Metro Manila, Philippines 1200

May 09, 2013

The Disclosure Department

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

Attention: Ms. JANET ENCARNACION

Head, Disclosure Department

Gentlemen:

Please find herewith the Company's **Definitive Information Statement (SEC** Form 20-IS) as submitted to, cleared and approved by the Securities and Exchange Commission.

Annual Stockholders' Meeting is on May 31, 2013. Record date is May 03, 2013.

Also attached is a letter to the Commission, submitted on April 26, 2013, stating that the Company undertakes to provide its stockholders the 2013 First Quarter Report (SEC Form 17-Q) during the upcoming stockholders' meeting.

We hope you may find the above in order. Thank you.

Yours faithfully,

DAVID R. BALADAD

Corporate Information Officer/ VP – Operations

# COVER SHEET

			A	SEC Registration Number
S O U T H C H I	N A	R E S O	U R C E	S , I N C .
		(Company's Full	Name)	
E N Z O B L D C	G 3 9	9 S E	N G I	L PUYAT
A V E . M A K A	TI	C I T Y		
	· A 11	N. Ct. to	Y. /T. /D	
(B	usiness Addre	ess: No., Street (	City / Town / Pro	vince)
Ronna C. De Leo Contact Person	on			<b>804-1978/804-1977</b> Company Telephone Number
Contact reison				Company Telephone Number
	<u>Definitiv</u>	ve Information S FORM	<mark>Statement 2013</mark> TYPE	
1 2 3 1 Day				0 5 3 1 Month Day
Fiscal Year				Annual Meeting
	Seconda	Not Applic ary License Type		
Dept Requiring this Doc			Amended A	rticles Number / Section
			Total Amo	unt of Borrowings
Total No. of Stockholders		Domestic		Foreign
To	be accomp	lished by SEC	Personnel conc	eerned
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## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 20-IS

		EMENT PURSUANT TO S RITIES REGULATION C	ODE MAY 0 8 2013
Che	ck the appropriate box:		
[ ] [√]	Preliminary Information Statem Definitive Information Stateme		Comment of the same
Nam	e of Registrant as specified in it (formerly known as Sout		
Prov	ince, country or their jurisdiction	of incorporation or organ	ization: Not applicable
SEC	Identification Number: ASO92-	6441	
BIR	Tax Identification Code: 001-94	5-016	
Addı	ress of Principal Office: <b>ENZO B</b> Postal Co		Ave. Makati City
Regi	strant's telephone number, inclu	uding area code: (632) 80	04-1978 / 804-1977
Date	, time and place of the meeting	of security holders:	
	31 May 2013 at 2:00 p.m. East West Room, Manila Go Harvard Road, Forbes Park,		
Appr		ormation Statement is firs	at to be sent or given to security
RSA			Code or Sections 4 and 8 of the t is applicable only to corporate
Title	of Each Class		f Shares of Common Stock Amount of Debt Outstanding
Co	mmon Shares		904,851,568
_			
Yes:	any or all registrant's securities  No:	ilisted on a Stock Exchang	ge?
Nam	e of Stock Exchange		Class of Securities Listed
Phil	ppine Stock Exchange		U

#### NOTICE OF ANNUAL STOCKHOLDERS' MEETING

#### To all Stockholders:

Notice is hereby given that the 2013 Annual Meeting of the stockholders of SOUTH CHINA RESOURCES, INC. shall be held on 31 May 2013 at 2:00 P.M. at the East - West Room of Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City. The Agenda for said meeting is as follows:

- 1. Proof of notice and quorum;
- 2. Reading and approval of previous Minutes;
- 3. Report of Management;
- 4. Ratification of the acts of the Board of Directors and Officers:
- 5. Election of Directors:
- 6. Appointment of Auditors;
- 7. Other Matters; and
- 8. Adjournment.

For the purpose of the meeting, only stockholders of record at the close of business on 03 May 2013 shall be entitled to notice of and to vote at the meeting.

If you cannot attend the meeting but would like to be represented thereat, you may appoint a proxy in writing and file the same, together with the appropriate Board resolution for corporate stockholders, with the Corporation on or before 23 May 2013. Said proxies shall be validated on 24 May 2013 at 10:00 a.m. at the Corporation's principal offices at Enzo Bldg. 399 Sen. Gil Puyat Avenue Makati, City.

On the day of the meeting, you or your proxy are hereby required to bring this Notice and any form of identification, e.g. driver's license, company ID, TIN card, etc., to facilitate registration.

Corporate Secretary

26 April 2013

Hon. Justina F. Callangan Corporate Finance Department Securities & Exchange Commission SEC Bldg., EDSA, Greenhills Mandaluyong City

Dear Hon. Callangan:

This is with regards to the Company's 2013 Definitive Information Statement (SEC Form 20-IS) set to be distributed on 10 May 2013. Inasmuch as the Company's First Quarter Interim Financial Statement cannot be completed on that same date due to the unavailability of the Interim Financial Statements of the subsidiary company, SOC Land Development Corporation, the Company hereby undertakes that during our Annual Stockholders' Meeting, to be held on 31 May 2013, to distribute to stockholders our 2013 First Quarter Report (SEC Form 17-Q).

We thank the Commission for its understanding and favorable consideration on this matter.

Truly yours,

DAVID R. BALADAD

Corporate Information Officer/

VP – Operations

SUBSCRIBED AND SWORN to before me this 26th day of April 2013 at the city of Makati, affiant who is personally known to me, and/or has satisfactorily proven to me his identity through competent evidence, exhibiting to me his Passport No. EB3555220, issued on September 05,2011, expiring on September 04,2016 at DFA Manila.

Doc. No. /6!, Page No. 34; Book No. /43 Series of 2013. ATTY. VIRONILIO R. BATALLA

NOTARY PUBLIC FOR MAKATICITY

APPOINTMENT TO MI - 36

UNTILE TO MER 31,2014

ROLL OF ATLICANEY 40348

MOLE COMPLIANCE NO. III - 21854

IBP 1A 708 12 - LIFETIMS MEMBER

PRIND 365 - 4373 JAN 2, 2013

EXECUTIVE BLOS CENTER

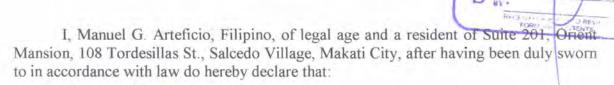
MAKATI AVE., COR JUPITER ST

## **COVER SHEET**

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SEC Registration Number SOUTH CHI N A RESOURCES NC (Company's Full Name) ENZO BL DG 9 SEN GI 3 9 L PUY MAKA I C E (Business Address: No., Street City / Town / Province) Atty. Magilyn T. Loja 804-1977/804-1978 Contact Person Company Telephone Number CERTIFICATION OF INDEPENDENT DIRECTORS (last Friday of May) FORM TYPE 2 3 5 3 0 Day Month Month Day Fiscal Year Annual Meeting Not Applicable OSecondary License Type, If Applicable Dept Requiring this Doc Amended Articles Number / Section Total Amount of Borrowings Total No. of Stockholders Domestic Foreign To be accomplished by SEC Personnel concerned File Number LCU Cashier Document ID STAMPS Remarks: Please use BLACK ink for scanning purposes

## CERTIFICATION OF INDEPENDENT DIRECTORS



- 1. I am an Independent Director of South China Resources, Inc.
- 2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
San Manuel Mining Corp.	President	1990- Present
Assissi Mining Corp.	President	1994- Present
Bonaventures Mining Corp.	President	1994- Present
Ignatius Mining Corp.	President	1994- Present
Egerton Gold Philippines, Inc.	President	2006- Present

- 3. I possess all the qualifications and none of the disqualifications to serve as an Independent Director of South China Resources, Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
- 4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities and Regulation Code.
- 5. I shall inform the Corporate Secretary of South China Resources, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this 15th day of APRIL, at Makati City.

Manuel G. Arteficio

Affiant

SUBSCRIBED AND SWORN to before me day of day of the city of Makati, affiant who is personally known to me, and or has satisfactorily proven to me his identity through competent evidence, exhibiting to me his Passport No. XX3131623 issued on 28 February 2009, valid until 27 February 2014 and issued at DFA, Manila.

Book No.

Series No. 2013;

TIMENT NO. M - JS

L DECEMBER 31,2014 ROLL OF ATTORNEY 48348 COMPLIANCE NO. III - 21854 NO. 706762 - LIFETIME MEMBER R NO. 366 - 4329 JAN. 2, 2013 EXECUTIVE BLDG CENTER

WATI AVE GOR JUPITER ET

## CERTIFICATION OF INDEPENDENT DIRECTORS

I, Francisco M. Bayot, Jr., Filipino, of legal age and a resident of 94 11th Street, New Manila, Quezon City, after having been duly sworn to in accordance with law do hereby declare that:

- 1. I am an Independent Director of South China Resources, Inc.
- 2. I am affiliated with the following companies or organizations:

Company/Organization	Position/Relationship	Period of Service
Madrigal Business Park Association, Inc.	Chairman/Director	1994- present
Madrigal-Bayot Dev. Corp.	President/Chairman	Feb. 2008- present
JM Investment Corp.	President/Director	1990- present
Josue Corp.	President/Director	1990- present
Alabang Commercial Corp.	Director	1990- present
Susana Realty, Inc.	Director	1993- present
Madrigal & Company	Director	1993- present
Jurist Realty, Inc.	Director	1993- present

- I possess all the qualifications and none of the disqualifications to serve as an Independent Director of South China Resources, Inc., as provided for in Section 38 of the Securities Regulation Code and its Implementing Rules and Regulations.
- 4. I shall faithfully and diligently comply with my duties and responsibilities as Independent Director under the Securities and Regulation Code.
- I shall inform the Corporate Secretary of South China Resources, Inc. of any changes in the abovementioned information within five days from its occurrence.

Done, this \_\_\_ day of \_\_\_\_, at Makati City.

Francisco M. Bayot,

SUBSCRIBED AND SWORN to before me APR day of 113 2013 at the city of Makati, affiant who is personally known to me, and/or has satisfactorily proven to me his identity through competent evidence, exhibiting to me his Passport No. EB4666720 issued on 09 February 2012, valid until 08 February 2017 and issued at DFA, Manila.

Doc. No. 245 Page No. 53 Book No. 73

Series No. 2013;

ATTY. VIRGILIO R. BATALDA
MOTARY PUBLIC FOR MAKATE CITY
APPOINTMENTAND 3- 19
UNTIL DECEMBER 31.00M
ROLL OF ATTORNEY 4534554
INCLE COMPLIANCE NO. 8814 278557
INCLE COMPLIANCE NO. 8814 278557
INC. NO. 765762 - LIFETIMS MEMBER
PTX NO. 365 - 4329 245657 2043

EXECUTIVE SUGGLOPHERST

#### A. GENERAL INFORMATION

#### Item 1: DATE. TIME AND PLACE OF MEETING OF SECURITY HOLDERS

The annual stockholders' meeting shall be held on Wednesday, 31 May 2013 at 2:00 p.m. at the East - West Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

The Company's Principal Office is at ENZO Bldg. 399 Sen. Gil Puyat Avenue, Makati City.

May 10, 2013 (Friday) is the approximate date on which the Information Statement is first to be sent or given to security holders.

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

#### Item 2: DISSENTERS' RIGHT OF APPRAISAL

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided in Title X of the Corporation Code.<sup>1</sup>

#### Item 3: INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON

The Company is not aware of any person who has any substantial interest, direct or indirect, in any matter to be acted upon during the annual stockholders' meeting. The Company has not also been informed by any of its directors of his/her intention to oppose any action to be taken by the Company at the annual stockholders' meeting.

## **B. CONTROL AND COMPENSATION INFORMATION**

#### **Item 4: VOTING SECURITIES AND PRINCIPAL HOLDERS**

The Registrant has 904,851,568 unclassified common shares issued and outstanding (excluding treasury shares which total to 1,708,000) as of April 30,2013. Total foreign equity ownership is 12,861,266 common shares representing 1.4214% of the total issued and outstanding shares. Each common share shall be entitled to one vote with respect to all matters to be taken up during the annual stockholders' meeting.

Pursuant to the Corporation Code, each share being held by every stockholder is entitled to one vote for as many persons as there are directors or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

<sup>&</sup>lt;sup>1</sup> The right of appraisal means the right of a dissenting stockholder to demand payment of the fair market value of his shares, in the instances provided under the Corporation Code. In such instances, the right may be exercised by any stockholder who shall have voted against the proposed action by making a written demand to the Corporation within 30 days after the date on which the vote was taken for payment of the fair market value of his shares. Failure to make the demand shall be deemed a waiver of such right.

## (1) Security Ownership of Certain Record and Beneficial Owners and Management As of April 30, 2013 (owning more than 5% of any class of voting securities)

Title of Class	Name & Address of Record Owner	Relationship with Issuer	Name of Beneficial Ownership & Relationship w/ Record Owner	Citizen ship	No. of Shares Held	Percent
Common	Belen R. Castro 4889 Pasay Road Dasmariñas Villa. Makati	Director	Belen R. Castro same person	Filipino	231,353,122	25.57%
Common	Edgardo P. Reyes 1371 Caballero St. Dasmariñas Vill. Makati	Director	Edgardo P. Reyes same person	Filipino	229,853,123	25.40%
Common	Wilfrido P. Reyes 1545 Mahogany St., Dasmariñas Vill. Makati	Director	Wilfrido P. Reyes same person	Filipino	226,853,123	25.07%
Common	PCD Nominee Corp. (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati	Stockholder	PCD Nominee Corp. (Filipino), depository agent	Filipino .	168,121,734	18.58%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 18.58% of the total shares of the Company.

## (2) Security Ownership of Management Directors as of April 30, 2013:

Title of Class	Name	No. of Shares Held	Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	Belen R. Castro	231,353,122	Direct	Filipino	25.57%
Common	Edgardo P. Reyes	229,853,123	Direct	Filipino	25.40%
Common	Wilfrido P. Reyes	226,853,123	Direct	 Filipino	25.07%
Common	Franciso M. Bayot, Jr.	400,000	Direct	Filipino	0.04%
Common	Manuel G. Arteficio	100,000	Direct	Filipino	0.01%
TOTAL	-	688,559,368			76.10%

#### **Executive Officers**

Title of Class	Name	No. of Shares Held	Nature of Beneficial Ownership	Citizenship	Percent of Class
Common	David R. Baladad	50,000	Direct, Record and Beneficial	Filipino	0.0055%
TOTAL		50,000	-		0.0055%

#### **Directors and Officers as a Group**

Title	Name of	Amount of	Percent
of	Beneficial	Beneficial	of
Class	Owner	Ownership	Class
Common	Directors as a Group	688,559,368	76.1000%
Common	Executive Officers as a Group	50,000	0.0055%
TOTAL		688,609,368	76.1055%

### (1) Voting Trust Holders of 5% or More

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 5: DIRECTORS AND EXECUTIVE OFFICERS (Information for the last five years)

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

NAME	POSITION	BIRTHDATE
Edgardo P. Reyes	Chairman/CEO	December 2, 1945
Wilfrido P. Reyes	President	January 21, 1947
Belen R. Castro	VP & Treasurer	April 9, 1948
Manuel G. Arteficio	Independent Director	January 13, 1945
Francisco M. Bayot, Jr.	Independent 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**, 67 years of age, Filipino, has been the CHAIRMAN of the Board of Directors of the Company since 1992. He is the CHAIRMAN of Gonzalo Puyat and Sons, Inc., Puyat Steel Corp., Surigao Development Corporation and Surigao Marine Corporation; DIRECTORS of Sociand Development Corporation (2011 to present), International Pipe Industries Corp. (2011 to present), Puyat Flooring Products Inc., Puyat Investment & Realty, EWB Corporation (former Proleo Realty Inc.,) and Bene-Para Realty Inc.; for the past five (5) years. He is also the former President of International Pipe Industries Corporation and Puyat Flooring Productings, Inc., Chairman and President of Bell Telecommunication Phils., Inc, until December 2009, and a former director of Premiere Development Bank until 2011. Mr. Reyes is the brother of Mr. Wilfrido P. Reyes and Ms. Belen R. Castro.

WILFRIDO P. REYES, 66 years of age, Filipino, has been the PRESIDENT of the Company since 1992. CHAIRMAN/PRESIDENT of Astraniquinn Corporation, (formerly WPR Realty & Management Corp.); EXECUTIVE VICE PRESIDENT/DIRECTOR of Gonzalo Puyat & Sons Inc. and Purex Mineral Corp.; EVP/GENERAL MANAGER of Philippine Flour Mills; SVP/DIRECTOR of Puyat Steel Corporation; TREASURER/DIRECTOR of Surigao Development Corp.; SECRETARY/DIRECTOR of Surigao Marine Products, Inc.; VP/GENERAL MANAGER of Reyson Realty & Development Corp.; PRESIDENT of EWB Corporation (formerly Proleo Realty Inc.), Former VP/TREASURER of Bell Telecommunication Phils. Inc until December 2009.; TREASURER/DIRECTOR of International Pipe Industries 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**, 65 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.; and CORPORATE SECRETARY of Reyson Realty & Development Corp. for the past five (5) years. She has been the DIRECTOR of Bell Telecommunication Philippines Inc until December 2011. She is also a DIRECTOR of Chamber of Thrift Banks (CTB) until 2011. She was the PRESIDENT/CEO of Premiere Development Bank since 2002 before she became its CHAIRMAN beginning 2007 up to 2011. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

**MANUEL G. ARTEFICIO**, 68 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.**, 59 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.

**MAGILYN T. LOJA**., 44 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**, 56 years of age, Filipino, has been the VICE PRESIDENT for Operations of the Company since 1994. He obtained his Bachelor of Science in Geology in the University of the Philippines and he is also a licensed Geologist. Prior to joining the Company, Mr. Baladad was the Chief of the Oil and Gas Division of the former Office of Energy Affairs (now DOE) and a consultant to other local exploration companies. He has been directing the upstream activities of the Company since 1994 and for the last five (5) years.

**ZOSIMO L. PADRO, JR.**, 53 years of age, Filipino, has been the VICE PRESIDENT FOR FINANCE of the Company since January 2010. He obtained his Bachelor of Science in Business Administration Major in Accounting from the University of Eastern Philippines and, Bachelor of Laws from Jose Rizal University (formerly Jose Rizal College. A CPA-Lawyer, he is also the Vice President/Controller of Gonzalo Puyat & Sons, Inc., Surigao Development Corporation, Surigao Marine Corporation, Socland Development Corporation, and International Pipe Industries Corporation. He also serves as Consultants for Puyat Flooring Products, Inc., Puyat Steel Corporation, Philippine Flour Mills, Clark Manor Realty, South Spring Realty, EWB Corporation (formerly Proleo Realty, Inc.), Astraniquinn Corporation (formerly WPR Realty Corporation), He was a former Vice President for Finance of Bell Telecoummunication Phils., Inc. Atty. Padro since 1990, and during the last five (5) years, has been engaged in the practice of law and Accountancy

#### **Nomination of Directors& Independent Directors**

On the stockholders' annual meeting held last May 25, 2012, Mr. Francisco M. Bayot, Jr., an independent director has been designated as chairman of the Nomination & Remuneration Committee with Mr. Wilfrido P Reyes and Ms. Belen R. Castro as members for the ensuing year 2012 – 2013.

