



# SOUTH CHINA RESOURCES, INC.

3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City  
Metro Manila, Philippines

April 15, 2011

**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, 2010 of South China Resources, Inc.

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

Yours faithfully,

**DAVID R. BALADAD**  
Corporate Information Officer/  
VP – Operations



# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Atty. Magilyn T. Loja

Contact Person

8403413-15

Company Telephone Number

**SEC FORM 17-A 2010**

1	2
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Month  
Fiscal Year

3	1
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Day

FORM TYPE

(last Friday of May)

0	5
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Month

2	7
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Day

Annual Meeting

Not Applicable

Secondary License Type, If Applicable

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Dept Requiring this Doc

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Amended Articles Number / Section

### Total Amount of Borrowings

\_\_\_\_\_

Total No. of Stockholders

\_\_\_\_\_

Domestic

\_\_\_\_\_

Foreign

To be accomplished by SEC Personnel concerned

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File Number

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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 December 31, 2010
2. SEC Identification Number ASO92-06441 3. BIR Tax Identification No. 001-945-016
4. Exact name of issuer as specified in its charter SOUTH CHINA RESOURCES, INC.
5. Not Applicable 6.  (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
Incorporation or organization
7. 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City 1200  
Address of principal office Postal Code
8. (632) 812-2383 / 892-2049  
Issuer's telephone number, including area code
9. 12/F Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City  
Former name, former address and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
- | Title of Each Class  | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|----------------------|--|
| <u>Common Shares</u> | <u>906,559,568</u>   |
11. Are any or all of these securities listed on a Stock Exchange?
- Yes [ ☒ ] No [ ☐ ]
- Name of Stock Exchange Class of Securities Listed
- Philippine Stock Exchange U



12. Check whether the issuer:

(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 [ ☐ ]

13. Aggregate market value of the voting stock held by non-affiliates is **₱313,127,790.00** as of **March 31,2011**.



## TABLE OF CONTENTS

	Page
 <b>Part I - BUSINESS AND GENERAL INFORMATION</b>	
Item 1 Business .....	1
Item 2 Properties .....	3
Item 3 Legal Proceedings .....	3
Item 4 Submissions of Matters to a Vote of Security Holders .....	3
 <b>Part II – OPERATIONAL AND FINANCIAL INFORMATION</b>	
Item 5 Market for Issuer’s Common Equity and Related Stockholder Matters .....	4
Item 6 Management’s Discussion and Analysis or Plan of Operation .....	6
Item 7 Financial Statements .....	35
Item 8 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure .....	35
 <b>Part III - CONTROL AND COMPENSATION INFORMATION</b>	
Item 9 Directors and Executive Officers of the Issuer .....	36
Item 10 Executive Compensation .....	38
Item 11 Security Ownership of Certain Beneficial Owners and Management .....	39
Item 12 Certain Relationships and Related Transactions .....	40
 <b>Part IV – CORPORATE GOVERNANCE</b>	
Item 13 Corporate Governance .....	41
 <b>Part V - EXHIBITS AND SCHEDULES</b>	
Item 14 a. Exhibits .....	41
b. Reports on SEC Form 17-C .....	41
<b>SIGNATURES</b> .....	44
<b>INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES</b> .....	45



## PART I - BUSINESS AND GENERAL INFORMATION

### 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 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. The participating interests in the exploration areas of the Company are as follows:

Area	Interest	Expiry/Expected Expiry
1. SC-41 Sulu Sea	- 1.09%	Expired August 10, 2010
2. SC-60/GSEC-99 NE Palawan	- 15.00%	February 10, 2012
3. SC-71/Area 4 Offshore Cuyo	- 15.00%	April 1, 2011

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. As of year-end the request was still under process with the DOE. South China retains 15% interest in the block.

Service Contract No. 41 ran the full length of its exploration period extending exploration activity to ten (10) contract years. The SC-41 group was given until August 10, 2010 to decide to whether or not to extend the SC by another year. Given that the next phase of the service contract 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. The operator 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.

In the quest to continue exploration in areas where the company has an edge in terms of data and technical conceptualization, South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). On May 30, 2007, South China together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The DOE awarded Service Contract No. 71 to the group on April 1, 2009.



South China has 15% participating interest in this block. The Service Contract has term of seven (7) years compartmentalized into five (5) phases. The Joint venture complete comprehensive reprocessing of over 3000 line kms of 2D data over the area. The group has the option to proceed or withdraw at the end of each phase.

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.

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.

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

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 P312,297,000.00.

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 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.

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 has no subsidiaries for the year ended 2009. Please refer to Note 9 of the Financial Statement for information on the business of its associates, Bell Telecommunication Philippines, Inc. (Bell Tel) and Premiere Development Bank (PDB).

The Company does not expect any significant changes in its number of employees. Presently, the Company has a total of seven (7) 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 Supervisor, one (1) Investor Relations Officer and one (1) Messenger. The Company has no Collective Bargaining Agreements (CBA).

Since the company has only seven (7) 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 September 13, 2007, the Board of Directors approved the sale of an investment in property which represents parcels of land (with an unfinished building) that was acquired in 1996. The Company was the registered and beneficial owner of fifty percent (50%) of the property.

On December 15, 2007, the Company together with all the other registered and beneficial owner of the property, entered into a Contract to Sell and Buy with a third party for the sale of the said property for an in consideration of the total amount of P1.2 billion., the Company's share of which is P600 million. In connection with the said Contract to Sell and Buy, a deposit amounting to P60 million was received by the company in December 2007. The Deed of Absolute Sales was executed on January 23, 2008.

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 P312,297,000.00. On July 28, 2010, South China completed the purchase of the land.

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. The remaining term of the contract is, from September 1, 2009 to September 1, 2010 and renewable automatically, on a monthly rental of P42,996.28.

## **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**

During the Annual Stockholders' Meeting on May 28, 2010, whereat stockholders representing 840,712,202 shares out of the 906,559,568 shares entitled to vote were present in person or by proxy, the stockholders present unanimously approved the election of Director for the ensuing year.

During the Annual Stockholders' Meeting on May 29, 2009, whereat stockholders representing



815,302,902 shares out of the 906,559,568 shares entitled to vote were present in person or by proxy, the stockholders present unanimously approved the amendment of the Company's By-Laws to incorporate the change of the Company's annual stockholders' meeting from the 3<sup>rd</sup> Wednesday of April to the last Friday of May. The amendment to the By-Laws was approved by the Commission on June 30, 2009.

During the Annual Stockholders' Meeting on May 30, 2008, whereat stockholders representing 696,209,466 shares out of the 906,559,568 shares entitled to vote were present in person or by proxy, the stockholders present unanimously approved the amendment of the Company's By-Laws to incorporate the procedures for the nomination and election of independent director/s in compliance with the provisions of SRC Rule 38. The amendment to the By-Laws was approved by the Commission on November 7, 2008.

## **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 31, 2010, 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 (2010 and 2009).

#### **Stock Prices**

<b>2010</b>	<b>High</b>	<b>Low</b>
First Quarter	2.7000	2.5500
Second Quarter	2.7000	2.6000
Third Quarter	1.3000	1.2800
Fourth Quarter	1.5600	1.4800
<b>2009</b>	<b>High</b>	<b>Low</b>
First Quarter	1.0500	0.8333
Second Quarter	1.5200	1.1400
Third Quarter	1.9733	1.7333
Fourth Quarter	2.1066	1.6866

#### **(2) Holders**

The number of shareholders of record as of December 31, 2009 was 419. Common shares issued and subscribed as of December 31, 2009 were 906,559,568.



**Top Twenty (20) Stockholders**

As of December 31, 2010

No.	NAME OF STOCKHOLDERS	NUMBER SHARES HELD	OF % OWNED
1.	Edgardo P. Reyes	231,853,123	25.5751%
2.	Belen R. Castro	231,353,122	25.5199%
3.	Wilfrido P. Reyes	226,853,123	25.0325%
4.	PCD Nominee Corporation (Filipino)	157,431,734	17.3658%
5.	PCD Nominee Corporation (Non-Filipino)	16,182,266	1.7850%
6.	Ramesh Amarnani	2,000,000	0.2206%
7.	R. Coyiuto Securities, Inc.	1,925,000	0.2125%
8.	The Philodrill Corporation	1,600,000	0.1765%
9.	Jose Mari R. Moraza	1,000,000	0.1103%
10.	Luismi Gala. De Villa	808,000	0.0891%
11.	Michael Escaler	630,000	0.0695%
12.	Ma. Georgina V. Perez	610,000	0.0673%
13.	Remedios J. Manguiat	580,000	0.0640%
14.	Mandarin Securities Corp.	561,000	0.0619%
15.	Benito T. Dela Cruz	520,000	0.0574%
16.	Jaime M. Blanco, Jr.	500,100	0.0552%
17.	Loreto Cabanes	500,000	0.0552%
18.	Rojas Chua	500,000	0.0552%
19.	Joseph Estrada	500,000	0.0552%
20.	Edna L. Layosa	500,000	0.0552%
<b>TOTAL</b>		<b>876,407,468</b>	<b>96.6834%</b>

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 to a wholly owned subsidiary to be established.

**(3) Dividends**

The Company has no earnings yet from commercial production. On April 7, 2010, the BOD approved the resolution earmarking ₱500.0 million of the Parent Company's retained earnings, generated from the sale of the Pilipinas Plaza building and the company's shareholdings from Belltel as mentioned in item 2 above, for purposes of funding its investments related to the Diwalwal Mine Reserve and Anuva Residences projects, among others.

There were no dividends declared for the two (2) most recent years ended December 31, 2010 and 2009.

**(4) 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

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

### DECEMBER 31, 2010 VS DECEMBER 31, 2009

#### 2010 CONSOLIDATED RESULTS OF OPERATIONS

##### Financial Highlights (in Philippine pesos)

<u>PARTICULARS</u>	<u>12/31/2010</u>	<u>12/31/2009</u>	<u>% Change</u>
Revenues	51,498,529	1,181,824,628	(95.64) %
Expenses	31,790,736	100,227,995	(68.28) %
Income / (Loss) from Operations	19,707,793	1,081,596,633	(98.18) %
Equity in Net Income / (Losses) of Associates	(2,280,818)	(40,035,540)	(94.30) %
Foreign Exchange Losses	(13,397)	(5,439)	146.31%
Income Tax	119,358	159,582	(0.25) %
Net Income	17,294,220	1,041,396,072	(0.98) %
Other Comprehensive Income / (Loss)	15,754,755	317,926	4855.48 %
Total Comprehensive Income after Tax	33,048,975	1,041,713,998	(96.83) %

#### **Total Revenues- 95.64% decrease from P 1.18B to P51M**

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.

The company's subsidiary SOC Land Development Corp. has not yet earned any revenues as it was registered only on November 25, 2010 with Securities and Exchange Commission (SEC).

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.

#### **Total Expenses- 68.28% decrease from PHP 100M to PHP 31M**

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.

There was a considerable decrease in Total Expenses incurred for 2009 amounting to PHP 100.227 million as compared to the PHP 121.233 million in 2008. Major expense items for 2009 were as follows: (a) taxes and licenses of PHP 91.290 million consisting mostly of the abovementioned PHP 90 million capital gains taxes related to the sale of 32.40% ownership of Belltel Co.; (b) legal and professional fees of PHP 0.702 million; (c) travel and representation fees of PHP 1.374 million; (e) salaries and wages of PHP 2.707 million and (f) depreciation expenses of PHP 2.528 million.

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

#### **Equity in net earnings of associates 94.30% decline of PHP 2.28M million from loss of PHP 40M**

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.

