour Mills and PFM-Agro Development Corp.; SVP/DIRECTOR of Puyat Steel Corporation; DIRECTOR of Premiere Development Bank; TREASURER/DIRECTOR of Surigao Development Corp.; SECRETARY/DIRECTOR of Surigao Marine Products, Inc.; VP/GENERAL MANAGER of Reyson Realty & Development Corp.; PRESIDENT of Proleo Realty Inc., VP/TREASURER of Bell Telecommunication Philippines Inc.; TREASURER/DIRECTOR of International Pipe Industries Corp. and Apo Pipe Industries Corp; and, DIRECTOR of Pipe Machinery Corp. for the past five (5) years. Mr. Reyes is the brother of Mr. Edgardo P. Reyes and Ms. Belen R. Castro.

**BELEN R. CASTRO**, 64 years of age, Filipino, has been the VICE PRESIDENT, TREASURER & DIRECTOR of the Company since 1992 up to the present; DIRECTOR & ASST. TREASURER of Gonzalo Puyat & Sons, Inc.; CORPORATE SECRETARY of Reyson Realty & Development Corp.; and DIRECTOR of Bell Telecommunication Phils., Inc. for the past five (5) years. Mrs. Castro was also the PRESIDENT of the Chamber of Thrift Banks (CTB), & the Development Bankers Association of the Philippines Foundation (DBAP) in 1993. She is still a DIRECTOR of CTB. She was the PRESIDENT/CEO of Premiere Development Bank since 2002 before she became its CHAIRMAN last 2007 up to the present. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

**MANUEL G. ARTEFICIO,** 67 years of age, Filipino, has been an INDEPENDENT DIRECTOR of the Company since 2007. He has been PRESIDENT of San Manuel Mining Corp. from 1990 to present; Assissi Mining Corp., Bonaventures Mining Corp., Ignatius Mining Corp., all three from 1994 to present; he is also the PRESIDENT of Egerton Gold Phils., Inc. from 2006 to present.

**FRANCISCO M. BAYOT, JR.**, 58 years of age, Filipino, has been an INDEPENDENT DIRECTOR of the Company since 2008. He is the CHAIRMAN of Madrigal Business Park Association, Inc.; CEO/DIRECTOR of Solid Cement Corp. and Rizal Cement Co., Inc.; PRESIDENT/DIRECTOR of JM Investment Corp.; and DIRECTOR of Solidbank Corp., Alabang Commercial Corp., and Bell Telecommunication Phils., Inc.

**MAGILYN T. LOJA.**, 43 years of age, Filipino, has been the CORPORATE SECRETARY of the Company since 2010. She is a Senior Partner of the Esguerra & Blanco Law Offices. Atty. Loja obtained his Bachelor of Science in Business Administration and Accountancy and Bachelor of Laws from the University of the Philippines. Atty. Loja since 1996, and during the last five (5) years, has been engaged in the practice of law.

**DAVID R. BALADAD**, 55 years of age, Filipino, has been the VICE PRESIDENT FOR OPERATIONS of the Company since 1994. He obtained his Bachelor of Science in Geology in the University of the Philippines and he is also a licensed Geologist. Prior to joining the Company, Mr. Baladad was the Chief of the Oil and Gas Division of the former Office of Energy Affairs (now DOE) and a consultant to other local exploration companies. He has been directing the upstream activities of the Company since 1994 and for the last five (5) years.

**ZOSIMO L. PADRO, JR.**, 53 years of age, Filipino, has been the VICE PRESIDENT FOR FINANCE of the Company since January 2010. He obtained his Bachelor of Science in Business Administration Major in Accounting from the University of Eastern Philippines and Bachelor of Laws from Jose Rizal College. Atty. Padro is also the Vice President for Finance of International Pipe Industries Corp. Atty. Padro since 1990, and during the last five (5) years, has been engaged in the practice of law. He is also a Certified Public Accountant.

Mr. Manuel G. Arteficio and Mr. Francisco M. Bayot, Jr. were elected Independent Directors during the 2011 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Arteficio and Mr. Bayot as independent directors to be elected during the 2011 Annual Stockholders' Meeting, upon the recommendation of stockholder Ms. Remedios Manguiat and Ms. Efigenia Ocol who are not related to the nominees. Both Mr. Arteficio and Mr. Bayot are qualified to be nominated and elected as Independent Directors of the Company in accordance with the qualifications specified with SEC Circular No. 16 Series of 2002 and SEC Circular No. 16 Series of 2006.

Directors elected in the annual stockholders' meeting have a term of office of one (1) year and serve as such until their successors are elected and qualified in the succeeding annual meeting of stockholders.

### (2) Significant Employees

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

#### (3) Family Relationships

Mr. Edgardo P. Reyes, Chairman and CEO; Mr. Wilfrido P. Reyes, President; and Ms. Belen R. Castro, Vice President, Treasurer and Director of the Company are brothers and sister. All other Directors and Executive Officers are not related to each other. Other than the ones disclosed, there are no other family relationships known to the registrant.

#### (4) Involvement in Certain Legal Proceedings

None of the directors, nominees for election as a director, executive officers or control persons of the Company have been involved in any legal proceeding required to be disclosed under Part IV paragraph (A)(4) of SRC Rule 12 (Annex C, Amended), including without limitation being the subject of any:

- (a) bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses:
- (c) order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and
- (d) order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation, for the past five (5) years up to the latest date, that is material to the evaluation of the ability or integrity to hold the relevant position in the Company.

#### **ITEM 10: EXECUTIVE COMPENSATION**

There are no bonuses, profit sharing or other compensation plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the issuer will participate.

The Group has no pension or retirement plan in which any such person will participate.

There are no employment contracts arrangements for this year.

The aggregate compensation paid or accrued during the last two calendar years and to be paid in the ensuing calendar year to the Chief Executive Officer and three most highly compensated executive officers are as follows:

Name and Principal Position	Year	Salary (P)	Bonus (P)	Other Annual Compensation
Edgardo P. Reyes Chairman / CEO				
David R. Baladad VP-Operations				
Zosimo L. Padro Jr. VP – Finance				
Ronna C. De Leon Accounting Officer				
Aggregate compensation –	2012	2,000,000(est.)	500,000.00(est.)	N/A
CEO & all other officers and	2011	1,775,880	444,960.00	N/A
Directors as a group unnamed	2010	1,695,000	407,000.00	N/A

Among the directors and officers of the company, only the four (4) stated above are being compensated.

# ITEM 11: SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2011 (owning more than 5% of any class of voting securities)

Title of Class	Name and address of record owner and	Relationshi p with Issuer	Name of Beneficial ownership and relationship with record owner	Citizenship	No. of Shares Held	Percent
Common	EDGARDO P. REYES 1371 Caballero St., Dasmariñas Vill., Makati	Director	EDGARDO P. REYES, same person	Filipino	229,853,123	25.3544%
Common	BELEN R. CASTRO 4889 Pasay Road, Dasmariñas Vill., Makati	Director	BELEN R. CASTRO, same person	Filipino	231,353,122	25.5199%
Common	WILFRIDO P. REYES 1545 Mahogany St., Dasmariñas Vill., Makati	Director	WILFRIDO P. REYES, same person	Filipino	226,853,123	25.0235%
Common	PCD Nominee Corp. (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati	Stockholder	PCD Nominee Corp. (Filipino), depository agent	•	164,687,734	18.1662%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 18.1662% of the total shares of the Company.

# (b) Security Ownership of Management Directors

Title of Class	Name of Beneficial Owner	Amount and Beneficial Ov		Citizenship	Percent of Class
Common Shares	Edgardo P.Reyes	229,853,123	Direct, Record and Beneficial	Filipino	25.3544%
Common Shares	Belen R. Castro	231,353,122	Direct, Record and Beneficial	Filipino	25.5199%
Common Shares	Wilfrido P. Reyes	226,853,123	Direct, Record and Beneficial	Filipino	25.0235%
Common Shares	Francisco M. Bayot, Jr.	400,000	Direct, Record and Beneficial	Filipino	00.0441%
Common Shares	Manuel G. Arteficio	100,000	Direct, Record and Beneficial	Filipino	00.0110 %
Total		688,559,368	-		75.9088%

#### **Executive Officers**

Title of Class	Name of Beneficial Owner		nd Nature of Ownership	Citizenship	Percent of Class
Common Shares	Edgardo P. Reyes				
Common Shares	Wilfrido P. Reyes				
Common Shares	Belen R. Castro				
Common Shares	David R. Baladad	E0 000	Direct, Record and Beneficial	Filipino	00.0055%
Total		50,000 50,000	Denendal		00.0055%

**Directors and Officers as a Group** 

Title of Class	Name of Beneficial owner	Amount of Beneficial ownership	Percent of Class
Common Shares	Directors as a Group	688,559,368	75.9088%
Common Shares	Executive Officers as a Group	50,000	00.0055%
Total		690,609,368	75.9143%

No person holding more than 5% of a class is under a voting trust or similar agreement.

The Company has no arrangements which may result in a change in control of the registrant.

#### ITEM 12: CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

(In reference to Note 16 of the 2011 Audited Consolidated Financial Statements)

# **PUYAT STEEL CORPORATION (PSC)**

PSC is a world-class manufacturer of galvanized and pre-painted steel sheets and coils used in roofing and walling profiles and bended accessorial products established in 1956. PSC set up the first galvanizing plant in the Philippines to answer to the need of the country for galvanized iron sheets to be used in the construction, building and roofing materials. In 1998, PSC inaugurated in Rosario, Batangas, the Philippines' first ever state-of-the-art continuous galvanizing line utilizing the modern non-oxidizing furnace (NOF) technology in a globally competitive stature. By the year 2000, PSC became the first NOF continuous galvanizing plant to be ISO 9002 certified. PSC is under common control with the Group.

The BOD through a board resolution dated January 24, 2008 authorized the Group to enter into a related party agreement with PSC to advance an amount of up to P130.0 million for the acquisition of raw materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment to the Group of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished goods. The funding facility is renewable on a yearly basis. Under this arrangement, the Group receives a guaranteed return on investment (ROI) of at least 8% per annum.

As of December 31, 2011 and 2010, the outstanding receivable from PSC amounted to P45.0 million. These are due and demandable. Interest earned by the Group in relation to these advances amounted to P3.7 million, P6.0 million and P9.7 million in 2011, 2010 and 2009, respectively.

PSC's accounts receivable and finished goods with fair value equivalent to the outstanding balance are used as collateral for the amount owed to the Group.

# **INTERNATIONAL PIPE INDUSTRIES, INC. (IPIC)**

IPIC is the pioneer manufacturer of large-diameter spiral welded pipes and machinery fabrication in the Philippines and Southeast Asia and has been producing quality pipes for the last 48 years. IPIC is the only company to date that has secured the American Petroleum Institute monogram in the Philippines. IPIC was also the first company in the Southeast Asia to pioneer in the design and exportation of high-tension transmission poles, weight coating of submarine line pipe and non-tension and pre-tension concrete pressure pipes.

In May 2011, the BOD has authorized the Group to enter into a related party agreement with IPIC to provide a standby fund facility in the amount of up to P50.0 million for the acquisition of raw materials to be processed into finished steel pipe products. The Group will receive a guaranteed return on investment of at least 8% per annum.

As of December 31, 2011, the outstanding receivable from IPIC amounted to P25.0 million. The amount is due and demandable. Interest earned and receivable by the Group in relation to these advances amounted to P0.4 million and P0.14 million in 2011, respectively.

IPIC's accounts receivable and finished goods with fair value equivalent to the outstanding balance are used as collateral for the amount owed to the Group.

# SOUTH CHINA PETROLEUM INTERNATIONAL, INC. (SCPI)

SCPI is a corporation established to prospect for, explore, extract, dig and drill for, exploit, produce, purchase, or otherwise obtain from the earth, any and all kinds of petroleum and petroleum products, rocks or carbon oils, natural gas and other volatile materials, chemical substance and salts, precious and

base metals, diatomaceous earth as well as other minerals of whatever nature whether similar or dissimilar to those listed herein, and to manufacture, refine, prepare for market, buy, sell, import, export and transport and otherwise deal in petroleum and other minerals of whatever nature, whether similar or dissimilar thereto, their products, compounds and derivatives and other mineral and chemical substances in crude or refined condition, and to generally engage, as may be permitted by law, in the business of, and/or investing in mining, manufacturing, contracting and servicing, in addition to oil exploration.

The total amount of receivable from SCPI as of December 31, 2011 and 2010 amounting to P0.1 million pertains to the amount paid for the business permit and registration. The amount is due and demandable.

#### **ITEM 13: CORPORATE GOVERNANCE**

An evaluation system is being set in place in relation to the provisions of the Revised Manual on Corporate Governance to measure the level of compliance by directors and top management. Also, the Company and its directors, officers and employees complied with all the leading practices and principles on good governance as embodied in the company's Revised Corporate Governance Manual.

The Company believes that the current corporate governance of the Company is sufficient to address its needs.

#### **PART V - EXHIBITS AND SCHEDULES**

#### ITEM 14: EXHIBITS AND REPORTS ON SEC FORM 17-C

(a) Exhibits - None

# (b) Reports on SEC Form 17-C

The reports indicated below were filed on SEC Form 17-C during the last six-month period covered by this report.

<u>December 23,2011</u>	Item 9. Other Events Pursuant to the board resolution dated 21 December 2011 approving the repurchase of the Company's shares in open market. The management of the company purchased 300,000 of its own common shares.
<u>December 22,2011</u>	Item 9. Other Events  The management of the company purchased 200,000 of its own common shares.

	T
July 26,2011	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, sold 210,000 shares directly held by him in his name
July 21,2011	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, sold 126,000 shares directly held by him in his name.
<u>July 14,2011</u>	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, has on July 13, 2011 sold 100,000 shares directly held by him in his name.
July 12,2011	Item 9. Other Events  South China Resources, Inc.'s wholly-owned subsidiary, SOC Land Development Corporation, held today a groundbreaking ceremony for its Anuva Development Project at Buli, Muntinlupa along the east service road of SLEX.
July 07,2011	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, has on June 30, 2011 sold 60,000 shares at P1.27 per share directly held by him in his name.
June 29,2011	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, has on June 27, 2011 sold 300,000 shares directly held by him in his name.
June 24,2011	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, has on June 24, 2011 sold 200,000 shares directly held by him in his name

June 09,2011	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, has on June 06, 2011 sold 50,000 shares at P1.42 per share directly held by him in his name.
<u>June 06,2011</u>	Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, has on June 03, 2011 sold 550,000 shares directly held by him in his name.
June 02,2011	Item 2. Acquisition or Disposition of Assets  That the issuer, together with other shareholders, entered into an agreement with Security Bank to sell, subject to regulatory approvals, the issuer's 351,454 shares in Premiere Development Bank at a price of ₱ 181.7458 per share.  Item 9. Other Events  That the issuer's Chairman, Mr. Edgardo P. Reyes, sold 56,000 shares directly held by him in his name on the following dates

\*\*\*\*\*

# SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on  $\_April \ 16$ ,  $2012\_$ .

Ву:

Edga do P. Reyes Cylief Executive Officer

Date: April 13, 2012

Wilfrido P. Reyes President Date: April 13, 2012

Belen R. Castro Vice President & Treasurer Date: April 13, 2012

David R. Baladad Principal Operating Officer Date: April 13, 2012

Zosimo L. Padro, Jr. Principal Accounting Officer Date: April 13, 2012

Magilyn T. Loja Corporate Secretary

Date: April 13, 2012

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_\_, 2012 affiant(s) exhibiting to me their residence Certificate/SSS ID, as follows:

Name	CTC No./SSS No.	Date of Issue	Place of Issue
Edgardo P. Reyes	06999904	January 12,2012	Makati City
Wilfrido P. Reyes	06985801	January 05,2012	Makatl City
Belen R. Castro	02435402	March 26,2012	Manila
Magilyn T. Loja	07004132	January 18,2012	Makati City
David R. Baladad	033769653-0		Quezon City
Zosimo L. Padro, Jr.	036313097-6		Manila

Doc. No. : 509
Page No. : 70
Book No. : III

Series of 2012.