The Nomination Committee reported that the following individuals have been nominated for election on 2013 Annual Stockholders' Meeting as members of the Board of Directors for the ensuing year 2013-2014:

- 1. Edgardo P. Reyes;
- 2. Wilfrido P. Reyes;
- 3. Belen R. Castro;
- 4. Manuel G. Arteficio; and
- 5. Franciso M. Bayot, Jr.

Pursuant to SEC Memorandum Circular No. 9 in relation to Section 38 of the Securities Regulation Code (Republic Act No. 8799), and in order to enhance the effectiveness of independent directors and encourage the infusion of fresh ideas in the board of directors, the company adopted the following rules on the election of independent Directors effective January 02, 2012.

- 1. There shall be no limit in the number of covered companies that a person may be elected as Independent Director (ID), except in business conglomerate where an ID can be elected to only five (5) companies of the conglomerate. (i.e., parent company, subsidiary or affiliate);
- 2. IDs can serve as such for five (5) consecutive years, provided that service for a period of at least six (6) months shall be equivalent to one (1) year, regardless of the manner by which the ID position was relinquished or terminated:
- 3. After completion of the five year service period, an ID shall be ineligible for election as such in the same company unless the ID has undergone "cooling off" period of two (2) years, provided, that during such period, the ID concerned has not engaged in any activity that under existing rules disqualifies a person from being elected as ID in the same company;
- 4. An ID re-elected as such in the same company after the "cooling off" period can serve for another five (5) consecutive years under the conditions mentioned in the paragraph 2 above;
- 5. After serving as ID for ten (10) years, the ID shall be perpetually barred from elected as such in the same company, without prejudice to being elected as ID in other companies outside of the business conglomerate, where applicable, under the same conditions provided for in this circular;
- 6. All previous terms prior to January 02, 2012 served by existing IDs shall not be included in the application of the term limits as provided by this circular.

Mr. Manuel G. Arteficio and Mr. Francisco M. Bayot, Jr. were elected Independent Directors during the 2012 Annual Stockholders' Meeting. The Nomination Committee reported Mr. Arteficio and Mr. Bayot as independent directors to be elected during the 2013 Annual Stockholders' Meeting, upon the recommendation of Ms. Remedios Manguiat and Mr. David R. Baladad 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.

The nomination and election of independent directors are carried out in accordance with rules set forth on SRC Rule No. 38, as amended.

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.

#### (5) Certain Relationship and Related Transactions

Please refer to Note 16 of 2012 Audited Consolidated Financial Statements for details on related party transaction.

#### Item 6: COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

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 registrant will participate.

The Company has no pension or retirement plan in which any such person will participate. There are no employment contract 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 four 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 VP-Finance				
Ronna C. De Leon Accounting Officer				
Aggregate compensation – CEO & all other officers and Directors as a group unnamed	2013 2012 2011	2,000,000(est.) 1,799,987 1,775,880	500,000.00(est.) 450,360. 444,960	N/A N/A N/A

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

#### Item 7: INDEPENDENT PUBLIC ACCOUNTANTS

#### Information on Independent Public Accountant

In compliance with SRC Rule 68 Paragraph 3(b)(iv), the engagement partner from Sycip Gorres Velayo & Co. (SGV) is Mr. John Nai Peng C. Ong. The Corporation recommends the appointment of Sycip Gorres Velayo & Co. as the Principal Accountant of the Corporation. SGV is the incumbent Public Accountant of the Company. It has been appointed as external auditor of the company since 1992 and has not resigned, been dismissed or nor has its services ceased since its appointment. The company has had no material disagreement with SGV on any matter of accounting principle or practices or disclosures in the company's financial statements.

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, Mr. Edgardo P. Reyes, Member, and Mr. Wilfrido P. Reyes, Member.

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

In compliance with SEC Memo Circular No. 14 Series of 2004, External Audit Fees, year ended 2012 audit progress billing for South China Resources and external audit fee, year ended 2012 for subsidiary, SOC Land Development amounted to ₱475,763and ₱245,280 respectively External Audit Fees, year ended 2011 audit for South China Resources and subsidiary, SOC Land Development amounted to ₱430,963 and ₱184,730.00 respectively No other services were provided and billed for by the external auditors for the last two (2) fiscal years.

#### **Item 8: COMPENSATION PLANS**

No action is to be taken with respect to any plan pursuant to which cash or non-cash compensation may

be paid or distributed.

#### C. ISSUANCE AND EXCHANGE OF SECURITIES

#### Item 9: AUTHORIZATION OR ISSUANCE OF SECURITIES OTHER THAN FOR EXCHANGE

There is no matter or action to be taken with respect to the authorization or issuance of any securities.

#### **Item 10: MODIFICATION OR EXCHANGE OF SECURITIES**

There are no actions to be taken with respect to the modification of any class of securities of the registrant, or the issuance or authorization for issuance of one class of securities of the registrant in exchange for outstanding securities of another class.

#### Item 11: FINANCIAL AND OTHER INFORMATION

- (1) The Audited Consolidated Financial Statements of the Company are attached as Annex A.
- (2) The Management's Discussion & Analysis is incorporated in the Management Report.
- (3) 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.
- (4) Representatives of the external auditor, Sycip Gorres Velayo & Co. are expected to be present at the Annual Stockholders' Meeting and they will have the opportunity to make a statement if they desire to do so and are expected to be available to respond to appropriate questions from the stockholders.

#### Item 12: MERGERS, CONSOLIDATIONS, ACQUISITIONS AND SIMILAR MATTERS

This is not applicable to the group.

#### Item 13: ACOUISITION OR DISPOSITION OF PROPERTY

Please refer to Note 8 and Note 9 of the Audited Consolidated Financial Statements (Annex A).

#### **Item 14: RESTATEMENT OF ACCOUNTS**

There are no actions to be taken with respect to the restatement of any asset, capital, or surplus account.

#### D. OTHER MATTERS

#### **Item 15: Action with Respect to Reports**

The minutes of the 2012 stockholders' meeting and the report of Management for the fiscal year ended December 31, 2012 were submitted for the approval of the stockholders, and the acts and transactions of the Board of Directors and Officers were submitted for ratification by the stockholders.

The minutes of the 22 May 2011 stockholders' meeting recorded by the Corporate Secretary called for the certification that printed notices for the annual meeting were sent to all stockholders of record; the reading of the Minutes of the 2011 annual stockholders' meeting was approved and ratified; (1) the report of Management on the operations of the Corporation for the fiscal year ended December 31, 2011, (2) the Audited Financial Statements for 2011 were approved; (3) the auditing firm Sycip, Gorres, Velayo & Company was appointed as the Corporation's external auditor for the year 2012; and (4) all acts and transactions entered into by the Board of Directors and Officers during the fiscal year 2011 were ratified.

#### Item 16: MATTERS NOT REQUIRED TO BE SUBMITTED

There are no actions to be taken with respect to any matter which is not required to be submitted to a vote of security holders.

#### Item 17: AMENDMENTS OF CHARTER, BY-LAWS AND OTHER DOCUMENTS

There are no actions to be taken with respect to any amendment of the charter, by-laws and other documents.

#### **Item 18: OTHER PROPOSED ACTION**

None.

#### **Item 19: VOTING PROCEDURES**

The approval of the minutes of the last stockholders meeting and the report of management, ratification of the acts and transactions of the Board of Directors, election of Directors, amendment of By-Laws, and the appointment of Independent Public Accountant, will require approval of a majority of all the stockholders present or represented during the annual meeting. The vote required for the election of Directors shall be through cumulative voting. The voters will be counted by *viva voce* facilitated by the Corporate Secretary unless a request by a security holder is made that the election of directors be by ballot.

THE COMPANY UNDERTAKES TO PROVIDE WITHOUT CHARGE A COPY OF ITS ANNUAL REPORT ON SEC FORM 17-A UPON WRITTEN REQUEST ADDRESSED TO: ATTY. MAGILYN T. LOJA CORPORATE SECRETARY, SOUTH CHINA RESOURCES, INC., ENZO BLDG. 399 SEN. GIL PUYAT AVENUE MAKATI CITY 1200.

## SIGNATURE

Aft	er rea	asonabl	e ir	nquiry	and to the	best o	of my kno	wledge	and b	pelief	1 certify	tha	at the	infor	mat	ion set f	orth
in	this	report	is	true,	complete	and	correct.	This	report	t is	signed	in	the	City	of	Makati	on
08	May	2013															

Ву:

Corporate Secretary

#### MANAGEMENT REPORT

## Item1: 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.

#### Item 2: MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

#### **BUSINESS**

South China Resources, Inc. (South China) was incorporated and registered with the SEC on September 25, 1992 primarily to undertake oil and gas exploration, development and production and became one of the leading exploration companies upon its listing in 1994. Starting in 1995, South China opted to strengthen its core business by diversifying then into other investments which after two decades the company has now turned out to be one of the strongest holding companies in the market having had investments in real estate, steel fabrication, banking, telecommunications and energy exploration. The company is debt free and has a robust balance sheet after the recent conclusion of the sale of one of its major assets.

The diversification process, brought on by the financial crisis of the 90's, was honed through the years and allowed South China to invest in technology based and as well as other long-term ventures. This gave the company new legs to stand on needed to weather the lows of the period. One of the first and significant investments was the acquisition and sale of Bell Telecommunications Philippines, Inc., the acquisition and sale of Filipinas Plaza along EDSA corner Chino Roces Avenue and the minority ownership of Premiere Development Bank.

The Securities and Exchange Commission, on October 30, 2003, approved the amendment of the Company's Articles of Incorporation to change the primary purpose thereof to that of a holding company and to include its then primary purpose of oil exploration as among the secondary purposes of the Company. The Company continued to maintain its exploration activities.

Belltel (Bell Telecommunications Philippines, Inc.) was a pioneering telco that has the second of only two nationwide telecommunications franchises in the country. It delivered state-of-the-art converged communications solutions to leading educational institutions, corporate clients, government agencies and high-end residential buildings. With its broad wireless network, it became an attractive asset that was pursued by a corporation for acquisition and integration into their telecommunications business. 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 P1,23 billion.

The Filipinas Plaza building was a prime investment situated along the major gateway road to Makati. An MRT station was located in front of the property enabling direct access to pedestrian traffic to the building complex. This development enhanced the attractiveness of the investment that allowed for its sale in 2008.

The sale of Filipinas Plaza and BellTel gave the company the influx of funds for re-investment and following the proven model of acquisition and sale of significant assets, South China acquired position in AGP International Inc in December 2010 which in turn gained control of AG&P Manila. AG&P Manila is one of the oldest and largest steel fabrication companies in the country with the unchallenged capability in modular fabrication. Its recent achievement was a first time ever in the world, the construction of a modularized coker plant for an oil refinery, fabricated and shipped from its shipyard in Bauan, Batangas. These colossal structures towered as much as 10 stories high and weighed 1500 to 2500 tons each, were shipped on special large-hold ships that traversed the Panama Canal on its way to Lake Erie. AG&P was supposedly a long term investment however management was able to identify an opportunity which allowed for a shorter turn-around time in recouping this investment. This allowed for recoup of the investment and make a good return in what would have taken the company more than several years at the very least following the usual course of investment and dividend sharing. On January 2012, after holding the AGP investment for 13 months, the company sold its AGP shares at a good profit.

Premier Bank on the other hand expanded to almost 40 branches after the company acquired its shares.

It became one of the most stable small banks that it became an attractive target for acquisition by a much larger bank. The sale of this asset was recently concluded this year with the approval of the sale by the Monetary Board.

Following the successful sale of the Filipinas Plaza and in response to the growing need for affordable housing for Filipinos, South China has followed on through the real estate business by acquiring a 2.4 hectare plot in Buli, Muntinlupa strategically located along the South Luzon Expressway. On May 26, 2010, the Board of Directors in a special meeting, adopted a resolution authorizing the purchase by the Company of a 24,022.90 sq.m. parcel of land located at the East Service Road of South Superhighway, Brgy. Buli, Muntinlupa City, Metro Manila and registered in the names of, among others, the Company's majority Directors, and major stockholders, Edgardo P. Reyes, Wilfrido P. Reyes and Belen R. Castro at a purchase price of P312,298,000.00.

The 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), its wholly owned subsidiary, that is to put up quality homes at affordable prices. The Board of Directors, at its special meeting held November 11, 2010, directed Management to cause the registration with the Securities and Exchange Commission of SOC Land Development Corporation (SOC Land) as a wholly-owned subsidiary of the issuer with an authorized capital stock of One Hundred Sixty Million Pesos (PHP 160,000,000.00), a subscribed capital stock of Forty Million Pesos (PHP 40,000,000.00) and a paid-up capital of Ten Million Pesos (PHP 10,000,000.00). The subsidiary will be the property development arm of the company, that will develop a 2.4-hectare community, called Anuva Residences (the Project), situated near Sucat Interchange and will have four (4) tandem buildings, with the first building targeted to be completed by 2013. The total estimated cost of the Project is ₱2.0 billion and is targeted for completion within five (5) years from the start of its construction. On July 12, 2011, the groundbreaking ceremony for the Project was held and construction for the Project's Tandem Building 1 commenced thereafter. The expected turnover to clients would be by yearend 2013. The medium rise complex offers amenities usually found only in high-end residential like a resort themed community including spacious clubhouse, a resort-type lazy river feature, jogging paths, bike trails, playgrounds in every corner, including a yoga deck, and a tree house. The property will house only 8 towers thereby preserving 80% of its open space for the general benefit of future residents.

It can be seen that in the two decades that passed, South China transformed from a purely exploration play to an investment company. Even with varied interests, its exploration business was kept on by partnering with the biggest and the best in the oil exploration business, the likes of Occidental Petroleum, ARCO, UNOCAL, Murphy Oil, Philippine National Oil Company, Tap Oil, Shell and KUFPEC resulting in participation in close to \$200 million worth of work program and saw the acquisition of thousands of kilometers of new seismic and the drilling of 8 wells. In its latest exploration foray however, South China together with Shell Philippines Exploration B.V. and Kuwait Foreign Petroleum Co. deemed it prudent to relinquish Service Contract-60 in light of the dismal results of the wildcat well drilled and CSEM (Controlled Source Electro-Magnetics) survey. Setting aside this development, South China will continue to search for energy through other avenues.

Oil exploration is a high risk, high reward endeavor which the company was involved in by exploring frontier areas where data constraints and costs are relatively lower as against areas that have substantial exploration consideration. Towards the end of the first decade of the second millennium the price of oil as well as the expenses for exploration went through unprecedented levels and had been a veritable roller coaster in costs. However the costs of exploration did not tracked down with respect to the downturn of oil prices and remained much higher than expected specially in this part of the Asia-Pacific region. The Company's Board taking into consideration the aforementioned, decided to refocus the Company's efforts to businesses that are more stable and carry less risk yet can still provide for significant growth for the company.

South China has identified two new areas for potential investment which it is investigating. To address a growing population, now pegged at 92 million Filipinos and increasing every year, it looks at food production. The Company believes that a rising population coupled with rising incomes will drive greater protein consumption. Opportunities have been identified to get in this value chain to grow a long term business that will allow expansion laterally and vertically. The Company is currently identifying large tracts of land suitable for agro-industrial development.

The country needs both conventional and renewable energy resources to address its power requirements. South China made a slight shift in focus towards renewables while keeping in line with its energy thrust. Renewables do tackle the issue of climate change, a stark fact that affects all in the world and every little help contributes to the overall effort to stave off this phenomenon. Some renewables however are still in their infancy and therefore cannot provide for the efficiencies and reliability needed for sustainable energy. South China is investigating renewable energy resources, hydropower and geothermal, that can provide for base load power that is sustainable for the long term and therefore provide for a steady income stream for the company.

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

The Company's subsidiary is SOC Land Development Corporation as of yearend 2012. Please refer to Note 9 of the Financial Statement for information on the business of its associates.

The Company does not expect any significant changes in its number of employees. Presently, the Company has a total of 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) Legal Officer, one (1) Accountant, one (1) Accounting Assistant 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 3: RESULTS OF OPERATIONS & FINANCIAL POSITION

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

## CONSOLIDATED RESULTS OF OPERATIONS 2012 VS 2011

(in Philippine pesos)

ACCOUNTS	12/31/2012	12/31/2011	% CHANGE
REVENUES	237,121,298	34,335,611	590.60%
COST AND EXPENSES	154,591,057	41,394,314	273.46%
GAIN ON SALE OF NONCURRENT ASSET HELD FOR SALE	32,153,046	-	100.00%
EQUITY IN NET LOSSES OF AN ASSOCIATE	-	(114,740)	-100.00%
SHARE IN UNREALIZED VALUATION GAINS ON AFS	-	13,393	-100.00%
FINANCIAL ASSETS OF AN ASSOCIATES			
INCOME LOSS BEFORE INCOME TAX	114,683,287	(7,160,050)	1701.71%
PROVISION FOR INCOME TAX	12,824,822	86,099	14795.44%
NET INCOME/(LOSS)	101,858,465	(7,246,149)	1505.69%
NET GAINS(LOSSES) ON AFS FINANCIAL ASSETS	8,110,098	(7,282,929)	211.36%
SHARE IN UNREALIZED VALUATION GAINS ON AFS			
FINANCIAL ASSETS OF AN ASSOCIATES		(13,393)	-100.00%
TOTAL COMPREHENSIVE INCOME/(LOSS)	109,968,563	(14,542,471)	856.19%

## 2012 VS 2011: RESULTS OF OPERATIONS

Revenue for the year ended 2012 soared up to 590.60% as compared with previous year 2011. The increase was due to the following: (1) Sale of Real Estate amounting to ₱20.30 Million (2) Gain on Sale of AFS Financial Assets which includes foreign and domestic equities amounting to ₱183.59M (3) Interest income from time deposits, savings and bonds amounting to ₱26M (4) Dividend Income from various foreign and domestic equities holdings amounting to ₱4.3 Million and (5) Gain on Sale of Held to Maturity Investments amounting to ₱1.27M.