#### **Net Income – Decrease of 98% from income of 1.04B to income of 19M**

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.



**DECEMBER 31, 2009 VS DECEMBER 31, 2008****2009 RESULTS OF OPERATIONS****Financial Highlights****(in Philippine peso)**

<b><u>PARTICULARS</u></b>	<b><u>12/31/2009</u></b>	<b><u>12/31/2008</u></b>	<b><u>% Change</u></b>
Revenues	1,181,824,627	133,880,831	782.74 %
Expenses	100,227,994	121,233,782	(17.33) %
Foreign Exchange Loss	(5,439)	(13,294)	59.09 %
Income / (Loss) from Operations	1,081,596,633	12,647,049	8452.17 %
Equity in Net Income / (Losses) of Associates	(40,035,540)	100,222,956	(139.95) %
Income Tax	(159,582)	-	-
Net Income / (Loss)	1,041,396,072	112,856,711	822.76 %

**Total Revenues- 782.74% increase from PHP 133,880,831 to PHP 1,81,824,627**

Total Revenues generated for 2009 reached 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.

**Total Expenses- 17.33% decrease from PHP 121.233 million to PHP 100.227 MM**

There was a considerable decrease in Total Expenses incurred for 2009 amounting to PHP 100.227 million as compared to the PHP 121.233 million in 2008. Major expense items for 2009 were as follows: (a) taxes and licenses of PHP 91.290 million consisting mostly of the abovementioned PHP 90 million capital gains taxes related to the sale of 32.40% ownership of Belltel; (b) legal and professional fees of PHP 0.702 million; (c) travel and representation fees of PHP 1.374 million;(e) salaries and wages of PHP 2.707 million and (f) depreciation expenses of PHP 2.528 million.

Given the above, income from operations for 2009 was PHP1.053 billion which translates to an operating margin of 91.51% during the year. This was around 85X of income from operation of 2008.

**Equity in net earnings of associates – 139.95% decline of PHP 40.035 million from income of PHP 100.222 million**

Other income and losses recognized during the year were as follows: (a) the equity share 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.

**Net Income – A substantial increase at the rate of 822.76% amounting PHP 1.041 billion for 2009 as compared to 2008 of PHP 112 million**

Net income of the Company for the year end 2009 rose up to PHP 1.041 billion, 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 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.

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, 2010.

There are no material trends, events or uncertainties that are reasonably expected to occur in the next interim period that will have a material favourable or unfavourable impact on the results of the Company's liquidity or sales.

There are no significant elements of income or loss that did not rise 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.

**DECEMBER 31, 2010 VS DECEMBER 31, 2009**

**2010 CONSOLIDATED FINANCIAL POSITION  
Financial Highlights  
(in Philippine pesos)**

<b><u>PARTICULARS</u></b>	<b><u>12/31/2010</u></b>	<b><u>12/31/2009</u></b>	<b><u>% Change</u></b>
Current Assets	957,203,328	1,504,744,684	(36.39) %
Noncurrent Assets	650,042,860	63,719,165	920.17
<b>TOTAL ASSETS</b>	<b>1,607,246,188</b>	<b>1,568,463,849</b>	<b>2.47 %</b>
Current Liabilities	833,726	860,362	(3.10) %
Equity	1,606,412,462	1,567,603,487	2.48 %
<b>TOTAL LIABILITES &amp; EQUITY</b>	<b>1,607,246,188</b>	<b>1,568,463,849</b>	<b>2.47 %</b>



**Discussion for changes in consolidated current assets of the group:**

There was a decrease of 36% in the current assets brought about by a decrease in cash used in 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.

A corresponding decrease in accounts receivable from PHP 70.18 million for 2009 to PHP 56 million for 2010 was due to the payment of Puyat Steel Corp. of its advances from the company.

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.

**Discussion for changes in consolidated noncurrent assets of the group:**

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.

**Discussion for changes in consolidated Liabilites of the group:**

There has been no substantial change in the current liabilities of the group. The liabilities were composed of income tax recognized for the period as well as expanded withholding taxes, withholding taxes on compensation and other government related payables not yet remitted by year end.

**Discussion for changes in consolidated Equity of the group:**

Increase in the total amount of issued shares from PHP 589.51 million to PHP 597.19 million due to the full payment of subscribed shares amounting to PHP 7.68 million.

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.

Though the company's revenues were earned mainly from short term investments for the year 2010, an income of PHP 17.29 million of this nature has contributed to the 2.48% increase in the total equity of the group as compared with the last year.



**DECEMBER 31, 2009 VS DECEMBER 31, 2008****2009 FINANCIAL POSITION****Financial Highlights****(in Philippine pesos)**

<b>PARTICULARS</b>	<b>12/31/2009</b>	<b>12/31/2008</b>	<b>% Change</b>
Current Assets	1,505,702,174	172,947,060	770.61 %
Noncurrent Assets	63,719,165	524,787,354	(87.86) %
<b>TOTAL ASSETS</b>	<b>1,569,421,339</b>	<b>697,734,414</b>	<b>124.93 %</b>
Current Liabilities	1,817,852	597,425	204.28 %
Noncurrent Liabilities	-	171,720,000	(100.00) %
<b>Total Liabilities</b>	<b>1,817,852</b>	<b>172,317,425</b>	<b>(98.95) %</b>
Equity	1,567,603,487	525,416,989	198.35 %
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>1,569,421,339</b>	<b>697,734,414</b>	<b>124.93 %</b>

**The following circumstances reflects the Current asset 770.61% incremental change for the year:**

The cash and cash equivalent of PHP 1.434 billion for 2009 climbed up to 14 times against the 2008 PHP 92.829 million due to the sale of 32.40% ownership of Beltel to TWCCI. The total amount of PHP 1.334 billion from the proceeds of the sale was invested in a short term placement earning considerable amount of interest.

The BOD through a resolution dated January 23, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to P130 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 of the Company of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished products. The funding facility is renewable on a yearly basis. Under this arrangement, the Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

A corresponding decrease in accounts receivable from PHP 78.985 million for 2008 to PHP 70.182 million for 2009 was due to the collection of accrued interest outstanding as of the beginning of the year and the partial payment of Puyat Steel Corp. of its advances from the company. Puyat Steel made a total of PHP 170 million advances with settlement of PHP 100 million during the year leaving PHP 70 million as outstanding advances as of the end of 2009.

The increase of 19% in prepayments and other current asset was due to the increase in input taxes, medical benefits, insurance, dues and supplies inventories during the year

**The decrease in non current assets from PHP 524.787 million to PHP 63.719 million (87.86%) is due to the following:**

On December 18, 2009 a deed of sale was executed between South China Resources Inc. in favor of Two Cassandra-CCI Conglomerates, Inc. covering the sale of the former's 3,240,000 shares of stocks in Bell Telecommunication Philippines, Inc. for and in consideration of PHP 1,227,825,489.00.



The investment in associate account was decreased by PHP 324 million for the cost of the shares of BelTell and the corresponding share in net loss as previously discussed recognized up to the date of the consummation of the sale. Other factors affecting the decrease in non current asset is the share in net income and other comprehensive income of Premiere Development Bank at 4.81% ownership. The aforementioned events constituted the 93.16% decrease from PHP 492.394 million to PHP 33.698 million in Investment in and Advances to Associates.

Available for Sale (AFS) Investments 0.29% decrease from PHP 6.792 million to PHP 6.772 million was due to the increase in market value of listed shares namely Petron & Aboitiz Equity ventures and the recognition of impairment loss on unlisted shares of Malarayat Golf and country club. There is no increase in the recognized allowance for impairment on unlisted shares of Southwest Resources Inc. due to possible increase in valuation for the next coming twelve months.

The decrease in property plant and equipment represents provisions for depreciation for the year under consideration-

**Total Liabilities 98.95% decrease from PHP 172.317 million to PHP 1.817 million is due to the following:**

Current Liabilities 204% increase from PHP 0.597 million to PHP 1.817 million due to the recognition of output taxes for the current period

As of 2009 the company has no more outstanding non current liabilities pertaining to its unpaid subscription payable in favor of Bell Telecommunication as it was fully settled prior to the consummation of the sale of shares of stocks previously mentioned.

**Total change in the equity portion for increase of 198.35% from PHP 525.416 million to PHP 1.567 billion**

Increase in the total amount of issued shares from PHP 588.879 million to PHP 589.509 million was due to the full payment of subscribed shares amounting to PHP .630 million.

The increase in the valuation of available for sale investment was due to the increment in the market value of owned listed shares of Petron Corp and Aboitiz Equity Ventures at net increase of 0.229 million and 0.020 million respectively.

The outstanding growth in the net income of the company substantially contributed to the remarkable change in the equity section. The 2008 deficit of PHP 261.767 million was eliminated for the year 2009 and settled a retained earnings balance of PHP 824.628 million due to net income after tax of PHP 1.041 billion realized from the sale in its investments in Belltel as previously discussed. .

**2009 KEY PERFORMANCE INDICATORS**

The following are the major financial ratios of the Company for the years ended December 31, 2009 and 2008:



<b>KEY FINANCIAL RATIOS</b>	<b>12/31/2010</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
Revenue Growth/ (Decline)	(95.64) %	882.74 %	295847.72 %
Net Income Growth/ (Decline)	(96.83) %	832.51 %	223.28 %
EBITDA	22.28 M	1084.13 M	14.46 M
Return on Equity	2.06%	66.45%	21.26%
Return on Assets	2.06%	66.38%	16.01%
Current Ratio (in x)	1148.10 x	828.29 x	289.49 x
Debt-to-equity ratio (in x)	0.0005 x	0.0012 x	0.3280 x

There has been a reported decrease in revenue growth and net income for the year 2010 as compared last year. However, this did not entails negative outcome for the current year since what composes the last year bulk of revenue wasthe 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:

<b>Key Financial Ratios</b>	<b>Formula</b>
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-41 Offshore Sulu Sea Sandakan Basin**

Service Contract No. 41 ran the full length of its exploration period extending exploration activity to ten (10) contract years. Operator, 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 to whether or not to extend the SC by another year. Given that the next phase of the service contract 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.

The operator 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 in new energy bidding round expected in 2011..

South China had 1.090% paying participating interest in this block.

#### **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. 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 by a year was made. As of yearend the request was still under process with the DOE.

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 will be 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. By year-end work was still ongoing. The first phase has been extended to April 1, 2011.

The Service Contract has term of seven (7) years compartmentalized into five (5) phases. The group has the option to proceed or withdraw at the end of each phase. The second sub-phase will entail acquisition, processing and interpretation of a minimum 750 line kms of 2D seismic. South China has 15% participating interest and is carried on the first phase of the SC but will be a paying partner on the second and succeeding phases.

#### **(2) Prospects for Other Energy and Mineral Resources**

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 non-conventional 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.

#### **(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.

#### **(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 ₱312,297,000.00.

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

#### **(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.

- **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.

On April 7, 2010, the BOD approved the resolution earmarking ₱500.0 million of the Parent Company's retained earnings, generated from the sale of the Pilipinas Plaza building and the company's



shareholdings from Belltel as previously discussed, for purposes of funding its investments related to the Diwalwal Mine Reserve and Anuva Residences projects

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

For the period ended December 31, 2010, the Company is still in exploration stage, and therefore, no commercial production yet for the performance indicators analysis. It has no majority-owned subsidiaries.

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.

The Company has no material commitments for capital expenditures within the next twelve months.