FREZNEL B. STA ... A
Commission No. M-85
Notary Public - Makati City
Until December 31, 2012
Esguerra & Blanco Law Offices

& 5th Floors, S&L Building, De La Rosa corner
is eban Sts., Legaspi Village, Makati City 1229
171 R No. 3178299/1-4-12/Makati City
1Bth No. 878331/1-4-12/07LM Chapter
Roll No. 58217

NOTARY PUBLIC

Bull No. 58217

# SOUTH CHINA RESOURCES, INC. & SUBSIDIARY INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES SEC FORM 17-A

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Other schedules, which are required by Annex 68.1-M of the Amended SRC Rule 68, have been omitted because they are either not required, not applicable, or the information required to be presented is included in the Company's Balance Sheets or Notes to Financial Statements.

#### STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of South China Resources, Inc. and subsidiary is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2011 and 2010, including the additional components attached therein, in accordance with Philippine Financial reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the company and its subsidiary in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

Signed under oath, by the following:

EDGARDO P. REYES Chairma / Chief Executive Officer

WILFRIDO P. REYES

President

BELEN R. CASTRO Vice President/Treasurer

SUBSCRIBED AND SWORN to before me this APRday of 2012 2012 affiants exhibiting to me their Passport and CTC, as follows:

CTC Valid Until Name Issued on Issued at Passport No. Jan. 12,2012 Nov. 19,2013 Edgardo P. Reves 06999904 Makati City XX2550432 Wilfrido P. Reyes Jan. 05,2012 Nov. 10,2013 0698501 Makati City XX2549298 Belen R. Castro Mar. 26,2012 June 09,2015 02435402 Manila EB0366990

Doc. No.:

Book No.:

Series of 2012.

FREZNÉL B. STA. ANA
Commission No. M-85
Notary Public - Makan City
Until December 31, 2012
Esquerra & Blanco Low Offices

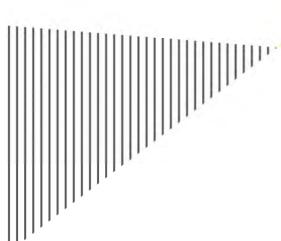
4th & 5th Floors, S&L Building The larkosa corner Esteban Sts., Luganni Volum, Mohan City 1279 PTR No. 317829971-4-1 and Idah City

IBP No. 878331/1-4-12/17/LM Chapter Roll No. 58217

Telephone No. 892-2049 \* Telefax No. 812-2383

Notary Public

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# South China Resources, Inc. and Subsidiary

Consolidated Financial Statements December 31, 2011 and 2010 and Years Ended December 31, 2011, 2010 and 2009

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.





SyCip Gorres Velayo & Co. 6760 Ayala Avenue 1226 Makati City Philippines

Phone: (632) 891 0307 Fax: (632) 819 0872 www.sgv.com.ph

BOA/PRC Reg. No. 0001 SEC Accreditation No. 0012-FR-2

# INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors South China Resources, Inc.

We have audited the accompanying consolidated financial statements of South China Resources, Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

# Management's Responsibility for the Consolidated Financial Statements

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

#### Auditors' Responsibility

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

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

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





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# **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of South China Resources, Inc. and Subsidiary as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

John Nai Peng C. Ong

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2009,
June 1, 2009, valid until May 31, 2012
PTR No. 3174817, January 2, 2012, Makati City

April 3, 2012



FS-2

# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31		
	2011	2010	
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4)	P730,161,936	₽893,083,578	
Accounts receivable (Notes 5 and 16)	8,523,434	10,906,687	
Due from related parties (Note 16)	70,109,444	45,098,362	
Real estate for sale (Note 6)	447,615,888		
Prepayments and other current assets (Note 7)	17,684,790	9,127,598	
Total Current Assets	1,274,095,492	958,216,225	
Noncurrent Asset Held for Sale (Note 9)	31,722,243	_	
Noncurrent Assets			
Available-for-sale (AFS) investments (Note 8)	284,849,125	285,956,005	
Deferred exploration costs (Note 1)	21,563,806	1,692,615	
Property and equipment (Note 10)	21,046,176	6,098,757	
Investment in an associate (Note 9)	_	31,836,983	
Investment property (Note 1)	_	321,048,252	
Other noncurrent assets (Note 11)	3,823,191	2,397,351	
Total Noncurrent Assets	331,282,298	649,029,963	
TOTAL ASSETS	P1,637,100,033	₽1,607,246,188	
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other liabilities (Note 12)	P43,311,080	₽714,368	
Income tax payable	21,962	119,358	
Total Current Liabilities	43,333,042	833,726	
Equity			
Common stock - P1 par value (Note 17a)			
Authorized - 1,000,000,000 shares			
Issued - 600,489,569 shares in 2011 and	<del>.</del>		
597,189,569 shares in 2010	600,489,569	597,189,569	
Subscribed - 306,070,000 shares in 2011 and			
309,370,000 shares in 2010 (net of subscriptions			
receivable of \$\P229,552,500\$ in 2011 and \$\P232,027,500\$ in		77 242 500	
2010)	76,517,500	77,342,500	
Additional paid-in capital	72,272,140	72,272,140	
Unrealized valuation gains on AFS investments (Note 8) Share in unrealized valuation gains on AFS investments	10,389,619	17,672,548	
of an associate (Note 8)	_	13,393	
Retained earnings	_	15,595	
Appropriated (Note 17b)	500,000,000	500,000,000	
Unappropriated	334,676,163	341,922,312	
Treasury stock (Note 17c)			
Treasury Stock (Trote Tre)	(578,000)	_	
Equity	(578,000) 1,593,766,991	1,606,412,462	



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31			
	2011	2010	2009	
REVENUES				
Interest income (Notes 4 and 16)	<b>₽34,169,434</b>	₽51,497,524	₽9,920,148	
Dividend income	165,918	1,005		
Foreign exchange gains - net	259		_	
Gain on sale of investment in an associate (Note 23)	_	_	1,171,904,480	
	34,335,611	51,498,529	1,181,824,628	
COSTS AND EXPENSES	, ,			
Sales and marketing expenses (Note 13)	14,986,749	1,405,395		
Personnel costs (Note 14)	10,836,540	3,147,724	2,707,333	
Depreciation and amortization (Note 10)	3,419,289	2,576,190	2,528,807	
Travel and representation		6,414,361	1,374,965	
Professional fees	2,910,628			
	2,021,724	1,209,011	702,944	
Rent and utilities (Note 22) Taxes and licenses	1,478,302	643,931	588,646	
	1,396,531	819,629	91,290,570	
Supplies Talana and partials and partials	885,554	159,376	107,044	
Telecommunications and postage	742,563	209,938	207,441	
Meetings, trainings and seminars	412,276	310,405	84,796	
Outside services	288,631	110.064	21 922	
Repairs and maintenance	282,424	118,964	21,833	
Dues and subscriptions	19,745	1,910	_	
Provision for impairment losses on deferred		12 240 724		
exploration costs (Note 1)	_	13,248,734	_	
Provision for impairment in value of AFS		400.256	270 000	
investments (Note 8)	_	499,356	270,000	
Foreign exchange losses - net	-	13,397	5,439	
Others	1,713,358	1,025,812	343,616	
	41,394,314	31,804,133	100,233,434	
EQUITY IN NET LOSSES OF AN ASSOCIATE				
(Note 9)	(114,740)	(2,280,818)	(40,035,540)	
SHARE IN UNREALIZED VALUATION GAINS				
ON AFS INVESTMENTS OF				
AN ASSOCIATE (Note 9)	13,393	_	_	
INCOME (LOSS) BEFORE INCOME TAX	(7,160,050)	17,413,578	1,041,555,654	
	(7,100,030)	17,413,376	1,041,333,034	
PROVISION FOR CURRENT INCOME TAX				
(Note 15)	86,099	119,358	159,582	
NET INCOME (LOSS)	(7,246,149)	17,294,220	1,041,396,072	
OTHER COMPREHENSIVE INCOME (LOSS)				
Unrealized valuation gains (losses) on AFS investments				
(Note 8)	( <b>P7</b> ,282,929)	₽15,682,905	₽249,900	
Share in unrealized valuation gains (losses) on AFS	(= 1,= 2=,= == )	- , ,	- ,	
investments of an associate (Note 9)	(13,393)	71,850	68,026	
	(7,296,322)	15,754,755	317,926	
TOTAL COMPREHENSIVE INCOME (LOSS)	(P14,542,471)		₽1,041,713,998	
Basic/Diluted Earnings (Loss) Per Share (Note 18)	( <b>P</b> 0.0080)	<b>P</b> 0.0190		
Daniel Director Larinings (Liuss) I or bliate (1900-10)	(±0.0000)	<b>±</b> 0.0130	±1.1 <del>1</del> 0J	



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December		
	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES	(DF 160.050)	D17 412 570	D1 041 555 654
Income (loss) before income tax Adjustments for:	( <b>P7</b> ,160,050)	₽17,413,578	₽1,041,555,654
Depreciation and amortization (Note 10)	3,419,289	2,576,190	2,528,807
Equity in net losses of an associate (Note 9)	3,419,269 114,740	2,280,818	40,035,540
Interest income (Notes 4 and 16)	(34,169,434)	(51,498,529)	(9,920,148)
Share in unrealized valuation gains on AFS investments of	(34,107,434)	(31,470,327)	(5,520,140)
an associate (Note 9)	(13,393)	_	_
Net foreign exchange losses (gains)	(259)	13,397	5,439
Provision for impairment in value of AFS	( /	-,	-,
investments (Note 8)	_	499,356	270,000
Provision for impairment losses on deferred			
exploration costs (Note 1)	_	13,248,734	_
Gain on sale of investments in an associate (Note 23)	_	_	(1,171,904,480)
Operating loss before working capital changes	(37,809,107)	(15,466,456)	(97,429,188)
Decrease (increase) in:			
Accounts receivable	(3,225,787)	(3,876,419)	4,930,083
Real estate for sale	(126,567,636)	_	_
Prepayments and other current assets	(8,557,192)	(8,825,214)	(215,199)
Increase in accounts payable and other liabilities	42,596,712	13,588	1,060,846
Net cash used in operations	(133,563,010)	(28,154,501)	(91,653,458)
Interest received	39,778,474	44,650,862	13,792,523
Income tax paid	(183,495)	(159,582)	
Net cash flows from (used in) operating activities	(93,968,031)	16,336,779	(77,860,935)
CASH FLOWS FROM INVESTING ACTIVITIES Decreases (increases) in: Due from related parties	(25,011,082)	(10.252)	
Deferred exploration costs	(19,871,191)	(10,253) 20,607	(70,876)
Other noncurrent assets	(1,425,840)	(2,397,351)	(70,070)
Acquisitions of:	(1,423,040)	(2,3)1,331)	
Property and equipment (Note 10)	(18,366,708)	(388,792)	(106,115)
AFS investments (Note 8)	(6,176,049)	(264,000,000)	
Investment property (Note 1)	_	(321,048,252)	_
Net changes in investments in an associate	_	(347,353)	362,807,749
Payments received from related parties (Note 16)	_	25,000,000	_
Net proceeds from sale of investments in an associate (Note 23)	_	_	1,227,825,489
Payment of subscriptions payable (Note 23)	_	_	(171,720,000)
Net cash flows from (used in) investing activities	(70,850,870)	(563,171,394)	1,418,736,247
CASH FLOW FROM FINANCING ACTIVITIES		<b>7.7</b> .0000	150 500
Collections of subscriptions receivable (Note 17a)	2,475,000	5,760,000	472,500
Acquisition of treasury stock (Note 17c)	(578,000)		- 472 500
	1,897,000	5,760,000	472,500
EFFECT OF EXCHANGE RATE CHANGES			
ON CASH AND CASH EQUIVALENTS	259	(13,397)	(5,439)
NET INCREASE (DECREASE) IN CASH	(1.60.001.640)	(5.41.000.01 <b>0</b> )	1 0 11 0 10 070
AND CASH EQUIVALENTS	(162,921,642)	(541,088,012)	1,341,342,373
CASH AND CASH EQUIVALENTS AT			
BEGINNING OF YEAR	893,083,578	1,434,171,590	92,829,217
CASH AND CASH EQUIVALENTS AT	D720 171 027	D902 092 579	D1 424 171 500
END OF YEAR (Note 4)	P730,161,936	₽893,083,578	₽1,434,171,590



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2011, 2010 and 2009

					Unrealized				
					Valuation				
				Unrealized	Gains (Losses)				
				Valuation	on AFS				
				Gains on AFS	Investments	Retained Earn	ings (Deficit)	Treasury	
	Common Sto	ock (Note 17a)	Additional			(Note	<b>U</b> \	Stock	
		, ,	Paid-in Capital	(Note 7)	(Note 8)	Appropriated	Unappropriated	(Note 17c)	Total
Balances at January 1, 2009	₽588,879,569	₽79,420,000	₽72,272,140	₽1,739,743	(P126,483)	<u>Appropriated</u> <u>₽</u> _	(₽216,767,980)	P-	₽525,416,989
Collection of subscriptions	£300,079,309	£79,420,000	£/2,2/2,140	£1,739,743	(£120,463)	£-	(£210,707,960)	£	£323,410,969
receivable		472,500							472,500
Issuance of common stock	630,000	(630,000)	_	_	_	_	_	_	472,300
Net income	030,000	(030,000)	_	_	_	_	1,041,396,072	_	1,041,396,072
Other comprehensive income	_	_	_	249,900	68,026	_	1,041,330,072	_	317,926
Balances at December 31, 2009	589,509,569	79,262,500	72,272,140	1,989,643	(58,457)		824,628,092		1,567,603,487
Collection of subscriptions	309,309,309	79,202,300	72,272,140	1,909,043	(30,437)	_	024,020,092	_	1,307,003,467
receivable	_	5,760,000	_	_	_	_	_	_	5,760,000
Issuance of common stock	7,680,000	(7,680,000)	_			_			5,700,000
Appropriation for future investments	7,000,000	(7,000,000)						_	
(Note 17b)	_	_	_	_	_	500,000,000	(500,000,000)		_
Net income	_	_	_	_	_	_	17,294,220	_	17,294,220
Other comprehensive income	_	_	_	15,682,905	71,850	_		_	15,754,755
Balances at December 31, 2010	597,189,569	77,342,500	72,272,140	17,672,548	13,393	500,000,000	341,922,312	_	1,606,412,462
Collection of subscriptions	057,105,005	77,012,000	, =,=,=,1.0	17,072,010	10,000	200,000,000	5 .1,> 22,5 12		1,000,112,102
receivable	_	2,475,000	_	_	_	_	_	_	2,475,000
Issuance of common stock	3,300,000	(3,300,000)	_	_	_	_	_	_	_
Appropriation for future investments	, ,	( , , , ,							
(Note 17b)	_	_	_	_	_	500,000,000	(500,000,000)	_	_
Reversal of appropriation for future									
investments (Note 17b)	_	_	_	_	_	(500,000,000)	500,000,000	_	_
Treasury stock acquisition	_	_	_	_	_	_	_	(578,000)	(578,000)
Net loss	_	_	_	_	_	_	(7,246,149)		(7,246,149)
Other comprehensive loss	=	=	=	(7,282,929)	(13,393)	=	<u> </u>		(7,296,322)
Balances at December 31, 2011	₽600,489,569	₽76,517,500	₽72,272,140	₽10,389,619	₽–	₽500,000,000	₽334,676,163	(P578,000)	P1,593,766,991

Share in



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# 1. Organization and Business

# **Corporate Information**

South China Resources, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1992, primarily to undertake oil and gas exploration, development and production.

The Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

The registered office address of the Parent Company is 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat cor. Makati Avenue, Makati City.

In October 2003, the SEC approved the amendment of the Parent Company's articles of incorporation, particularly the change in its primary purpose of business. The Parent Company is now registered primarily to invest in, purchase, or otherwise acquire and own, hold, use, sell, assign, transfer, mortgage, pledge, exchange, or otherwise dispose of real and personal property of every kind and description, in particular shares of stocks, voting trust certificates, bonds, debentures, notes, evidences of indebtedness of associations and corporations, domestic or foreign, without being a stockbroker or dealer, and to issue in exchange therefore shares of the capital stock, bonds, notes, or other obligations and/or assets of the Parent Company and while the owner thereof, to exercise all the rights, powers, and privileges of ownership, including the right to vote any shares of stock or voting trust certificates so owned, and to do every act and thing that may generally be performed by entities known as "holding companies". The former primary purpose of oil and gas exploration was reclassified as among the secondary purposes of the Parent Company.

The Parent Company has six (6) and seven (7) employees in 2011 and 2010, respectively.

In 2010, the Parent Company diversified its business and invested into real property development through SOC Land Development Corporation (SOC Land; the Subsidiary), a wholly-owned subsidiary. SOC Land was incorporated in the Philippines and registered with the Philippine SEC on November 25, 2010. The primary purpose of SOC Land is to deal and engage in real estate business.

On July 28, 2010, the Parent Company purchased 24,023 square meters parcel of land located at East Service Road of South Superhighway, Barangay Buli, Muntinlupa City at a price of \$\mathbb{P}321.0\$ million. As of December 31, 2010, the Parent Company classified the land under "Investment property" in the consolidated statement of financial position at cost of \$\mathbb{P}321.0\$ million which approximates its fair value.

On March 4, 2011, in exchange for 312,298 additional shares in SOC Land, the Parent Company transferred investment property with a fair value of \$\mathbb{P}\$312.3 million.

The registered office address of SOC Land is 6/F, YL Holdings Building, 115 VA Rufino corner Salcedo Streets, Legaspi Village, Makati City.



# Status of Operations

Oil and Gas Exploration

The Parent Company is a participant in Service Contracts (SC) entered into with the Philippine government, through the Department of Energy (DOE), to conduct exploration, exploitation and development activities in the following contract areas:

			Percer	ntage of
	Carr	ying Amount	Working	Interest
Contract Areas	2011	2010	2011	2010
SC-60 Northeast Palawan [formerly				
GeophysicalSurvey and Exploration				
Contract (GSEC) 99]	P21,563,806	₽1,692,615	15.00	15.00
SC-71 (formerly Area 4 Offshore Mindoro-				
Cuyo)	_	_	_	15.00
SC-41 Offshore Sulu Sea Sandakan Basin	_	_	_	1.09

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements, which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts are estimated to be about US\$1.0 million and US\$10.1 million as of December 31, 2011 and 2010, respectively.

The Parent Company has existing SCs as follows:

# • SC-60 (GSEC-99 Offshore NE Palawan)

The Parent Company, Shell Philippines Exploration B.V. and Kuwait Foreign Petroleum Co. ksc. (collectively "the Consortium I") entered the second sub-phase of SC-60 in July 8, 2008. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase.

The Silangan-1 well was spud-in on July 20, 2010 and was the first deep water drilled in the area. The well was plugged and abandoned without encountering significant hydrocarbons.

During the second half of November 2010, a Controlled Source Electro-Magnetics survey in line with a request to the DOE to extend the decision period whether or not to enter the third sub-phase was launched. In 2011, cash call request from the Consortium I was paid by the Parent Company amounting to P20.0 million. As of December 31, 2011, the Consortium I was given up to February 10, 2012 to decide whether or not to enter the third sub-phase. The Consortium I did not pursue the extension.

On March 19, 2012, the DOE issued a certification, that the Parent Company is a member of SC-60 with no pending violation with the former as of December 31, 2011.

The Parent Company has 15% interest in the block as of December 31, 2011 and 2010.

# • SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)

On April 1, 2009, the Parent Company, Pitkin Petroleum (Pitkin), and the DOE (collectively "the Consortium II") signed SC-71. SC-71 covers an area of 1.164 MM hectares in the Cuyo/Mindoro/East Palawan region. The Operator, Pitkin, conducted geological and geophysical assessment of the block. SC-71 completed comprehensive reprocessing of over 3000 lines kilometers of 2D seismic data over the area. Interpretative was ongoing as of



December 31, 2010. As per advice of Pitkin, the first sub-phase of work was extended to April 1, 2011. The Consortium II did not pursue the extending exploration work after this date. As a result of not pursuing the extended exploration work, the Parent Company relinquished its 15% participating interest in SC-71 in 2011 and is in the process of obtaining clearance from the DOE as of December 31, 2011. The Parent Company has nil and 15% participating interest as of December 31, 2011 and 2010, respectively.

#### SC-41 Offshore Sulu Sea Sandakan Basin

SC-41 ran the full length of its exploration period extending exploration activity to 10 contract years. Operator, Tap Oil Ltd. (Tap Oil) drilled a well in 2008 and undertook extensive seismic processing and re-processing of the 3D seismic data in 2009 to 2010.

The SC-41 group was given until August 10, 2010 to decide whether or not to extend the SC for another year. Given that the next phase of the SC would have included a work program commitment to drill an exploratory well by May 2011, it was concluded that a well was not appropriate in light of the tight schedule and a pending Philippines Energy Contracting Round.

Tap Oil was not able to secure an appropriate farmout due in part to the tight time frame of the work program and made the decision to relinquish SC-41 prior to incurring the well commitment.

The SC-41 group views the area as still having prospectivity and may pursue exploration in the future with an appropriate work program to address the technical risks. Agreement on the composition of the new joint venture would be discussed in advance of making any application over the area, with the intent that existing partners would participate.

The Parent Company relinquished its 1.09% participating interest in SC-41 in 2011 because the Consortium II was not able to secure a farmout within the given time frame. The Parent Company has nil and 1.09% paying participating interest in the block as of December 31, 2011 and 2010, respectively.

The Parent Company provided allowance for impairment losses on deferred exploration costs amounting to \$\mathbb{P}\$13.2 million for SC-41 in 2010. No provision for impairment losses on deferred exploration costs was recognized in 2011.

As of December 31, 2011 and 2010, the allowance for impairment losses on deferred exploration costs amounted to \$\mathbb{P}88.8\$ million for the following \$\mathbb{S}Cs\$ and \$\mathbb{G}SECs\$:

- GSEC 65 West Culion;
- GSECs 68 and 71 North Calamian;
- GSEC 79 Murphy Oil and Ragay Gulf;
- GSEC 82 Cagayan Basin;
- GSEC 90 Lingayen Gulf;
- SC-71 formerly Area 4 Offshore Mindoro-Cuyo; and
- SC-41 Offshore Sulu Sea Sandakan Basin.



# Real Estate Development

In 2010, the Subsidiary's plan is to develop mid-rise residential buildings. In 2011, the Subsidiary undertook its maiden project called Anuva Residences (the Project). The Project involves development of a 2.4-hectare community situated near Sucat Interchange and will have four (4) tandem buildings, with the first building targeted to be completed by 2013. The total estimated cost of the Project is ₱2.0 billion and is targeted for completion within five (5) years from the start of its construction.

On July 12, 2011, the groundbreaking ceremony for the Project was held and construction for the Project's Tandem Building 1 commenced thereafter. As of December 31, 2011, structural works have an accomplishment rate of 11.4%.

On December 14, 2011, the Housing and Land Use Regulatory Board (HLURB) released the Subsidiary's License to Sell (LTS) for the Project.

The Subsidiary, in its pre-selling phase as of December 31, 2011, has gained access in local and international markets. In 2011, 100 units or 19.4% of total available units in the first building of Tandem 1 were reserved.

# Approval of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were approved and authorized for issue by the Board of Directors (BOD) on April 3, 2012.

# 2. Summary of Significant Accounting Policies

# **Basis of Preparation**

The consolidated financial statements have been prepared on a historical cost basis except for AFS investments that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All values are rounded off to the nearest peso, except when otherwise indicated.

# Statement of Compliance

The accompanying consolidated financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from the International Financial Reporting Interpretation Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council.

# Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except, for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011. Adoption of these new and amended standards or interpretations did not have any significant impact to the Group except for the additional required disclosures and use of titles, captions and formats of presentation.



# Amendment to PAS 24, Related Party Transactions

PAS 24 clarifies the definitions of a related party. The new definitions emphasize a symmetrical view of related party relationships and clarify the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity.

# Amendment to PAS 32, Financial Instruments: Presentation

The amendment alters the definition of a financial liability in PAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

# Amendment to Philippine Interpretation IFRIC 14, *Prepayments of a Minimum Funding Requirement*

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognized as a pension asset.

#### Improvements to PFRS

Improvements to PFRS, an omnibus of amendments to standards issued in 2010, deal primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The amendments are effective for annual periods beginning on or after January 1, 2011, except if otherwise stated. The Group has adopted the following amendments and concluded that these changes did not have material effect on the consolidated financial statements.

#### PFRS 3, Business Combinations

Amends the measurement options available for non-controlling interest (NCI). Only components of NCI that constitute a present ownership interest that entitles their holder to a proportionate share of the entity's net assets in the event of liquidation should be measured at either fair value or at the present ownership instruments' proportionate share of the acquiree's identifiable net assets. All other components are to be measured at their acquisition date fair value. The amendments to PFRS 3 are effective for annual periods beginning on or after July 1, 2011.

# PFRS 7, Financial Instruments - Disclosures

• Intends to simplify the disclosures provided by reducing the volume of disclosures around the collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.

# • PAS 1, Presentation of Financial Statements

 Clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements.

Other amendments resulting from the 2010 Improvements to PFRS to the following standards and interpretations did not have any impact on the accounting policies, financial position or performance of the Group.

- PFRS 3, *Business Combinations* (Contingent consideration arising from business combination prior to adoption of PFRS 3 (as revised in 2008))
- PFRS 3, Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- PAS 27, Consolidated and Separate Financial Statements
- PAS 34, Interim Financial Statements
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes* (determining the fair value of award credits)
- Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments

# New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to December 31, 2011

Standards issued but not yet effective up to the date of issuance of the consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards when they become effective.

# Effective in 2012

# Amendment to PFRS 7, Financial Instruments: Disclosures - Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the user of the consolidated financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognized assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendment becomes effective for annual periods beginning on or after July 1, 2011.

# Amendment to PAS 12, Income Taxes - Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40, *Investment Property* should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after January 1, 2012.



# Effective in 2013

Amendment to PAS 1, Financial Statement Presentation - Presentation of Items of Other Comprehensive Income (OCI)

The amendment to PAS 1 changes the grouping of items presented in OCI. Items that could be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has therefore no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after July 1, 2012.

#### Amendments to PAS 19, Employee Benefits

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The Group is currently assessing the impact of the amendment to PAS 19. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

# PAS 27, Separate Financial Statements (as revised in 2011)

As a consequence of the new PFRS 10, *Consolidated Financial Statements* and PFRS 12, *Disclosure of Interests in Other Entities*, what remains of PAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

PAS 28, *Investments in Associates and Joint Ventures (as revised in 2011)*As a consequence of the new PFRS 11, *Joint Arrangements*, and PFRS 12, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

Amendments to PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities

These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the balance sheet date:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set-off in accordance with the criteria in PAS 32 when determining the net amounts presented in the balance sheet;
- c) The net amounts presented in the balance sheet;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.



The amendments to PFRS 7 are to be retrospectively applied for annual periods beginning on or after January 1, 2013. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

#### PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12, Consolidation - Special Purpose Entities. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. This standard becomes effective for annual periods beginning on or after January 1, 2013.

# PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interests in Joint Ventures*, and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. This standard becomes effective for annual periods beginning on or after January 1, 2013.

# PFRS 12, Disclosure of Interests with Other Entities

PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after January 1, 2013.

# PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after January 1, 2013.

Philippine Interpretation IFRIC 20, *Stripping Costs in the Production Phase of a Surface Mine* This interpretation applies to waste removal costs that are incurred in surface mining activity during the production phase of the mine ("production stripping costs") and provides guidance on the recognition of production stripping costs as an asset and measurement of the stripping activity asset. This interpretation becomes effective for annual periods beginning on or after January 1, 2013.

# Effective in 2014

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities

These amendments to PAS 32 clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. While the amendment is expected not to have any impact on the net assets of the Group, any changes in offsetting is expected to impact leverage ratios and regulatory capital



requirements. The amendments to PAS 32 are to be retrospectively applied for annual periods beginning on or after January 1, 2014. The Group is currently assessing impact of the amendments to PAS 32.

#### Effective in 2015

# PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9 as issued reflects the first phase on the replacement of PAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in PAS 39. The standard is effective for annual periods beginning on or after January 1, 2015. In subsequent phases, hedge accounting and impairment of financial assets will be addressed with the completion of this project expected on the first half of 2012. The adoption of the first phase of PFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities.

Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*This interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion. The SEC and the Financial Reporting Standards Council (FRSC) have deferred the effectivity of this interpretation until the final Revenue standard is issued by International Accounting Standards Board (IASB) and an evaluation of the requirements of the final Revenue standard against the practices of the Philippine real estate industry is completed.

The adoption of this Philippine Interpretation may significantly affect the determination of the revenue from real estate sales and the corresponding costs, and the related receivables, deferred tax liabilities and retained earnings accounts. The Group is in the process of quantifying the impact of adoption of this Interpretation.

# Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Group as of December 31 of each year. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases.

Subsidiaries are entities over which the Parent Company has control or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group or Parent Company directly or through the holding companies.

All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions that are recognized are eliminated in full.



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences, recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

# Cash and Cash Equivalents

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placements and that are subject to an insignificant risk of change in value.

#### **Financial Instruments**

#### Date of Recognition

Financial instruments are recognized in the consolidated statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

#### Initial Recognition of Financial Instruments

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs.

#### Determination of Fair Value

The fair value of financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not been a significant change in economic circumstances since the time of the transaction.

For financial instruments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions, reference to the current market value of another instrument which is substantially the same, discounted cash flows analysis and option pricing models.

The Group has financial assets under Levels 1 and 3 of the fair value hierarchy as of December 31, 2011 and 2010 (see Note 19).



#### Classification of Financial Instruments

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of any related income tax benefits.

Financial assets are further classified into the following categories: financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (AFS) financial assets. Financial liabilities are classified as financial liabilities at FVPL or other financial liabilities.

The classification depends on the purpose for which the instruments are acquired and whether they are quoted in an active market. Management determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this classification at every reporting date.

The Group has no financial assets or liabilities at FVPL and HTM investments as of December 31, 2011 and 2010.

#### Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate (EIR) method, less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are integral part of the EIR and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the reporting date. Otherwise, these are classified as noncurrent assets.

The Group's loans and receivables consist of cash and cash equivalents, accounts receivable, due from related parties and refundable deposits (see Notes 4, 5, 7 and 16).

#### AFS Investments

AFS investments include equity investments. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL.

After initial measurement, AFS investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in "Unrealized valuation gains (losses) on AFS investments" until the investment is derecognized, at which time the cumulative gain or loss is transferred to other income (expenses), or determined to be impaired, at which time the cumulative loss is recognized in the consolidated statement of comprehensive income as other expenses and removed from "Unrealized valuation gains (losses) on AFS investments" under other comprehensive income section.