There has been a 273.46% increase in the cost and expenses incurred by the company for the year 2012 vis-à-vis 2011. This is mainly due to the 226.31% in the general & administrative expenses as well as the 148.71% increase in the sales and marketing expense. Personnel cost, advertising costs, consultancy fees, product presentations costs and write off of deferred costs constituted the bulk of expenses.

For the year ended December 31, 2012, the Parent company posted a net income of ₱157M, **608.22%** higher than that of December 31, 2011. With its subsidiary, SOC Land incurring a net loss of ₱55.88M the group's results of operation resulted to an outstanding bottomline figure of ₱101.86M for the year ended December 31, 2012. This translates to earnings per share of ₱0.1266 for the year 2012.

The total comprehensive income for the year 2012 accelerated up to 856.19% as against 2011 due to the sale of AG&P shares which has brought the company ₱184 million gain and the sale of Premiere shares that also resulted to a gain of ₱32.2M.

## CONSOLIDATED RESULTS OF OPERATIONS 2011 VS 2010

(in Philippine pesos)

	12/31/2011	12/31/2010	% CHANGE
REVENUES	34,335,611	51,498,529	-33.33%
COST AND EXPENSES	41,394,314	31,804,133	30.15%
EQUITY IN NET LOSSES OF AN ASSOCIATE	(114,740)	(2,280,818)	94.97%
SHARE IN UNREALIZED VALUATION GAINS ON AFS	13,393		100.00%
FINANCIAL ASSETS OF AN ASSOCIATES			
INCOME LOSS BEFORE INCOME TAX	(7,160,050)	17,413,578	-141.12%
PROVISION FOR INCOME TAX	86,099	119,358	-27.86%
NET INCOME/(LOSS)	(7,246,149)	17,294,220	-141.90%
NET GAINS(LOSSES) ON AFS FINANCIAL ASSETS	(7,282,929)	15,682,905	-146.44%
SHARE IN UNREALIZED VALUATION GAINS ON AFS			
FINANCIAL ASSETS OF AN ASSOCIATES	(13,393)	71,850	-118.64%
TOTAL COMPREHENSIVE INCOME/(LOSS)	(14,542,471)	33,048,975	-144.00%

## 2011 VS 2010: RESULTS OF OPERATIONS

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

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

#### 33.33% Decrease in Revenues

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

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

966.37% increase in Sales & Marketing Expense

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

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

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

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

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

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

## CONSOLIDATED FINANCIAL POSITION 2012 VS 2011

(in Philippine pesos)

ACCOUNTS	12/31/2012	12/31/2011	% CHANGE
CURRENT ASSETS	1,455,825,523	1,274,095,492	14.26%
NONCURRENT ASSET HELD FOR SALE	-	31,722,243	-100.00%
NONCURRENT ASSETS	344,634,112	331,282,298	4.03%
TOTAL ASSETS	1,800,459,635	1,637,100,033	9.98%
CURRENT LIABILITIES	95,864,582	43,333,042	121.23%
NONCURRENT LIABILITIES	1,322,249		100.00%
TOTAL LIABILITIES	97,186,831	43,333,042	124.28%
EQUITY	1,703,272,804	1,593,766,991	6.87%
TOTAL LIABILITIES AND EQUITY	1,800,459,635	1,637,100,033	9.98%

#### 2012 VS 2011: FINANCIAL CONDITION

There has been a 14.26% increase in the total current assets by the group for the year ended December 31, 2012. The increase was brought about by the increase in receivables pertaining to uncollected sale of Premiere Shares, dividend income and interests and the recognition of installment contract receivable amounting to ₱8.23M. The total noncurrent asset held for sale pertains to the book value of the Premiere shares which was sold on the year 2012. The slight jump of 4.03% in the noncurrent assets was due to input VAT and the additional acquisition of domestic and foreign equities and foreign bonds by the group due to the company's taking advantage of strong economy which has continuously brought favorable increase on PSE's index.

There has been a positive 9.98% leap on the company's total assets with 36% of its total resources is on cash and cash equivalents and the another 36% is on its Real Estate for Sale Inventory. It is notable that the company was able to retain its liabilities in its usual small percentage. The company was able to finance its operation since inception without financial assistance from banks and other financial intermediaries.

## CONSOLIDATED FINANCIAL POSITION 2011 VS 2010

(in Philippine pesos)

ACCOUNTS	12/31/2011	12/31/2010	% CHANGE
CIAN D D DAME A CODERG	4 054 005 400	050.04 < 005	00.050/
CURRENT ASSETS	1,274,095,492	958,216,225	32.97%
NONCURRENT ASSET HELD FOR SALE	31,722,243	-	100.00%
NONCURRENT ASSETS	331,282,298	649,029,963	-48.96%
TOTAL ASSETS	1,637,100,033	1,607,246,188	1.86%
CURRENT LIABILITIES	43,333,042	833,726	5097.52%
EQUITY	1,593,766,991	1,606,412,462	-0.79%
TOTAL LIABILITIES AND EQUITY	1,637,100,033	1,607,246,188	1.86%

#### 2011 VS 2010: FINANCIAL CONDITION

There has been a 32.97% increase in the total current assets by the group for the year ended December 31, 2011. The total resources of the group reach up to ₱1.64 Billion exhibiting 1.86% increased as against the previous year 2010. The Investment in property costing ₱321M was recognized as part of the Real Estate Inventory thus decreasing the noncurrent assets by 48.96%. The total resources by the group grew by 1.86% driven by the increase in Real Estate Inventory, prepayments and other assets and investments to related parties which earns interest income monthly. There has been a slight deceleration on the equity as the company has a negative bottomline figure for the year 2011.

#### **KEY PERFORMANCE INDICATORS**

The following are the major financial ratios of the Company for the years ended December 31, 2012, 2011 and 2010:

	KEY FINANCIAL RATIOS	12/31/2012	12/31/2011	12/31/2010
I.	Current/Liquidity Ratios	15.19 x	29.40 x	1149.32 x
II.	Solvency Ratio	137.92%	N/A	4032.32%
III.	Debt-to-equity ratio (in x)	0.0571 x	0.0272 x	0.0005 x
IV.	Asset to Equity Ratio	1.0571 x	1.0272 x	1.0005 x
٧.	Interest Rate Coverage Ratio	N/A	N/A	N/A
VI.	Profitability Ratio			
	Return on Equity	5.98%	-0.45%	1.08%
	Return on Assets	5.66%	-0.44%	1.08%
VII.	Other Relevant Ratios			
	Revenue Growth/ (Decline)	590.60%	-33.33%	-95.64%
	Net Income Growth/ (Decline)	1505.69%	-141.90%	-98.34%
	EBITDA	Php 134,042,905	(3,826,860)	Php 33,618,500

#### 2012 VS 2011

Current Ratio dipped from 29.40x last year 2011 to 15.19x this year 2012. There has been an increase in the current liabilities due to the increase in customers deposits for the units purchased on Anuva project, higher provision for income taxes and the payables to contractors. Despite the slight increase in cash in bank, there has been a slight deceleration on the cash equivalents which is mainly time deposits affecting the current ratio level. Most of the decrease in the time deposits investments are due to disbursements requirements by the subsidiary coupled with the lowering trend on interest rates for the year 2012.

The company continued to show stronger solvency ratio for the year 2012 at the rate of 137.92%. This is due to the outstanding bottomline figure amounting to ₱101M. Liabilities are composed of payment for income taxes constituting the

7.98%, deferred tax liability of ₱1.3M which is 1.36% and the rest are mostly payable to contractors. The group has 137X times capability of paying its total liabilities with its income earned for the year 2012.

The 2012 positive result of operation accelerated the equity of the group from last year 2011. This has caused the improvement in the debt to equity ration of the company.

The group exhibited positive return on equity and return on assets for the year 2012 as against 2011. This was driven by the group's equity and total assets manifesting growth of 7% and 10% respectively as well as the outstanding increase in the group's after tax income.

Revenue Growth of 590.60% was brought about the sale of AG&P shares. On January 31, 2012, the Company, together with the other owners of AGP International preferred shares, entered into a Share Purchase Agreement with AGP International to sell its 26,086,957 Series A Preferred shares to the latter for \$0.40 cents per share. There has been also a gain of ₱1.27M on the sale of foreign bonds. The subsidiary recognized sale on real estate amounting to ₱20M for the year 2012. The group also earned dividend income from various domestic and foreign equities amounting to ₱4.3M.

The group's net income for the year 2012 showed 1505% increase as against year 2011 driven by an outstanding increase in the revenue.

#### 2011 VS 2010

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

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

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

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

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

Earnings before interest taxes depreciation and amortization (EBITDA) for 2010 was at PHP 33.62 million though the company has negative changes in its revenue growth.

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

Key Financial Ratios	Formula
Revenue growth	(Total Revenues (current period) - Total Revenues (prior period))/Total Revenues (prior period)
Net income growth	Net Income (after tax) (current period)/ Net income (prior period, after tax)
Solvency Ratio	(After Tax Net Income+Depreciation)/Total Liabilities
EBITDA	Income from operations plus depreciation and amortization
Asset to Equity Ratio	Total Assets/Total Equity
Return on equity (ROE)	Net income/ Equity
Return on assets (ROA)	Net income/ Total Assets
Current/Liquidity ratio	Current Assets/ Current Liabilities

Debt-to-equity ratio	Total Liabilities/ Equity
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#### PROSPECTS FOR THE FUTURE

The outlook for South China in the coming years is quite optimistic. Even with the refocus in business interests, new opportunities seem to look very promising and are discussed below.

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

The Company continues to review potential energy resources as it explores entry into opportunities in other conventional and renewable energy resources.

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

#### (2) 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 and development.

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

#### (3) Prospects for Agro-based businesses

The Company is also looking into food production. We believe in the thesis that rising incomes in the Asian region will drive greater protein consumption. We are currently identifying large tracts of land suitable for agro-industrial complexes for food production.

#### KEY VARIABLE AND OTHER QUALITATIVE AND QUANTITATIVE FACTORS

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

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

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

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

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

The material changes for this year in comparison with the prior year-end based on line items in the comparative financial statements as of December 31, 2012, 2011 and 2010 are summarized as follows:

In Millions   2012   2011   2010   2012 vs 2011   2010   2011 vs 2010	ACCOUNTS	For the Period Ended December 31		% CHANGE		
Satement of Financial Position   Cash & Cash Equivalents   659.44   730.16   893.08   -9.69%   -18.24%   Receivables   4858   8.38   10.91   479.88%   -23.20%   Real Estate for Sale   660.06   447.62   - 47.46%   100.00%   Due from Related Parties   7.292   451.0   3.80%   55.77%   Prepayments & Other Current Assets   14.84   17.69   9.13   -16.14%   93.84%   Noncurrent Asset Held for Sale   - 31.72   - 100.00%   100.00%   Property & Equipment   19.17   21.05   6.10   -8.89%   245.09%   Deferred Exploration Cost   - 21.56   1.69   -100.00%   117.399%   Investment Property   - 321.05   - 321.05   - 100.00%   Other Noncurrent Assets   34.88   3.82   2.40   812.42%   59.48%   Accounts Payable & other Liabilities   88.11   43.31   0.71   103.43%   5962.85%   Accounts Payable & other Liabilities   132   - 100.00%   Deferred Tax Liabilities   132   - 100.00%   -100.00%   Deferred Tax Liabilities   132   - 100.00%   Retained Earnings - Unappropriated   43653   336.68   341.92   29.66%   -1.53%   Retained Earnings - Unappropriated   43653   336.68   341.92   29.66%   -1.53%   Retained Earnings - Unappropriated   43653   336.68   341.92   29.66%   -1.53%   Retained Financial Assets   10.4   0.58   - 80.06%   100.00%   Statement of Comprehensive Income   26.77   34.17   51.50   -21.66%   -3.36.5%   Interest Income   26.77   34.17   51.50   -21.66%   -3.36.5%   Interest Income   430   0.17   0.0010   2491.99%   16409.25%   Gain on Sale of Financial Assets   1.27   - 100.00%   Proviging Exchange Gain   - 0.0003   -100.00%   100.00%   COST AND EXPENSES   - 0.0003   -100.00%   100.00%   COST AND EXPENSES   - 0.0003   -100.00%   100.00%   Proviging Exchange Gain   - 0.0003   -100.00%   100.00%   Rent and utilities   3.07   1.32   0.64   133.18%   104.53%   Foresional Fees   23.48   7.91   2.28   196.74%   246.79%   Product presentation   - 9.99   2.81   6.17   255.23%   544.59%   Profuct presentation   - 0.000   - 0.000   - 0.000   Cost of Real Estate Sold   - 1.000   - 0.000   - 0.000   Rent and utilities   3.07   3.47   0	In Millions	2012	<u>2011</u>	<u>2010</u>	2012 vs 2011	2011 vs 2010
Receivables	Statement of Financial Position					
Real Estate for Sale	Cash & Cash Equivalents	659.44	730.16	893.08	-9.69%	-18.24%
Due from Related Parties	Receivables	48.58	8.38	10.91	479.88%	-23.20%
Prepayments & Other Current Assets   14.84   17.69   9.13   -16.14%   93.84%     Noncurrent Asset Held for Sale   - 31.72  100.00%   100.00%     Property & Equipment   19.17   21.05   6.10   -8.89%   245.99%     Deferred Exploration Cost   - 21.56   1.69   -100.00%   1173.99%     Investment Property   - 321.05   -100.00%     Investment Property   - 321.05   -100.00%     Investment Property   - 321.05   -100.00%     Other Noncurrent Assets   34.88   3.82   2.40   812.42%   59.48%     Accounts Payable & other Liabilities   88.11   43.31   0.71   103.43%   5962.85%     Income Taxes Payable   7.76   0.02   0.12   35228.85%   -81.60%     Deferred Tax Liabilities   1.32   - 100.00%     Retained Earnings - Unappropriated   436.53   336.68   341.92   29.66%   -1.53%     Treasury Stocks   1.04   0.58   - 80.06%   100.00%     Statement of Comprehensive Income   REVENUES	Real Estate for Sale	660.06	447.62	-	47.46%	100.00%
Noncurrent Asset Held for Sale	Due from Related Parties	72.92	70.25	45.10	3.80%	55.77%
Property & Equipment   19.17	Prepayments & Other Current Assets	14.84	17.69	9.13	-16.14%	93.84%
Deferred Exploration Cost   -   21.56   1.69   -100.00%   1173.99%   Investment Property   -   321.05   -100.00%   1173.99%   Investment Property   -   321.05   -100.00%   -100.00%   Other Noncurrent Assets   34.88   3.82   2.40   812.42%   59.48%   Accounts Payable & other Liabilities   88.11   43.31   0.71   103.43%   5962.85%   Income Taxes Payable   7.76   0.02   0.12   35228.85%   -81.60%   Deferred Tax Liabilities   1.32   -   100.00%   Treasury Stocks   1.04   0.58   -   80.06%   100.00%   Statement of Comprehensive Income   Treasury Stocks   1.04   0.58   -   80.06%   100.00%   Statement of Comprehensive Income   Treasury Stocks   1.04   0.58   -     100.00%   Statement of Comprehensive Income   26.77   34.17   51.50   -21.66%   -33.65%   Interest Income   26.77   34.17   51.50   -21.66%   -33.65%   Sale of Real Estate   20.30   -     -   100.00%   Sale of HTM Investments   1.27   -   100.00%   Income   1.28   Income   1.28   Income   1.29	Noncurrent Asset Held for Sale	-	31.72	-	-100.00%	100.00%
Deferred Exploration Cost   -   21.56   1.69   -100.00%   1173.99%   Investment Property   -   321.05   -100.00%   1173.99%   Investment Property   -   321.05   -100.00%   -100.00%   Other Noncurrent Assets   34.88   3.82   2.40   812.42%   59.48%   Accounts Payable & other Liabilities   88.11   43.31   0.71   103.43%   5962.85%   Income Taxes Payable   7.76   0.02   0.12   35228.85%   -81.60%   Deferred Tax Liabilities   1.32   -   100.00%   Treasury Stocks   1.04   0.58   -   80.06%   100.00%   Statement of Comprehensive Income   Treasury Stocks   1.04   0.58   -   80.06%   100.00%   Statement of Comprehensive Income   Treasury Stocks   1.04   0.58   -     100.00%   Statement of Comprehensive Income   26.77   34.17   51.50   -21.66%   -33.65%   Interest Income   26.77   34.17   51.50   -21.66%   -33.65%   Sale of Real Estate   20.30   -     -   100.00%   Sale of HTM Investments   1.27   -   100.00%   Income   1.28   Income   1.28   Income   1.29	Property & Equipment	19.17	21.05	6.10	-8.89%	245.09%
Other Noncurrent Assets         34.88         3.82         2.40         812.42%         59.48%           Accounts Payable & other Liabilities         88.11         43.31         0.71         103.43%         5962.85%           Income Taxes Payable         7.76         0.02         0.12         35228.85%         -81.60%           Deferred Tax Liabilities         1.32         -         -         100.00%           Retained Earnings - Unappropriated         436.53         336.68         341.92         29.66%         -1.53%           Treasury Stocks         Statement of Comprehensive Income         1.04         0.58         -         80.06%         100.00%           Statement of Comprehensive Income         26.77         34.17         51.50         -21.66%         -33.65%           Sale of Financial Assets         183.59         -         -         100.00%         Increst Incress In		-	21.56	1.69	-100.00%	1173.99%
Other Noncurrent Assets         34.88         3.82         2.40         812.42%         59.48%           Accounts Payable & other Liabilities         88.11         43.31         0.71         103.43%         5962.85%           Income Taxes Payable         7.76         0.02         0.12         35228.85%         -81.60%           Deferred Tax Liabilities         1.32         -         -         100.00%           Retained Earnings - Unappropriated         436.53         336.68         341.92         29.66%         -1.53%           Treasury Stocks         Statement of Comprehensive Income         1.04         0.58         -         80.06%         100.00%           Statement of Comprehensive Income         26.77         34.17         51.50         -21.66%         -33.65%           Sale of Financial Assets         183.59         -         -         100.00%         Increst Incress In	Investment Property	-	-	321.05		-100.00%
Accounts Payable & other Liabilities		34.88	3.82	2.40	812.42%	59.48%
Deferred Tax Liabilities		88.11	43.31	0.71	103.43%	5962.85%
Retained Earnings - Unappropriated   436.53   336.68   341.92   29.66%   -1.53%   Treasury Stocks   1.04   0.58   -   80.06%   100.00%   Statement of Comprehensive Income   REVENUES	Income Taxes Payable	7.76	0.02	0.12	35228.85%	-81.60%
Retained Earnings - Unappropriated   436.53   336.68   341.92   29.66%   -1.53%   Treasury Stocks   1.04   0.58   -   80.06%   100.00%   Statement of Comprehensive Income   REVENUES	Deferred Tax Liabilities	1.32	-	-	100.00%	
Treasury Stocks         1.04         0.58         -         80.06%         100.00%           REVENUES         Sale of Financial Assets         183.59         -         -         100.00%           Interest Income         26.77         34.17         51.50         -21.66%         -33.65%           Sale of Real Estate         20.30         -         -         100.00%           Dividend Income         4.30         0.17         0.0010         2491.99%         16409.25%           Gain on Sale of HTM Investments         1.27         -         -         100.00%         100.00%           Foreign Exchange Gain         -         0.0003         -         -100.00%         100.00%           COST AND EXPENSES         -         -         100.00%         100.00%           Cost of Real Estate Sold         14.56         -         -         100.00%           Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Professional Fees         23.48         7.91         2.28         196.74%         246.79%           Product presentation         4.14         2.21         -         87.26%         100.00%           Rent and utilities         3.07		436.53	336.68	341.92	29.66%	-1.53%
REVENUES         Gain on Sale of Financial Assets         183.59         -         -         100.00%           Interest Income         26.77         34.17         51.50         -21.66%         -33.65%           Sale of Real Estate         20.30         -         100.00%         -           Dividend Income         4.30         0.17         0.0010         2491.99%         16409.25%           Gain on Sale of HTM Investments         1.27         -         100.00%         100.00%           Foreign Exchange Gain         -         0.0003         -         -100.00%         100.00%           COST AND EXPENSES         -         -         100.00%         -         100.00%         100.00%           Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Profluct presentation         4.14         2.21         -         87.26%         100.00%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53% <t< td=""><td></td><td>1.04</td><td>0.58</td><td>-</td><td>80.06%</td><td>100.00%</td></t<>		1.04	0.58	-	80.06%	100.00%
REVENUES         Gain on Sale of Financial Assets         183.59         -         -         100.00%           Interest Income         26.77         34.17         51.50         -21.66%         -33.65%           Sale of Real Estate         20.30         -         100.00%         -           Dividend Income         4.30         0.17         0.0010         2491.99%         16409.25%           Gain on Sale of HTM Investments         1.27         -         100.00%         100.00%           Foreign Exchange Gain         -         0.0003         -         -100.00%         100.00%           COST AND EXPENSES         -         -         100.00%         -         100.00%         100.00%           Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Profluct presentation         4.14         2.21         -         87.26%         100.00%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53% <t< td=""><td>Statement of Comprehensive Income</td><td></td><td></td><td></td><td></td><td></td></t<>	Statement of Comprehensive Income					
Interest Income	•					
Sale of Real Estate         20.30         -         -         100.00%           Dividend Income         4.30         0.17         0.0010         2491.99%         16409.25%           Gain on Sale of HTM Investments         1.27         -         -         100.00%           Foreign Exchange Gain         -         0.0003         -         -100.00%         100.00%           COST AND EXPENSES         -         -         100.00%         -         100.00%           Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Professional Fees         23.48         7.91         2.28         196.74%         246.79%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation a	Gain on Sale of Financial Assets	183.59	-	-	100.00%	
Dividend Income   4.30	Interest Income	26.77	34.17	51.50	-21.66%	-33.65%
Gain on Sale of HTM Investments         1.27         -         -         100.00%           Foreign Exchange Gain         -         0.0003         -         -100.00%         100.00%           COST AND EXPENSES         -         -         100.00%         -         -100.00%         -           Personnel costs         17.34         10.81         3.15         60.38%         243.42%         -         Professional Fees         23.48         7.91         2.28         196.74%         246.79%         240.79%         Product presentation         4.14         2.21         -         87.26%         100.00%         100.00%         Commissions & incentives         1.98         0.05         -         3764.80%         100.00%         100.00%         Rent and utilities         3.07         1.32         0.64         133.18%         104.53%         104.53%         110.00%         -         57.33%         17avel and transportation         9.99         2.81         6.17         255.23%         -54.45%         Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%         Supplies         1.15         0.62         0.16         83.98%         291.30%         Advertising, Telecommunications and postage         15.57         7.87	Sale of Real Estate	20.30	-	-	100.00%	
Foreign Exchange Gain   -   0.0003   -   -100.00%   100.00%	Dividend Income	4.30	0.17	0.0010	2491.99%	16409.25%
COST AND EXPENSES         14.56         -         -         100.00%           Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Professional Fees         23.48         7.91         2.28         196.74%         246.79%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%	Gain on Sale of HTM Investments	1.27	-	-	100.00%	
COST AND EXPENSES         14.56         -         -         100.00%           Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Professional Fees         23.48         7.91         2.28         196.74%         246.79%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%	Foreign Exchange Gain	-	0.0003	-	-100.00%	100.00%
Personnel costs         17.34         10.81         3.15         60.38%         243.42%           Professional Fees         23.48         7.91         2.28         196.74%         246.79%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         1	0 0					
Professional Fees         23.48         7.91         2.28         196.74%         246.79%           Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -	Cost of Real Estate Sold	14.56	-	-	100.00%	
Product presentation         4.14         2.21         -         87.26%         100.00%           Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Insurance         0.27         0.07         -         281.83%<	Personnel costs	17.34	10.81	3.15	60.38%	243.42%
Commissions & incentives         1.98         0.05         -         3764.80%         100.00%           Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83	Professional Fees	23.48	7.91	2.28	196.74%	246.79%
Rent and utilities         3.07         1.32         0.64         133.18%         104.53%           Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.0	Product presentation	4.14	2.21	-	87.26%	100.00%
Trainings and seminars         1.41         0.11         0.31         1229.80%         -65.73%           Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         100.00%         -	Commissions & incentives	1.98	0.05	-	3764.80%	100.00%
Travel and transportation         9.99         2.81         6.17         255.23%         -54.45%           Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -	Rent and utilities	3.07	1.32	0.64	133.18%	104.53%
Depreciation and amortization         5.89         3.42         2.58         72.38%         32.73%           Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -           Foreign Exchange Losses         17.46         -         -         100.00%         -     <	Trainings and seminars	1.41	0.11	0.31	1229.80%	-65.73%
Supplies         1.15         0.62         0.16         83.98%         291.30%           Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -           Foreign Exchange Losses         17.46         -         -         100.00%         -           Interest Expense         0.03         0.02         -         71.69%         100.00%	Travel and transportation	9.99	2.81	6.17	255.23%	-54.45%
Advertising, Telecommunications and postage         15.57         7.87         0.54         97.79%         1350.91%           Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -           Foreign Exchange Losses         17.46         -         -         100.00%         -           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale         -         -         100.00%         -         - </td <td>Depreciation and amortization</td> <td>5.89</td> <td>3.42</td> <td>2.58</td> <td>72.38%</td> <td>32.73%</td>	Depreciation and amortization	5.89	3.42	2.58	72.38%	32.73%
Repairs & maintenance         0.22         0.06         0.12         249.89%         -47.23%           Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -100.00%           Foreign Exchange Losses         17.46         -         -         100.00%         -100.00%           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale         32.15         -         -         100.00%         -94.97%	Supplies	1.15	0.62	0.16	83.98%	291.30%
Taxes and licenses         4.00         1.40         1.06         185.63%         32.15%           Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -100.00%           Foreign Exchange Losses         17.46         -         -         100.00%         -100.00%           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale         32.15         -         -         100.00%         -94.97%           Equity in Net Losses of an Associates         -         (0.11)         (2.28)         -100.00%         -94.97%	Advertising, Telecommunications and postage	15.57	7.87	0.54	97.79%	1350.91%
Business Development Cost         0.49         0.13         -         277.18%         100.00%           Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -100.00%           Foreign Exchange Losses         17.46         -         -         100.00%         -100.00%           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale         32.15         -         -         100.00%           Equity in Net Losses of an Associates         -         (0.11)         (2.28)         -100.00%         -94.97%	Repairs & maintenance	0.22	0.06	0.12	249.89%	-47.23%
Dues and subscription         0.54         0.09         -         480.30%         100.00%           Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -100.00%           Foreign Exchange Losses         17.46         -         -         100.00%         -           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale         32.15         -         -         100.00%           Equity in Net Losses of an Associates         -         (0.11)         (2.28)         -100.00%         -94.97%	Taxes and licenses	4.00	1.40	1.06	185.63%	32.15%
Insurance         0.27         0.07         -         281.83%         100.00%           Write-off of project advances         4.13         -         -         100.00%           Write-off of deferred exploration costs         21.63         -         -         100.00%           Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -100.00%           Foreign Exchange Losses         17.46         -         -         100.00%         -           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale         32.15         -         -         100.00%           Equity in Net Losses of an Associates         -         (0.11)         (2.28)         -100.00%         -94.97%	Business Development Cost	0.49	0.13	-	277.18%	100.00%
Write-off of project advances       4.13       -       -       100.00%         Write-off of deferred exploration costs       21.63       -       -       100.00%         Prov. for impair. loss on AFS fin. assets       0.01       -       0.50       100.00%       -100.00%         Foreign Exchange Losses       17.46       -       -       100.00%         Interest Expense       0.03       0.02       -       71.69%       100.00%         Gain on Sale of Noncurrent Asset Held for Sale       32.15       -       -       100.00%         Equity in Net Losses of an Associates       -       (0.11)       (2.28)       -100.00%       -94.97%	Dues and subscription	0.54	0.09	-	480.30%	100.00%
Write-off of deferred exploration costs       21.63       -       -       100.00%         Prov. for impair. loss on AFS fin. assets       0.01       -       0.50       100.00%       -100.00%         Foreign Exchange Losses       17.46       -       -       100.00%         Interest Expense       0.03       0.02       -       71.69%       100.00%         Gain on Sale of Noncurrent Asset Held for Sale       32.15       -       -       100.00%         Equity in Net Losses of an Associates       -       (0.11)       (2.28)       -100.00%       -94.97%	Insurance	0.27	0.07	-	281.83%	100.00%
Prov. for impair. loss on AFS fin. assets         0.01         -         0.50         100.00%         -100.00%           Foreign Exchange Losses         17.46         -         -         100.00%           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale Equity in Net Losses of an Associates         -         (0.11)         (2.28)         -100.00%         -94.97%	Write-off of project advances	4.13	-	-	100.00%	
Foreign Exchange Losses         17.46         -         -         100.00%           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale Equity in Net Losses of an Associates         -         -         100.00%         -94.97%	Write-off of deferred exploration costs	21.63	-	-	100.00%	
Foreign Exchange Losses         17.46         -         -         100.00%           Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale Equity in Net Losses of an Associates         -         -         100.00%         -94.97%	Prov. for impair. loss on AFS fin. assets	0.01	-	0.50	100.00%	-100.00%
Interest Expense         0.03         0.02         -         71.69%         100.00%           Gain on Sale of Noncurrent Asset Held for Sale Equity in Net Losses of an Associates         32.15         -         -         100.00%           Equity in Net Losses of an Associates         -         (0.11)         (2.28)         -100.00%         -94.97%	•	17.46	-	-		
Gain on Sale of Noncurrent Asset Held for Sale 32.15 - 100.00%  Equity in Net Losses of an Associates - (0.11) (2.28) -100.00% -94.97%			0.02	-		100.00%
Equity in Net Losses of an Associates - (0.11) (2.28) -100.00% -94.97%	•			-		
			(0.11)	(2.28)		-94.97%
rrovision for income Tax   12.82   0.09   0.12   14795.44%   -27.86%	Provision for Income Tax	12.82	0.09	0.12	14795.44%	-27.86%
Net Gains/(Losses) on AFS Financial Assets 8.11 (7.28) 15.68 211.36% -146.44%						

### Discussion for 2012 VS 2011

## 9.69% Decrease in Cash & Cash Equivalents

There has been decreases in the time deposits of the group due to the disbursement requirements by the subsidiary, SOC Land. There is also a decrease in interest earned for those investments due to the decrease in market interest rates from 4.60% to 4.05%, 2012 and 2011 respectively. The group also made an acquisition of domestic and foreign shares of stocks and bonds amounting to ₱123M.

#### 479.88% Increase in Receivables

The increase was brought about by the 50% not yet collected from Security Bank on sale of Premiere Shares. Said amount is collectible on 2013.

#### 47.46% Increase in Real Estate for Sale

This was due to additional cost capitalized as part of the inventory. Percentage of completion this year totals to 54.7% as compared to 11.4% of last year. Construction of Tandem Bldg 1 was in full blast this year in relation to the target completion of the project by October 2013.

#### 16.14% Decrease in Prepayments & other Assets

Mainly due to decrease in Input VAT.

#### 100% Decrease in Noncurrent Asset Held For Sale

On June 1, 2011, the Parent Company, together with other shareholders, entered into a Share Purchase Agreement (the Agreement) with Security Bank Corporation for the sale of their common shares in PDB. The sellers are the legal owners of an aggregate of 7,071,263 common shares in PDB, representing 96.42% of the issued and outstanding capital stock of PDB. Under the Agreement, the price per share amounted to P181.7 which resulted to a total share consideration of P1.3 billion. Under the agreement, the Parent Company agreed to sell its 351,454 shares of PDB for P63.9 million.

As a result of the Agreement, the Parent Company reclassified its investment in PDB amounting to P31.7 million as held for sale and presented it under "Noncurrent asset held for sale" account in the consolidated statement of financial position as of December 31, 2011. On January 20, 2012, the Monetary Board of the BSP approved the transaction contemplated in the Agreement. The Parent Company recognized a gain on sale amounting to P32.2 million. The receivable from Security Bank Corporation amounted to P31.9 million as of December 31, 2012 and is expected to be collected within the next financial year.

#### 8.89% Decrease in Property and Equipment

Mainly due to depreciation as the account was presented net of depreciation. The construction and furnishing of the Marketing Office of the subsidiary SOC Land, which also houses the model units, was completed and capitalized in the year 2012.

#### 100% Deferred Exploration Cost

The full amount was written off on the year 2012.

#### 812.42% Increase in Other Noncurrent Assets

Noncurrent Input VAT.

#### 5962.85% Increase in Accounts Payable & Other Liabilities

Mostly payable to contractors.

#### 35,228% Increase in Income Taxes Payable

This is due to the 2012 provision for income taxes amounting to ₱12.82M.

#### 100% Deferred tax Liabilties

Deferred tax recognized directly in equity as of December 31, 2012 consists of unrealized gain on changes in fair value of AFS financial assets amounting to P1.3 million.

#### 29.66% Retained Earnings – Unappropriated

The increase in retained earnings was brought about by the 590.60% increase in revenue from year 2011 to 2012 that resulted to an increase of 1,509.69% increase in the bottomline figures.

#### 80.06% Increase in Treasury Stocks

The company purchased 407,000 shares of its own shares.

#### 100% Gain on Sale of AFS Financial Assets

In 2012, The Parent Company recognized gain on the sale of its shares in AGP International amounting to ₽184.3 million ,and ₱0.87M on sale of its foreign AFS financial assets.

### 33.65% Decrease in Interest Income

Due to the decreasing interest rates on short term investments.

#### 100% Increase in Sale of Real Estate

SOC Land's License to Sell (LTS) was released by the HLURB on December 14, 2011. As of December 31,2012, Sales amounting to ₱20.30 Million was recognized

#### 2492% Increase in Dividend Income

The company earned ₱2.06M and ₱2.24M dividend from domestic and foreign shares of stocks respectively.

#### 100% Increase in Gain on Sale of Held to Maturity Investments (HTM)

This pertains to gain on sale of China Overseas Bonds and Henderson Bonds amounting to ₱1.27M.

#### 100% Increase in Cost of Real Estate Sold

Increase in these accounts is basically due to the recognition of sales and corresponding costs from buyers who have paid in full their TCP or the 20% downpayment as of December 31, 2012.

#### 60.38% Increase in Personnel Cost

Mainly due to increase personnel in the subsidiary, SOC Land.

#### 196.74% Increase in Professional Fees

Services of various consultants for the subsidiary, SOC Land were engaged this year to assist management in the evaluation and organization of the back-office. Several legal counsels were likewise engaged to review and/or prepare contract agreements and handle various litigations in behalf of the company and its officers. There are also increases in audit fees for the year 2012.

#### 3764% Increase in Commission and Incentives

Since there was increase in sales and collections, claims for commission were likewise processed and paid during the year.

#### 104.53% Rent and Utilities

With the transfer of the subsidiary, SOC Land in YL Building the rent and uitilities expenses increased.

#### 1229.80% Increase in Trainings & Seminars

Cost incurred for trainings attended by the employees and sellers orientation for the year 2012.

#### 255.23% Increase in Travel and Transportation

This pertains to gasoline and other business travel cost.

#### 72.38% Increase in Depreciation

As a result of the increase in the Property and Equipment, depreciation likewise increased.

#### 97.79% Increase in Advertising, Telecommunication & Postage

Extensive advertising campaign was implemented in 2012 with the use of print ads, bus ads, billboards, banners and other collaterals.

#### 249.89% Increase in Repairs and Maintenance

This cost pertains to repairs and maintenance incurred for service vehicles.

#### 185.63% Increase in Taxes and Licences

This pertains to capital gains tax paid for gain on sale of Premiere shares, mayor's permit and real property taxes.

## 277.18% Increase in Business Development Costs

Increase in manpower has resulted to the increase in this cost.

#### 480.30% Increase in Dues and Subscription

This cost pertains to the entrance fee and transfer fee for one share of Wackwack Golf and Country Club.

#### 281.83% Increase in Insurance

Bulk of this expense pertains to the health insurance given to employees of the subsidiary, SOC Land.

### 100% Write-off of Expenses

In 2012, following the Consortium's decision not to pursue the extension, the Parent Company's management decided to write-off the balance of deferred exploration costs related to SC-60 amounting to P21.6 million, composed of the balance as of December 31, 2011 and P70,000 paid during the year. The parent company also wrote off expenses amounting to P4.13M incurred on the research and study phase for other ventures such as in mining and cassava.

#### 100% Increase in Provision for Impairment on AFS Financial Assets

The parent company recognized impairment on its 700 shares of PLDT amounting to ₱7,262.

#### 100% Increase in Gain on Sale of Noncurrent Asset Held For Sale

On January 20, 2012, the Monetary Board of the BSP approved the sale of Premiere to Security Bank. The Parent Company recognized a gain on sale amounting to P32.2 million.

#### Discussion for 2011 VS 2010

#### 243.2% Increase in Personnel Cost

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

#### 32.73% Increase in Depreciation & Amortization

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

#### 54.45% Decrease in Travel & Representation

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

#### 246.79% Increase in Professional Fees

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

#### 32.15% Increase in Taxes & Licenses

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

#### 104.53% Increase in Rent & Utilities

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

#### 253.71% Increase in Advertising, Telecommunication & Postage

The increase in advertising, telecommunication & postage was brought about by the start of commercial operation of the subsidiary. The cost is more of the advertising expense due to extensive campaign to introduce the condominium units to the market.