## **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 Parent Company's functional and presentation 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 adoption of the following new, revised and amended PFRS and interpretations and improvements to PFRS that became effective during the year. 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 PFRS 2, *Share-based Payments* - Group Cash-settled Share-based Payment Transactions

The amendment to PFRS 2 effective for annual periods beginning on or after January 1, 2010, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Revised PFRS 3, *Business Combinations* and Amendment to PAS 27, *Consolidated and Separate Financial Statements*

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting



for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes in PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

The amendment to PAS 39 effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

#### Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

#### *Improvements to PFRS*

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except if otherwise stated. The Group has adopted the following amendments and concluded that these changes did not have material effect on the financial statements.

- PAS 1, *Presentation of Financial Statements*

Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.

- PAS 7, *Statement of Cash Flows*

Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 36, *Impairment of Assets*

Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 17, *Leases*

Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land



are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 39, *Financial Instruments: Recognition and Measurement*

Clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;

The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and

Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect comprehensive income.

Other amendments resulting from 2009 improvements to PFRS to the following standards did not have any significant impact on the financial statements.

- PFRS 2, *Share-based Payments*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 38, *Intangible Assets*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

#### Future Changes in Accounting Policies

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations from IFRIC to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.

#### *Effective in 2011*

- Amendment to PAS 24, *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or 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 to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

#### *Improvements to PFRS Effective 2011*

The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2011 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- Revised PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*

#### *Effective in 2012*

- Amendment to PAS 12, *Income Taxes - Deferred Income Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

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

This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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 rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

#### *Effective in 2013*

- PFRS 9, *Financial Instruments: Classification and Measurement*



PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.

#### 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 subsidiaries 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 in assets 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 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 Group has financial assets under Levels 1 and 3 of the fair value hierarchy as of December 31, 2010 and 2009.

### *Day 1 Difference*

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated statement of comprehensive income unless it qualifies for recognition as some other type of asset. In cases where unobservable data is used, the difference between the transaction price and model value is only recognized in profit and loss in the consolidated statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the Day 1 difference amount.

### *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, 2010 and 2009.

#### *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 and accounts receivables (see Notes 4 and 5).

#### *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 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 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 7).

#### *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 payables and accrued expenses (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*

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.

#### 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.

#### Prepaid Expenses and Other Current Assets

##### *Advances to Contractors*

Advances to contractors represent advance payments on services to be incurred in connection with the Group's operations. These are charged to expense in profit or loss, or capitalized to projects in the consolidated statement of financial position, upon actual receipt of services, which is normally within 12 months or within the normal operating cycle. Advances to contractors are recognized under



“Prepaid expenses and other current assets” account in the consolidated statement of financial position.

#### *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 “Prepaid expenses and other current assets” in the consolidated statement of financial position. Input VAT is stated at its estimated net realizable value.

#### *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.

#### Investments in Associates

The Group’s investments in associates are accounted for using the equity method. An associate is an entity in which the Group has significant influence.

Under the equity method, investments in 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 of the associates is shown as “Equity in net income (losses) of associates” in profit or loss. This is the income attributable to equity holders of the associates and therefore is profit after tax.

The financial statements of the associates 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 associates. The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and their carrying values and recognizes the amount in the “Equity in net income (losses) of associates” 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.

#### Investment Property

Investment properties are 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 properties 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 or disposal of investment property are recognized in profit or loss in the year of retirement or disposal.

#### 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
Leasehold improvements	5
Office furniture and equipment	5
Transportation equipment	5

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.

#### 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.

#### 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.

#### *Interest Income*



Interest income is recognized as it accrues using the effective interest rate.

### Costs and Expenses

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, utilities and telecommunication 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.

### 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 statement of financial position 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 the profit or loss.

#### Operating Leases

Operating leases represent those leases which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Operating lease payments under an operating lease are recognized in profit or loss on a straight-line basis over the lease term of the lessee.

#### Basic/Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is computed by dividing net income for the year (after deducting interest on convertible preferred shares) by the weighted average number of shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares.

#### 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.

#### 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.

### **(B) Information on Independent Public Accountant and Other Related Matters**

#### **(1) 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.

The Company's Principal Accountant is Sycip Gorres Velayo & Co. The engagement partner for the



previous completed reporting year, 2009, is Mr. John Nai Peng C. Ong.

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.

## **(2) External Audit Fees and Services**

In compliance with SEC Memo Circular No. 14 Series of 2004, 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. External Audit Fees billed for 2009 amounted to ₱430,584.00 which pertains only to the parent company. No other services were provided and billed for by the external auditors for the last two (2) fiscal years.

## **(C) Results and Plans of Operations**

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

Service Contract No. 41 ran the full length of its exploration period extending exploration activity to ten (10) contract years. The Joint Venture drilled the Lumba-lumba well in 2008. It also undertook extensive seismic processing and re-processing of the 3D seismic data in 2009 to 2010, completing the reprocessing of the Alpine 3D seismic data along consequent inversion studies and re-interpretation and prospect modelling.

The SC-41 group was given until August 10, 2010 to decide to whether or not to extend the SC by another year. Given that the next phase of the service contract 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.

The operator 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 in new energy bidding round expected in 2011.

South China had 1.090% paying participating interest in this block.

### **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. As of yearend the request was still under process with the DOE.

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. By year-end work was still ongoing. The first phase has been extended to April 1, 2011.

The Service Contract has term of seven (7) years compartmentalized into five (5) phases. The group has the option to proceed or withdraw at the end of each phase. The second sub-phase will entail acquisition, processing and interpretation of a minimum 750 line kms of 2D seismic. South China has 15% participating interest and is carried on the first phase of the SC but will be a paying partner on the second and succeeding phases.

#### **Other Energy and Mineral Resources**

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 non-conventional 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 and Mineral Resources are dependent SC and tenement acquisition.**



SC-60 NE Palawan	Anticipate \$0.755MM for completion of CSEM Survey & Reprocessing Anticipate well drilling \$7.5MM
SC – 71 Offshore Cuyo	Anticipate \$120K for 2D Seismic
Other Energy & Mineral Resources	\$ 200K for Assessment Studies

#### **(D) Other Investments**

South China completed, last 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 ₱312,297,000.00.

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.

On November 25, 2010 South China Resources, Inc, registered with the Securities and Exchange Commission(SEC) SOC Land Development Corporation as a wholly-owned subsidiary 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 government estimates the country's housing backlog at almost 4 million. There lies the opportunity for South China to serve a basic need of Filipinos through SOC Land Development Corporation (SOC Land) that is to put up quality homes at affordable prices.

#### **(6) AGP International Holdings Inc.**

On December 21, 2010, 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's authorized securities, as of 21 December 2010, 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. As to the ownership structure, SOC has yet to receive information regarding the other investors and their respective investments.

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, SOC believes that it will be benefited by a return of the investment of AGP Philippines from AG&P. AG & P, one of the country's oldest construction and engineering firms, is involved in steel fabrication, preassembly works, engineering design and manpower deployment.

## 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.

Furthermore, stated hereunder are the breakdown of cash and cash equivalents and accounts receivable of the Company.

<b>Cash and Cash Equivalents consist of:</b>	<b><u>2010</u></b>	<b><u>2009</u></b>
Cash on Hand & in Bank	893,083,578	1,434,171,590
<b>TOTAL</b>	<b>893,083,578</b>	<b>1,434,171,590</b>

<b>Accounts Receivable consists mainly of:</b>	<b><u>2009</u></b>	<b><u>2009</u></b>
Amounts owed by related party	45,000,000	70,000,000
Officers and employees	4,054,958	94,492
Accrued Interest	6,847,668	
Others	102,423	88,109
Less allowance for impairment	-	-
<b>TOTAL</b>	<b>56,005,049</b>	<b>70,182,601</b>

## 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.



### PART III - CONTROL AND COMPENSATION INFORMATION

#### ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

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

<u>Position</u>	<u>Name</u>	<u>Birthdate</u>
<b>NAME</b>	<b>POSITION</b>	<b>BIRTHDATE</b>
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**, 65 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**, 64 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 Realty & Management Corp.; EXECUTIVE VICE 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**, 63 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**, 66 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.**, 57 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.**, 42 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**, 54 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.**, 51 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 2010 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Arteficio and Mr. Bayot as independent directors to be elected during the 2010 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 Company 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 –	2011	1,700,000(est.)	441,000.00(est.)	N/A
CEO & all other officers and	2010	1,695,000	407,000.00	N/A
Directors as a group unnamed	2009	1,275,000	285,000.00	N/A

Among the directors and officers of the company, only the three (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, 2010 (owning more than 5% of any class of voting securities)**

Title of Class	Name and address of record owner and	Relationship 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	231,853,123	25.5751%
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	Filipino	157,431,734	17.3658%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 17.3658% of the total shares of the Company.

## **(b) Security Ownership of Management Directors**

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common Shares	Edgardo P. Reyes	231,853,123	Direct, Record and Beneficial	Filipino	25.5751%
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		690,559,368			76.1736%



**Executive Officers**

<b>Title of Class</b>	<b>Name of Beneficial Owner</b>	<b>Amount and Nature of Beneficial Ownership</b>	<b>Citizenship</b>	<b>Percent of Class</b>
Common Shares	Edgardo P. Reyes	-----		-----
Common Shares	Wilfrido P. Reyes	-----		-----
Common Shares	Belen R. Castro	-----		-----
Common Shares	David R. Baladad	50,000 Direct, Record and Beneficial	Filipino	00.0055%
Total		50,000		00.0055%

**Directors and Officers as a Group**

<b>Title of Class</b>	<b>Name of Beneficial owner</b>	<b>Amount of Beneficial ownership</b>	<b>Percent of Class</b>
Common Shares	Directors as a Group	690,559,368	76.1736%
Common Shares	Executive Officers as a Group	50,000	00.0055%
Total		690,609,368	76.1791%

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 14 of the 2010 Audited Financial Statements)

The Company, in the regular course of business, obtains advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances are due and demandable anytime.

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 a 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 board resolution dated January 24, 2008 authorized the Group to enter into a related party agreement with PSC to invest 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.



Total advances made by the Group to PSC amounted to ₱95.0 million in 2009. No additional advances were made in 2010. On August 17, 2010, the Group received partial payment of 25.0 million. As of December 31, 2010 and 2009, the outstanding receivable from PSC amounted to ₱45.0 million and ₱70.0 million, respectively (see Note 5). Interest earned by the Group in relation to these advances amounted to ₱6.0 million, ₱8.0 million and 9.7 million in 2010, 2009, 2008, respectively.

PSC's accounts receivable and finished goods inventory, with fair value of ₱18.3 M and ₱27.07 M respectively as of December 31, 2010 are used as collateral for the loan.

## ITEM 13. CORPORATE GOVERNANCE

An evaluation system is being set in place in relation to the provisions of the Manual on Corporate Governance to measure the level of compliance by directors and top management.

The Company believes there is partial compliance with regard to directors having to attend the Corporate Governance seminars under the Bankers Institute of the Philippines as directed by the Bangko Sentral ng Pilipinas. The Company has taken steps to enroll the directors with institutional providers accredited by the SEC.

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>March 24, 2011</u>	Item 9. Other Events BOD Approval of the transfer of South China Resources Inc.'s property situated in Barangay Buli, Muntinlupa City to its wholly owned subsidiary, SOC Land Development Corp.
<u>December 21, 2010</u>	Item 4. Resignation, Removal or Election of Registrant's Directors or Officers Resignation of the issuer's corporate secretary, Atty. Jaime M. Blanco and election of Atty. Magilyn T. Loja to serve the unexpired term of the former.