The Group evaluates its AFS investments whether the ability and intention to sell them in the near term is appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intent significantly changes to do so in the foreseeable future, the Group may elect to reclassify these financial assets in rare circumstances. Reclassification to loans and receivables is permitted when the financial asset meets the definition of loans and receivables and has the intent and ability to hold these assets for the foreseeable future or maturity. The reclassification to held to maturity is permitted only when the entity has the ability and intent to hold the financial asset accordingly until maturity.



For a financial asset reclassified out of the AFS category, any previous gain or loss on that asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using EIR method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to profit and loss.

The Group's AFS investments consist of listed and unlisted shares (see Note 8).

#### Other Financial Liabilities

Other financial liabilities pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

This category includes loans and borrowings which are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains or losses are recognized in profit or loss when the liabilities are derecognized, as well as through the amortization process.

The Group's other financial liabilities consist of accounts payable and other liabilities (see Note 12).

#### Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in profit or loss.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in the collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.



If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in profit or loss, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

#### AFS Investments Carried at Fair Value

In the case of equity investments, evidence of impairment would include a significant or prolonged decline in fair value of investments below its cost. Where there is evidence of impairment, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized, is removed from other comprehensive income and recognized in profit or loss. Impairment losses on equity investments are not reversed through profit or loss. Increases in fair value after impairment are recognized directly in other comprehensive income.

#### AFS Investments at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

#### Derecognition of Financial Assets and Liabilities

#### Financial Assets

A financial asset (or, when applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

#### Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statement of comprehensive income.

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

#### Real Estate for Sale

Real estate for sale is carried at the lower of cost and net realizable value (NRV). Cost includes the acquisition cost of the land plus all costs directly attributable to the acquisition for projects where the Subsidiary is the landowner, and includes actual development costs incurred up to the reporting date for projects where the Subsidiary is both the landowner and developer. When the Subsidiary is only a developer, the cost of real estate for sale pertains only to the actual development costs. NRV is the fair value less cost to sell in the ordinary course of business.

#### Prepayments and Other Current Assets

#### **Prepayments**

Prepayments are carried at cost and are amortized on a straight-line basis over the period of expected usage, which is equal to or less than 12 months or within the normal operating cycle.

#### Advances to Contractors

Advances to contractors represent advance payments on services to be incurred in connection with the Subsidiary's operations. Advances to contractors are recognized under "Prepayments and other current assets" account in the consolidated statement of financial position. These are charged to expense in profit or loss, or capitalized to real estate for sale in the consolidated statement of financial position, as appropriate, when the services are rendered, which is normally within 12 months or within the normal operating cycle. Otherwise, these are classified as noncurrent assets.

#### Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. Input VAT is presented as current asset and will be used to offset against the Group's current output VAT liabilities. Any excess which are being claimed as tax credits is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position. Otherwise, these are classified as noncurrent assets. Input VAT is stated at its estimated NRV.

#### Noncurrent Asset Held for Sale

Noncurrent asset held for sale is measured at the lower of its carrying amount and fair value less costs to sell.

An asset should be classified as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. The asset must be available for immediate sale in its present condition subject only to the terms that are usual and customary for sales of such assets and its sale must be highly probable. For the sale to be highly probable, the appropriate level of management must be committed to a plan to sell, and an active program to



locate a buyer and complete the plan must have been initiated. Further, the assets must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as completed sale within one year from the date of classification.

#### Investment in an Associate

The Group's investment in an associate is accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, investment in an associate are carried in the consolidated statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The consolidated statement of comprehensive income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associates, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The share in net income or losses of the associate is shown as "Equity in net income (losses) of an associate" in profit or loss. This is the income (loss) attributable to equity holders of the associates and therefore is profit after tax.

The financial statements of the associate are prepared for the same reporting period as the Group. Where necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in an associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and their carrying values and recognizes the amount in the "Equity in net income (losses) of an associate" in profit or loss.

Upon loss of significant influence over an associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

# **Deferred Exploration Costs**

Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the Group has withdrawn from the consortium, the related deferred exploration costs are provided with valuation allowance or written-off. An SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development.



#### **Property and Equipment**

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such equipment when the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, except for leasehold improvements which are amortized on a straight-line basis over the term of the lease or the estimated lives of the improvements, whichever is shorter, as follows:

Category	Number of Years
Building	5
Transportation equipment	5
Office furniture and equipment	3
Leasehold improvements	2

The estimated useful lives and depreciation and amortization methods are reviewed periodically to ensure that the periods and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in profit or loss in the year the asset is derecognized. Fully depreciated items are retained as property and equipment until these are no longer in use.

# **Investment Property**

Investment property is measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property.

Transfers are made to or from investment properties only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy on property and equipment up to the date of change in use.

Investment property is derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no further economic benefit is expected from its disposal. Any gains or losses on the retirement of disposal of investment property are recognized in profit or loss in the year of retirement or disposal.



#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the assets recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators. Impairment losses from continuing operations are recognized in profit or loss.

For nonfinancial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

#### Common Stock

The Group has issued common stocks that are classified as equity. Incremental costs directly attributable to the issue of new common stocks are shown in equity as a deduction, net of tax, from the proceeds.

#### Additional Paid-in Capital

Amount of contribution in excess of par value is accounted for as an additional paid-in capital.

#### **Retained Earnings**

The amount included in retained earnings includes profit attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's stockholders. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Treasury Stock

Own equity instruments which are reacquired (treasury stock) are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference in the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital. Voting rights related to treasury stock are nullified for the Group and no dividends are allocated to them respectively. When the stocks are retired, the common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-up capital when the shares were issued and to retained earnings for the remaining balance.



#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

#### Real Estate Sales

Real estate sales from completed projects are accounted for using the full accrual method. The percentage of completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of actual costs incurred to date over the estimated total costs to complete the project. Any excess of collections over the recognized revenue are included under the "Accounts payable and other liabilities" account in the consolidated statement of financial position.

If none of the revenue recognition criteria is met, deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers is presented as part of "Customers' deposits" included under the "Accounts payable and other liabilities" account in the consolidated statement of financial position.

#### Interest Income

Interest income is recognized as it accrues using the EIR.

#### Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established.

#### Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Operating expenses, such as personnel, rent and utilities are generally recognized when the service is used or the expense arises while interest expenses, if applicable are accrued in the appropriate period. General and administrative expenses are expenses incurred in the direction and general administration of day-to-day operation of the Group and are generally recognized when the service is used or the expense arises.

#### Commission Expense

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, percentage of completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Sales and marketing" account in the consolidated statement of comprehensive income.

#### Retirement Benefit Costs

The Group provides for the estimated retirement costs required to be paid under Republic Act (RA) No. 7641 to qualified employees. Under PAS 19, *Employee Benefits*, the cost of defined retirement benefits, including those mandated under RA No. 7641 should be determined using projected unit credit method to measure its obligations and costs.

#### **Income Taxes**

#### Current Income Tax

Current income tax liabilities for the current and prior periods are measured at the amount expected to be paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date.



#### Deferred Tax

Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) and carryforward benefits of unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from excess MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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 assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the 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 based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transaction either in other comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

## Foreign Currency-denominated Transactions

Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are restated using the rate of exchange at the reporting date. Foreign currency gains or losses are recognized in profit or loss.

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires 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.

A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.



Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the Group's profit or loss on a straight-line basis over the lease term. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized.

#### Basic Earnings (Loss) Per Share (E/LPS)

Basic E/LPS amounts are calculated by dividing net income (loss) attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year.

#### Diluted Earnings (Loss) Per Share (E/LPS)

Diluted E/LPS amounts are calculated by dividing the net income (loss) attributable to common equity holders of the Parent Company (after adjusting for interest on convertible preferred shares) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares.

#### Segment Reporting

For management purposes, the Group is organized into business units based on its products and services and has three reportable segments. Financial information on business segments is presented in Note 20.

#### **Provisions**

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

#### **Borrowing Costs**

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Borrowing costs also include exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. All other borrowing costs are expensed in the period they occur.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to consolidated financial statements when an inflow of economic benefits is probable.



### Events After the Reporting Date

Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

#### 3. Significant Accounting Judgments, Estimates and Assumptions

The consolidated financial statements prepared in accordance with PFRS requires management to make judgments, estimates and assumptions that affect amounts reported in the consolidated financial statements and related notes. The judgments, estimates and assumptions used in the consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the consolidated financial statements. Actual results could differ from such estimates.

#### Judgment

**Determining Functional Currency** 

Based on the economic substance of the underlying circumstances relevant to the Parent Company, the functional currency of the Parent Company has been determined to be the Philippine peso. It is the currency that mainly influences its revenues and costs of operation.

#### Classification of Financial Instruments

The Group exercises judgment in classifying a financial instrument on initial recognition either as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statement of financial position.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

#### Determining Control in a Subsidiary

Control is the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The Parent Company concluded that it has control over the operating and financial policies of SOC Land due to its direct ownership of more than 50% of the voting shares of the latter.

#### Determining Significant Influence in an Associate

The Group considers its investment in Premiere Development Bank (PDB) as investment in associate. The Group concluded that it has significant influence over the operating and financial policies of PDB due to the following:

- representation on the BOD;
- participation in policy-making processes, including participation in decisions about dividends and other distributions:
- material transactions between the investor and investee; and
- interchange of managerial personnel.



The Group has no control over PDB since it does not own directly or indirectly more than 50% of the voting rights of the latter.

#### Revenue Recognition on Real Estate Sales

Selecting an appropriate revenue recognition method for a particular real estate sales transaction requires certain judgments based on the buyer's and seller's commitment on the sale which may be ascertained through the significance of the buyer's initial investment and completion of development. The buyer's commitment is evaluated based on collections, credit standing of the buyer and execution of contract to sell. The completion of development is determined based on actual costs incurred over the total estimated development costs reconciled with the engineer's judgment and estimates on the physical portion of contract work done if the development is beyond the preliminary stage.

#### Collectibility of Sales Prices

In determining whether the sales prices are collectible, the Group considers that the initial and continuing investments by the buyer of about 20% would demonstrate the buyer's commitment to pay.

#### Operating Leases - The Group as Lessee

The Group has entered into a lease for its administrative office location. The Group has determined that all the significant risks and benefits of ownership of these properties remain with the lessors. Accordingly, these leases are accounted for as operating leases.

#### Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and excess MCIT to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Group recognizes deferred tax liabilities from taxable temporary differences. No deferred tax assets have been recognized on deductible temporary differences, unused NOLCO and excess MCIT amounting to P131.3 million and P147.0 million as of December 31, 2011 and 2010, respectively (see Note 15).

#### **Estimates and Assumptions**

Allowance for Impairment Losses on Accounts Receivable and Due from Related Parties
The Group reviews the balance of accounts receivable and due from related parties at each reporting date to assess whether an allowance for impairment losses should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant accounts receivable and due from related parties, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. These assessments take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.



There is no allowance for impairment losses on accounts receivable and due to related parties as of December 31, 2011 and 2010. Accounts receivable amounted to \$\mathbb{P}8.5\$ million and \$\mathbb{P}10.9\$ million as of December 31, 2011 and 2010, respectively (see Note 5). Due from related parties amounted to \$\mathbb{P}70.1\$ million and \$\mathbb{P}45.1\$ million as of December 31, 2011 and 2010, respectively (see Note 16).

#### Revenue and Cost Recognition

The Group's revenue recognition policies require management to make use of estimates and assumptions that may affect the reported amounts of revenues and costs. The Group's revenues from real estate, recognized based on the percentage of completion, are measured principally on the basis of the ratio of actual costs incurred to date over the estimated total cost to complete the project.

In 2011, 2010 and 2009, no revenues and costs from sale of real estate were recognized.

#### Estimated Development Costs

The accounting for real estate requires the use of estimates in determining costs and profit recognition. Cost of real estate sold is based on the percentage of completion which is measured on the basis of the ratio of actual cost incurred to date over the estimated total development cost to complete the project. The total development cost of a project is estimated by the Group's engineers. At each reporting date, these estimates are reviewed and revised when necessary to reflect the current conditions.

As of December 31, 2011 and 2010, real estate for sale amounted to \$\mathbb{P}447.6\$ million and nil, respectively. In 2011, 2010 and 2009, no costs from sale of real estate were recognized.

# Impairment of AFS Investments

The Group treats AFS investments as impaired when there has been significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Group treats 'significant' generally as 20% or more of the cost of AFS and 'prolonged' if greater than six (6) months. In addition, the Group evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The Group also considers the ability of the investee to provide dividends.

As of December 31, 2011 and 2010, the Group's allowance for decline in market value of unlisted AFS investments amounted to \$\mathbb{P}3.3\$ million (see Note 8).

In 2010, the Group recognized impairment loss amounting to \$\mathbb{P}0.5\$ million due to the significant decline in value of its AFS investments (see Note 8). In 2011 and 2009, the Group did not recognize any impairment loss.

The carrying amounts of AFS investments amounted to \$\mathbb{P}284.8\$ million and \$\mathbb{P}286.0\$ million as of December 31, 2011 and 2010, respectively. The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains (losses) on AFS investments" account in the equity section of the consolidated statement of financial position. The unrealized valuation gains on AFS investments amounted to \$\mathbb{P}10.4\$ million and \$\mathbb{P}17.7\$ million as of December 31, 2011 and 2010, respectively (see Note 8).



### Evaluation of NRV of Real Estate for Sale

The Group adjusts the cost of its real estate for sale to NRV based on its assessment of the recoverability of the inventories. NRV for completed real estate for sale 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. NRV in respect of real estate for sale 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. Real estate for sale at cost amounted to \$\text{P447.6}\$ million as of December 31, 2011. In 2011, the Group assessed that the NRV of real estate for sale is higher than cost, hence the Group did not recognize any losses on write down of real estate for sale (see Note 6).

#### Useful Lives of Property and Equipment

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

The net book values of property and equipment amounted to \$\mathbb{P}21.0\$ million and \$\mathbb{P}6.1\$ million as of December 31, 2011 and 2010, respectively (see Note 10).

#### Impairment of Nonfinancial Assets

The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of these assets may not be recoverable. The factors that the Group considers important which could trigger an impairment review include the following:

- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its estimated recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the fair value less costs to sell.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.



No provision for impairment losses was recognized in 2011, 2010 and 2009. The carrying values of nonfinancial assets that are subjected to impairment testing are as follows:

	2011	2010
Property and equipment (see Note 10)	P21,046,176	₽6,098,757
Investment in an associate (see Note 9)	_	31,836,983
Investment property (see Note 1)	_	321,048,252
Other noncurrent assets (see Note 11)	3,823,191	2,397,351
	P24,869,367	₽361,381,343

#### Impairment of Deferred Exploration Costs

The full recovery of the deferred exploration costs incurred in connection with the Group's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. When the SC/GSEC is permanently abandoned or the entity has withdrawn from the consortium, the related deferred exploration costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development. The Group has provided full valuation allowance on deferred exploration costs incurred for certain SCs and GSECs on which management has no definite plans for further exploration and development. The Group recognized allowance for impairment losses on deferred exploration costs amounting to ₽88.8 million as of December 31, 2011 and 2010 (see Note 1). Net deferred exploration costs amounted to ₽21.6 million and ₽1.7 million as of December 31, 2011 and 2010, respectively.

#### Valuation of Financial Instruments

PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity. The fair value of the Group's financial assets and liabilities are disclosed in Note 19.

#### Retirement Benefit Costs

The Group provides for the estimated retirement costs required to be paid under Republic Act (RA) No. 7641 to qualifying employees. Under PAS 19, the cost of defined retirement benefits, including those mandated under RA No. 7641 should be determined using projected unit credit method to measure its obligations and costs. In 2011, 2010 and 2009, no retirement benefit obligation and costs were recognized as no employees have qualified under RA No 7641.