#### 291.3% Increase in Supplies

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

#### 65.73% Increase in Trainings & Seminars

Due to increase in seminars and assemblies for various purposes held and attended for the year 2011.

#### 47.23% Decrease in Repairs & Maintenance

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

#### 100.00% Decrease on Provision for Impairment on AFS

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

#### 141.86% Increase in Other Cost

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

#### 94.97% Decrease in equity in Net Losses of Associates

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

#### 27.86% Decrease in Provision for Current Income tax

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

#### 18.24% Decrease in Cash & Cash Equivalents

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

#### Cash Inflows:

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

#### Cash Outflows:

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

#### 23.20% Decrease in Accounts Receivable

The decrease in accounts receivable represents the lesser interest income accrued on placements as of the year ending December 31.2011.

#### 55.77% Increase in Due from Related Parties

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

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

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

#### 93.84% in Prepayments & Other Current Assets

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

#### 100.00% Increase in Noncurrent Assets Held for Sale

As of December 31, 2011, the Group reclassified its investment in PDB amounting to ₱31.7 million as held for sale and presented it under "Noncurrent asset held for sale" account in the consolidated statement of financial position.

#### 1173.99% Increase in Deferred Cost

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

#### 245.09% Increase in Property & Equipment

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

#### 100.00% Decrease in Investment in Associate

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

#### 100.00% Decrease in Investment Property

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

#### 59.48% Increase in Other Noncurrent Assets

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

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

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

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

#### 100.00% Increase in Treasury Stocks

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

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### **Basis of Preparation**

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

#### Statement of Compliance

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

#### **Basis of Consolidation**

The consolidated financial statements include the accounts of the Parent Company and its wholly owned subsidiary, SOC Land. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when such control ceases. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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.

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. 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.

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except, for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011. Unless otherwise indicated, adoption of these new and amended standards or interpretations did not have any significant impact to the consolidated financial statements..

#### PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments)

The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

Philippine Accounting Standard (PAS) 12, Income Taxes - Deferred Tax: Recovery of Underlying Assets (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The Group has no investment property measured at fair value.

### Standards Issued but not yet Effective

The Group will adopt the following new, revised and amended PFRS, PAS and Philippine Interpretations enumerated below, as applicable, when these become effective. The Group does not expect the adoption of these PFRS and Philippine Interpretations to have significant impact on its financial statements in the period of initial application, unless stated otherwise.

#### Effective in 2013

PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments) These amendments require an entity to disclose information about rights of set-off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set-off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangement or 'similar agreement', irrespective of whether they are set-off in accordance with PAS 32. The amendments require entities to disclose, in a tabular format unless another format is more appropriate, the following minimum quantitative information. This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

a) The gross amounts of those recognized financial assets and recognized financial liabilities;

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

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

#### PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, Consolidation - Special Purpose Entities. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of PFRS 10 will have no impact on the Group's financial position or performance.

### PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interest in Joint Venture* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The adoption of PFRS 11 will have no impact on the Group's financial position or performance.

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

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will have no impact on the Group's financial position or performance.

#### PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

## PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments will affect presentation only and have no impact on the Group's financial position or performance.

## PAS 19, Employee Benefits (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented. The Group has no retirement plan and has not recognized any retirement benefit obligation as of December 31, 2012 and as a result, the amendments will not significantly affect the Group's financial position and financial performance.

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

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

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

As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) 20, Stripping Costs in the Production Phase of a Surface Mine

This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance. Effective in 2014

PAS 32, Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities (Amendments) The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance.

#### Effective in 2015

#### PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. Since the impact evaluation is ongoing, the Group have decided not to early adopt PFRS 9 for its consolidated financial statements. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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

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

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

The Annual Improvements to PFRS (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. Earlier application is permitted.

#### PFRS 1, First-time Adoption of PFRS - Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

#### PAS 16, Property, Plant and Equipment - Classification of servicing equipment

The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will have no impact on the Group's financial statements.

PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments
The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Group expects that this amendment will not have significant impact on its financial position or performance.

## PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

#### Summary of Accounting Policies

#### 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. <u>Financial Instruments</u>

## 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, 2012 and 2011 (see Note 19).

#### "Day 1" Difference

Where the transaction price in a non-active market is different from the fair value from 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 profit or loss unless it qualifies for the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of "Day 1" difference.

#### 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 as of December 31, 2012 and 2011.

#### 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, receivables, due from related parties and refundable deposits (see Notes 4, 5, 7 and 16).

#### AFS Financial Assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL. Debt securities under this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in "Unrealized valuation gains (losses) on AFS financial assets" 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 profit or loss as other expenses. Interest earned while holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates its AFS financial assets 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 to do significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. 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. Reclassification to the HTM category 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, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the 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 maturity amount 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 or loss.

The Group's AFS financial assets consist of guoted and unquoted shares, bonds and golf club shares (see Note 8).

#### HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in profit or loss as finance costs.

Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets and the Group will be precluded from using the HTM investments category for the current period and for the next two succeeding periods from the tainting date.

In 2012, the Group initially recognized investment in bonds as HTM investments; however, following the sale of more than an insignificant amount of these investments prior to their maturity, the Group reclassified the remaining portfolio of HTM investments as AFS financial assets (see Note 8).

### Other Financial Liabilities

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

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

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

### Impairment of Financial Assets

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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

### Financial Assets Carried at Amortized Cost

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). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 Financial Assets 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. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original 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.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at fair value. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

### AFS Financial Assets at Cost

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

### Derecognition of Financial Assets and Liabilities

### Financial Assets

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

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

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

#### Financial Liabilities

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

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

### Offsetting Financial Instruments

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

### Real Estate for Sale

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

### Cost includes:

- Land cost
- Amounts paid to contractors for construction
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

### **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.

#### Advances to Contractors

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

### 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 will be used to offset against the Group's current output VAT liabilities. Any excess which will be claimed as tax credits within twelve (12) months or within the normal operating cycle is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position. Otherwise, these are classified as other noncurrent assets. Input VAT is stated at its estimated NRV.

### Noncurrent Asset Held for Sale

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

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

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

### Investment in an Associate

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

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

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

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

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

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

### **Deferred Exploration Costs**

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

Deferred exploration costs are assessed for impairment when:

- the period for which the Group has the right to explore in the specific area has expired during the period or will
  expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
  - sufficient data exists to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36.

### **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:

	2012	2011	
Building	20	5	
Office furniture and equipment	3	1-3	
Transportation equipment	5	5	
Leasehold improvements	2	2	

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized. Fully depreciated items are retained as property and equipment until these are no longer in use.

### **Investment Property**

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

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

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

### **Impairment of Nonfinancial Assets**

The Group assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's 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. This accounting policy applies primarily to the Group's property and equipment.

### Common Stock

The Group has issued common stock that are classified as equity. Common stock is measured at par value for all shares issued.

When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Subscription receivables pertain to the uncollected portion of the subscribed shares.

### **Retained Earnings**

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

### **Treasury Stock**

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

### Revenue Recognition

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

#### Real Estate Sales

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

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented as "Customers' deposits" included under the "Accounts payable and other liabilities" account in the statement of financial position.

### Interest Income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

### Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established, usually upon declaration of the dividends.

### Gain on sale of AFS financial assets and HTM investments

Realized gain or loss on sale of AFS financial assets and HTM investments is recognized in profit or loss when the Group disposes its AFS financial assets and HTM investments. Gain or loss is computed as the difference between the proceeds of the disposal and its carrying amount.

### 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.

### Cost of real estate sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

### Sales and Marketing Expenses

Expenses incurred in the direct selling and marketing activities are generally recognized when the service is incurred or the expense arises.

### General and Administrative Expenses

Expenses incurred in the general administration of day-to-day operation of the Group are generally recognized when the service is used or the expense arises.

### Commission Expense

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Sales and marketing" account in the consolidated statement of comprehensive income. Commission expense incurred but not yet paid as of reporting date is presented as part of "Accounts payable and other liabilities" in the consolidated statement of financial position.

### Income Taxes

### Current Income Tax

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

### Deferred Tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

### Foreign Currency-denominated Transactions

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

### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

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

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

### Basic Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year.

### Diluted Earnings (Loss) Per Share

Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to common equity holders of the Parent Company (after adjusting for interest on convertible preferred shares) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares, excluding treasury shares. Segment Reporting

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

### Provisions

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

### **Borrowing Costs**

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

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

### Contingencies

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

### Events After the Reporting Date

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

#### RESULTS AND PLANS OF OPERATIONS

### SC-60 Offshore Northeast 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. The DOE in its letter dated January 26, 2011 approved the request to defer commitment to enter the third sub-phased to February 10, 2012.

After a thorough review of the results of all studies done on the area, a decision based on the unsubstantial findings of the Silangan well and the CSEM survey, the JV through the operator decided not to proceed with the third sub-phase.

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

### Other Energy, Mineral and Resource Based Opportunities

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 Company is in a favorable situation wherein its current cash position allows it to review other businesses wherein it may invest, including but not exclusive to opportunities in mining, energy projects both conventional and renewable either by farm-in or direct investment.

The Company is also looking into food production. We believe in the thesis that rising incomes in the Asian region will drive greater protein consumption. We are currently identifying large tracts of land suitable for agro-industrial complexes for food production.

### Item 5: MARKET FOR REGISTRANT'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 first quarter ending March 22, 2013, the high, low and closing price is at ₱1.10. As of the trading date April 22, 2013 the high,low and closing price is at ₱1.16. 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 (2012 and 2011).

### **Stock Prices**

	-	
2012	High	Low
First Quarter	1.3000	1.3000
Second Quarter	1.2000	1.2000
Third Quarter	1.1600	1.1600
Fourth Quarter	1.0400	1.0400

2011	High	Low
First Quarter	1.4500	1.4400
Second Quarter	1.2700	1.2400
Third Quarter	1.2100	1.2100
Fourth Quarter	1.1400	1.1400

# (2) Holders

The number of shareholders of record as of April 30, 2013 was 385. Common shares issued as of April 30,2013 were 906,559,568. Total number of common shares outstanding as of April 30,2013 were 904,851,568.

# **Top Twenty (20) Stockholders**

As of April 30, 2013

NO.	HOLDER NAME	TOTAL SHARES	% OWNED	
1	CASTRO, BELEN R.	231,353,122	25.5681	%
2	REYES, EDGARDO P.	229,853,123	25.4023	%
3	REYES, WILFRIDO P.	226,853,123	25.0708	%
4	PCD NOMINEE CORP. (FILIPINO)	168,121,734	18.5800	%
5	PCD NOMINEE CORP. (NON-FILIPINO)	12,417,266	1.3723	%
6	R. COYIUTO SECURITITES, INC.	1,825,000	0.2017	%
7	DE VILLA, LUISMI GALA	808,000	0.0893	%
8	ESCALER, MICHAEL	630,000	0.0696	%
9	PEREZ, MA. GEORGINA V.	610,000	0.0674	%
10	MANGUIAT, REMEDIOS J.	580,000	0.0641	%
11	MANDARIN SECURITIES CORP.	561,000	0.0620	%
12	CRUZ, BENITO T. DELA	520,000	0.0575	%
13	CHUA, ROJAS	500,000	0.0553	%
	ESTRADA, JOSEPH	500,000	0.0553	%
	CABANES, LORETO	500,000	0.0553	%
	LAYOSA, EDNA L.	500,000	0.0553	%
	MERCADO, TERESITA P.	500,000	0.0553	%
	MITRA, RAMON	500,000	0.0553	%
	OSMENA, RAMON	500,000	0.0553	%
14	F. YAP SECURITIES, INC.	440,000	0.0486	%
15	HIGHLAND SECURITIES PHILS.	430,000	0.0475	%
	WEALTH SECURITIES, INC.	430,000	0.0475	%
16	LIM, JOSE ANTONIO O.	412,000	0.0455	%
17	LUYS SECURITIES CO., INC.	410,000	0.0453	%
18	AMARNANI, RAMESH &/OR ANIL AMARNANI	400,000	0.0442	%
	BAYOT, FRANCISCO, JR.	400,000	0.0442	%
	BONDOC, MARGARITA P.	400,000	0.0442	%
	DE LA PAZ, WENCESLAO, R.	400,000	0.0442	%
	DEE, ANTHONY	400,000	0.0442	%
	ORTIGAS, FRANCISCO III	400,000	0.0442	%
	PURA TRADING CORP.	400,000	0.0442	%
	PUYAT REYES, MA. CONSUELO	400,000	0.0442	%
	PUYAT, ARISTEO G.	400,000	0.0442	%
	PUYAT, JOSE G. JR.	400,000	0.0442	%
	SANTOS, CRISANTO	400,000	0.0442	%
19	MARK SECURITIES CORP.	360,000	0.0398	%
20	MARAMBA, FELIX K. JR.	340,000	0.0376	%

### **DIVIDEND DECLARATION**

The Company has no earnings yet from commercial production pertaining to the oil exploration segment of the business hence there were no dividends declared for the period ending December 31, 2012 and two years ending December 31, 2011 and December 31, 2010.

### 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: CORPORATE GOVERNANCE**

The Board of Directors and Management of the corporation hereby commit themselves to the principles and best practices contained in the **Revised Manual on Corporate Governance** and acknowledge that the same may guide the attainment of their corporate goals.

This Manual shall institutionalize the principles of good corporate governance in the entire organization. The Board of Directors and Management, employees and shareholders, believe that corporate governance is a necessary component of what constitutes sound strategic business management and will therefore undertake every effort necessary to create awareness within the organization.

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 has been implementing its formal compliance program such that its officers and employees on various occasions attended training sessions and seminars provided by the PSE, SEC and other third party providers.

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

The Company revised its Corporate Governance Manual in accordance with SEC Memorandum Circular No. 6 Series of 2009.

The Company submitted the PSE Corporate Governance Scorecard on March 27, 2013 in accordance with the deadline set forth by PSE.

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

The management of South China Resources, Inc. and subsidiary is responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2012 and December 31.2011, including the additional components attached therein, in accordance with the Philippines Financial Reporting Standards. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

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

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

Signed under oath by the following:

EDGARDO P. REYES

Clairman Chief Executive Officer

WILFRIDO P. REYES

President

BELEN R. CASTRO

Vice President/Treasurer

ZOSIMO L. PADRO, JR. Vice President - Finance

SUBSCRIBED AND SWORN to before me APR 164y 2013 2013 affiants exhibiting to me their valid government issued identification as follows:

Name	Type	No.	Date of Issue	Place of Issue	Expiry
Edgardo P. Reyes	Passport	XX2550432	Nov.20,2008	DFA, Manila	Nov.19,2013
Wilfrido P. Reyes	Passport	XX2549298	Nov.20,2008	DFA, Manila	Nov.19,2013
Belen R. Castro	Passport	EB0366990	Jun 10,2010	DFA, Manila	Jun 09,2015
Zosimo L. Padro, Jr.	IBP	36869	N/A	Manila	N/A

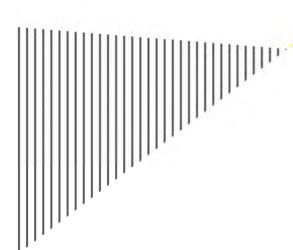
Doc. No.:

Book No.: \_\_\_\_ Series of 2013. NOTARY PUBLIC FOR MAKATICITY
APPOINTMENT NO. M = 35
UNTIL DECEMBER 31,2014
ROLL OF ATTORNEY ACM.
MOLECOMPLIANCE NO. III = 21854

Notary PCIE COMPLIANCE NO. III - 21354 NOTARY PORT TO THE MEMBER PTR NO. 366 - 4329 JAN. 2, 2013 EXECUTIVE BLDG.CENTER.

MAKATI AVE , COR JUPITER ST

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# South China Resources, Inc. and Subsidiary

Consolidated Financial Statements December 31, 2012 and 2011 and for Each of the Three Years in the Period Ended December 31, 2012

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.





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

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

BOA/PRC Reg. No. 0001, December 28, 2012, valid until December 31, 2015 SEC Accreditation No. 0012-FR-3 (Group A), November 15, 2012, valid until November 16, 2015

### INDEPENDENT AUDITORS' REPORT

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

# **Report on the Consolidated Financial Statements**

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, 2012 and 2011, 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, 2012, and a summary of significant accounting policies and other explanatory information.

# Management's Responsibility for the Consolidated Financial Statements

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

# Auditors' Responsibility

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

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

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



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# **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of South China Resources, Inc. and Subsidiary as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

# John Nai Feng C. Ong

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670008, January 2, 2013, Makati City

March 22, 2013



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	Years Ended December 31		
	2012	2011	
ASSETS			
Current Assets			
Cash and cash equivalents (Note 4)	P659,437,345	₽730,161,936	
Receivables (Note 5)	48,575,758	8,376,798	
Real estate for sale (Note 6)	660,056,016	447,615,888	
Due from related parties (Note 16)	72,919,608	70,248,111	
Prepayments and other current assets (Note 7)	14,836,796	17,692,759	
Total Current Assets	1,455,825,523	1,274,095,492	
Noncurrent Asset Held for Sale (Note 9)	_	31,722,243	
Noncurrent Assets			
Available-for-sale (AFS) financial assets (Note 8)	290,576,239	284,849,125	
Property and equipment (Note 10)	19,174,495	21,046,176	
Deferred exploration costs (Note 1)	_	21,563,806	
Other noncurrent assets (Note 11)	34,883,378	3,823,191	
<b>Total Noncurrent Assets</b>	344,634,112	331,282,298	
TOTAL ASSETS	P1,800,459,635	₽1,637,100,033	
LIABILITIES AND EQUITY			
Current Liabilities			
Accounts payable and other liabilities (Note 12)	<b>P</b> 88,105,661	₽43,311,080	
Income tax payable (Note 15)	7,758,921	21,962	
Total Current Liabilities	95,864,582	43,333,042	
Noncurrent Liabilities			
Deferred tax liabilities (Note 15)	1,322,249	_	
Total Noncurrent Liabilities	1,322,249	_	
Total Liabilities	97,186,831	43,333,042	
	77,100,031	73,333,072	
Equity Common stock - P1 par value (Note 17a)			
Authorized - 1,000,000,000 shares			
Issued - 600,489,569 shares in 2012 and 2011	600,489,569	600,489,569	
Subscribed - 306,070,000 shares in 2012 and 2011	, ,		
(net of subscription receivables of ₹229,552,500 as of			
December 31, 2012 and 2011)	76,517,500	76,517,500	
Additional paid-in capital	72,272,140	72,272,140	
Unrealized valuation gains on AFS financial assets - net of	, , -	, , , ,	
deferred tax liability (Note 8)	18,499,717	10,389,619	
Share in unrealized valuation gains on AFS financial assets	-, ,	- , , -	
of an associate (Note 8)	_	_	
Retained earnings			
Appropriated (Note 17b)	500,000,000	500,000,000	
Unappropriated	436,534,628	334,676,163	
Treasury stock (Note 17c)	(1,040,750)	(578,000)	
Equity	1,703,272,804	1,593,766,991	
TOTAL LIABILITIES AND EQUITY	P1,800,459,635	₽1,637,100,033	

See accompanying Notes to Consolidated Financial Statements.