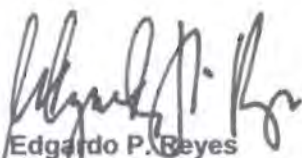
<u>December 21,2010</u>	<p>Item 9. Other Events</p> <p>The issuer's Board of Directors, at the same special meeting held today, approved an investment, together with a consortium composed of local and foreign investors, to acquire one hundred percent (100%) of the equity of AGP International Holdings, Ltd. AGP International Holdings Ltd.</p>
<u>November 19,2010</u>	<p>Item 9. Other Events</p> <p>Conduct of CSEM Survey in the Service Contract-60 Block in the northernmost Sulu Sea by SC 60 Joint Operations group of South China Resources, Inc., Kuwait Foreign Petroleum Company and Shell Philippines Exploration B.V. (SPEX).</p>
<u>November 11,2010</u>	<p>Item 9. Other Events</p> <p>Registration with Securities and Exchange Commission of SOC Land Development Corporation as a wholly owned subsidiary of South China Resources, Inc. with authorized capital stock of PHP 160M, a subscribed capital stock of PHP 40M, and a paid up capital of PHP 10M.</p>
<u>August 20,2010</u>	<p>Item 9. Other Events</p> <p>South China Resources, Inc.'s president, Wilfrido P. Reyes has sold 1,658,000 shares.</p>
<u>August 17,2010</u>	<p>Item 9. Other Events</p> <p>South China Resources, Inc.'s president, Wilfrido P. Reyes has sold 50,000 shares.</p>
<u>August 13,2010</u>	<p>Item 9. Other Events</p> <p>South China Resources, Inc.'s president, Wilfrido P. Reyes has sold 1,126,000 shares.</p>
<u>August 12,2010</u>	<p>Item 9. Other Events</p> <p>South China Resources, Inc.'s president, Wilfrido P. Reyes has sold 1,991,000 shares.</p>
<u>August 06,2010</u>	<p>Item 9. Other Events</p> <p>South China Resources, Inc.'s president, Wilfrido P. Reyes has sold 385,000 shares.</p>




## 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 11, 2011.


By:

  
**Edgardo P. Reyes**  
Chief Executive Officer


Date: April 11, 2011

  
**Wilfrido P. Reyes**  
President

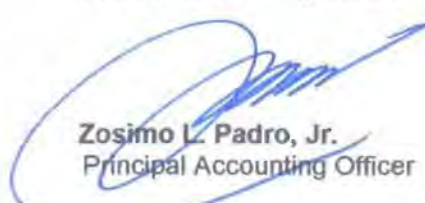
Date: April 11, 2011

  
**Belen R. Castro**  
Vice President & Treasurer

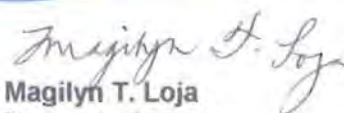
Date: April 11, 2011

  
**David R. Baladad**  
Principal Operating Officer

Date: April 11, 2011

  
**Zosimo L. Padro, Jr.**  
Principal Accounting Officer

Date: April 11, 2011

  
**Magilyn T. Loja**  
Corporate Secretary

Date: April 11, 2011



MAKATI CITY

APR 11 2011

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of April 2011 affiant(s) exhibiting to me their residence Certificate, as follows:

Name	Com. Cert. No.	Date of Issue	Place of Issue
Edgardo P. Reyes	05947506	Jan. 11, 2011	Makati City
Wilfrido P. Reyes	05941883	Jan. 11, 2011	Makati City
Belen R. Castro	06805090	Jul. 07, 2010	Manila
David R. Baladad	20149574	Mar. 30, 2011	Quezon City
Zosimo L. Padro, Jr.	05947521	Jan. 12, 2011	Makati City
Magilyn T. Loja	05942382	Jan. 10, 2011	Makati City

Doc. No. : 123  
 Page No. : 26  
 Book No. : XX  
 Series of 2011.

ATTY. FIDEL J. EVANGELISTA  
 NOTARY PUBLIC  
 UNTIL DEC. 31, 2012  
 ROLL 51498

ISP NO. 835862 12-10-2010 PASIG  
 PTR NO. 2541650 01-03-2011 MAKATI  
 MCLE COMPLIANCE NO. I-0005897  
 MCLE EXEMPTION NO. III-000664  
 APPOINTMENT NO. M-144  
 TIN NO. 120-884-559-000



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

	PAGE
FINANCIAL STATEMENTS	
Statement of Management's Responsibility for Financial Statements	45
Independent Auditor's Report	46
Consolidated Statements of Financial Position as of December 31, 2010 and 2009	48
Consolidated Statements of Comprehensive Income	49
Consolidated Statements of Changes in Stockholders' Equity	50
Consolidated Statements of Cash Flow	51
Notes to Financial Statements	1-35
SUPPLEMENTARY SCHEDULES	
Report of Independent Public Accountants on Supplementary Schedules	*
A. Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)	*
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	89
C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments	90
D. Indebtedness of Unconsolidated Subsidiaries and Related Parties	*
E. Intangible Assets - Other Assets	*
F. Long-Term Debt	*
G. Indebtedness to Related Parties	*
H. Guarantees of Securities of Other Issuers	*
I. Capital Stock	*
Aging of Accounts Receivable	89

\* These 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.





# SOUTH CHINA RESOURCES, INC.

3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City  
Metro Manila, Philippines

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

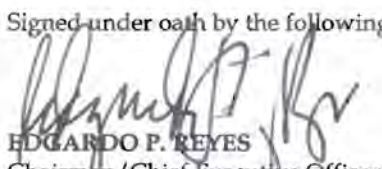
The management of South China Resources, Inc. and subsidiary is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

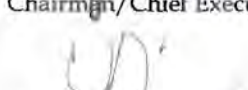
In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management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

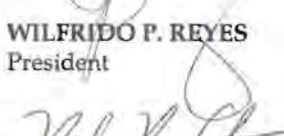
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the company.

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 Financial Reporting Standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

  
**EDGARDO P. REYES**  
Chairman/Chief Executive Officer

  
**WILFRIDO P. REYES**  
President

  
**BELEN R. CASTRO**  
Vice President/Treasurer

**MAKATI CITY**  
SUBSCRIBED AND SWORN to before me this 11 day of April 2011 affiants exhibiting to me their Residence Certificates, as follows:

Name	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgardo P. Reyes	05947506	Jan. 12, 2011	Makati City
Wilfrido P. Reyes	05941883	Jan. 11, 2011	Makati City
Belen R. Castro	06805090	Jul. 07, 2010	Manila

Doc. No.: 120;  
Page No.: 21;  
Book No.: XX;  
Series of 2011.

  
**ATTY. FIDEL L. EVANGELISTA**  
NOTARY PUBLIC  
UNTIL DEC. 31, 2012

**Notary Public**  
POPC 31498  
IBP NO. 15382 11-10-2010 PASIG  
PTR NO. 0641660 01-03-2011 MAKATI  
TITLE COMPLIANCE NO. 1-0005697  
WHILE EXERCISING NO. 71-000684  
EXPIRATION DATE 11-10-2011

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





## South China Resources, Inc. and Subsidiary

Consolidated Financial Statements  
As of December 31, 2010 and 2009  
and for Each of the Three Years in the Period Ended  
December 31, 2010

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

**SGV&Co**  
**ERNST & YOUNG**



## 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, 2010 and 2009, 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, 2010, and a summary of significant accounting policies and other explanatory information. We did not audit the 2009 and 2008 financial statements of Premiere Development Bank (PDB), the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. The investment in PDB represents about 2.15% of total assets as of December 31, 2009, and the equity in the net income (losses) represents about 0.03% and 0.95%, of the net income in 2009 and 2008, respectively. The financial statements of PDB were audited by other auditors whose report has been furnished to us, and our opinion on the 2009 and 2008 consolidated financial statements, insofar as it relates to the amounts included for PDB, is based solely on the report of the other auditors.

### *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.



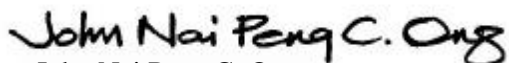


We believe that the audit evidence we have obtained and the report of the other auditors for 2009 and 2008 are sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, based on our audits and the report of the other auditors for 2009 and 2008, the consolidated financial statements present fairly, in all material respects, the financial position of South China Resources, Inc. and its subsidiary as at December 31, 2010 and 2009, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2010 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



John Nai Peng C. Ong

Partner

CPA Certificate No. 85588

SEC Accreditation No. 0327-AR-1

Tax Identification No. 103-093-301

BIR Accreditation No. 08-001998-57-2009,

June 1, 2009, Valid until May 31, 2012

PTR No. 2641552, January 3, 2011, Makati City

April 13, 2011





**SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2010	2009
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>P893,083,578</b>	P1,434,171,590
Accounts receivable (Notes 5 and 14)	<b>56,005,049</b>	70,182,601
Prepayments and other current assets (Note 6)	<b>8,114,701</b>	390,493
<b>Total Current Assets</b>	<b>957,203,328</b>	1,504,744,684
<b>Noncurrent Assets</b>		
Investments in an associate (Note 8)	<b>31,836,983</b>	33,698,598
Available-for-sale (AFS) investments (Note 7)	<b>285,956,005</b>	6,772,456
Investment property (Note 10)	<b>321,048,252</b>	–
Deferred exploration costs (Note 1)	<b>1,692,615</b>	14,961,956
Property and equipment (Note 9)	<b>6,098,757</b>	8,286,155
Other noncurrent assets (Note 11)	<b>3,410,248</b>	–
<b>Total Noncurrent Assets</b>	<b>650,042,860</b>	63,719,165
<b>TOTAL ASSETS</b>	<b>P1,607,246,188</b>	P1,568,463,849
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 12)	<b>P714,368</b>	P700,780
Income tax payable	<b>119,358</b>	159,582
<b>Total Current Liabilities</b>	<b>833,726</b>	860,362
<b>Equity</b>		
Common stock - P1 par value		
Authorized - 1,000,000,000 shares		
Issued - 597,189,569 shares in 2010 and		
589,509,569 shares in 2009	<b>597,189,569</b>	589,509,569
Subscribed - 309,370,000 shares in 2010 and		
317,050,000 shares in 2009 (net of subscriptions		
receivable of P232,027,500 in 2010 and		
P237,787,500 in 2009)	<b>77,342,500</b>	79,262,500
Additional paid-in capital	<b>72,272,140</b>	72,272,140
Unrealized valuation gains on AFS investments (Note 7)	<b>17,672,548</b>	1,989,643
Share in unrealized valuation losses on AFS investments		
of an associate (Note 8)	<b>13,393</b>	(58,457)
Retained earnings		
Appropriated (Note 15)	<b>500,000,000</b>	–
Unappropriated	<b>341,922,312</b>	824,628,092
<b>Total Equity</b>	<b>1,606,412,462</b>	1,567,603,487
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P1,607,246,188</b>	P1,568,463,849