#### 4. Cash and Cash Equivalents

	2011	2010
Cash on hand and with banks	P64,016,026	₽165,861,234
Short-term investments (see Notes 8 and 16)	666,145,910	727,222,344
	P730,161,936	₽893,083,578

Cash with banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income earned amounted to ₱29.9 million, ₱38.7 million and ₱1.9 million in 2011, 2010 and 2009, respectively.



#### 5. Accounts Receivable

	2011	2010
Officers and employees	P7,276,407	₽4,054,958
Accrued interest (see Notes 4 and 16)	1,238,627	6,847,668
Others	8,400	4,061
	P8,523,434	₽10,906,687

Receivables from officers and employees pertain to unliquidated advances and are collectible upon demand.

# 6. Real Estate for Sale

Real estate for sale as of December 31, 2011 consists of:

Land (see Note 1)	₽312,298,000
Development costs (see Note 22)	135,317,888
	₽447,615,888

No revenue and cost from sale of real estate was recognized in 2011.

In 2011, the Group assessed that the NRV of real estate for sale is higher than cost, hence the Group did not recognize any loss on write down of real estate for sale.

# 7. Prepayments and Other Current Assets

	2011	2010
Input VAT	P17,025,395	₽1,012,897
Refundable deposits (see Note 22)	355,520	_
Office supplies inventory	218,523	175,373
Advances to contractors	_	7,726,768
Others	85,352	212,560
	P17,684,790	₽9,127,598

# 8. **AFS** Investments

	2011	2010
Shares - listed		
Petron Corporation	<b>P14,458,500</b>	₽21,595,950
Alliance Global Group, Inc.	4,653,000	_
Aboitiz Equity Ventures, Inc.	313,170	222,600
Philippine Long Distance Telephone Company	7,455	7,455
	19,432,125	21,826,005

(Forward)



	2011	2010
Shares - unlisted		_
AGP International Holdings Ltd.	265,287,000	264,000,000
Southwest Resources, Inc.	3,333,500	3,333,500
Mt. Malarayat Golf and Country Club	130,000	130,000
	268,750,500	267,463,500
Less allowance for impairment loss on		
AFS investments	3,333,500	3,333,500
	265,417,000	264,130,000
	P284,849,125	₽285,956,005

AFS investments represent investments in listed and unlisted shares without fixed maturity date or coupon rate and are measured at fair value.

#### **Listed Shares**

Listed shares consist of equity securities that are traded in the PSE. The fair values of listed shares are determined at their closing market price as of reporting date. The unrealized fair value changes of the investments are presented as "Unrealized valuation gains (losses) on AFS investments" account in the equity section of the consolidated statement of financial position.

Movements in listed AFS investments are as follows:

	2011	2010
Balances at beginning of year	<b>P</b> 21,826,005	₽6,143,100
Acquisition	4,889,049	_
Fair value adjustments	(7,282,929)	15,682,905
Balances at end of year	P19,432,125	₽21,826,005

Movements in the unrealized valuation gains (losses) on listed AFS investments are as follows:

	2011	2010
Balances at beginning of year	P17,672,548	₽1,989,643
Fair value adjustments	(7,282,929)	15,682,905
Balances at end of year	P10,389,619	₽17,672,548

# **Unlisted Shares**

Unlisted shares, without available market values, are carried at cost less any impairment losses. In 2010 and 2009, the Group recognized provision for impairment loss on AFS investments on shares in Southwest Resources, Inc. amounting to P0.5 million and P0.3 million due to the significant decline in value of the shares, respectively. No provision for impairment loss on AFS investments in 2011. Allowance for impairment loss on unlisted shares amounted to P3.3 million as of December 31, 2011 and 2010.

### AGP International Holdings, Ltd. (AGP International)

AGP International is a British Virgin Islands (BVI) business company formed in November 2010 by Icaza, Gonzalez-Ruiz & Aleman Trust Limited with registered office at the Vanterpool Plaza Second Floor Wickmans Cay I Road Town, Tortola BVI. As of December 21, 2010, AGP International's authorized securities consist of 1,400,000,000 no par value shares divided into 1,000,000,000 common shares and 400,000,000 Series A preferred shares.



In 2010, the Parent Company subscribed to and subsequently fully paid for 26,086,957 preferred shares of AGP International Holdings, Ltd., which represents a 6.52% interest at a purchase price of \$\mathbb{P}264.0\$ million. AGP International invested in 40% of the outstanding capital stock of AGP Philippines Holdings I, Inc. (AGP Philippines), which was incorporated on December 13, 2010. In 2010, AGP Philippines finalized the acquisition of all of the shares of DMCI Holdings, Inc. (DMCI-HI) in Atlantic Gulf & Pacific Group of Manila, Inc. (AG&P). The shares comprise of 973,089,025 shares directly owned and 17 shares beneficially owned by DMCI-HI, representing 98.19% of the outstanding capital of AG&P. AG&P provides modular engineering and construction and general engineering design services, including fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries. Accordingly, the Group's risk factors include those factors that impact, either positively or negatively, the markets for engineering and construction services.

As of December 31, 2011 and 2010, the Group accounts for its investment in AGP International as AFS investments carried at cost since its ownership interest does not provide the Group significant influence to participate in the financial and operating policy decisions of AGP International.

On January 31, 2012, the Parent Company, together with the other legal owners of AGP International preferred shares, entered into a Share Purchase Agreement with AGP International to sell its shares to the latter for \$0.40 cents per share. On the same date, AGP International and AG&P executed a waiver and release form in favor of each seller, relieving them from any claims related to the shares.

#### 9. Investment in an Associate

	2011	2010
Acquisition costs:		
Balances at beginning of year	<b>P</b> 35,191,153	₽34,843,800
Additional investment	_	347,353
Reclassification as held for sale	(35,191,153)	_
Balances at end of year	_	35,191,153
Accumulated equity in net losses:		
Balances at beginning of year	(3,367,563)	(1,086,745)
Equity in losses	(114,740)	(2,280,818)
Reclassification as held for sale	3,482,303	_
Balances at end of year	_	(3,367,563)
Share in unrealized valuation gains on AFS		
investments of an associate:		
Balances at beginning of year	13,393	(58,457)
Share in fair value adjustments on AFS		
investments of an associate	_	71,850
Reversal to profit or loss	(13,393)	_
Balances at end of year	_	13,393
	₽–	₽31,836,983



#### **PDB**

PDB is a private development bank incorporated in the Philippines in 1960. PDB is engaged in transactions and undertakings, including but not limited to, trust functions, operation of demand deposit accounts, foreign currency transactions, quasi-banking functions, domestic letters of credit, dealership of bonds and other debt instruments, subject to applicable regulations, financial allied and non-allied undertakings, performance of all kinds of services for commercial banks or operation under an expanded banking authority and other transactions that may be allowed to be engaged in by private development banks.

PDB operates within the Philippines and maintains 38 branches in Metro Manila and in the Provinces of Bulacan, Rizal, Laguna, Cavite and Batangas.

On November 5, 2010, the Parent Company subscribed to and paid for 3,016 additional shares at the subscription price of \$\mathbb{P}0.4\$ million. As of December 31, 2010, the Group's equity share in PDB is 4.79% and the Group accounts for its investment in PDB under the equity method since the Group exercises significant influence over the operating and financial policies of PDB.

On June 1, 2011, the Parent Company, together with other shareholders, entered into a Share Purchase Agreement (the Agreement) with Security Bank Corporation for the sale of its 351,454 common shares in PDB. The sellers are the legal owners of an aggregate of 7,071,263 common shares in PDB, representing 96.42% of the issued and outstanding capital stock of PDB. Under the Agreement, the price per share amounted to \$\mathbb{P}181.7\$ which resulted to a total share consideration of \$\mathbb{P}1.3\$ billion. The obligations of the parties to complete the sale and purchase of the shares under the Agreement are subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas (BSP). The approval from BSP has yet to be granted as of December 31, 2011.

As of December 31, 2011, the Group reclassified its investment in PDB amounting to \$\mathbb{P}31.7\$ million as held for sale and presented it under "Noncurrent asset held for sale" account in the consolidated statement of financial position. On January 20, 2012, the Monetary Board of the BSP approved the transaction contemplated in the Agreement.

The summarized financial information of PDB as of and for the year ended December 31, 2010 is as follows:

 Total assets
 \$\mathbb{P}\$5,357,127,257

 Total liabilities
 4,588,147,736

 Net loss
 (47,616,242)

# 10. Property and Equipment

	2011				
		Transportation	Office Furniture and	Leasehold	
	Building	Equipment	Equipment	Improvements	Total
Cost:					
Balances at beginning					
of year	₽–	₽13,020,964	<b>P2,050,969</b>	P432,098	P15,504,031
Additions	15,451,939	741,071	1,912,102	261,596	18,366,708
Balances at end of year	15,451,939	13,762,035	3,963,071	693,694	33,870,739

(Forward)



			2011		
	Building	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Accumulated depreciation					
and amortization:					
Balances at beginning					
of year	_	7,413,538	1,559,638	432,098	9,405,274
Depreciation and					
amortization	_	2,513,949	714,489	190,851	3,419,289
Balances at end of year	_	9,927,487	2,274,127	622,949	12,824,563
Net book values	₽15,451,939	₽3,834,548	₽1,688,944	₽70,745	P21,046,176

			2010	
		Office		
	Transportation	Furniture and	Leasehold	
	Equipment	Equipment	Improvements	Total
Cost:				_
Balances at beginning				
of year	₽13,020,964	₽1,662,177	₽432,098	₽15,115,239
Additions	_	388,792	_	388,792
Balances at end of year	13,020,964	2,050,969	432,098	15,504,031
Accumulated depreciation				
and amortization:				
Balances at beginning				
of year	4,961,345	1,435,641	432,098	6,829,084
Depreciation and				
amortization	2,452,193	123,997	_	2,576,190
Balances at end of year	7,413,538	1,559,638	432,098	9,405,274
Net book values	₽5,607,426	₽491,331	₽–	₽6,098,757

Significant additions to property and equipment in 2011 pertain to the marketing and sales office used situated in East Service Road, Barangay Buli, Muntinlupa, which was constructed and completed in 2011.

#### 11. Other Noncurrent Assets

In 2010, other noncurrent assets amounting to ₱2.4 million represent advances for the processing of bid documents, costs for pre-bidding conferences and consultancy fees related to Parent Company's participation in the bid submission for the Philippine Mining Development Corporation's Diwalwal Mineral Reservation Project. Additional advances amounting to ₱1.4 million in 2011 represent advances made by the Parent Company for its prospective agriculture-related projects. Other noncurrent assets amounted to ₱3.8 million and ₱2.4 million as of December 31, 2011 and 2010, respectively.



# 12. Accounts Payable and Other Liabilities

	2011	2010
Customers' deposits	P19,033,889	₽–
Contractors' payable (see Note 22)	17,069,253	_
Retention payable	4,105,929	_
Accrued expenses	2,097,583	464,093
Accounts payable	595,336	109,675
Government payables	409,090	140,600
	<b>P</b> 43,311,080	₽714,368

Customers' deposits include collections received from buyers which have not met the revenue recognition criteria. Contractors' payable represents billings of various contractors for services in relation to the Project. Retention payable represents the amount retained by the Subsidiary as security for any defects and damages on the works arising from or due to faulty workmanship and/or defective contractor-supplied materials before the final acceptance of the Project and the payment of the last billing. Accrued expenses consist significantly of accruals for professional fees. Accounts payable are noninterest-bearing and are normally settled with 30-60 days.

# 13. Sales and Marketing Expenses

	2011	2010	2009
Consultancy fees	P8,745,667	₽1,072,805	₽–
Advertising (see Note 22)	5,587,551	332,590	_
Internet fees, web design and maintenance	653,531	_	_
	<b>P14,986,749</b>	₽1,405,395	₽–

#### 14. Personnel Costs

	2011	2010	2009
Salaries and wages	P7,367,023	₽2,286,433	₽1,937,100
Short term employee benefits	3,469,517	861,291	770,233
	P10,836,540	₽3,147,724	₽2,707,333

#### 15. Income Taxes

The Group's current provision for income tax in 2011, 2010 and 2009 represents MCIT.



There are deductible temporary differences, unused NOLCO, and excess MCIT for which no deferred tax assets were recognized since the Group expects that these deferred tax assets will not be realized in the future. These deductible temporary differences, unused NOLCO, and excess MCIT are as follows:

	2011	2010
Allowance for impairment losses on deferred		_
exploration costs	P88,713,164	₽88,713,164
NOLCO	42,217,694	57,981,095
MCIT	365,046	278,940
Unrealized foreign exchange loss	_	18,836
	P131,295,904	₽146,992,035

As of December 31, 2011, the Group has the following NOLCO and MCIT that can be claimed as deduction from future taxable income and income tax due, respectively:

Year Incurred	Year of Expiry	NOLCO	MCIT
2011	2014	₽34,613,224	₽86,099
2010	2013	6,003,109	119,358
2009	2012	1,601,361	159,582
		₽42,217,694	₽365,039

Movement of the Group's NOLCO and MCIT follows:

# **NOLCO**

	2011	2010
Balances at beginning of year	₽57,981,095	₽58,198,849
Additions	34,613,224	6,003,109
Expirations	(50,376,625)	(6,220,863)
Balances at end of year	P42,217,694	₽57,981,095

# **MCIT**

	2011	2010
Balances at beginning of year	<b>₽278,940</b>	₽159,582
Additions	86,099	119,358
Balances at end of year	P365,039	₽278,940



A reconciliation of income tax computed at the statutory income tax rate to provision for income tax shown in the consolidated statement of comprehensive income follows:

	2011	2010	2009
Income tax computed at statutory tax rates	(P2,148,015)	₽5,224,073	₽312,466,697
Additions to (reductions in) income tax			
resulting from:			
Change in unrecognized deferred			
tax assets	10,464,415	5,898,930	39,765,548
Nondeductible expenses	782,912	2,505,742	_
Interest income subjected to final tax	(8,963,360)	(13,658,893)	(582,319)
Nontaxable income	(49,853)	(301)	_
Gain on sale of investment in an			
associate	_	_	(351,571,344)
Provision for impairment in value of			
AFS investments	_	149,807	81,000
	P86,099	₽119,358	₽159,582

### 16. Related Party Disclosures

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influences. Related parties may be individuals or corporate entities.

In the normal course of business, the Group has significant related party transactions as follows:

		Amounts Due from	
		Related	Parties
	Nature of Relationship	2011	2010
Puyat Steel Corporation (PSC)	Common Stockholders	P45,000,000	£45,000,000
International Pipe Industries			
Corporation (IPIC)	Common Stockholders	25,000,000	_
South China Petroleum			
International (SCPI)	Common Stockholders	109,444	98,362
		<b>P70,109,444</b>	₽45,098,362

#### a. PSC

PSC is a world-class manufacturer of galvanized and pre-painted steel sheets and coils used in roofing and walling profiles and bended accessorial products established in 1956. PSC set up the first galvanizing plant in the Philippines to answer to the need of the country for galvanized iron sheets to be used in the construction, building and roofing materials. In 1998, PSC inaugurated in Rosario, Batangas, the Philippines' first ever state-of-the-art continuous galvanizing line utilizing the modern non-oxidizing furnace (NOF) technology in a globally competitive stature. By the year 2000, PSC became the first NOF continuous galvanizing plant to be ISO 9002 certified. PSC is under common control with the Group.



The BOD through a board resolution dated January 24, 2008 authorized the Group to enter into a related party agreement with PSC to advance an amount of up to £130.0 million for the acquisition of raw materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment to the Group of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished goods. The funding facility is renewable on a yearly basis. Under this arrangement, the Group receives a guaranteed return on investment (ROI) of at least 8% per annum.