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

	<b>Years Ended December 31</b>			
	2012	2011	2010	
REVENUES				
Gain on sale of AFS financial assets (Note 8)	₽183,593,532	₽–	₽–	
Interest income (Notes 4, 8 and 16)	26,768,573	34,169,434	51,497,524	
Sale of real estate	20,303,767	_	_	
Dividend income (Note 8)	4,300,582	165,918	1,005	
Gain on sale of HTM investments (Note 8)	1,274,911	_	_	
Foreign exchange gains	_	259	_	
Other income (Note 12)	879,933			
	237,121,298	34,335,611	51,498,529	
COSTS AND EXPENSES				
General and administrative expenses (Note 13)	82,555,624	25,299,506	31,085,253	
Sales and marketing expenses (Note 14)	39,986,088	16,077,086	705,483	
Foreign exchange losses	17,460,202	_	13,397	
Cost of real estate sold (Note 6)	14,558,716	_	_	
Interest expense (Note 10)	30,427	17,722	_	
	154,591,057	41,394,314	31,804,133	
GAIN ON SALE OF NONCURRENT ASSET HELD				
FOR SALE (Note 9)	32,153,046	_	_	
<b>EQUITY IN NET LOSSES OF AN ASSOCIATE</b> (Note 9)	_	(114,740)	(2,280,818)	
SHARE IN UNREALIZED VALUATION GAINS ON				
AFS FINANCIAL ASSETS OF AN ASSOCIATE				
(Note 9)		13,393		
INCOME (LOSS) BEFORE INCOME TAX	114,683,287	(7,160,050)	17,413,578	
PROVISION FOR INCOME TAX (Note 15)	12,824,822	86,099	119,358	
NET INCOME (LOSS)	101,858,465	(7,246,149)	17,294,220	
OTHER COMPREHENSIVE INCOME (LOSS)	, ,			
Net gains (losses) on AFS financial assets (Note 8)	8,110,098	(7,282,929)	15,682,905	
Share in unrealized valuation gains (losses) on AFS financial	0,110,020	(1,202,727)	13,002,703	
assets of an associate (Note 9)	_	(13,393)	71,850	
	8,110,098	(7,296,322)	15,754,755	
TOTAL COMPREHENSIVE INCOME (LOSS)	₽109,968,563	(P14,542,471)	₽33,048,975	
	<u> </u>	· · · · · · · · · · · · · · · · · · ·		
Basic/Diluted Earnings (Loss) Per Share (Note 18)	₽0.1266	(\textbf{P}0.0080)	₽0.0190	

See accompanying Notes to Consolidated Financial Statements.



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

	Years Ended December 31			
	2012	2011	2010	
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) before income tax	P114,683,287	(¥7,160,050)	₽17,413,578	
Adjustments for:	£11 <b>4</b> ,003,207	(£7,100,030)	£17, <del>4</del> 13,370	
Write-off of:				
Deferred exploration costs (Note 1)	21,633,806	_	_	
Project advances (Note 11)	4,128,213	_	_	
Unrealized foreign exchange losses (gains)	16,644,348	(259)	13,397	
Depreciation and amortization (Note 10)	5,894,159	3,419,289	2,576,190	
Provision for impairment loss on:	3,074,139	3,419,209	2,370,190	
AFS financial assets (Note 8)	7,263		499,356	
Deferred exploration costs (Note 1)	7,203	_	13,248,734	
Gain on sale of:	_	_	13,240,734	
	(192 502 522)			
AFS financial assets (Note 8)	(183,593,532)	_	_	
Noncurrent asset held for sale (Note 9)	(32,153,046)	_	_	
HTM investments (Note 8)	(1,274,911)	(24.160.424)	(51.407.524)	
Interest income (Notes 4, 8 and 16)	(26,768,573)	(34,169,434)	(51,497,524)	
Dividend income (Note 8)	(4,300,582)	(165,918)	(1,005)	
Equity in net losses of an associate (Note 9)	_	114,740	2,280,818	
Share in unrealized valuation gains on AFS financial		(12.202)		
assets of an associate (Note 9)	(05,000,500)	(13,393)	(15.466.456)	
Operating loss before working capital changes	(85,099,568)	(37,975,025)	(15,466,456)	
Decrease (increase) in:	(212 110 120)	(106 565 606)		
Real estate for sale	(212,440,128)	(126,567,636)	(2.076.410)	
Receivables	(8,261,316)	(3,225,787)	(3,876,419)	
Prepayments and other current assets	2,855,963	(8,557,192)	(8,825,214)	
Other noncurrent assets	(34,883,378)	40.506.710	12.500	
Increase in accounts payable and other liabilities	44,794,581	42,596,712	13,588	
Net cash used in operations	(293,033,846)	(133,728,928)	(28,154,501)	
Interest received	18,276,103	39,778,474	44,650,862	
Income tax paid	(5,087,863)	(183,495)	(159,582)	
Net cash flows from (used in) operating activities	(279,845,606)	(94,133,949)	16,336,779	
CASH FLOWS FROM INVESTING ACTIVITIES				
Proceeds from sale of:				
AFS financial assets	495,559,937	_	_	
Noncurrent asset held for sale	31,937,645	_	_	
HTM investments	17,844,160	_	_	
Payments received from related parties (Note 16)	7,240,199	_	25,000,000	
Dividends received (Note 8)	4,300,582	40,165,918	23,000,000	
Interest received (Note 8)	3,412,373	40,103,710	_	
Acquisitions of:	3,714,313	_	_	
AFS financial assets (Note 8)	(223,498,601)	(6,176,049)	(264,000,000)	
HTM investments (Note 8)	(103,898,005)	(0,1/0,049)	(207,000,000)	
Property and equipment (Note 10)	(4,022,478)	(18,366,708)	(388,792)	
Investment property (Note 1)	(7,022,770)	(10,300,700)	(321,048,252)	
m. ostiloni proporty (11000 1)	_	_	(321,010,232)	

(Forward)



	Years Ended December 31			
	2012	2011	2010	
Additions to:				
Deferred exploration costs (Note 1)	( <b>P70,000</b> )	(£19,871,191)	₽20,607	
Project advances (Note 11)	(305,022)	(1,425,840)	(2,397,351)	
Advances to related parties (Note 16)	(5,017,053)	(65,011,082)	(10,253)	
Net changes in investments in an associate	_	_	(347,353)	
Net cash flows from (used in) investing activities	223,483,737	(70,684,952)	(563,171,394)	
CASH FLOW FROM FINANCING ACTIVITIES Acquisition of treasury stock (Note 17c) Collections of subscriptions receivables (Note 17a)	(462,750)	(578,000) 2,475,000	- 5 760 000	
Conections of subscriptions receivables (Note 17a)	(462,750)	1,897,000	5,760,000 5,760,000	
	(402,730)	1,077,000	3,700,000	
EFFECT OF EXCHANGE RATE CHANGES				
ON CASH AND CASH EQUIVALENTS	(13,899,972)	259	(13,397)	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(70,724,591)	(162,921,642)	(541,088,012)	
CASH AND CASH EQUIVALENTS AT				
BEGINNING OF YEAR	730,161,936	893,083,578	1,434,171,590	
CASH AND CASH EQUIVALENTS AT	D/50 425 245	D720 161 026	D002 002 570	
END OF YEAR (Note 4)	P659,437,345	₽730,161,936	£893,083,378	

See accompanying Notes to Consolidated Financial Statements.



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010

Share in Unrealized Unrealized Valuation Gains Valuation Gains on AFS Financial Retained Earnings Treasury on AFS Financial Assets of an Common Stock (Note 17a) (Note 17b) Additional Stock Assets - net Associate Subscribed - net Issued Paid-in Capital (Note 8) (Note 9) Appropriated Unappropriated (Note 17c) Total Balances at January 1, 2010 ₽589,509,569 ₽79.262.500 ₽72,272,140 ₽1.989.643 (P58,457) ₽-₽824.628.092 ₽– ₽1.567.603.487 Collection of subscription receivables 5.760,000 5,760,000 7,680,000 Issuance of common stock (7.680,000)Appropriation for future investments 500,000,000 (500,000,000)Net income 17,294,220 17.294.220 Other comprehensive income 15,682,905 71,850 15,754,755 Balances at December 31, 2010 597,189,569 77,342,500 72,272,140 17,672,548 13,393 500,000,000 341,922,312 1,606,412,462 Collection of subscriptions receivables 2,475,000 2,475,000 Issuance of common stock 3,300,000 (3,300,000)Treasury stock acquisition (578,000)(578,000)Reversal of appropriation for future (500.000.000)500,000,000 investments Appropriation for future investments 500,000,000 (500,000,000)Net loss (7,246,149)(7,246,149)Other comprehensive loss (7,282,929)(13.393)(7,296,322)Balances at December 31, 2011 600,489,569 76.517.500 72,272,140 (578.000)1.593,766,991 10,389,619 500,000,000 334,676,163 (462,750)Treasury stock acquisition (462,750)Net income 101,858,465 101,858,465 8,110,098 Other comprehensive income 8,110,098 Balances at December 31, 2012 P600,489,569 ₽76,517,500 ₽72,272,140 ₽18,499,717 ₽-₽500,000,000 £436,534,628 (P1,040,750) ₽1,703,272,804

See accompanying Notes to Consolidated Financial Statements.



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# 1. Organization and Business

# **Corporate Information**

South China Resources, Inc. (the Parent Company) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1992, primarily to undertake oil and gas exploration, development and production. The Parent Company's shares of stock are publicly traded in the Philippine Stock Exchange (PSE).

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

The current office address of the Parent Company is ENZO Bldg, 399 Senator Gil Puyat Avenue, Makati City. The Parent Company changed its office address from 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat cor. Makati Avenue, Makati City.

In 2010, the Parent Company diversified its business and invested into real property development through SOC Land Development Corporation (SOC Land; the Subsidiary), a wholly-owned subsidiary. SOC Land was incorporated in the Philippines and registered with the Philippine SEC on November 25, 2010. The registered office address of the SOC Land is 6/F YL Holdings Building, 115 V.A. Rufino corner Salcedo Streets, Legaspi Village, Makati City. The primary purpose of SOC Land is to deal and engage in real estate business.

On July 28, 2010, the Parent Company purchased 24,023 square meters parcel of land located at East Service Road of South Superhighway, Barangay Buli, Muntinlupa City at a price of \$\text{P321.0}\$ million. As of December 31, 2010, the Parent Company classified the land under "Investment property" in the consolidated statement of financial position at cost of \$\text{P321.0}\$ million, which approximates its fair value. On March 4, 2011, the Parent Company transferred the investment property to SOC Land, in exchange for 312,298 additional shares in SOC Land.



# Status of Operations

Oil and Gas Exploration

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

			Percentage of	of Working
	Carrying Amount		_	Interest
Contract Areas	2012	2011	2012	2011
SC-60 Northeast Palawan [formerly Geophysical				
Survey and Exploration Contract (GSEC) 99]	₽–	₽21,563,806	_	15.00
SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)	_	_	_	_
SC-41 Offshore Sulu Sea Sandakan Basin	_	_	_	_

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements, which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts are estimated to be about US\$1.0 million as of December 31, 2011. There were no significant expenditures incurred and paid by the Parent Company on these contracts as of December 31, 2012.

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

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

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

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

The Parent Company has 15% interest in the block as of December 31, 2011. On March 19, 2012, the DOE issued a certification that the Parent Company is a member of SC-60 with no pending violation with the former as of December 31, 2011.

In 2012, following the Consortium's decision not to pursue the extension, the Parent Company's management decided to write-off the balance of deferred exploration costs related to SC-60 amounting to ₱21.6 million, composed of the balance as of December 31, 2011 and ₱70,000 paid during the year. The write-off is included under the "General and Administrative Expenses" section of the consolidated statement of comprehensive income.

Consortium I has announced its decision to relinquish SC-60 and is currently awaiting final clearance from the DOE.



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

On April 1, 2009, the Parent Company, Pitkin Petroleum (Pitkin), and the DOE (collectively "the Consortium II") signed SC-71. SC-71 covers an area of 1.164 MM hectares in the Cuyo/Mindoro/East Palawan region. The Operator, Pitkin, conducted geological and geophysical assessment of the block. SC-71 completed comprehensive reprocessing of over 3000 lines kilometers of 2D seismic data over the area. Interpretative was ongoing as of December 31, 2011.

As per advice of Pitkin, the first sub-phase of work was extended to April 1, 2011. The Consortium II did not pursue the extension of exploration work after this date. As a result of not pursuing the extended exploration work, the Parent Company relinquished its 15% participating interest in SC-71 in 2011 and is in the process of obtaining clearance from the DOE as of December 31, 2012.

# 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.

The Parent Company relinquished its 1.09% participating interest in SC-41 in 2011 because the Consortium II was not able to secure a farmout within the given time frame.

The Parent Company recognized a provision for impairment loss amounting to £13.2 million on the entire balance of deferred exploration costs for SC-41 in 2010. The provision is included under the "General and Administrative Expenses" section of the consolidated statement of comprehensive income (see Note 13).

In 2012, the Parent Company wrote-off the balance of allowance for impairment loss on deferred exploration costs which amounted to \$\mathbb{P}88.7\$ million as of December 31, 2011. The allowance for impairment losses on deferred exploration costs pertains to 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;
- SC-71 formerly Area 4 Offshore Mindoro-Cuyo; and
- SC-41 Offshore Sulu Sea Sandakan Basin.



### Real Estate Development

In 2011, the SOC Land undertook its maiden project called Anuva Residences (the Project). The Project involves the development of a 2.4-hectare community situated near Sucat Interchange and will have four (4) tandem buildings with the first building targeted to be completed by 2013. The total estimated cost of the Project is \$\mathbb{P}2.0\$ billion and is targeted for completion within five (5) years from the start of its construction.

On July 12, 2011, the groundbreaking ceremony for the Project was held and construction for the Project's Tandem Building 1 commenced thereafter. As of December 31, 2012 and 2011, structural works has an accomplishment rate of 54.7% and 11.4%, respectively. The Tandem Building 1 is expected to be completed in the last quarter of 2013.

On December 14, 2011, the Housing and Land Use Regulatory Board (HLURB) released the Company's License to Sell (LTS) for the Project. SOC Land has gained access to local and international markets and is currently marketing the units under the Tandem Building 1.

# Approval of the Consolidated Financial Statements

The consolidated financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 were approved and authorized for issue by the Board of Directors (BOD) on March 22, 2013.

# 2. Summary of Significant Accounting Policies

# **Basis of Preparation**

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

# **Statement of Compliance**

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

# **Basis of Consolidation**

The consolidated financial statements include the accounts of the Parent Company and its wholly owned subsidiary, SOC Land. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Parent Company obtains control and continue to be consolidated until the date when such control ceases. The financial statements of the Subsidiary are prepared for the same reporting year as the Parent Company using consistent accounting policies.

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. 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.



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.

# Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except, for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011. Unless otherwise indicated, adoption of these new and amended standards or interpretations did not have any significant impact to the consolidated financial statements..

PFRS 7, Financial Instruments: Disclosures - Transfers of Financial Assets (Amendments) The amendments require additional disclosures about financial assets that have been transferred but not derecognized to enhance the understanding of the relationship between those assets that have not been derecognized and their associated liabilities. In addition, the amendments require disclosures about continuing involvement in derecognized assets to enable users of financial statements to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognized assets. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

Philippine Accounting Standard (PAS) 12, *Income Taxes - Deferred Tax: Recovery of Underlying Assets* (Amendments)

This amendment to PAS 12 clarifies the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that the carrying amount of investment property measured using the fair value model in PAS 40, *Investment Property*, will be recovered through sale and, accordingly, requires that any related deferred tax should be measured on a 'sale' basis. The presumption is rebutted if the investment property is depreciable and it is held within a business model whose objective is to consume substantially all of the economic benefits in the investment property over time ('use' basis), rather than through sale. Furthermore, the amendment introduces the requirement that deferred tax on non-depreciable assets measured using the revaluation model in PAS 16, *Property, Plant and Equipment*, always be measured on a sale basis of the asset. The Group has no investment property measured at fair value.

# Standards Issued but not yet Effective

The Group will adopt the following new, revised and amended PFRS, PAS and Philippine Interpretations enumerated below, as applicable, when these become effective. The Group does not expect the adoption of these PFRS and Philippine Interpretations to have significant impact on its financial statements in the period of initial application, unless stated otherwise.



# Effective in 2013

# PFRS 7, Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments)

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

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

The amendments affect disclosures only and have no impact on the Group's financial position or performance.

# PFRS 10, Consolidated Financial Statements

PFRS 10 replaces the portion of PAS 27, Consolidated and Separate Financial Statements, that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC 12, Consolidation - Special Purpose Entities. PFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by PFRS 10 will require management to exercise significant judgment to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in PAS 27. The adoption of PFRS 10 will have no impact on the Group's financial position or performance.

### PFRS 11, Joint Arrangements

PFRS 11 replaces PAS 31, *Interest in Joint Venture* and SIC-13, *Jointly-controlled Entities - Non-monetary Contributions by Venturers*. PFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The adoption of PFRS 11 will have no impact on the Group's financial position or performance.

# PFRS 12, Disclosure of Interests in Other Entities

PFRS 12 includes all of the disclosures related to consolidated financial statements that were previously in PAS 27, as well as all the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of PFRS 12 will have no impact on the Group's financial position or performance.



### PFRS 13, Fair Value Measurement

PFRS 13 establishes a single source of guidance under PFRS for all fair value measurements. PFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted. This standard should be applied prospectively as of the beginning of the annual period in which it is initially applied. Its disclosure requirements need not be applied in comparative information provided for periods before initial application of PFRS 13. The Group does not anticipate that the adoption of this standard will have a significant impact on its financial position and performance.