*See accompanying Notes to Consolidated Financial Statements.*





**SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2010	2009	2008
<b>REVENUES</b>			
Interest income (Notes 4 and 14)	<b>₱51,498,529</b>	₱9,920,148	₱20,861,310
Gain on sale of investments in an associate (Note 20)	–	1,171,904,480	–
Gain on sale of investment property (Note 20)	–	–	113,019,521
	<b>51,498,529</b>	1,181,824,628	133,880,831
<b>COSTS AND EXPENSES</b>			
Provision for impairment losses on deferred exploration costs (Note 1)	<b>13,248,734</b>	–	62,846,077
Travel and representation	<b>6,173,711</b>	1,374,965	5,022,273
Personnel costs	<b>3,147,724</b>	2,707,333	2,448,603
Depreciation and amortization (Note 9)	<b>2,576,190</b>	2,528,807	1,809,582
Professional fees	<b>2,281,817</b>	702,944	2,486,775
Taxes and licenses (Note 20)	<b>1,060,278</b>	91,290,570	45,270,389
Rent and utilities (Note 17)	<b>643,931</b>	588,646	580,261
Advertising, telecommunications and postage	<b>541,842</b>	207,441	220,296
Provision for impairment in value of AFS investments (Note 7)	<b>499,356</b>	270,000	–
Trainings and seminars	<b>314,905</b>	84,796	17,300
Supplies	<b>159,376</b>	107,044	120,893
Repairs and maintenance	<b>118,964</b>	21,833	81,594
Others	<b>1,023,908</b>	343,616	329,739
	<b>31,790,736</b>	100,227,995	121,233,782
<b>EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES</b> (Note 8)	<b>(2,280,818)</b>	(40,035,540)	100,222,956
<b>FOREIGN EXCHANGE LOSSES - net</b>	<b>(13,397)</b>	(5,439)	(13,294)
<b>INCOME BEFORE INCOME TAX</b>	<b>17,413,578</b>	1,041,555,654	112,856,711
<b>PROVISION FOR CURRENT INCOME TAX</b> (Note 13)	<b>119,358</b>	159,582	–
<b>NET INCOME</b>	<b>17,294,220</b>	1,041,396,072	112,856,711
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
Unrealized valuation gains (losses) on AFS investments (Note 7)	<b>15,682,905</b>	249,900	(831,259)
Share in unrealized valuation gains (losses) on AFS investments of an associate (Note 8)	<b>71,850</b>	68,026	(314,829)
	<b>15,754,755</b>	317,926	(1,146,088)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱33,048,975</b>	₱1,041,713,998	₱111,710,623
<b>Basic/Diluted Earnings Per Share</b> (Note 16)	<b>₱0.0190</b>	₱1.1485	₱0.1245

*See accompanying Notes to Consolidated Financial Statements.*





# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	P17,413,578	P1,041,555,654	P112,856,711
Adjustments for:			
Provision for impairment losses on deferred exploration costs (Note 1)	13,248,734	–	62,846,077
Depreciation and amortization (Note 9)	2,576,190	2,528,807	1,809,582
Equity in net losses (income) of associates (Note 8)	2,280,818	40,035,540	(100,222,956)
Provision for impairment in value of AFS investments (Note 7)	499,356	270,000	–
Net foreign exchange losses	13,397	5,439	13,294
Interest income (Notes 4 and 14)	(51,498,529)	(9,920,148)	(20,861,310)
Gain on sale of investments in an associate (Note 20)	–	(1,171,904,480)	–
Gain on sale of investment property (Note 20)	–	–	(113,019,521)
Operating loss before working capital changes	(15,466,456)	(97,429,188)	(56,578,123)
Decrease (increase) in:			
Accounts receivable	21,025,221	4,930,083	(75,033,962)
Prepayments and other current assets	(7,724,208)	(215,199)	(483,091)
Increase (decrease) in accounts payable and accrued expenses	13,588	1,060,846	(12,903,776)
Net cash used in operations	(2,151,855)	(91,653,458)	(144,998,952)
Income tax paid	(159,582)	–	–
Net cash flows used in operating activities	(2,311,437)	(91,653,458)	(144,998,952)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	44,650,861	13,792,523	16,988,935
Decrease (increase) in deferred exploration costs	20,607	(70,876)	(130,907)
Acquisitions of:			
Investment property (Note 10)	(321,048,252)	–	–
AFS investments (Note 7)	(264,000,000)	–	–
Property and equipment (Note 9)	(388,792)	(106,115)	(12,355,939)
Increase in other noncurrent assets	(3,410,249)	–	–
Net changes in investments in associates	(347,353)	362,807,749	(357,807,750)
Net proceeds from:			
Sale of investments in associate	–	1,227,825,489	–
Sale of investment property (Note 20)	–	–	540,000,000
Decrease in refundable deposits and others	–	–	137,054
Payment of subscriptions payable (Note 20)	–	(171,720,000)	–
Net cash flows from (used in) investing activities	(544,523,178)	1,432,528,770	186,831,393
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Collections of subscriptions receivable	5,760,000	472,500	97,500
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(13,397)	(5,439)	(13,294)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(541,088,012)	1,341,342,373	41,916,647
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	1,434,171,590	92,829,217	50,912,570
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	P893,083,578	P1,434,171,590	P92,829,217

See accompanying Notes to Consolidated Financial Statements.





**SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE ENDED DECEMBER 31, 2010, 2009 and 2008**

	Common Stock (Note 15)		Additional Paid-in Capital	Unrealized Valuation Gains on AFS Investments (Note 7)	Share in Unrealized Valuation Gains (Losses) on AFS Investments of an Associate (Note 8)	Retained Earnings (Deficit) (Note 15)		Total
	Issued	Subscribed - net				Appropriated	Unappropriated	
Balances at January 1, 2008	₱588,749,569	₱79,452,500	₱72,272,140	₱2,571,002	₱188,346	₱—	(₱329,624,691)	₱413,608,866
Collection of subscriptions receivable	—	97,500	—	—	—	—	—	97,500
Issuance of common stock	130,000	(130,000)	—	—	—	—	—	—
Total comprehensive income	—	—	—	(831,259)	(314,829)	—	112,856,711	111,710,623
Balances at December 31, 2008	588,879,569	79,420,000	72,272,140	1,739,743	(126,483)	—	(216,767,980)	525,416,989
Collection of subscriptions receivable	—	472,500	—	—	—	—	—	472,500
Issuance of common stock	630,000	(630,000)	—	—	—	—	—	—
Total comprehensive income	—	—	—	249,900	68,026	—	1,041,396,072	1,041,713,998
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 receivable	—	5,760,000	—	—	—	—	—	5,760,000
Issuance of common stock	7,680,000	(7,680,000)	—	—	—	—	—	—
Appropriation for future investments (Note 15)	—	—	—	—	—	500,000,000	(500,000,000)	—
Total comprehensive income	—	—	—	15,682,905	71,850	—	17,294,220	33,048,975
<b>Balances at December 31, 2010</b>	<b>₱597,189,569</b>	<b>₱77,342,500</b>	<b>₱72,272,140</b>	<b>₱17,672,548</b>	<b>₱13,393</b>	<b>₱500,000,000</b>	<b>₱341,922,312</b>	<b>₱1,606,412,462</b>

*See accompanying Notes to Consolidated Financial Statements.*





# **SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY**

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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### **1. Organization and Business**

#### Corporate Information of the Parent Company

South China Resources, Inc. (SCRI; 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.

SCRI'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 SCRI's articles of incorporation, particularly the change in its primary purpose of business. SCRI 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 SCRI 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 SCRI.

SCRI has seven employees in 2010 and 2009.

#### Status of Operations

##### *Real Estate*

In 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 has not yet started its commercial operations as of December 31, 2010.

SCRI together with SOC Land (the Group) plans to develop its maiden project, Anuva Residences (the Project), a ₱2.0 billion mid-rise residential building complex. The Project is to be located in a 2.4-hectare property in Buli, Muntinlupa City, along the East service road of Southern Luzon Expressway. The Project is a five-year development plan, which involves the construction of four tandem buildings, with the first building expected to be completed by the end of 2013.

On March 4, 2011, SCRI transferred its property to SOC Land in exchange for the latter's common shares. SOC Land will operate and manage the Project (see Note 10).





*Oil and Gas Exploration Operations*

SCRI 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:

Contract Areas	Percentage of Working Interest	
	2010	2009
SC-60 Northeast Palawan [formerly Geophysical Survey and Exploration Contract (GSEC) 99]	<b>15.00</b>	15.00
SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)	<b>15.00</b>	15.00
SC-41 Offshore Sulu Sea Sandakan Basin	<b>1.09</b>	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\$10.0 million and US\$10.1 million as of December 31, 2010 and 2009, respectively.

SCRI has existing SCs as follows:

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

SCRI, 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. 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. As of December 31, 2010, the request is still under process with the DOE.

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

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

On April 1, 2009, SCRI, Pitkin Petroleum (Pitkin), and the DOE signed SC-71.

SC-71 covers an area of 1.164 MM hectares in the Cuyo/Mindoro/East Palawan region. The operator, Pitkin, is currently conducting 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 assessment, reprocessing and re-interpretation of the magnetic and gravity data was also ongoing as of December 31, 2010. As per advice of Pitkin, the first sub-phase of work was extended to April 1, 2011.

SCRI has 15% participating interest and is carried in the first sub-phase.





- SC-41 Offshore Sulu Sea Sandakan Basin

SC-41 ran the full length of its exploration period extending exploration activity to 10 contract years. The 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.

SCRI has 1.09% paying participating interest in the block.

The Group provided allowance for impairment losses on deferred exploration costs amounting to ₱13.2 million for SC-41 in 2010. No provision was made in 2009.

As of December 31, 2010 and 2009, the allowance for impairment losses on deferred exploration costs amounted to ₱88.8 million and ₱75.5 million, respectively for the following SCs and GSECs:

- 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; and
- SC-41 – Offshore Sulu Sea Sandakan Basin.

#### Segment Reporting

Management monitors the operating result of its business unit 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.

In 2010, the Group has two principal businesses: real property development and oil and gas explorations, and has an associate engaged in financial services. In 2009 and 2008, there is only one reportable segment which is oil and gas explorations and has an associate engage in financial services. Financial information regarding the associate as of and for the years ended December 31, 2010 and 2009 are presented in Note 8. The Group and its subsidiary and associate have no geographical segments as they were incorporated and are operating within the Philippines.





In 2010, the following is the Group's reportable segment:

	Oil and Gas Exploration	Real Property	Total	Eliminations	Consolidated
<b>Segment results</b>					
Income before income tax	P21,694,882	(P2,293,260)	P19,401,622	P-	P19,401,622
Provision for income tax	119,358	-	119,358	-	119,358
Net income	P21,575,524	(P2,293,260)	P19,282,264	P-	P19,282,264
<b>Assets</b>					
Segment assets	P1,288,666,444	P19,083,889	P1,307,750,333	(P21,256,968)	P1,286,493,365
Investment property	-	321,048,252	321,048,252	-	321,048,252
Deferred exploration cost	1,692,615	-	1,692,615	-	1,692,615
	P1,290,359,059	P340,132,141	P1,630,491,200	(P21,256,968)	P1,609,234,232
<b>Segment liabilities</b>	P713,545	P11,377,149	P12,090,694	(P11,256,968)	P833,726
<b>Other segment information</b>					
Depreciation and amortization	P2,560,234	P15,956	P2,576,190	P-	P2,576,190

#### Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as of December 31, 2010 and 2009 and for each of the three years in the period ended December 31, 2010 were approved and authorized for issue by the Board of Directors (BOD) on April 13, 2011.

## 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 Parent Company's functional and presentation 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 adoption of the following new, revised and amended PFRS and interpretations and improvements to PFRS that became effective during the year. 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 PFRS 2, *Share-based Payments* - Group Cash-settled Share-based Payment Transactions





The amendment to PFRS 2 effective for annual periods beginning on or after January 1, 2010, clarifies the scope and the accounting for group cash-settled share-based payment transactions.

- Revised PFRS 3, *Business Combinations* and Amendment to PAS 27, *Consolidated and Separate Financial Statements*

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages.

PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes in PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests after January 1, 2010.

- Amendment to PAS 39, *Financial Instruments: Recognition and Measurement - Eligible Hedged Items*

The amendment to PAS 39 effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations.

- Philippine Interpretation IFRIC 17, *Distributions of Non-cash Assets to Owners*

This interpretation provides guidance on the following types of non-reciprocal distributions of assets by an entity to its owners acting in their capacity as owners: (a) distributions of non-cash assets (e.g., items of property, plant and equipment, businesses as defined in PFRS 3, ownership interests in another entity or disposal groups as defined in PFRS 5); and (b) distributions that give owners a choice of receiving either non-cash assets or a cash alternative.

#### *Improvements to PFRS*

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2010 except if otherwise stated. The Group has adopted the following amendments and concluded that these changes did not have material effect on the financial statements.

- PAS 1, *Presentation of Financial Statements*

Clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.





- PAS 7, *Statement of Cash Flows*

Explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.

- PAS 36, *Impairment of Assets*

Clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.

- PAS 17, *Leases*

Removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 39, *Financial Instruments: Recognition and Measurement*

Clarifies that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;

The scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and

Gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect comprehensive income.

Other amendments resulting from 2009 improvements to PFRS to the following standards did not have any significant impact on the financial statements.

- PFRS 2, *Share-based Payments*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*
- PFRS 8, *Operating Segments*
- PAS 38, *Intangible Assets*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*

#### Future Changes in Accounting Policies

The Group will adopt the standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new and amended PFRS and Philippine Interpretations from IFRIC to have significant impact on its financial statements. The relevant disclosures will be included in the notes to the financial statements when these become effective.





### *Effective in 2011*

- Amendment to PAS 24, *Related Party Disclosures*

The amended standard is effective for annual periods beginning on or after January 1, 2011. It clarified the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised standard introduces a partial exemption of disclosure requirements for government-related entities. Early adoption is permitted for either the partial exemption for government-related entities or for the entire standard.

- Amendment to PAS 32, *Financial Instruments: Presentation - Classification of Rights Issues*

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or 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 to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

- Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments*

Philippine Interpretation IFRIC 19 is effective for annual periods beginning on or after July 1, 2010. The interpretation clarifies that equity instruments issued to a creditor to extinguish a financial liability qualify as consideration paid. The equity instruments issued are measured at their fair value. In case that this cannot be reliably measured, the instruments are measured at the fair value of the liability extinguished. Any gain or loss is recognized immediately in profit or loss.

### *Improvements to PFRS Effective 2011*

The omnibus amendments to PFRS issued in 2010 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods beginning on or after January 1, 2011 except otherwise stated. The Group has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- Revised PFRS 3, *Business Combinations*
- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Presentation of Financial Statements*
- PAS 27, *Consolidated and Separate Financial Statements*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*





### *Effective in 2012*

- Amendment to PAS 12, *Income Taxes - Deferred Income Tax: Recovery of Underlying Assets*

The amendment to PAS 12 is effective for annual periods beginning on or after January 1, 2012. It provides a practical solution to the problem of assessing whether recovery of an asset will be through use or sale. It introduces a presumption that recovery of the carrying amount of an asset will normally be through sale.

- Amendments to PFRS 7, *Financial Instruments: Disclosures - Transfers of Financial Assets*

The amendments to PFRS 7 are effective for annual periods beginning on or after 1 July 2011. The amendments will allow users of financial statements to improve their understanding of transfer transactions of financial assets (for example, securitizations), including understanding the possible effects of any risks that may remain with the entity that transferred the assets. The amendments also require additional disclosures if a disproportionate amount of transfer transactions are undertaken around the end of a reporting period.

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

This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This 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 rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

### *Effective in 2013*

- PFRS 9, *Financial Instruments: Classification and Measurement*

PFRS 9, as issued in 2010, reflects the first phase of the work on the replacement of PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The completion of this project is expected in early 2011.

### 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, 2010 and 2009 (see Note 18).

#### *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, 2010 and 2009.

#### *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 and accounts receivables (see Notes 4 and 5).

#### *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 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 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 7).

#### *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 payables and accrued expenses (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.

#### 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 Group'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 projects in the consolidated statement of financial position, upon actual receipt of services, 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 net realizable value.





### Investments 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, investments 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 of the associates is shown as "Equity in net income (losses) of associates" in profit or loss. This is the income attributable to equity holders of the associates and therefore is profit after tax.

The financial statements of the associates 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 investments in its associates. The Group determines at each reporting date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associates and their carrying values and recognizes the amount in the "Equity in net income (losses) of associates" 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.

### Investment Property

Investment properties are 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 properties 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 or disposal of investment property are recognized in profit or loss in the year of retirement or disposal.





#### 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:

<u>Category</u>	<u>Number of Years</u>
Transportation equipment	5
Office furniture and equipment	5
Leasehold improvements	5

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.

#### 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.

#### 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.

#### *Interest Income*

Interest income is recognized as it accrues using the effective interest rate.

#### 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, utilities and telecommunication 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.





### Retirement Benefit Costs

The Company provides for the estimated retirement costs required to be paid under Republic Act (RA) No. 7641 to qualifying 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 statement of financial position 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 the 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/Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS is computed by dividing net income for the year (after deducting interest on convertible preferred shares) by the weighted average number of shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares.

### Segment Reporting

The Group's operating businesses are organized and managed separately into two business activities: oil and gas explorations and real property development. Such business segments are the bases upon which the Group reports its operating segment information. The Group operates in one geographical area where it derives its revenue.

### 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.





#### 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.

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### 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 expenses.

##### *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 Significant Influence in an Associate*

The Group considers its investments in associates as investments 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.

*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 unused tax losses 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 temporary differences and unused NOLCO amounting to ₱147.0 million and ₱133.8 million as of December 31, 2010 and 2009, respectively (see Note 13).

Estimates and Assumptions

*Allowance for Impairment Losses of Accounts Receivable*

The Group reviews the balance of accounts receivable 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 loans and receivables, 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 are no allowance for impairment losses of accounts receivable as of December 31, 2010 and 2009. Accounts receivable amounted to ₱56.0 million and ₱70.2 million as of December 31, 2010 and 2009, respectively (see Note 5 and 14).

*Estimating 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 were recognized in 2010, 2009 and 2008. The carrying values of nonfinancial assets that are subjected to impairment testing are as follows:

	2010	2009
Investments in an associate (see Note 8)	<b>₱31,836,983</b>	₱33,698,598
Investment property (see Note 10)	<b>321,048,252</b>	–
Property and equipment (see Note 9)	<b>6,098,757</b>	8,286,155
Other noncurrent assets (see Note 11)	<b>3,410,248</b>	–
	<b>₱362,394,240</b>	₱41,984,753

#### *Estimating 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 ₱6.1 million and ₱8.3 million, respectively as of December 31, 2010 and 2009, respectively (see Note 9).

#### *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 and ₱75.5 million as of December 31, 2010 and 2009, respectively (see Note 1). Net deferred exploration costs amounted to ₱1.7 million and ₱15.0 million as of December 31, 2010 and 2009, respectively.





#### *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 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, 2010 and 2009, the Group's allowance for decline in market value of unlisted AFS investments amounted to ₱3.3 million and ₱2.8 million, respectively (see Note 7). In 2010, 2009 and 2008, the Group recognized impairment loss amounting to ₱0.5 million, ₱0.3 million and nil due to the significant decline in value of its AFS investments, respectively (see Note 7).

The carrying amounts of AFS investments amounted to ₱286.0 million and ₱6.8 million as of December 31, 2010 and 2009, respectively (see Note 7). The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains on AFS investments" account in the equity section of the consolidated statements of financial position. The unrealized valuation gains on AFS investments amounted to ₱17.7 million and ₱2.0 million, as of December 31, 2010 and 2009, respectively (see Note 7).

#### *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 18.

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#### 4. Cash and Cash Equivalents

	2010	2009
Cash on hand and with banks	<b>₱165,861,234</b>	₱64,578,692
Short-term investments (see Notes 8 and 14)	<b>727,222,344</b>	1,369,592,898
	<b>₱893,083,578</b>	₱1,434,171,590

Cash with banks earns 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 ₱38.7 million, ₱1.9 million and ₱11.2 million in 2010, 2009 and 2008, respectively.

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#### 5. Accounts Receivable

	2010	2009
Amounts owed by related parties (see Note 14)	<b>₱45,000,000</b>	₱70,000,000
Officers and employees	<b>4,054,958</b>	94,492
Others	<b>6,950,091</b>	88,109
	<b>₱56,005,049</b>	₱70,182,601





Others include accrued interest receivable from the Group's short-term investments amounting to P6.8 million as of December 31, 2010.

## 6. Prepayments and Other Current Assets

	2010	2009
Advances to contractors	<b>P7,726,768</b>	P-
Prepayments	<b>176,560</b>	72,507
Supplies	<b>175,373</b>	185,877
Others	<b>36,000</b>	132,109
	<b>P8,114,701</b>	P390,493

Advances to contractors represent the mobilization and professional fees for master planning, architectural and engineering design services incurred for the period for the Project (see Notes 1 and 19).

## 7. AFS Investments

	2010	2009
Shares - listed		
Petron Corporation	<b>P21,595,950</b>	P6,081,750
Aboitiz Equity Ventures, Inc.	<b>222,600</b>	54,000
Philippine Long Distance Telephone Group	<b>7,455</b>	7,350
	<b>21,826,005</b>	6,143,100
Shares - unlisted		
AGP International Holdings Ltd. (AGP International)	<b>264,000,000</b>	-
Southwest Resources, Inc. (Southwest)	<b>3,333,500</b>	3,333,500
Mt. Malarayat Golf and Country Club (Mt. Malarayat)	<b>130,000</b>	130,000
	<b>267,463,500</b>	3,463,500
Less allowance for impairment on AFS investments	<b>3,333,500</b>	2,834,144
	<b>264,130,000</b>	629,356
	<b>P285,956,005</b>	P6,772,456

AFS investments represent investments in listed and unlisted ordinary 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 on AFS investments" account in the equity section of the consolidated statement of financial position.





Movements in AFS investments are as follows:

	2010	2009
Balances at beginning of year	<b>₱6,143,100</b>	₱5,893,200
Fair value adjustments	<b>15,682,905</b>	249,900
Balances at end of year	<b>₱21,826,005</b>	₱6,143,100

Movements in the unrealized valuation gains on AFS investments are as follows:

	2010	2009
Balances at beginning of year	<b>₱1,989,643</b>	₱1,739,743
Fair value adjustments	<b>15,682,905</b>	249,900
Balances at end of year	<b>₱17,672,548</b>	₱1,989,643

#### Unlisted Shares

Unlisted shares without available market values are carried at cost less any impairment losses. 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 ₱0.5 million and ₱0.3 million in profit or loss, respectively. No provision for impairment in value of AFS investments was recognized in 2008. Allowance for impairment in value of unlisted shares amounted to ₱3.3 million and ₱2.8 million as of December 31, 2010 and 2009, respectively.

#### *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, SCRI 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 ₱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.

The Group holds no significant influence in AGP International. As of December 31, 2010, the Group accounts for its investments in AGP International as AFS investments carried at cost.