As of December 31, 2011 and 2010, the outstanding receivable from PSC amounted to  $\mathbb{P}45.0$  million. These are due and demandable. Interest earned by the Group in relation to these advances amounted to  $\mathbb{P}3.7$  million,  $\mathbb{P}6.0$  million and  $\mathbb{P}9.7$  million in 2011, 2010 and 2009, respectively.

PSC's accounts receivable and finished goods with fair value equivalent to the outstanding balance are used as collateral for the amount owed to the Group.

#### b. IPIC

IPIC is the pioneer manufacturer of large-diameter spiral welded pipes and machinery fabrication in the Philippines and Southeast Asia and has been producing quality pipes for the last 48 years. IPIC is the only company to date that has secured the American Petroleum Institute monogram in the Philippines. IPIC was also the first company in the Southeast Asia to pioneer in the design and exportation of high-tension transmission poles, weight coating of submarine line pipe and non-tension and pre-tension concrete pressure pipes.

In May 2011, the BOD has authorized the Group to enter into a related party agreement with IPIC to provide a standby fund facility in the amount of up to \$\mathbb{P}50.0\$ million for the acquisition of raw materials to be processed into finished steel pipe products. The Group will receive a guaranteed return on investment of at least 8% per annum.

As of December 31, 2011, the outstanding receivable from IPIC amounted to 25.0 million. The amount is due and demandable. Interest earned and receivable by the Group in relation to these advances amounted to 20.4 million and 20.14 million in 2011, respectively.

IPIC's accounts receivable and finished goods with fair value equivalent to the outstanding balance are used as collateral for the amount owed to the Group.

#### c. SCPI

SCPI is a corporation established to prospect for, explore, extract, dig and drill for, exploit, produce, purchase, or otherwise obtain from the earth, any and all kinds of petroleum and petroleum products, rocks or carbon oils, natural gas and other volatile materials, chemical substance and salts, precious and base metals, diatomaceous earth as well as other minerals of whatever nature whether similar or dissimilar to those listed herein, and to manufacture, refine, prepare for market, buy, sell, import, export and transport and otherwise deal in petroleum and other minerals of whatever nature, whether similar or dissimilar thereto, their products, compounds and derivatives and other mineral and chemical substances in crude or refined condition, and to generally engage, as may be permitted by law, in the business of, and/or investing in mining, manufacturing, contracting and servicing, in addition to oil exploration.



The total amount of receivable from SCPI as of December 31, 2011 and 2010 amounting to \$\mathbb{P}0.1\$ million pertains to the amount paid for the business permit and registration. The amount is due and demandable.

#### d. Cash Deposits and Short-term Investments in PDB

The Group has cash deposits and short-term investments in PDB as follows:

	2011	2010
Cash deposits	P3,768,993	₽1,039,992
Short-term investments	230,343,687	264,138,183
	P234,112,680	₽265,178,175

Interest earned by the Group in relation to the cash deposits and short-term investments in PDB amounted to \$\mathbb{P}\$11.2 million, \$\mathbb{P}\$7.5 million and \$\mathbb{P}\$0.2 million in 2011, 2010 and 2009, respectively.

#### e. Key Management Personnel Compensation

Salaries and short-term employee benefits of key management personnel amounted to \$\mathbb{P}2.2\$ million, \$\mathbb{P}2.1\$ million and \$\mathbb{P}1.6\$ million in 2011, 2010 and 2009, respectively.

#### 17. Equity

#### a. Common Stock

The Parent Company's authorized, issued and outstanding common shares are as follows:

	Decem	ber 31, 2011	Decem	ber 31, 2010
	No. of Shares	Amount	No. of Shares	Amount
Authorized - ₽1 par value	1,000,000,000	P1,000,000,000	1,000,000,000	P1,000,000,000
Issued	600,489,569	600,489,569	597,189,569	597,189,569
Subscribed	306,070,000	306,070,000	309,370,000	309,370,000
Treasury	500,000	(578,000)	_	_

The Parent Company was registered on September 25, 1992 with authorized capital stock of 1,000,000,000 shares at \$\mathbb{P}1.0\$ per share.

In 2011 and 2010, 3,300,000 and 7,680,000 subscribed shares were fully paid and issued, respectively. Collections from such subscribed shares amounted to ₱2.5 million and ₱5.8 million in 2011 and 2010, respectively.

#### b. Retained Earnings

On April 7, 2010, the BOD approved the resolution earmarking \$\pm\$500.0 million of the Group's retained earnings for purposes of funding its investments related to the Anuva Residences and Diwalwal Mine Reserve projects. On December 21, 2011, the BOD approved the resolution for the reversal of the 2010 appropriation of retained earnings and further earmarking \$\pm\$500.0 million of the Group's retained earnings in 2011 for purposes of funding its investments related to the Anuva Residences and other investment projects.



### c. Treasury Stock

On December 21, 2011, the Parent Company formalized its share repurchase program. Under the terms and conditions of the share repurchase program, 100,000,000 shares shall be repurchased from the market covering a period of twenty-four (24) months starting December 22, 2011. The total budget allocated for the share repurchase program is \$\mathbb{P}120.0\$ million.

As of December 31, 2011, the Parent Company acquired 500,000 of its own shares for total of \$\mathbb{P}0.6\$ million.

#### 18. Basic/Diluted E/LPS

	2011	2010	2009
Net income (loss)	( <b>P7</b> ,246,149)	₽17,294,220	₽1,041,396,072
Weighted average number of shares	906,167,902	912,269,569	906,758,736
Basic/Diluted E/LPS	( <b>P</b> 0.0080)	₽0.0190	₽1.1485

There are no dilutive potential common shares outstanding as of December 31, 2011, 2010 and 2009.

#### 19. Financial Instruments

#### Financial Risk Management Objectives and Policies

The Group has various financial assets and liabilities such as cash and cash equivalents, accounts receivable, due from related parties, refundable deposits, AFS investments and accounts payable and other liabilities which arise directly from its operations. The main purpose of the Group's financial instruments is to finance its operations.

The BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and manage the Group's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group has exposure to credit risk, liquidity risk and equity price risk from the use of its financial instruments. The BOD reviews and approves the policies for managing each of these risks and they are summarized below:

#### Credit Risk

Credit risk refers to the potential loss arising from any failure by counterparties to fulfill their obligations, as and when they fall due. It is inherent to the business as potential losses may arise due to the failure of its counterparties to fulfill their obligations on maturity dates or due to adverse market conditions.



The Group trades only with recognized, creditworthy counterparties. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that Group's exposure to bad debts is not significant.

#### Credit Quality of Financial Assets

The credit quality of financial assets is managed by the Group using high quality and standard quality as internal credit ratings.

High Grade - pertains to counterparty who is not expected by the Group to default in settling its obligations, thus credit risk exposure is minimal. This normally includes large prime financial institutions, companies and government agencies.

Standard Grade - other financial assets not belonging to high quality financial assets are included in this category.

The tables below show the credit quality by class of financial asset based on the Group's rating system As of December 31, 2011 and 2010:

			2011		
	Neither Past Due	Nor Impaired	Past Due		
		Standard	<b>But Not</b>		
	High Grade	Grade	Impaired	Impaired	Total
Loans and receivables					
Cash and cash					
equivalents*	<b>₽730,111,936</b>	₽–	₽–	₽-	<b>₽730,111,936</b>
Accounts receivable	1,238,627	3,245,384	4,039,423	_	8,523,434
Due from related parties	_	70,109,444	_	_	70,109,444
Refundable deposits	_	355,520	_	_	355,520
AFS investments	284,849,125	_	_	3,333,500	288,182,625
	P1,016,199,688	P73,710,348	P4,039,423	P3,333,500	P1,097,282,959

<sup>\*</sup>Excluding cash on hand.

			2010		
	Neither Past Due	Nor Impaired	Past Due		
		Standard	But Not		
	High Grade	Grade	Impaired	Impaired	Total
Loans and receivables					
Cash and cash					
equivalents*	₽893,063,578	₽–	₽–	₽–	₽893,063,578
Accounts receivable	6,847,668	4,055,308	3,711	_	10,906,687
Due from related parties	_	45,010,253	88,109	_	45,098,362
AFS investments	285,956,005	_	_	3,333,500	289,289,505
	₽1,185,867,251	₽49,065,561	₽91,820	₽3,333,500	₽1,238,358,132

<sup>\*</sup>Excluding cash on hand.

Cash and cash equivalents are considered high grade as the Group trades only with top banks in the Philippines. Standard grade receivables are for accounts receivable from officers and employees and third parties, due from related parties and refundable deposits which would require some reminder follow-ups to obtain settlement from the counterparties.



The tables below show the aging analysis of financial assets per class that the Group held as of December 31, 2011 and 2010. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

				2	011		
	Neither Past	P	Past Due but Not Impaired				
	Due nor	Less than	31 to 60	61 to 90	More than		
	Impaired	30 Days	Days	Days	91 Days	Impaired	Total
Loans and receivables							
Cash and cash							
equivalents*	₽730,111,936	₽–	₽–	₽–	₽–	₽–	₽730,111,936
Accounts receivable	4,484,011	31,023	_	8,400	4,000,000	_	8,523,434
Due from related						_	
parties	12,000,000	_	_	58,109,444	_		70,109,444
Refundable deposits	355,520	_	_	_	_	_	355,520
AFS investments	284,849,125	_	_	_	_	3,333,500	288,182,625
	P1.031.800.592	P31.023	₽–	₽58.117.844	₽4,000,000	£3,333,500	£1.097.282.959

<sup>\*</sup>Excluding cash on hand.

		2010					
_	Neither Past	]	Past Due but N	lot Impaired			
	Due nor	Less than	31 to 60	61 to 90	More than		
	Impaired	30 Days	Days	Days	91 Days	Impaired	Total
Loans and receivables							
Cash and cash							
equivalents*	₽893,063,578	₽–	₽–	₽–	₽–	₽–	₽893,063,578
Accounts receivable	10,902,976	_	_	3,711	_	_	10,906,687
Due from related parties	45,010,253	_	_	_	88,109	_	45,098,362
AFS investments	285,956,005	_	_	_		3,333,500	289,289,505
	₽1,234,932,812	₽–	₽–	₽3,711	₽88,109	₽3,333,500	₽1,238,358,132

<sup>\*</sup>Excluding cash on hand.

#### Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle or meet its obligations on time or at a reasonable price. Management is responsible for liquidity, funding as well as settlement management. In addition, liquidity and funding risks, related processes and policies are overseen by management. The Group manages its liquidity risk based on business needs, tax, capital or regulatory considerations, if applicable, through numerous sources of finance in order to maintain flexibility.

The tables below summarize the maturity profile of the Group's financial assets used for liquidity purposes based on contractual undiscounted cashflows, and the Group's financial liabilities based on contractual undiscounted payments.

			2011			
		On	Less than 3	3 to 6	6 to 12	More than
	Total	Demand	Months	Months	Months	1 Year
Financial Assets:						
Cash and cash						
equivalents	P730,161,936	<b>₽730,161,936</b>	₽–	₽-	₽-	₽-
Accounts						
receivable	8,523,434	4,039,423	4,484,011	_	_	_
Due from related	, ,	, ,	, ,			
parties	70,109,444	58,109,444	12,000,000	_	_	_
Refundable	, ,	, ,	, ,			
deposits	355,520	_	355,520	_	_	_
AFS investments	288,182,625	288,182,625	´ <b>–</b>	_	_	_
	P1,097,332,959	P1,080,493,428	P16,839,531	₽–	₽–	₽-
Financial Liabilities:						
Accounts payable and other						
liabilities	D10 762 172	₽-	D10 762 172	₽–	₽–	₽–
nabinties	P19,762,172	r-	₽19,762,172	r-	r-	



		2010				
	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months	More than 1 Year
Financial Assets:						
Cash and cash equivalents	₽893,083,578	₽893,083,578	₽–	₽–	₽–	₽–
Accounts receivable	10,906,687	3,711	10,902,976	_	_	_
Due from related parties	45,098,362	88,109	45,010,253	_	_	_
AFS investments	289,289,505	289,289,505	-	-	_	_
	₽1,238,378,132	P1,182,464,903	₽55,913,229	₽–	₽–	₽–
Financial Liabilities: Accounts payable and other						
liabilities	₽573,768	₽–	₽573,768	₽–	₽–	₽–

#### Equity Price Risk

Equity price risk is the likelihood that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Group's AFS investments in equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The Group measures the sensitivity of its AFS investments by using PSE index fluctuations and its effect to respective share prices.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2011, with all other variables held constant, of the Group's other comprehensive income and equity:

	Change in PSE Stock Market Index			
Effect on Income Before Income Tax	+10%	-10%		
2011	₽1,943,213	(P1,943,213)		
2010	2,182,601	(2,182,601)		
2009	614,310	(614,310)		

The impact on the Group's equity already excludes the impact on transactions affecting the consolidated statement of comprehensive income.

#### Fair Values of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Group's financial instruments that are carried in the consolidated financial statements.

	Carryin	g Values	Fair V	Values
	2011	2010	2011	2010
Financial Assets				
Loans and receivables				
Cash and cash equivalents	₽730,161,936	₽893,083,578	₽730,161,936	₽893,083,578
Accounts receivable	8,523,434	10,906,687	8,523,434	10,906,687
Due from related parties	70,109,444	45,098,362	70,109,444	45,098,362
Refundable deposits	355,520	_	355,520	_
AFS financial assets				
AFS investments	284,849,125	285,956,005	284,849,125	285,956,005
	P1,093,999,459	₽1,235,044,632	P1,093,999,459	₽1,235,044,632

(Forward)



	Carrying Values		Fair Values	
	2011	2010	2011	2010
Financial Liabilities Other financial liabilities Accounts payable and other				
liabilities	₽19,762,172	₽573,768	₽19,762,172	₽573,768

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value.

Cash and Cash Equivalents, Accounts Receivable, Due from Related Parties, Refundable Deposits and Accounts Payable and Other Liabilities

The carrying amounts of cash and cash equivalents, accounts receivable, due from related parties, refundable deposits and accounts payable and other liabilities approximate their fair values due to the short-term maturities of these financial instruments.

#### AFS Investments

Fair value of AFS investments is based on the quoted market bid prices at the close of business as of the reporting date.

#### Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data

The following tables show the Group's financial instruments carried at fair value:

			2011	
	Level 1	Level 2	Level 3	Total
<b>Financial Assets</b>				
<b>AFS investments:</b>				
Listed	P19,432,125	₽–	₽-	P19,432,125
Unlisted	130,000	_	265,287,000	265,417,000
	P19,562,125	₽-	P265,287,000	P284,849,125
			2010	
	Level 1	Level 2	Level 3	Total
Financial Assets				_
AFS investments:				
Listed	₽21,826,005	₽–	₽–	₽21,826,005
Unlisted	130,000	_	264,000,000	264,130,000
	₽21,956,005	₽–	₽264,000,000	₽285,956,005

As of December 31, 2011 and 2010, there were no transfers between Level 1 and Level 3 fair value measurements.



#### Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize stockholder value.

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes in 2011 and 2010.

The following table pertains to the account balances which the Group considers as its core economic capital:

	2011	2010
Common stock	P600,489,569	₽597,189,569
Subscribed common stock - net	76,517,500	77,342,500
Additional paid-in capital	72,272,140	72,272,140
Retained earnings	834,676,163	841,922,312
Treasury stock	(578,000)	_
	P1,583,377,372	₽1,588,726,521

#### 20. Segment Information

For management purposes, the Group is organized into business units based on its products and services and has three reportable segments, as follows:

- The oil and gas exploration segment, which is engaged in the exploration, evaluation, development and production of oil and gas.
- The real estate development segment, which is engaged in the real estate business.
- Others pertain to the activities of the Parent Company as a holding entity.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating income or loss in the consolidated financial statements.

The following tables regarding business segments present assets and liabilities as of December 31 and revenue and profit information for each of the three years in the period ended December 31.