# PAS 1, Presentation of Financial Statements - Presentation of Items of Other Comprehensive Income or OCI (Amendments)

The amendments to PAS 1 change the grouping of items presented in OCI. Items that can be reclassified (or "recycled") to profit or loss at a future point in time (for example, upon derecognition or settlement) will be presented separately from items that will never be recycled. The amendments will affect presentation only and have no impact on the Group's financial position or performance.

# PAS 19, Employee Benefits (Revised)

Amendments to PAS 19 range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and rewording. The revised standard also requires new disclosures such as, among others, a sensitivity analysis for each significant actuarial assumption, information on asset-liability matching strategies, duration of the defined benefit obligation, and disaggregation of plan assets by nature and risk. Once effective, the Group has to apply the amendments retroactively to the earliest period presented. The Group has no retirement plan and has not recognized any retirement benefit obligation as of December 31, 2012 and as a result, the amendments will not significantly affect the Group's financial position and financial performance.

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

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

PAS 28, *Investments in Associates and Joint Ventures* (as revised in 2011) As a consequence of the issuance of the new PFRS 11, *Joint Arrangements*, and PFRS 12, *Disclosure of Interests in Other Entities*, PAS 28 has been renamed PAS 28, *Investments in Associates and Joint Ventures*, and describes the application of the equity method to investments in joint ventures in addition to associates.

Philippine Interpretation from International Financial Reporting Interpretations Committee (IFRIC) 20, *Stripping Costs in the Production Phase of a Surface Mine*This interpretation applies to waste removal costs ("stripping costs") that are incurred in surface mining activity during the production phase of the mine ("production stripping costs"). If the benefit from the stripping activity will be realized in the current period, an entity is required to account for the stripping activity costs as part of the cost of inventory. When the benefit is the improved access to ore, the entity should recognize these costs as a non-current asset, only if certain criteria are met ("stripping activity asset"). The stripping activity asset is accounted for as an addition to, or as an enhancement of, an existing asset. After initial recognition, the stripping activity asset is carried at its cost or revalued amount less depreciation or amortization and less impairment losses, in the same way as the existing asset of which it is a part. The Group expects that this interpretation will not have any impact on its financial position or performance.



# Effective in 2014

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

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group's financial position or performance.

Effective in 2015

PFRS 9, Financial Instruments: Classification and Measurement

PFRS 9, as issued, reflects the first phase on the replacement of PAS 39 and applies to the classification and measurement of financial assets and liabilities as defined in PAS 39, Financial Instruments: Recognition and Measurement. Work on impairment of financial instruments and hedge accounting is still ongoing, with a view to replacing PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through OCI or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For FVO liabilities, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change in respect of the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward into PFRS 9, including the embedded derivative separation rules and the criteria for using the FVO. Since the impact evaluation is ongoing, the Group have decided not to early adopt PFRS 9 for its consolidated financial statements. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

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

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



The *Annual Improvements to PFRS* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. Earlier application is permitted.

# PFRS 1, First-time Adoption of PFRS - Borrowing Costs

The amendment clarifies that, upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles, may carry forward, without any adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Subsequent to the adoption of PFRS, borrowing costs are recognized in accordance with PAS 23, *Borrowing Costs*. The amendment does not apply to the Group as it is not a first-time adopter of PFRS.

# PAS 1, Presentation of Financial Statements - Clarification of the Requirements for Comparative Information

The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

PAS 16, *Property, Plant and Equipment - Classification of servicing equipment*The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as inventory if otherwise. The amendment will have no impact on the Group's financial statements.

# PAS 32, Financial Instruments: Presentation - Tax Effect of Distribution to Holders of Equity Instruments

The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The Group expects that this amendment will not have significant impact on its financial position or performance.

# PAS 34, Interim Financial Reporting - Interim Financial Reporting and Segment Information for Total Assets and Liabilities

The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

# Summary of Accounting Policies

# 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, 2012 and 2011 (see Note 19).

# "Day 1" Difference

Where the transaction price in a non-active market is different from the fair value from 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 profit or loss unless it qualifies for the recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the amount of "Day 1" difference.

# 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 as of December 31, 2012 and 2011.

### 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, receivables, due from related parties and refundable deposits (see Notes 4, 5, 7 and 16).

### AFS Financial Assets

AFS financial assets include equity investments and debt securities. Equity investments classified as AFS are those which are neither classified as held for trading nor designated at FVPL. Debt securities under this category are those that are intended to be held for an indefinite period of time and that may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in "Unrealized valuation gains (losses) on AFS financial assets" 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 profit or loss as other expenses. Interest earned while holding AFS financial assets is reported as interest income using the EIR method.

The Group evaluates its AFS financial assets 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 to do significantly changes in the foreseeable future, the Group may elect to reclassify these financial assets. 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. Reclassification to the HTM category 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, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the 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 maturity amount 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 or loss.

The Group's AFS financial assets consist of quoted and unquoted shares, bonds and golf club shares (see Note 8).

### HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. After initial measurement, held to maturity investments are measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance income in the consolidated statement of comprehensive income. The losses arising from impairment are recognized in profit or loss as finance costs.

Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets and the Group will be precluded from using the HTM investments category for the current period and for the next two succeeding periods from the tainting date.

In 2012, the Group initially recognized investment in bonds as HTM investments; however, following the sale of more than an insignificant amount of these investments prior to their maturity, the Group reclassified the remaining portfolio of HTM investments as AFS financial assets (see Note 8).

### Other Financial Liabilities

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

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

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

# Impairment of Financial Assets

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. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of



financial assets that can be reliably estimated. Evidence of impairment may include indications that the contracted parties or a group of contracted parties is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization, and where observable data indicate that there is measurable decrease in the estimated future cash flows such as changes in arrears or economic conditions that correlate with defaults.

### Financial Assets Carried at Amortized Cost

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). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

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 Financial Assets 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. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original 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.

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at fair value. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the



impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

### AFS Financial Assets at Cost

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

### Derecognition of Financial Assets and Liabilities

### Financial Assets

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

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

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

### Financial Liabilities

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

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

# Offsetting Financial Instruments

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



### Real Estate for Sale

Property acquired or being constructed for sale in the ordinary course of business, rather than to be held for rental or capital appreciation, is held as inventory and is measured at the lower of cost and net realizable value (NRV).

### Cost includes:

- Land cost
- Amounts paid to contractors for construction
- Planning and design costs, costs of site preparation, professional fees, property transfer taxes, construction overheads and other related costs

NRV is the estimated selling price in the ordinary course of the business, based on market prices at the reporting date, less estimated costs of completion and the estimated costs of sale.

# 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.

# Advances to Suppliers and Contractors

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

### *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 will be used to offset against the Group's current output VAT liabilities. Any excess which will be claimed as tax credits within twelve (12) months or within the normal operating cycle is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position. Otherwise, these are classified as other noncurrent assets. Input VAT is stated at its estimated NRV.

# Noncurrent Asset Held for Sale

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

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



### Investment in an Associate

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

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

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

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

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

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

# **Deferred Exploration Costs**

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

Deferred exploration costs are assessed for impairment when:

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;



exploration for and evaluation of mineral resources in the specific area have not led to the
discovery of commercially viable quantities of mineral resources and the Group has decided to
discontinue such activities in the specific area; or
sufficient data exists to indicate that, although a development in the specific area is likely to
proceed, the carrying amount of the exploration and evaluation asset is unlikely to be
recovered in full from successful development or by sale.

When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, impairment loss is measured, presented and disclosed in accordance with PAS 36.

#### 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:

	2012	2011
Building	20	5
Office furniture and equipment	1-3	1-3
Transportation equipment	5	5
Leasehold improvements	2	2

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

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized. Fully depreciated items are retained as property and equipment until these are no longer in use.

#### **Investment Property**

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



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

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

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that nonfinancial assets may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's 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. This accounting policy applies primarily to the Group's property and equipment.

#### Common Stock

The Group has issued common stock that are classified as equity. Common stock is measured at par value for all shares issued.

When the shares are sold at premium, the difference between the proceeds at the par value is credited to "Additional paid-in capital" account. Direct costs incurred related to equity issuance are chargeable to "Additional paid-in capital" account. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Subscription receivables pertain to the uncollected portion of the subscribed shares.

#### **Retained Earnings**

The amount included in retained earnings includes profit attributable to the Group's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Group's stockholders. Interim dividends are deducted from equity when



they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

#### Treasury Stock

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

# Revenue Recognition

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

#### Real Estate Sales

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

If any of the criteria under the percentage-of-completion method is not met, the deposit method is applied until all the conditions for recording a sale are met. Pending recognition of sale, cash received from buyers are presented as "Customers' deposits" included under the "Accounts payable and other liabilities" account in the statement of financial position.

#### Interest Income

For all financial instruments measured at amortized cost and interest bearing financial assets classified as available for sale, interest income is recorded using the effective interest rate (EIR). EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability.

#### Dividend Income

Dividend income is recognized when the Group's right to receive the payment is established, usually upon declaration of the dividends.

## Gain on sale of AFS financial assets and HTM investments

Realized gain or loss on sale of AFS financial assets and HTM investments is recognized in profit or loss when the Group disposes its AFS financial assets and HTM investments. Gain or loss is computed as the difference between the proceeds of the disposal and its carrying amount.

#### 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.

#### Cost of real estate sales

Cost of real estate sales is recognized consistent with the revenue recognition method applied. Cost of condominium units sold before the completion of the development is determined on the basis of the acquisition cost of the land plus its full development costs, which include estimated costs for future development works, as determined by the Group's in-house technical staff.

The cost of inventory recognized in profit or loss on disposal is determined with reference to the specific costs incurred on the property, allocated to saleable area based on relative size and takes into account the percentage of completion used for revenue recognition purposes.

# Sales and Marketing Expenses

Expenses incurred in the direct selling and marketing activities are generally recognized when the service is incurred or the expense arises.

# General and Administrative Expenses

Expenses incurred in the general administration of day-to-day operation of the Group are generally recognized when the service is used or the expense arises.

# **Commission Expense**

Commissions paid to sales or marketing agents on the sale of pre-completed real estate units are deferred when recovery is reasonably expected and are charged to expense in the period in which the related revenue is recognized as earned. Accordingly, when the percentage-of-completion method is used, commissions are likewise charged to expense in the period the related revenue is recognized. Commission expense is included in the "Sales and marketing" account in the consolidated statement of comprehensive income. Commission expense incurred but not yet paid as of reporting date is presented as part of "Accounts payable and other liabilities" in the consolidated statement of financial position.

#### **Income Taxes**

#### Current Income Tax

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

#### Deferred Tax

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax assets to be recovered.



Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

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

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

#### Foreign Currency-denominated Transactions

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

#### Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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

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

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

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

#### Basic Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing net income (loss) attributable to the equity holders of the Parent Company by the weighted average number of common shares outstanding during the year.

#### Diluted Earnings (Loss) Per Share

Diluted earnings (loss) per share is calculated by dividing the net income (loss) attributable to common equity holders of the Parent Company (after adjusting for interest on convertible preferred shares) by the weighted average number of common shares outstanding during the year plus the weighted average number of common shares that would be issued on conversion of all dilutive potential common shares into common shares, excluding treasury shares.



#### **Segment Reporting**

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

#### **Provisions**

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

#### **Borrowing Costs**

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

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

#### Contingencies

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

#### Events After the Reporting Date

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

# 3. Significant Accounting Judgments, Estimates and Assumptions

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



#### Judgment

#### **Determining Functional Currency**

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

#### Classification of Financial Instruments

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

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

#### Determining Control over a Subsidiary

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

#### Determining Significant Influence over an Associate

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

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

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

#### Classification of Properties

The Group determines whether a property is classified as investment property or inventory property as follows:

- Investment property comprises land which is not occupied substantially for use by, or in the
  operations of, the Group, nor for sale in the ordinary course of business, but are held primarily
  to earn rental income and capital appreciation.
- Inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.



#### Revenue Recognition on Real Estate Sales

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

#### Collectibility of Sales Prices

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

# Operating Leases - The Group as Lessee

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

#### **Estimates and Assumptions**

#### Revenue and Cost Recognition

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

#### Estimated Development Costs

The total development cost of a project is estimated by the Group's engineers. At each reporting date, these estimates are reviewed and revised when necessary to reflect the current conditions.

# Valuation of Financial Instruments

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

## Impairment Losses on Receivables and Due from Related Parties

The Group reviews the balance of receivables and due from related parties at each reporting date to assess whether 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 receivables and due from related parties, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception.



These assessments take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

There is no allowance for impairment losses on receivables and due to related parties as of December 31, 2012 and 2011. Receivables amounted to P48.6 million and P8.4 million as of December 31, 2012 and 2011, respectively (see Note 5). Due from related parties amounted to P72.9 million and P70.2 million as of December 31, 2012 and 2011, respectively (see Note 16).

#### Impairment of AFS financial assets

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

As of December 31, 2012 and 2011, the Group's allowance for impairment on AFS financial assets that are unlisted amounted to \$\mathbb{P}3.3\$ million (see Note 8).

In the case of debt instruments classified as available for sale, impairment is assessed based on the same criteria as financial assets carried at fair value. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in profit or loss.

The carrying amounts of AFS financial assets amounted to \$\mathbb{P}290.6\$ million and \$\mathbb{P}284.8\$ million as of December 31, 2012 and 2011, respectively (see Note 8). The change in the fair value of the AFS financial assets is recorded as "Unrealized valuation gains on AFS financial assets" account in the equity section of the consolidated statement of financial position. As of December 31, 2012 and 2011, the unrealized valuation gains on AFS financial assets amounted to \$\mathbb{P}18.5\$ million and \$\mathbb{P}10.4\$ million, respectively (see Note 8).

# Evaluation of NRV of Real Estate for Sale

The Group adjusts the cost of its real estate for sale to NRV based on its assessment of the recoverability of the inventories. NRV in respect of real estate for sale under construction is assessed with reference to market prices at the reporting date for similar completed property, less estimated costs to complete construction and less estimated costs to sell. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. Real estate for sale at cost amounted to \$\mathbb{P}660.1\$ million and \$\mathbb{P}447.6\$ million as of December 31, 2012 and 2011, respectively. In 2012 and 2011, the Group assessed that the NRV of real estate for sale is higher than cost, hence the Group did not recognize any losses on write down of real estate for sale (see Note 6).

## Useful Lives of Property and Equipment

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



In 2012, the Group reviewed the useful life of its building and assessed to change its useful life from 5 years to 20 years as this more accurately reflects the expected period over which the assets will be used.

The change in useful lives was applied prospectively. As a result of the change, depreciation expense decreased by \$\mathbb{P}2.4\$ million; noncurrent assets increased by \$\mathbb{P}2.4\$ million.

The net book values of property and equipment amounted to \$\mathbb{P}19.2\$ million and \$\mathbb{P}21.0\$ million as of December 31, 2012 and 2011, respectively (see Note 10).

# Impairment of Nonfinancial Assets

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

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

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

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

No provision for impairment losses was recognized in 2012, 2011 and 2010. The carrying values of nonfinancial assets are as follows:

	2012	2011
Property and equipment (see Note 10)	P19,174,495	₽21,046,176
Prepayments and other current assets (Note 7)*	13,568,758	17,332,739
Other noncurrent assets (see Note 11)	34,883,378	3,823,191
	P67,626,631	₽42,202,106

<sup>\*</sup>Excluding refundable deposits

#### 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.

Deferred exploration costs amounted to \$\mathbb{P}21.6\$ million while allowance for impairment losses on deferred exploration costs amounted to \$\mathbb{P}88.7\$ million as of December 31, 2011. The balances of deferred exploration costs and the valuation allowance were written-off in 2012. As a result, deferred exploration costs amounted to nil as of December 31, 2012.

#### Recognition of Deferred Tax Assets

Deferred tax assets are recognized for all deductible temporary differences, unused tax losses and excess MCIT to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Group recognizes deferred tax liabilities from taxable temporary differences.

The Company has deductible temporary differences, carryforward of unused tax credits from excess MCIT and unused NOLCO for which no deferred tax assets were recognized as it is not probable that sufficient taxable profit will be available against which the benefit of these deductible temporary differences, carryforward of unused tax credits from excess MCIT and unused NOLCO can be utilized. As of December 31, 2012 and 2011, deductible temporary differences, carryforward of unused tax credits from excess MCIT and unused NOLCO for which no deferred tax assets were recognized amounted to \$\mathbb{P}\$104.5 million and \$\mathbb{P}\$131.0 million, respectively (see Note 15).

# Estimating Provision for Legal Obligations

The Group has outstanding legal obligations. The Group's estimate of probable costs for the assessments and resolution of these proceedings have been developed in consultation with outside legal counsel handling the prosecution and defense and is based upon an analysis of potential results. The Group and its legal counsel believe that some of these obligations may have material adverse effect on its financial position and results of operations. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of strategies relating to these obligations.

The Group's provision for legal obligation pertaining to labor cases amounted to ₱0.5 million as of December 31, 2012 (see Note 22).

## 4. Cash and Cash Equivalents

	2012	2011
Cash on hand and with banks	₽148,714,109	₽64,016,026
Cash equivalents	510,723,236	666,145,910
	P659,437,345	₽730,161,936

Cash with banks earn interest at the respective bank deposit rates. Cash equivalents 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 \$\text{P18.2}\$ million, \$\text{P29.9}\$ million and \$\text{P38.7}\$ million in 2012, 2011 and 2010, respectively. Outstanding accrued interest receivable related to the short-term investments amounted to \$\text{P0.8}\$ million and \$\text{P1.2}\$ million as of December 31, 2012 and 2011, respectively (see Note 5).



#### 5. Receivables

	2012	2011
Installment contract receivable	P8,225,805	₽–
Receivable from officers and employees	4,391,954	5,422,574
Accrued interest (see Notes 4 and 8)	2,428,777	1,099,961
Others	33,529,222	1,854,263
	₽48,575,758	₽8,376,798

#### SOC Land's Installment Contract Receivable (ICR)

Upon turnover of the inventory in 2013, the full balance of ICR becomes due and demandable. Customers may avail of in-house financing to settle the ICR which will be collectible in monthly installments over a period ranging from one to ten years and bear interest of up to 16.0% per annum, computed daily on the diminishing balance of the principal. Titles to real estate properties are not transferred to the buyers until full payment has been made.

## Receivable from Officers and Employees

Receivables from officers and employees pertain to noninterest-bearing advances which will be settled through salary deduction or through liquidation within the next financial year.

#### Others

Other receivables as of December 31, 2012 include receivable from Security Bank Corporation from the sale of the Parent Company's common shares in PDB (see Note 9). This is expected to be collected within a year.

Other receivables also include cash advances to employees and agents for operational, marketing and corporate-related expenses. These advances are expected to be liquidated within the next financial year.