## 8. Investments in an Associate

	2010	2009
Acquisition costs:		
Balances at beginning of year	<b>₱34,843,800</b>	₱358,843,800
Additions	<b>347,353</b>	–
Disposals (see Note 20)	–	(324,000,000)
Balances at end of year	<b>35,191,153</b>	34,843,800
Accumulated equity in net losses:		
Balances at beginning of year	<b>(1,086,745)</b>	(229,130,196)
Equity in net income (losses)	<b>(2,280,818)</b>	(40,035,540)
Disposals (see Note 20)	–	268,078,991
Balances at end of year	<b>(3,367,563)</b>	(1,086,745)
Share in unrealized valuation losses on AFS investment of an associate:		
Balances at beginning of year	<b>(58,457)</b>	(126,483)
Share in unrealized valuation gains (losses) on AFS investments of an associate	<b>71,850</b>	68,026
Balances at end of year	<b>13,393</b>	(58,457)
	<b>₱31,836,983</b>	₱33,698,598

### 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 Group subscribed to and paid for 3,016 additional shares at the subscription price of ₱0.4 million. As of December 31, 2010 and 2009, the Group's equity share in PDB is 4.79% and 4.81%, respectively. The Group accounts for its investments in PDB under the equity method.

Accumulated equity in net income of an associate not available for dividend declaration, unless declared by PDB, amounted to ₱0.4 million as of December 31, 2010. Retained earnings as of December 31, 2010 include accumulated loss of a subsidiary amounting to ₱2.3 million.

The summarized financial information of PDB as of and for the years ended December 31, 2010 and 2009 are as follows:

	2010	2009
Total assets	<b>₱5,357,127,257</b>	₱3,929,072,268
Total liabilities	<b>4,588,147,736</b>	3,117,915,705
Net income (loss)	<b>(47,616,242)</b>	6,548,411





## 9. Property and Equipment

	2010			
	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
<b>Cost:</b>				
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
<b>Accumulated depreciation and amortization:</b>				
Balances at beginning of year	4,961,345	1,435,641	432,098	6,829,084
Depreciation and amortization for the year	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

	2009			
	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
<b>Cost:</b>				
Balances at beginning of year	₱13,020,964	₱1,556,062	₱432,098	₱15,009,124
Additions	–	106,115	–	106,115
Balances at end of year	13,020,964	1,662,177	432,098	₱15,115,239
<b>Accumulated depreciation and amortization:</b>				
Balances at beginning of year	2,509,152	1,359,027	432,098	4,300,277
Depreciation and amortization for the year	2,452,193	76,614	–	2,528,807
Balances at end of year	4,961,345	1,435,641	432,098	6,829,084
Net book values	₱8,059,619	₱226,536	₱–	₱8,286,155

## 10. 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 ₱321.0 million. The cost of the property equals its fair value as of December 31, 2010.

On March 4, 2011, the property was transferred to SOC Land in exchange for its common shares valued at ₱321.3 million (see Note 1).





# 11. Other Noncurrent Assets

	2010	2009
Advances to contractors	<b>P2,397,352</b>	P–
Input VAT	<b>1,012,896</b>	–
	<b>P3,410,248</b>	P–

Advances to contractors 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 involves the bidding for the 729 hectares of PMDC area located at Monkayo, Compostela Valley.

# 12. Accounts Payable and Accrued Expenses

	2010	2009
Accrued expenses	<b>P464,093</b>	P523,679
Government payables	<b>140,600</b>	69,024
Accounts payable	<b>109,675</b>	108,077
	<b>P714,368</b>	P700,780

# 13. Income Taxes

The Group's current provision for income tax in 2010 and 2009 represents MCIT. There was no provision for income tax in 2008 because of the Group's gross and net taxable loss positions.

There are deductible temporary differences, unused NOLCO, and excess MCIT for which no deferred tax assets were recognized since the Company 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:

	2010	2009
Allowance for impairment losses on deferred exploration costs	<b>P88,713,164</b>	P75,464,430
NOLCO	<b>57,981,095</b>	58,198,849
MCIT	<b>278,940</b>	159,582
Unrealized foreign exchange loss	<b>18,836</b>	5,439
	<b>P146,992,035</b>	P133,828,300

As of December 31, 2010, 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
2010	2013	P6,003,109	P119,378
2009	2012	1,601,361	159,582
2008	2011	50,376,625	–
		<b>P57,981,095</b>	<b>P278,960</b>





Movement of the Group's NOLCO and MCIT follows:

NOLCO

	2010	2009
Balances at beginning of year	<b>P58,198,849</b>	P62,235,740
Additions	<b>6,003,109</b>	1,601,361
Expirations	<b>(6,220,863)</b>	(5,638,252)
Balances at end of year	<b>P57,981,095</b>	P58,198,849

MCIT

	2010	2009
Balances at beginning of year	<b>P159,582</b>	P-
Additions	<b>119,378</b>	159,582
Balances at end of year	<b>P278,960</b>	P159,582

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

	2010	2009	2008
Income tax computed at statutory tax rates (30% in 2010 and 2009; 35% in 2008)	<b>P5,224,073</b>	P312,466,697	P39,499,849
Additions to (reductions in) income tax resulting from:			
Change in unrecognized deferred tax assets	<b>5,898,930</b>	39,765,548	3,971,166
Nondeductible expenses	<b>2,505,742</b>	-	-
Provision for impairment in value of AFS investments	<b>149,807</b>	81,000	-
Interest income subjected to final tax	<b>(13,658,893)</b>	(582,319)	(3,914,183)
Nontaxable income	<b>(301)</b>	-	-
Gain on sale of investments in associate	-	(351,571,344)	-
Gain on sale of an investment property	-	-	(39,556,832)
	<b>P119,358</b>	P159,582	P-

#### 14. Related Party Disclosures

a. Amounts Owed by 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 a 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 board resolution dated January 24, 2008 authorized the Group to enter into a related party agreement with PSC to invest 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.

Total advances made by the Group to PSC amounted to ₱95.0 million in 2009. No additional advances were made in 2010. As of December 31, 2010 and 2009, the outstanding receivable from PSC amounted to ₱45.0 million and ₱70.0 million, respectively (see Note 5).

Interest earned by the Group in relation to these advances amounted to ₱12.8 million, ₱8.0 million and ₱9.7 million in 2010, 2009 and 2008, respectively. PSC's accounts receivable and finished goods inventory with fair value of ₱18.3 million and ₱27.1 million as of December 31, 2010 is used as collaterals for the advances.

b. Cash Deposits and Short-term Investments in PDB

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

	2010	2009
Cash deposits	<b>₱1,039,992</b>	₱2,217,314
Short-term investments	<b>264,138,183</b>	30,000,000
	<b>₱265,178,175</b>	₱32,217,314

Interest earned by the Group in relation to cash deposit and short-term investment amounted to ₱7.5 million, ₱0.2 million and ₱0.1 million in 2010, 2009 and 2008, respectively.

c. Key Management Personnel Compensation

Short-term employee benefits of key management personnel amounted to ₱2.1 million, ₱1.6 million and ₱1.3 million in 2010, 2009 and 2008, respectively.

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## 15. Equity

a. Common Stock

In 2010 and 2009, 7,680,000 and 630,000 subscribed shares were fully paid and issued, respectively. Collections from such subscribed shares amounted to ₱5.8 million and ₱0.5 million in 2010 and 2009, respectively.

b. Retained Earnings

On April 7, 2010, the BOD approved the resolution earmarking ₱500.0 million of the Parent Company's retained earnings for purposes of funding its investments related to the Anuva Residences and Diwalwal Mine Reserve projects.





## 16. Basic/Diluted EPS

	2010	2009	2008
Net income	<b>₱19,282,264</b>	₱1,041,396,072	₱112,856,711
Weighted average number of shares	<b>912,269,569</b>	906,758,736	906,559,569
Basic/Diluted EPS	<b>₱0.0211</b>	₱1.1485	₱0.1245

There are no dilutive potential common shares outstanding as of December 31, 2010, 2009 and 2008.

## 17. Operating Lease Commitment

In 2010, the Group entered into a sublease contract with 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 Group in 2010, 2009 and 2008 amounted to ₱0.5 million, ₱0.4 million, ₱0.4 million, respectively.

## 18. Financial Instruments

### Financial Risk Management Objectives and Policies

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

The Group's concentration of credit risk pertains to its receivable from PSC.





### *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 table below shows the credit quality by class of financial asset based on the Group's rating system as of December 31, 2010 and 2009:

	2010				
	Neither Past Due Nor Impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents*	P893,063,578	P-	P-	P-	P893,063,578
Accounts receivable					
Amounts owed by related parties	-	45,000,000	-	-	45,000,000
Accrued interest	6,847,668	-	-	-	6,847,668
Officers and employees	-	4,054,958	-	-	4,054,958
Others	-	14,314	88,109	-	102,423
	P899,911,246	P49,069,272	P88,109	P-	P949,068,627

\*Excluding cash on hand.

	2009				
	Neither Past Due Nor Impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	P1,434,161,640	P-	P-	P-	P1,434,161,640
Accounts receivable					
Amounts owed by a related party	-	70,000,000	-	-	70,000,000
Officers and employees	-	94,492	-	-	94,492
Others	-	-	88,109	-	88,109
	P1,434,161,640	P70,094,492	P88,109	P-	P1,504,344,241

\*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 receivables from related party, employees, third parties and accounts which would require some reminder follow-ups to obtain settlement from the counterparties.





The table below shows the aging analysis of financial assets per class that the Group held as of December 31, 2010 and 2009. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

	2010					Total
	Neither Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	More than 91 Days	
Cash and cash equivalents	<b>₱893,063,578</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱893,063,578</b>
Accounts receivable						
Amounts owed by related parties	<b>45,000,000</b>	-	-	-	-	<b>45,000,000</b>
Accrued interest	<b>6,847,668</b>	-	-	-	-	<b>6,847,668</b>
Officers and employees	<b>4,054,958</b>	-	-	-	-	<b>4,054,958</b>
Others	<b>14,314</b>	-	-	-	<b>88,109</b>	<b>102,423</b>
	<b>₱948,980,518</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱88,109</b>	<b>₱949,068,627</b>

\*Excluding cash on hand.

	2009					Total
	Neither Past Due nor Impaired	Less than 30 Days	31 to 60 Days	61 to 90 Days	More than 91 Days	
Cash and cash equivalents	<b>₱1,434,161,640</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱-</b>	<b>₱1,434,161,640</b>
Accounts receivable						
Amounts owed by a related party	<b>70,000,000</b>	-	-	-	-	<b>70,000,000</b>
Officers and employees	<b>94,492</b>	-	-	-	-	<b>94,492</b>
Others	-	-	-	<b>10,723</b>	<b>77,386</b>	<b>88,109</b>
	<b>₱1,504,256,132</b>	<b>₱-</b>	<b>₱-</b>	<b>₱10,723</b>	<b>₱77,386</b>	<b>₱1,504,344,241</b>

\*Excluding cash on hand.

### 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 2010, with all other variables held constant, of the Group's other comprehensive income and equity:

Effect on Income Before Income Tax	Change in PSE Stock Market Index	
	+10%	-10%
<b>2010</b>	<b>₱2,182,601</b>	<b>₱(2,182,601)</b>
2009	614,310	(614,310)
2008	589,320	(589,320)

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.