#### **2011**

	Oil and Gas Exploration	Real Estate Development	Others	Total	Eliminations	Consolidated
Segment results						
Income (loss) before income tax	₽–	(P29,518,566)	₽22,358,516	(P7,160,050)	₽–	(\pmp7,160,050)
Provision for income tax	_	=	(86,099)	(86,099)	_	(86,099)
Net income (loss)	₽–	(\$\P29,518,566)	₽22,272,417	( <del>P</del> 7,246,149)	₽-	( <del>P</del> 7,246,149)

(Forward)



	Oil and Gas	Real Estate				
	Exploration	Development	Others	Total	Eliminations	Consolidated
Assets						
Segment assets	₽-	₽542.051.011	₽1,282,475,036	₽1.824.526.047	(£208.989.820)	₽1,615,536,227
Investments	_	-	322,298,000	322,298,000	(322,298,000)	-
Deferred exploration costs	21,563,806	=	· · · =	21,563,806		21,563,806
<u> </u>	₽21,563,806	₽542,051,011	₽1,604,773,036	P2,168,387,853	(£531,287,820)	₽1,637,100,033
Segment liabilities	₽-	₽251,564,838	₽758,024	₽252,322,861	( <del>P</del> 208,989,820)	₽43,333,042
Other segment information						
Depreciation and amortization	₽–	₽877,881	₽2,541,408	₽3,419,289	₽–	₽3,419,289
2010						
<u>2010</u>						
	Oil and Gas	Real Estate				
	Exploration	Development	Others	Total	Eliminations	Consolidated
Segment results						
Income (loss) before income tax	(P13,248,734)	(P2,293,260)	₽32,955,572	₽17,413,578	₽–	₽17,413,578
Provision for income tax	_	_	(119,358)	(119,358)	_	(119,358
Net income (loss)	(P13,248,734)	( <del>P</del> 2,293,260)	₽32,836,214	₽17,294,220	₽–	₽17,294,220
Assets						
Segment assets	₽–	₽19,083,889	₽1,565,889,669	₽1,584,973,558	(£11,256,968)	₽1,573,716,590
Investments	-	=	41,836,983	41,836,983	(10,000,000)	31,836,983
Deferred exploration costs	1,692,615	_	_	1,692,615	_	1,692,615
	₽1,692,615	₽19,083,889	₽1,607,726,652	₽1,628,503,156	(P21,256,968)	P1,607,246,188
Segment liabilities	₽-	₽11,377,149	₽713,545	₽12,090,694	( <del>P</del> 11,256,968)	₽833,726
Other segment information						
Provision for impairment losses on						
deferred exploration costs	₽13,248,734	₽-	₽-	₽13,248,734	₽-	₽13,248,734
Depreciation and amortization		15,956	2,560,234	2,576,190	_	2,576,190
	₽13,248,734	₽15,956	₽2,560,234	₽15,824,924	₽-	₽15,824,924

# 21. Registration with the Board of Investments (BOI)

As disclosed in Note 1, the Subsidiary's current project is the Anuva Residences. The Project has been divided into two (2) development phases with Phase 1 comprising of Tandem Buildings 1 and 2 and Phase 2 comprising of the other two (2) buildings.

On September 2, 2011, the Subsidiary's Phase 1 project was duly registered with the BOI as a New Developer of Low-Cost Mass Housing on a Non-pioneer Status under the Omnibus Investments Code of 1987 (Executive Order No. 226). With the registration, the Subsidiary is entitled with an Income Tax Holiday (ITH) for three (3) years from October 2011 or actual start of commercial operations or selling, whichever is earlier but in no case earlier than the date of registration. Under the specific terms and conditions of the registration, the Subsidiary shall submit proof of compliance that it has developed socialized housing project and accomplished corporate social responsibility activities that were duly identified by BOI in conjunction with the entitlement of ITH. The compliance with the socialized housing requirement shall be completed within the ITH entitlement period of the Subsidiary.

As of December 31, 2011, the Subsidiary is in the process of developing the program and timetable for its socialized housing project.



#### 22. Contracts and Commitments

The Group has the following significant commitments and agreements:

#### **Construction Agreements**

The Subsidiary entered into various contracts related to the construction of the Project. These contracts pertain to "Construction Management," "General Construction Works," "Exterior Wall Construction Works," "General Building Construction - Marketing and Sales Office," Land Development Works," "Mechanical Works" and "Electrical and Auxiliary Works."

Costs capitalized as real estate for sale related to these agreements amounted to \$\mathbb{P}\$135.3 million in 2011.

The Group has no purchase commitments as of December 31, 2011 and 2010.

# Advertising Agreements

The Subsidiary entered into various contracts related to marketing and promotions of the Project. These contracts pertain to "Billboard Lease," "Transit Advertising" and "Public Relations and Communication."

Sales and marketing expenses related to these agreements amounted to \$\mathbb{P}5.6\$ million in 2011.

#### Lease Agreements

- a. On February 1, 2011, the Subsidiary entered into a lease contract with YL Holdings Corporation for the lease of office space at 6/F, YL Holdings Building, 115 VA Rufino corner Salcedo Streets, Legaspi Village, Makati City. The contract is for a term of one year from March 3, 2011 to February 3, 2012. The Subsidiary paid security deposit amounting to ₱0.2 million to answer for any and all damages to the leased premises and as security for the return of the leased premises in proper condition. The related rent expense recognized by the Subsidiary in 2011 amounted to ₱0.7 million.
- b. In 2010, the Parent Company entered into a sublease contract with Bell Telecommunications, Inc. (BellTel) for the lease of office space located at 3/F Low Rise Pacific Star Building, Makati City. The contract is for a term of one year renewable for another one year at the lessee's discretion. The related rent expense recognized by the Parent Company in 2011, 2010 and 2009 amounted to \$\mathbb{P}0.4\$ million, \$\mathbb{P}0.5\$ million, \$\mathbb{P}0.4\$ million, respectively.

#### 23. Other Matters

a. Sale of Investments in BellTel

On December 18, 2009, a Deed of Sale has been entered by the Parent Company and Two Cassandra-CCI Conglomerates, Inc. for the sale of the 32.40% (3,240,000 shares) ownership of the Parent Company in BellTel for a total consideration of  $\mathbb{P}1.2$  billion. Incidental to the sale of shares, the Parent Company settled its outstanding subscription payable amounting to  $\mathbb{P}171.7$  million. Also, on the same date, the Parent Company collected its advances to BellTel amounting to  $\mathbb{P}368.9$  million as of the date of sale. Capital gains tax paid by the Parent Company in relation to the sale of the shares amounted to  $\mathbb{P}90.4$  million.



b. Comparative figures have been adjusted to conform to changes in presentation in the current year. Receivables from related parties which was previously presented under "Accounts receivable" account was reclassified under "Due from related parties" account in the consolidated statement of financial position.



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# SCHEDULE RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION FOR THE YEAR ENDED DECEMBER 31, 2011

Unappropriated retained earnings as of December 31, 2010, as adjusted to available for dividend declaration	₽341,922,312
Net loss actually incurred/realized during the period	(7,160,050)
	334,762,262
Add (Less): Reversal of 2010 appropriation	500,000,000
Appropriation of retained earnings during the period	(500,000,000)
Treasury shares	(578,000)
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS OF DECEMBER 31, 2011	₽334,184,262



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS DECEMBER 31, 2011

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as of December 31, 2011:

PFRS 1, First-time Adoption of Philippine Financial Reporting Standards  PFRS 2, Share-based Payment  PFRS 3, Business Combinations  PFRS 4, Insurance Contracts  PFRS 5, Non-current Assets Held for Sale and Discontinued Operations  PFRS 6, Exploration for and Evaluation of Mineral Resources  PFRS 7, Financial Instruments: Disclosures  PFRS 8, Operating Segments  Adopted  PFRS 7, Financial Instruments: Disclosures  PAS 1, Presentation of Financial Statements  Adopted  PAS 2, Inventories  Adopted  PAS 2, Inventories  PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors  PAS 10, Events after the Reporting Period  PAS 11, Construction Contracts  PAS 12, Income Taxes  PAS 16, Property, Plant and Equipment  PAS 17, Leases  PAS 18, Revenue  PAS 19, Adopted  PAS 19, Fresholve Benefits  PAS 20, Accounting for Government Grants and Disclosure of Government Assistance  PAS 21, The Effects of Changes in Foreign Exchange Rates  PAS 22, Related Party Disclosures  PAS 24, Related Party Disclosures  PAS 25, Consolidated and Separate Financial Statements  PAS 29, Financial Reporting in Hyperinflationary Economies  PAS 31, Intervests in Joint Ventures  PAS 33, Intervests in Joint Ventures  PAS 34, Interins Financial Reporting  PAS 37, Provisions, Contingent Liabilities and Contingent Assets  Not applicable  PAS 37, Provisions, Contingent Liabilities and Contingent Assets  Not applicable  PAS 38, Runariment of Assets  Not applicable	PFRSs and PIC Q&As	Adopted/Not Adopted/ Not Applicable
PFRS 2, Share-based Payment PFRS 3, Business Combinations PFRS 4, Insurance Contracts PFRS 5, Non-current Assets Held for Sale and Discontinued Operations PFRS 6, Exploration for and Evaluation of Mineral Resources PFRS 7, Financial Instruments: Disclosures PFRS 8, Operating Segments Adopted PFRS 8, Operating Segments Adopted PAS 1, Presentation of Financial Statements PAS 1, Presentation of Financial Statements Adopted PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors Adopted PAS 11, Construction Contracts Not applicable PAS 16, Property, Plant and Equipment PAS 17, Leases Adopted PAS 19, Employee Benefits Not applicable PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 25, Investments in Associates PAS 26, Accounting and Reporting by Retirement Benefit Plans PAS 28, Investments in Associates PAS 29, Financial Reporting in Hyperinflationary Economies PAS 31, Interests in Joint Ventures PAS 33, Interests in Joint Ventures PAS 33, Enrinancial Reporting PAS 34, Interin Financial Reporting PAS 37, Provisions, Contingent Liabilities and Contingent Assets Not applicable PAS 37, Provisions, Contingent Liabilities and Contingent Assets Not applicable PAS 37, Provisions, Contingent Liabilities and Contingent Assets Not applicable PAS 38, Intangible Assets		Not applicable
PFRS 3, Business Combinations PFRS 4, Insurance Contracts PFRS 5, Non-current Assets Held for Sale and Discontinued Operations PFRS 6, Exploration for and Evaluation of Mineral Resources PFRS 7, Financial Instruments: Disclosures PFRS 8, Operating Segments PFRS 8, Operating Segments PFRS 8, Operating Segments PAS 1, Presentation of Financial Statements Adopted PAS 1, Presentation of Financial Statements Adopted PAS 1, Inventories Adopted PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period PAS 11, Construction Contracts PAS 12, Income Taxes Adopted PAS 13, Interpretty, Plant and Equipment PAS 16, Property, Plant and Equipment PAS 17, Leases Adopted PAS 19, Employee Benefits Not applicable PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Parry Disclosures PAS 25, Incoming and Reporting by Retirement Benefit Plans PAS 26, Accounting and Reporting by Retirement Benefit Plans PAS 27, Consolidated and Separate Financial Statements PAS 28, Investments in Associates PAS 28, Investments in Associates PAS 31, Interests in Joint Ventures PAS 33, Enrinacial Instruments: Presentation PAS 34, Interim Financial Reporting PAS 35, Innancial Instruments: Presentation PAS 36, Impairment of Assets PAS 38, Intangible Assets Not applicable PAS 37, Provisions, Contingent Liabilities and Contingent Assets Not applicable		Not applicable
PFRS 4, Insurance Contracts PFRS 5, Non-current Assets Held for Sale and Discontinued Operations PFRS 6, Exploration for and Evaluation of Mineral Resources Adopted PFRS 7, Financial Instruments: Disclosures PFRS 8, Operating Segments Adopted PFRS 8, Operating Segments Adopted PAS 1, Presentation of Financial Statements PAS 1, Presentation of Financial Statements Adopted PAS 2, Inventories Adopted PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period PAS 11, Construction Contracts Not applicable PAS 12, Income Taxes Adopted PAS 17, Leases Adopted PAS 19, Employee Benefits PAS 19, Employee Benefits PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 28, Investments in Associates PAS 28, Investments in Associates PAS 29, Financial Reporting in Hyperinflationary Economies PAS 31, Interests in Joint Ventures PAS 33, Earnings per Share PAS 34, Interim Financial Reporting PAS 35, Intangible Assets Not applicable PAS 37, Provisions, Contingent Liabilities and Contingent Assets Not applicable PAS 38, Intangible Assets Not applicable		
PFRS 5, Non-current Assets Held for Sale and Discontinued Operations  PFRS 6, Exploration for and Evaluation of Mineral Resources PFRS 7, Financial Instruments: Disclosures  Adopted PFRS 8, Operating Segments Adopted PAS 1, Presentation of Financial Statements PAS 2, Inventories Adopted PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period PAS 11, Construction Contracts PAS 12, Income Taxes Adopted PAS 13, Proventorial Equipment PAS 16, Property, Plant and Equipment PAS 17, Leases PAS 18, Revenue PAS 19, Employee Benefits PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 26, Accounting and Reporting by Retirement Benefit Plans PAS 28, Investments in Associates PAS 29, Financial Reporting in Hyperinflationary Economies PAS 31, Interests in Joint Ventures PAS 32, Enrancial Instruments: Presentation PAS 33, Earnings per Share PAS 34, Interim Financial Reporting PAS 38, Intangible Assets Not applicable PAS 38, Intangible Assets Not applicable PAS 38, Intangible Assets Not applicable		**
PFRS 6, Exploration for and Evaluation of Mineral Resources PFRS 7, Financial Instruments: Disclosures Adopted PFRS 8, Operating Segments Adopted PAS 1, Presentation of Financial Statements Adopted PAS 2, Inventories Adopted PAS 2, Inventories Adopted PAS 7, Statement of Cash Flows Adopted PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period Adopted PAS 11, Construction Contracts Not applicable PAS 12, Income Taxes PAS 16, Property, Plant and Equipment Adopted PAS 17, Leases Adopted PAS 19, Employee Benefits Not applicable PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs Not applicable PAS 24, Related Party Disclosures PAS 25, Accounting and Reporting by Retirement Benefit Plans PAS 26, Accounting and Reporting by Retirement Benefit Plans PAS 29, Financial Reporting in Hyperinflationary Economies PAS 21, Interests in Joint Ventures PAS 31, Interests in Joint Ventures PAS 32, Financial Instruments: Presentation PAS 33, Earnings per Share PAS 31, Interin Financial Reporting PAS 33, Interin Financial Reporting PAS 34, Interin Financial Reporting PAS 35, Intangible Assets Not applicable PAS 36, Intangible Assets		
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PAS 1, Presentation of Financial Statements PAS 2, Inventories PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period PAS 11, Construction Contracts PAS 12, Income Taxes PAS 12, Income Taxes PAS 16, Property, Plant and Equipment PAS 17, Leases PAS 18, Revenue PAS 19, Employee Benefits PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 25, Accounting and Reporting by Retirement Benefit Plans PAS 26, Accounting and Reporting by Retirement Benefit Plans PAS 27, Consolidated and Separate Financial Statements PAS 28, Investments in Associates PAS 31, Interests in Joint Ventures PAS 32, Financial Instruments: Presentation PAS 33, Earnings per Share PAS 34, Interim Financial Reporting PAS 35, Interim Financial Reporting PAS 36, Impairment of Assets PAS 37, Provisions, Contingent Liabilities and Contingent Assets PAS 38, Intangible Assets	PFRS 7, Financial Instruments: Disclosures	Adopted
PAS 2, Inventories PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period PAS 11, Construction Contracts PAS 12, Income Taxes Adopted PAS 16, Property, Plant and Equipment PAS 17, Leases PAS 18, Revenue PAS 19, Employee Benefits PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 25, Accounting and Reporting by Retirement Benefit Plans PAS 26, Accounting and Reporting by Retirement Statements PAS 29, Financial Reporting in Hyperinflationary Economies PAS 31, Interests in Joint Ventures PAS 32, Interim Financial Reporting PAS 33, Earnings per Share PAS 34, Interim Financial Reporting PAS 35, Provisions, Contingent Liabilities and Contingent Assets PAS 37, Provisions, Contingent Liabilities and Contingent Assets PAS 38, Intangible Assets Not applicable PAS 38, Intangible Assets PAS 38, Intangible Assets	PFRS 8, Operating Segments	Adopted
PAS 7, Statement of Cash Flows PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors PAS 10, Events after the Reporting Period PAS 11, Construction Contracts PAS 12, Income Taxes PAS 12, Income Taxes PAS 16, Property, Plant and Equipment PAS 17, Leases Adopted PAS 18, Revenue PAS 19, Employee Benefits PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 27, Consolidated and Separate Financial Statements PAS 28, Investments in Associates PAS 29, Financial Reporting in Hyperinflationary Economies PAS 31, Interests in Joint Ventures PAS 32, Financial Instruments: Presentation PAS 34, Interim Financial Reporting PAS 36, Impairment of Assets PAS 37, Provisions, Contingent Liabilities and Contingent Assets Adopted PAS 38, Intangible Assets Not applicable PAS 37, Provisions, Contingent Liabilities and Contingent Assets Not applicable PAS 38, Intangible Assets	PAS 1, Presentation of Financial Statements	Adopted
PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors  PAS 10, Events after the Reporting Period PAS 11, Construction Contracts PAS 12, Income Taxes PAS 16, Property, Plant and Equipment PAS 17, Leases PAS 18, Revenue PAS 19, Employee Benefits PAS 20, Accounting for Government Grants and Disclosure of Government Assistance PAS 21, The Effects of Changes in Foreign Exchange Rates PAS 23, Borrowing Costs PAS 24, Related Party Disclosures PAS 27, Consolidated and Separate Financial Statements PAS 28, Investments in Associates PAS 29, Financial Reporting in Hyperinflationary Economies PAS 30, Financial Instruments: Presentation PAS 33, Earnings per Share PAS 34, Interim Financial Reporting PAS 35, Investing per Share PAS 36, Impairment of Assets PAS 37, Provisions, Contingent Liabilities and Contingent Assets PAS 38, Intangible Assets	PAS 2, Inventories	Adopted
Errors  PAS 10, Events after the Reporting Period  PAS 11, Construction Contracts  PAS 12, Income Taxes  PAS 16, Property, Plant and Equipment  PAS 17, Leases  PAS 18, Revenue  PAS 19, Employee Benefits  PAS 20, Accounting for Government Grants and Disclosure of Government Assistance  PAS 21, The Effects of Changes in Foreign Exchange Rates  PAS 23, Borrowing Costs  Not applicable  PAS 24, Related Party Disclosures  PAS 26, Accounting and Reporting by Retirement Benefit Plans  PAS 28, Investments in Associates  PAS 29, Financial Reporting in Hyperinflationary Economies  PAS 30, Interests in Joint Ventures  PAS 31, Interests in Joint Ventures  PAS 34, Interim Financial Reporting  PAS 35, Impairment of Assets  PAS 36, Impairment of Assets  PAS 37, Provisions, Contingent Liabilities and Contingent Assets  Not applicable  PAS 37, Provisions, Contingent Liabilities and Contingent Assets  Not applicable  PAS 38, Intangible Assets	PAS 7, Statement of Cash Flows	Adopted
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PAS 34, Interim Financial Reporting PAS 36, Impairment of Assets Adopted PAS 37, Provisions, Contingent Liabilities and Contingent Assets PAS 38, Intangible Assets Not applicable		
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PAS 37, Provisions, Contingent Liabilities and Contingent Assets  Adopted PAS 38, Intangible Assets  Not applicable	i i i	
PAS 38, Intangible Assets  Not applicable		•
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PAS 39, Financial Instruments: Recognition and Measurement Adopted		· · · · · · · · · · · · · · · · · · ·
PAS 40, Investment Property  Not applicable		