	Carrying Values		Fair Values	
	2010	2009	2010	2009
<b>Financial Assets</b>				
Loans and Receivables				
Cash and cash equivalents	<b>P893,083,578</b>	P1,434,171,590	<b>P893,083,578</b>	P1,434,171,590
Accounts receivable	<b>56,005,049</b>	70,182,601	<b>56,005,049</b>	70,182,601
AFS financial asset				
AFS investments	<b>285,956,005</b>	6,772,456	<b>285,956,005</b>	6,772,456
	<b>P1,235,044,632</b>	P1,511,126,647	<b>P1,235,044,632</b>	P1,511,126,647
<b>Financial Liability</b>				
Other financial liabilities				
Accounts payable and accrued expenses	<b>P551,843</b>	P631,756	<b>P551,843</b>	P631,756

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 and Accounts Payable and Accrued Expenses*

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses 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 table shows the Group's financial instruments carried at fair value:

	2010			Total
	Level 1	Level 2	Level 3	
<b>Financial Assets</b>				
AFS investments:				
Listed	<b>P21,826,005</b>	<b>P—</b>	<b>P—</b>	<b>P21,826,005</b>
Unlisted	<b>130,000</b>	<b>—</b>	<b>264,000,000</b>	<b>264,130,000</b>
	<b>P21,956,005</b>	<b>P—</b>	<b>P264,000,000</b>	<b>P285,956,005</b>





	2009			Total
	Level 1	Level 2	Level 3	
Financial Assets				
AFS investments:				
Listed	P6,143,100	P—	P—	P6,143,100
Unlisted	130,000	—	499,356	629,356
	<b>P6,273,100</b>	<b>P—</b>	<b>P499,356</b>	<b>P6,772,456</b>

As of December 31, 2010 and 2009, 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 2010, 2009 and 2008.

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

	2010	2009
Common stock	<b>P597,189,569</b>	P589,509,569
Subscribed capital stock - net	<b>77,342,500</b>	79,262,500
Additional paid-in capital	<b>72,272,140</b>	72,272,140
Retained earnings	<b>841,922,312</b>	824,628,092
	<b>P1,588,726,521</b>	<b>P1,565,672,301</b>

## **19. Contracts and Commitments**

### **a. Master Planning Design Services (MPDS)**

On September 25, 2010, the Group entered into an MPDS with Nestor S. Mangio & Associates (NM & Associates) for total contract amount of P1.5 million, inclusive of VAT. The scope of work includes architectural design services specifically schematic design preparation, plan development and contract documents preparation. In addition, assistance shall be offered by NM & Associates in the bid process for obtaining contractor proposals.

Master planning fees paid included in advances to contractors under "Prepayment and other current assets" account in the statement of consolidated financial position amounted to P0.8 million in 2010 (see Note 6).





b. Architectural and Engineering Design Consultancy Services (AEDCS)

On October 18, 2010, the Group entered into an AEDCS with OCB+Associates Architects (OCB). Under the AEDCS, OCB shall provide repetitive architectural and structural, mechanical, electrical, sanitary and plumbing and fire protection engineering design consultancy services for the Group's Project.

Professional fees paid to OCB during the preconstruction phase included in advances to contractors under "Prepayments and other current assets" account in the statement of consolidated financial position amounted to ₱5.3 million in 2010 (see Note 6).

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20. Other Matters

a. Sale of Investments in BellTel

On December 18, 2009, a Deed of Sale has been entered by SCRI 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 ₱1.2 billion. Incidental to the sale of shares, SCRI settled its outstanding subscription payable amounting to ₱171.7 million. Also, on the same date, SCRI collected its advances to BellTel amounting to ₱368.9 million as of the date of sale. Capital gains tax paid by SCRI in relation to the sale of the shares amounted to ₱90.4 million.

b. Noncurrent Asset Classified as Held for Sale/Investment Property

On September 13, 2007, the BOD approved the sale of investment property consisting of parcels of land (with an unfinished building) that was acquired in 1996. SCRI was the registered and beneficial owner of fifty percent (50%) of the property.

On December 15, 2007, SCRI, together with all the other registered and beneficial owners of the property, entered into a Contract to Sell and Buy with Alphaland Corporation for the sale of the said investment property for and in consideration of the total amount of ₱1.2 billion, SCRI's share of which amounted to ₱600.0 million. In connection with the said Contract to Sell and Buy, a deposit amounting to ₱60.0 million was received by SCRI in December 2007. The related Deed of Absolute Sale was executed on January 23, 2008. As a result of these events and circumstances, the SCRI classified the investment property as a noncurrent asset classified as held for sale as of December 31, 2007, in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*. The sale of investment property in 2008 resulted in a gain of ₱113.0 million in 2008, net of related capital gains tax and documentary stamp taxes.





**SOUTH CHINA RESOURCES, INC.**  
**RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION**  
**PURSUANT TO SEC MEMORANDUM CIRCULAR NO.11**  
**DECEMBER 31, 2010**

<b><u>Retained earnings as of December 31, 2009, as adjusted to available for dividend distribution</u></b>		<b><u>₱824,628,092</u></b>
<b><u>Add: Net income (loss) actually earned/realized during the period</u></b>		
<b><u>Net income (loss) during the period closed to retained earnings</u></b>		<b><u>₱21,647,355</u></b>
Less:	Non-actual/unrealized income net of tax	—
	Equity in net loss of associate/joint venture	(220,924)
	Unrealized foreign exchange gain - net except those attributable to cash and cash equivalents	—
	Unrealized actuarial gain	—
	Fair value adjustment (mark-to-market gains)	15,754,755
	Fair value adjustment of investment property resulting to gain	—
	Recognized deferred tax asset that increased the net income	—
	Adjustment due to deviation from PFRS/GAAP - gain	—
	Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	—
Subtotal		<b><u>15,533,831</u></b>
Add:	Non-actual losses	<b><u>13,748,090</u></b>
	Depreciation on revaluation increment (after tax)	—
	Unrealized actuarial loss	—
	Adjustment due to deviation from PFRS/GAAP - loss	—
	Loss on fair value adjustment of investment property	—
Subtotal		<b><u>13,748,090</u></b>
<b><u>Net income actually earned during the period</u></b>		<b><u>19,861,614</u></b>
<b><u>Add (Less):</u></b>		
	Dividend declarations during the period	—
	Appropriations of retained earnings during the period	(500,000,000)
	Reversals of appropriations	—
	Effects of prior period adjustments	—
	Treasury shares	—
Subtotal		<b><u>(500,000,000)</u></b>
<b><u>Retained earnings as of December 31, 2010 available for dividend</u></b>		<b><u>₱344,489,706</u></b>





**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related parties & Principal Stockholders**

<b>Name and Designation of Debtor</b>	<b>Balance at beginning of Period - 1/1/10</b>	<b>Additions</b>	<b>Amounts Collected</b>	<b>Amounts written off</b>	<b>Current</b>	<b>Not Current</b>	<b>Balance at end of period 12/31/2010</b>
<b>Amounts Owed by a related Party</b>							
<b>Puyat Steel Corporation</b>							
Principal	70,000,000.00		(25,000,000.00)				45,000,000.00
Interest		2,590,639.48	(2,590,639.48)				-
	70,000,000.00	2,590,639.48	(27,590,639.48)				45,000,000.00
<b>Officers and Employees</b>							
<b>Officers</b>							
Edgardo P. Reyes		14,001,959.50	(10,000,000.00)				4,001,959.50
Wilfrido P. Reyes		10,000,000.00	(10,000,000.00)				-
Belen R. Castro		10,000,000.00	(10,000,000.00)				-
<b>Employees</b>							
Reynaldo P. Carreon		141,538.75	(116,377.90)				25,160.85
Michelle Cañizares	82,690.33	54,000.00	(136,690.33)				-
David R. Baladad	11,802.02	27,566.00	(29,030.87)				10,337.15
Ronald E. Comon		10,000.00	(7,499.88)				2,500.12
Ronna C. De Leon		35,000.00	(20,000.00)				15,000.00
	94,492.35	34,270,064.25	(30,309,598.98)				4,054,957.62
<b>Others</b>							
South China Petroleum Int'l.	88,108.56	10,253.63					98,362.19
	88,108.56	10,253.63					98,362.19
<b>Total</b>	<b>70,182,600.91</b>	<b>36,870,957.36</b>	<b>(57,900,238.46)</b>				<b>49,153,319.81</b>



**South China Resources, Inc. and Subsidiary**

Aging of Consolidated Accounts Receivable  
As of December 31, 2010

	CURRENT					PAST DUE			Past due accounts & Items in Litigation
	Total	1 Month	2-3 Mos.	4-6 Mos.	7 Mos. To 1 Year	1-2 Years	3-5 Years	5 Years - Above	
Accounts Receivable									
1) Amounts owed by a related party - PSC	45,000,000.00			45,000,000.00					
2) Officers and employees	4,054,958.00				4,054,958.00				
3) Others	6,950,091.00		6,872,705.28		9,603.63	10,303.63	57,478.46		NONE
Subtotal	56,005,049.00		6,872,705.28	45,000,000.00	4,064,561.63	10,303.63	57,478.46		
Less: Allowance for impairment losses on receivables	-	-	-	-	-	-	-	-	-
A/R - net	56,005,049.00		6,872,705.28		4,064,561.63	10,303.63	57,478.46		NONE
Net Receivables	56,005,049.00	-	6,872,705.28	-	4,064,561.63	10,303.63	57,478.46	-	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 & quarterly payment of principal
1) Amounts owed by a related party	Receivable from third party PUYAT STEEL CORP. (Principal & Interest)	
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.	Pending settlement yet collectible
<b>Notes :</b> Indicate a brief description of the nature and collection period of each receivable accounts with major balances or separate receivable captions, both for trade and non-trade accounts.		

Normal Operating Cycle: 1 (one) year



**Schedule C. Non-current marketable securities, other long term investment in stock, and other investments**

Name of issuing entity and description of investment	Number of shares or principal amount of bonds/notes	Restated Amount in Pesos Balance Beg 1/1/2010	Equity in net earnings (losses) of investees for the period	Share in unrealized loss on noncurrent marketable equity securities/AFS investment of an associate	Additional	Advances to an associate	Sale of Investment & Payment of Advances	Amount in Pesos Balance End 12/31/2010
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**INVESTMENT IN ASSOCIATES AND OTHERS**
Stocks:

PDB - 4.81%	351,454	33,698,598.14	(2,280,818.00)	71,850.00	347352.75			31,836,982.89
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**TOTAL- INVESTMENT IN AND  
AND ADVANCES TO ASSOCIATES**

33,698,598.14	(2,280,818.00)	71,850.00	-	-	31,836,982.89
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	Number of Shares	Amount in Pesos Balance Beg 1/1/2010	Addition	Unrealized gain/ (losses) on marketable equity/securities	Amount in Pesos Balance End 12/31/2010
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**INVESTMENT IN SHARES OF STOCKS-AVAILABLE FOR SALE**
**NONCURRENT**
**LISTED (TRADED SHARES)**

PETRON	1,147,500	6,081,750.00		15,514,200.00	21,595,950.00
ABOITIZ EQUITY VENTURES	6,000	54,000.00		168,600.00	222,600.00
PLDT					
Preferred U shares	350	3,675.00		105.00	3,780.00
Preferred Y Shares	350	3,675.00			3,675.00
		7,350.00			7,455.00
Sub-total Listed Shares		6,143,100.00		15,682,905.00	21,826,005.00

**UNLISTED SHARES**

AG&P		264,000,000.00			264,000,000.00
MT. MALARAYAT		130,000.00			130,000.00
SOUTHWEST RESOURCES		3,333,500.00			3,333,500.00
Allowances for decline in value		(3,333,500.00)			(3,333,500.00)
Sub-total Unlisted Shares		130,000.00	264,000,000.00	-	264,130,000.00
<b>TOTAL AVAILABLE FOR SALE</b>		<b>6,273,100.00</b>	<b>264,000,000.00</b>	<b>15,682,905.00</b>	<b>285,956,005.00</b>