PFRSs and PIC Q&As	Adopted/Not Adopted/ Not Applicable
PAS 41, Agriculture	Not applicable
Philippine Interpretation IFRIC-1, Changes in Existing	Not applicable
Decommissioning, Restoration and Similar Liabilities	
Philippine Interpretation IFRIC–2, Members' Shares in Co-operative	Not applicable
Entities and Similar Instruments	
Philippine Interpretation IFRIC-4, Determining whether an	Not applicable
Arrangement contains a Lease	
Philippine Interpretation IFRIC-5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	Not applicable
Philippine Interpretation IFRIC–6, <i>Liabilities arising from</i>	Not applicable
Participating in a Specific Market - Waste Electrical and	Tiot applicable
Electronic Equipment	
Philippine Interpretation IFRIC–7, <i>Applying the Restatement</i>	Not applicable
Approach under PAS 29 Financial Reporting in	
Hyperinflationary Economies	
Philippine Interpretation IFRIC–9, Reassessment of Embedded	Not applicable
Derivatives	Not applicable
Philippine Interpretation IFRIC–10, <i>Interim Financial Reporting and Impairment</i>	Not applicable
Philippine Interpretation IFRIC–12, Service Concession	Not applicable
Arrangements	
Philippine Interpretation IFRIC-13, Customer Loyalty Programmes	Not applicable
Philippine Interpretation IFRIC-14, PAS 19 - The Limit on a Defined	Not applicable
Benefit Asset, Minimum Funding Requirements and their	
Interaction	
Philippine Interpretation IFRIC–16, <i>Hedges of a Net Investment in a Foreign Operation</i>	Not applicable
Philippine Interpretation IFRIC–17, <i>Distributions of Non-cash Assets to Owners</i>	Not applicable
Philippine Interpretation IFRIC–18, <i>Transfers of Assets from Customers</i>	Not applicable
Philippine Interpretation IFRIC–19, Extinguishing Financial Liabilities with Equity Instruments	Not applicable
Philippine Interpretation SIC–7, <i>Introduction of the Euro</i>	Not applicable
Philippine Interpretation SIC–10, Government Assistance - No	Not applicable
Specific Relation to Operating Activities	Trot applicable
Philippine Interpretation SIC–12, Consolidation - Special Purpose  Entities	Not applicable
Philippine Interpretation SIC–13, <i>Jointly Controlled Entities - Non-</i>	Not applicable
Monetary Contributions by Venturers	TT
Philippine Interpretation SIC–15, <i>Operating Leases – Incentives</i>	Not applicable
Philippine Interpretation SIC-21, <i>Income Taxes - Recovery of</i>	Not applicable
Revalued Non-Depreciable Assets	
Philippine Interpretation SIC–25, <i>Income Taxes - Changes in the Tax</i>	Not applicable
Status of an Entity or its Shareholders	
Philippine Interpretation SIC–27, Evaluating the Substance of	Not applicable
Transactions Involving the Legal Form of a Lease  Dhilipping Interpretation SIC 20, Service Congession Arrangements.	Not applicable
Philippine Interpretation SIC–29, Service Concession Arrangements:	Not applicable



PFRSs and PIC Q&As	Adopted/Not Adopted/ Not Applicable
Disclosures	
Philippine Interpretation SIC–31, Revenue - Barter Transactions	Not applicable
Involving Advertising Services	
Philippine Interpretation SIC-32, Intangible Assets - Web Site Costs	Not applicable
PIC Q&A No. 2006-01: PAS 18, Appendix, paragraph 9 - Revenue	Not applicable
recognition for sales of property units under pre-completion	
contracts	
PIC Q&A No. 2006-02: PAS 27.10(d) - Clarification of criteria for	Not applicable
exemption from presenting consolidated financial statements	
PIC Q&A No. 2007-03: PAS 40.27 - Valuation of bank real and	Not applicable
other properties acquired (ROPA)	
PIC Q&A No. 2008-01 (Revised): PAS 19.78 - Rate used in	Not applicable
discounting post-employment benefit obligations	
PIC Q&A No. 2008-02: PAS 20.43 - Accounting for government	Not applicable
loans with low interest rates under the amendments to PAS 20	
PIC Q&A No. 2009-01: Framework.23 and PAS 1.23 - Financial	Not applicable
statements prepared on a basis other than going concern	
PIC Q&A No. 2010-01: PAS 39.AG71-72 - Rate used in determining	Not applicable
the fair value of government securities in the Philippines	
PIC Q&A No. 2010-02: PAS 1R.16 - Basis of preparation of	Not applicable
financial statements	
PIC Q&A No. 2011-01: PAS 1.10(f) - Requirements for a Third	Not applicable
Statement of Financial Position	



Schedule 3: Marketable Securities, other long term investments and other Investments As of December 31, 2011

Name of issuing entity and description of investment	Number of shares or principal amount of bonds/notes	Amount in Pesos Balance Beg 1/1/2011	Purchase of Capital Stock of Premiere Development Bank	Equity in earnings (losses) of investees for the period	Share in unrealized loss on noncurrent marketable equity securities/AFS investment of an associate	Reclassification as held for sale	Amount in Pesos Balance End 12/31/2011
Stocks:							
PDB - 4.79%	351,454	31,836,983		(114,740)	-	(31,722,243)	-
	351,454	31,836,983	-	(114,740)	-	(31,722,243)	-
TOTAL INVESTMENT IN ASSOCIATES	351,454	31,836,983	<u>-</u>	(114,740)	-	(31,722,243)	<u>-</u>
	Number of Shares	Amount in Pesos Balance Beg 1/1/2011	Purchase AGI shares	Legal Services	Stock dividends	Unrealized gain/ (losses) on marketable equity/securities	Amount in Pesos Balance End 12/31/2011
INVESTMENT IN SHARES OF STOCKS	-AVAILABLE I	FOR SALE					
NONCURRENT LISTED (TRADED SHARES) PETRON ABOITIZ EQUITY VENTURES ALLIANCE GLOBAL GROUP, INC	1,147,500 6,000	21,595,950 222,600	4,889,050		72,270	(7,137,450) 18,300 (236,050)	14,458,500 313,170 4,653,000
PLDT Preferred U shares Preferred Y Shares	350 350		- -			- -	3,780 3,675 7,455
Sub-total Listed Shares		21,826,005	4,889,050		72,270	(7,355,200)	19,432,125
UNLISTED SHARES MT. MALARAYAT		130,000	_				130,000
SOUTHWEST RESOURCES Allowances for decline in value		3,333,500 (3,333,500)					3,333,500 (3,333,500)
AG & P		264,000,000	-	1,287,000			265,287,000
Sub-total Unlisted Shares		264,130,000				-	265,417,000
TOTAL AVAILABLE FOR SALE		285,956,005	4,889,050	1,287,000	72,270	(7,355,200)	284,849,125

**South China Resources, Inc. and Subsidiary** Schedule 4: Aging of Consolidated Accounts Receivable As of December 31, 2011

	CURRENT					PAST DUE			
					7 Mos. To			5 Years -	Past due accounts
	Total	1 Month	2-3 Mos.	4-6 Mos.	1 Year	1-2 Years	3-5 Years	Above	& Items in Litigation
Accounts Receivable									
Amounts owed by a related party - PSC	45,000,000			45,000,000					
2) Amounts owed by a related party - IPI	25,138,667	12,138,667	3,000,000	10,000,000					
3) Officers and employees	5,422,574	118,535	1,204,000	72,723	4,027,315				
4) Others	3,071,639	3,000	17,000	1,182,820	1,770,457	40,884	57,478		NONE
Subtotal	78,632,879	12,260,202	4,221,000	56,255,543	5,797,772	40,884	57,478		
Less: Allowance for impairment losses on									
receivables									
A/R - net	78,632,879	12,260,202	4,221,000	56,255,543	5,797,772	40,884	57,478		NONE
Net Receivables	78,632,879	12,260,202	4,221,000	56,255,543	5,797,772	40,884	57,478		NONE

Notes: If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.

#### Accounts Receivable Description:

Type of Receivable	Nature/Description	Collection Period			
		monthly payment of interest &			
Amounts owed by a related party	Receivable from third party PUYAT STEEL CORP. (Principal & Interest)	quarterly payment of principal			
2) Officers and employees	Advances to employees for emergency purpose on a 1 year term payable monthly	monthly			
3) Others	Receivable from third party; amount payable by South China Petroleum Int'l.				
Notes: Indicate a brief description of the nature and collection period of each receivable accounts with major balances					
or separate receivable continue, both for trade and non-trade accounts					

Normal Operating Cycle: 1 (one) year

Schedule 5: Amounts Receivable from Related Parties which are eliminated during the consolidation of Financial Statements As of December 31, 2011

	Beginning Balance	Additions	Ending Balance
	December 31,2010		December 31,2011
SOC Land Development, Corp.	11,256,968	197,732,851.45	208,989,820

Schedule 6: Consolidated Accounts Receivable As of December 31, 2011

		BALANCE BEGINNING 12.31.10 (AUDITED)	ADDITIONS DR	COLLECTIONS/ ADJUSTMENTS (CR)	BALANCE ENDING 12.31.11 (AUDITED)
A mounts o	wed by a related party-				
7 mounts o	Puyat Steel Corp.	45,000,000	30,000,000	(30,000,000)	45,000,000
	IPI	,,,,,,,,,	35,000,000	(10,000,000)	25,000,000
	Interest		3,016,746	(2,878,079)	138,667
	_	45,000,000	68,016,746	(42,878,079)	70,138,667
Officers an	nd employees				
Officers	Edgardo P. Reyes	4,000,000			4,000,000
Employees	Eugaruo I . Reyes	54,958	2,049,931	(428,442)	1,676,446
Accrued In	iterest		1,099,961		1,099,961
Others					
	Brokers		1,599,959		1,599,959
	SSS		8,400		8,400
	South China Petroleum Internationa	98,362	11,083		109,445
		98,362	19,483	-	1,717,804
	TOTAL A/R	45,153,320	70,086,159	(43,306,521)	78,632,878
	LESS: ALLOWANCE FOR IMPAIRMENT LO OF RECEIVABLES	OSSES -	-	-	-
	A/R - NET	45,153,320	70,086,159	(43,306,521)	78,632,878

Schedule 7: Financial Soundness Indicator As of December 31, 2011 and December 31,2010

KEY FINANCIAL RATIOS	<u>12/31/2011</u>	<u>12/31/2010</u>
Revenue Growth/ (Decline)	(33.33) %	(95.64) %
Net Income Growth/ (Decline)	(144.00) %	(96.83) %
EBITDA	N/A	22.28 M
Return on Equity	N/A	2.06%
Return on Assets	N/A	2.06%
Current Ratio (in x)	29.40 x	1148.10 x
Debt-to-equity ratio (in x)	0.0272 x	0.0005 x

**Key Financial Ratios** Formula

**Revenue Growth** Total Revenues (current period) - Total Revenues (prior period)/ Total Revenues (prior period)

**Net Income Growth** Net Income (current period) - Net Income (prior period)/ - Net Income (prior period) **EBITDA** 

Income from operations plus depreciation and amortization

Net Income/Equity Return on Equity (ROE)

Return on Assets (ROA) Net income/ Total Assets

**Current Ratio** Current Assets/ Current Liabilities

Total Liabilities/ Equity **Debt- to Equity Ratio** 

Schedule 8: Map of the Relationships of the Companies within the Group As of December 31, 2011 and December 31,2010

**SOUTH CHINA RESOURCES, INC.** (PARENT)



**SOC LAND DEVELOPMENT CORP.** (SUBSIDIARY 100% OWNED)