No impairment loss on receivables was recognized in 2012 and 2011.

# 6. Real Estate for Sale

	2012	2011
Land	P309,327,632	₽312,298,000
Construction/development costs incurred	350,728,384	135,317,888
	P660,056,016	£447,615,888

A summary of the movement in inventory is set out below:

	2012	2011
Balances at beginning of year	P447,615,888	₽–
Land transferred from investment property		
(see Note 1)	_	312,298,000
Construction/development costs incurred		
(see Note 22)	226,998,844	135,317,888
Disposals (recognized as cost of real estate sold)	(14,558,716)	
	P660,056,016	£447,615,888



In 2012, the amount of land and development costs recognized as "Cost of real estate sold" in the statements of comprehensive income amounted to \$\mathbb{P}\$14.6 million. In 2011, no revenue and cost from sale of real estate were recognized.

The land and development costs are carried at cost. The Group assessed that the NRV of real estate for sale is higher than cost and did not recognize any loss on write down of real estate for sale in 2012 and 2011.

# 7. Prepayments and Other Current Assets

	2012	2011
Input VAT - current portion (see Note 11)	P10,148,747	₽16,625,326
Prepayments		
Commission	2,547,172	_
Tax	410,217	400,070
Others	311,744	128,432
Refundable deposits (see Note 22)	1,268,038	360,020
Supplies	102,230	170,942
Advances to suppliers and contractors	48,648	7,969
	P14,836,796	₽17,692,759

#### Input VAT -current portion

Input VAT is stated at its estimated net realizable value. Input VAT can be applied against output VAT and the Group believes that the amount is fully recoverable in 2013.

## Refundable Deposits

Refundable deposits are composed of security deposits related to the Group's lease agreement and utilities deposits.

# **Advances to Suppliers and Contractors**

Advances to suppliers and contractors refer to payments made by SOC Land to suppliers and contractors for future services. These advances will be applied proportionately to every progress billing. Advances are generally liquidated within a year.

# 8. AFS financial assets

	2012	2011
Shares of stock		
Quoted	<b>P</b> 191,169,730	₽19,432,125
Unquoted	3,340,763	268,620,500
Quoted bonds	87,451,509	_
Golf club shares	11,955,000	130,000
	293,917,002	288,182,625
Less allowance for impairment loss on AFS	• •	
financial assets	3,340,763	3,333,500
	P290,576,239	₽284,849,125



Movements in the allowance for impairment loss are as follows:

	2012	2011
Balances at beginning of year	P3,333,500	₽3,333,500
Provision (see Note 13)	7,263	
Balances at end of year	P3,340,763	₽3,333,500

#### **Quoted Shares**

Listed shares consist of equity securities that are traded in the PSE, New York Stock Exchange (NYSE), Shanghai Stock Exchange (SSE), Taiwan Stock Exchange (TWSE), Bursa Malaysia (MYX), Stock Exchange of Thailand (SET), London Stock Exchange (LSE) and the Stock Exchange of Hong Kong Limited (HKEx). Listed shares have no fixed maturity dates or coupon rates and are measured at fair value. The fair values of listed shares are determined at 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 as of reporting date. The unrealized fair value changes of the investments are presented as "Unrealized valuation gains on AFS financial assets" in the equity section of the consolidated statement of financial position.

Dividend income earned from equity securities classified as "AFS financial assets" amounted to \$\mathbb{P}4.3\$ million in 2012, \$\mathbb{P}165,918\$ in 2011 and \$\mathbb{P}1,005\$ in 2010.

#### **Quoted Bonds**

Investments in bonds are denominated in various currencies and are stated at fair value based on quoted prices. Changes in market values are included in the consolidated statements of comprehensive income. Fixed interest rate of these bonds range from 4.625% to 6.625% per annum. The value date of the investments are on February 27, 2012 and November 2, 2012 and with maturity dates ranging from March 31, 2016 to January 13, 2022. Interests on investments are received and settled semi-annually in United States dollar.

#### Acquisition of bonds

In 2012, the Group acquired various bonds which were initially recognized as HTM investments and measured at amortized cost using the effective interest method.

#### Sale of HTM investments in bonds

On November 2, 2012, the Group sold a significant amount of its HTM investments before maturity with amortized cost of ₱16.7 million. The gain on sale of HTM investments amounted to ₱1.3 million.

#### Reclassification of HTM investments to AFS financial assets

Under the provisions of PAS 39, no investment should be classified as HTM during the current financial year and in the next two financial years if the reporting entity has sold or reclassified more than an insignificant (in relation to the total) amount of such investments before maturity.

Following the stated provisions, the Parent Company reclassified its remaining portfolio of HTM investments to AFS financial assets. The remaining bonds had an amortized cost of \$\mathbb{P}66.5\$ million and fair value was determined to be \$\mathbb{P}70.6\$ million as of reclassification date. Net unrealized gain on changes in fair value of AFS financial assets recognized in other comprehensive income at the time of reclassification amounted to \$\mathbb{P}4.1\$ million.

As of December 31, 2012, the fair value of bonds classified as "AFS financial assets" amounted to \$\mathbb{P}87.3\$ million, with amortized cost of \$\mathbb{P}83.2\$ million.



Interest income earned from bonds classified as "AFS financial assets" amounted to ₱3.6 million in 2012.

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

	2012	2011
Balances at beginning of year	P10,389,619	₽17,672,548
Fair value adjustments	8,332,277	(7,282,929)
Disposals	1,100,070	_
	19,821,966	10,389,619
Less deferred tax liabilities	1,322,249	_
Balances at end of year	₽18,499,717	₽10,389,619

### **Unquoted Shares**

Unlisted shares, without available market values, are carried at cost less any impairment losses.

In 2012, the Group recognized provision for impairment loss on AFS financial assets amounting to  $\rat{P}7,263$ . No provision for impairment loss on of AFS financial assets was recognized in 2011. Allowance for impairment loss of unlisted shares amounted to  $\rat{P}3.3$  million as of December 31, 2012 and 2011.

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

In 2010, the Parent Company subscribed to and subsequently fully paid for 26,086,957 preferred shares of AGP International at a purchase price of \$\mathbb{P}264.0\$ million. AGP International invested in 40% of the outstanding capital stock of AGP Philippines Holdings, 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 Parent Company's risk factor types include those factors that impact, either positively or negatively, the markets for engineering and construction services.

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

On January 31, 2012, the Parent Company, together with the other legal owners of AGP International's preferred shares, entered into a Share Purchase Agreement with AGP International to sell its shares to the latter for \$0.4 cents per share. On the same date, AGP International and AG&P executed a waiver and release form in favor of each seller, relieving them from any claims related to the shares. The Parent Company recognized gain on the sale of its shares in AGP International amounting to \$\mathbb{P}\$184.3 million in 2012.



#### 9. Investment in an Associate

	2011
Acquisition costs:	
Balance at beginning of year	₽35,191,153
Reclassification as noncurrent asset held for sale	35,191,153
Balance at end of year	_
Accumulated equity in net losses:	
Balance at beginning of year	(3,367,563)
Equity in losses	(114,740)
Reclassification as noncurrent asset held for sale	3,482,303
Balance at end of year	_
Share in unrealized valuation gains on AFS financial assets of an	_
associate:	
Balance at beginning of year	13,393
Reversal to profit or loss	(13,393)
Balance at end of year	₽–

#### Premiere Development Bank (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.

As of December 31, 2010, the Group's equity share in PDB represents 4.79% of PDB's outstanding shares and the Group accounts for its investment in PDB under the equity method since it exercises significant influence over the operating and financial policies of PDB.

On June 1, 2011, the Parent Company, together with other shareholders, entered into a Share Purchase Agreement (the Agreement) with Security Bank Corporation for the sale of their common shares in PDB. The sellers are the legal owners of an aggregate of 7,071,263 common shares in PDB, representing 96.42% of the issued and outstanding capital stock of PDB.

Under the Agreement, the price per share amounted to ₱181.7 which resulted to a total share consideration of ₱1.3 billion. Under the agreement, the Parent Company agreed to sell its 351,454 shares of PDB for ₱63.9 million.

As a result of the Agreement, the Parent Company reclassified its investment in PDB amounting to \$\mathbb{P}31.7\$ million as held for sale and presented it under "Noncurrent asset held for sale" account in the consolidated statement of financial position as of December 31, 2011.

On January 20, 2012, the Monetary Board of the BSP approved the transaction contemplated in the Agreement. The Parent Company recognized a gain on sale amounting to \$\mathbb{P}32.2\$ million. The receivable from Security Bank Corporation amounted to \$\mathbb{P}31.9\$ million as of December 31, 2012 and is expected to be collected within the next financial year (see Note 5).



#### 10. Property and Equipment

#### **December 31, 2012**

		Office Furniture and	Transportation	Leasehold	
	Building	Equipment	Equipment	Improvements	Total
Cost:					
Balances at beginning of year	₽15,451,939	₽3,963,071	₽13,762,035	P693,694	₽33,870,739
Additions	913,717	3,081,973	_	26,788	4,022,478
Balances at end of year	16,365,656	7,045,044	13,762,035	720,482	37,893,217
Accumulated depreciation and amortization:					
Balances at beginning of year	_	2,274,127	9,927,487	622,949	12,824,563
Depreciation and amortization					
(see Notes 13 and 14)	801,125	1,700,983	3,303,447	88,604	5,894,159
Balances at end of year	801,125	3,975,110	13,230,934	711,553	18,718,722
Net book values	₽15,564,531	₽3,069,934	P531,101	₽8,929	₽19,174,495

## December 31, 2011

		Office			
		Furniture and	Transportation	Leasehold	
	Building	Equipment	Equipment	Improvements	Total
Cost:					
Balances at beginning of year	₽–	₽2,050,969	₽13,020,964	£432,098	₽15,504,031
Additions	15,451,939	1,912,102	741,071	261,596	18,366,708
Balances at end of year	15,451,939	3,963,071	13,762,035	693,694	33,870,739
Accumulated depreciation and					
amortization:					
Balances at beginning of year	_	1,559,638	7,413,538	432,098	9,405,274
Depreciation and amortization					
(see Notes 13 and 14)	-	714,489	2,513,949	190,851	3,419,289
Balances at end of year	-	2,274,127	9,927,487	622,949	12,824,563
Net book values	₽15,451,939	₽1,688,944	₽3,834,548	₽70,745	₽21,046,176

### Acquisitions of property and equipment

Significant additions to property and equipment in 2011 pertain to the building situated in East Service Road, Barangay Buli, Muntinlupa, which was constructed and completed in 2011. The building is used by SOC Land as its marketing and sales office.

In 2011, SOC Land purchased transportation equipment and paid 20% of the total purchase price in cash while the balance was paid on an installment basis over a period of one (1) year, subject to interest of 3.71% per annum. Interest expense recognized and paid amounted to \$\mathbb{P}30,427\$ in 2012 and \$\mathbb{P}17,722\$ in 2011. The unpaid portion of the purchase price is included under the "Accounts payable and accrued expenses" account and amounted to nil and \$\mathbb{P}0.4\$ million as of December 31, 2012 and 2011, respectively (see Note 12).

## Fully depreciated property and equipment

The cost of fully depreciated property and equipment classified as "leasehold improvements" amounted to \$\mathbb{P}261,596\$ as of December 31, 2012. These are retained in the records and still used by the Group until they vacate the leased property. The Group has no temporary idle property and equipment as of December 31, 2012.



#### 11. Other Noncurrent Assets

As of December 31, 2011, other noncurrent assets amounting to \$\mathbb{P}3.8\$ million pertain to advances for the processing of bid documents, costs for pre-bidding conferences and consultancy fees related to the Group's participation in the bid submission for the Philippine Mining Development Corporation's Diwalwal Mineral Reservation Project and advances for its prospective agriculture-related projects. In 2012, management assessed that the advances were no longer recoverable. As a result, the balances of the advances as of December 31, 2011 and the additional advances incurred during the year amounting to \$\mathbb{P}0.3\$ million were written-off in 2012 (see Note 13).

Noncurrent assets as of December 31, 2012 consists of input VAT that is expected to be offset against output VAT beyond one year and deferred input VAT amounting to ₱34.9 million.

#### 12. Accounts Payable and Other Liabilities

	2012	2011
Customers' deposits	P28,013,009	₽19,033,889
Retention payable (see Note 22)	13,595,561	4,105,929
Accounts payable	7,363,826	595,336
Accrued expenses		
Construction costs	20,917,426	17,069,254
Taxes	4,810,505	1,381,586
Personnel	3,188,300	_
Travel	2,505,000	_
Entertainment representation and outside services	1,715,201	_
Professional fees	528,165	150,000
Commission	407,426	_
Others	503,500	565,996
Government payables	2,622,979	409,090
Advanced processing fees	1,413,764	_
Provision for legal obligation (see Note 22)	520,999	_
	P88,105,661	₽43,311,080

#### SOC Land's Customers' Deposits

Customers' deposits include collections received from buyers which:

- i. have not met the revenue recognition criteria and/or
- ii. have met the revenue recognition criteria but the collections received are greater than the recognized installment contracts receivable based on the percentage of completion method.

Forfeited buyer deposits pertain to reservation fees which have been forfeited due to customers' inability to comply with the terms and conditions indicated in the reservation agreement or who have decided to withdraw their reservation.

## Retention Payable

Retention payable represents the amount retained by the SOC Land as security for any defects and damages on the construction of Tandem Building 1 arising from or due to faulty workmanship and/or defective contractor-supplied materials before the final acceptance of the Tandem Building 1 and the payment of the last billing. Retention payable is expected to be settled within the next financial year.



#### Accounts Payable

Accounts payable includes billings of various suppliers and contractors for liabilities incurred in relation to the Project and office administrative functions. Accounts payable are noninterest-bearing with payment terms which are dependent on the suppliers' or contractors' credit terms, which is generally 30 to 60 days.

# **Accrued Expenses**

Accrued expenses include accruals for taxes and processing fees and construction costs. Construction costs represents billings of various contractors for services in relation to SOC Land's Project.

#### **Government Payables**

Government payables consist of mandatory contributions and payments to the Social Security System (SSS), Philippine Health Insurance Corporation (PHIC), and the Home Development Mutual Fund (HDMF) and withholding tax payables which have an average term of 15 to 30 days.

# 13. General and Administrative Expenses

	2012	2011	2010
Write-off of deferred exploration costs			_
(see Note 1)	P21,633,806	₽–	₽–
Personnel costs	13,940,185	9,719,782	3,147,724
Professional fees	9,023,102	2,324,952	1,971,697
Travel and transportation	6,824,961	1,891,339	4,878,809
Depreciation and amortization (see Note 10)	5,369,454	3,419,289	2,576,190
Write-off of project advances (see Note 11)	4,128,213	_	_
Taxes and licenses	4,001,929	1,401,106	819,629
Outside services	3,098,467	288,631	_
Entertainment and representation	2,621,203	851,572	1,533,358
Rent and utilities (see Note 22)	1,726,504	1,288,753	643,931
Telecommunications and postage	815,038	721,011	216,370
Supplies	662,346	598,135	168,703
Dues and subscription	542,370	93,463	_
Provision for legal obligation (see Note 22)	520,999	_	_
Trainings and seminars	508,880	29,582	202,253
Business development costs	493,010	130,710	119,877
Repairs and maintenance	137,578	60,892	118,964
Insurance	267,278	70,000	_
Provision for impairment loss on AFS			
financial assets (see Note 8)	7,263	_	499,356
Provision for impairment of deferred			
exploration costs (see Note 1)	_	_	13,248,734
Others	6,233,038	2,410,289	939,658
	P82,555,624	₽25,299,506	₽31,085,253

Others include donations, bank charges and other miscellaneous costs.



# Personnel expenses consist of:

	2012	2011	2010
Salaries and wages	P12,167,225	₽7,936,003	₽3,147,724
Short term employee benefits	1,772,960	1,783,779	_
	P13,940,185	₽9,719,782	₽3,147,724

# 14. Sales and Marketing Expenses

	2012	2011	2010
Advertising (see Note 22)	P14,632,823	₽7,129,001	₽332,590
Consultancy fees	11,360,079	5,299,494	340,851
Product presentation	4,136,611	2,209,006	_
Personnel costs	3,397,172	1,090,058	_
Commissions and incentives	1,980,090	51,234	_
Rent and utilities (see Note 22)	1,344,437	28,255	_
Trainings and seminars	905,824	76,803	19,542
Travel and transportation	542,369	68,956	_
Depreciation and amortization (see Note 10)	524,705	_	_
Supplies	485,014	25,507	_
Telecommunications and postage	120,918	21,552	_
Repairs and maintenance	82,077	1,887	_
Others	473,969	75,333	12,500
	P39,986,088	₽16,077,086	₽705,483

Others include expenses from meetings, janitorial fees and other expenses directly attributable to sales and marketing.

Personnel expenses consist of:

	2012	2011	2010
Salaries and wages	<b>P</b> 2,799,241	₽1,090,058	₽–
Other employee benefits	597,931	_	_
	P3,397,172	₽1,090,058	₽–

# 15. Income Taxes

The Group's provision for income tax represents regular corporate income tax in 2012 and MCIT in 2011 and 2010.

Deferred tax liability recognized directly in equity as of December 31, 2012 consists of unrealized valuation gain on changes in fair value of AFS financial assets amounting to ₱1.3 million.



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

	2012	2011
NOLCO	P66,273,973	₽ 41,936,090
Unrealized foreign exchange losses	16,644,348	_
Difference between tax and book basis of accounting for		
real estate transactions	17,736,023	_
Accrued expenses	3,325,403	_
Provision for legal obligation	520,999	_
Allowance for impairment loss on AFS financial assets	7,263	_
Allowance for impairment losses on deferred exploration		
costs	_	88,713,164
MCIT	_	365,039
	P104,508,009	₽131,014,293

As of December 31, 2012, the Group has the following NOLCO and MCIT that can be claimed as deduction from future taxable income.

Year Incurred	Year of Expiry	NOLCO
2012	2015	₽34,573,441
2011	2014	29,407,272
2010	2013	2,293,260
		₽66,273,973

Movement of the Group's NOLCO and MCIT are as follows:

# **NOLCO**

	2012	2011
Balances at beginning of year	P41,936,090	₽ 57,879,037
Additions	34,573,441	34,433,678
Application	(10,235,558)	_
Expirations	_	(50,376,625)
Balances at end of year	P66,273,973	₽41,936,090

## **MCIT**

	2012	2011
Balances at beginning of year	P365,039	₽278,940
Additions	_	86,099
Application	(365,039)	_
Balances at end of year	₽–	₽365,039



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

	2012	2011	2010
Income tax computed at statutory tax rates	P34,404,986	( <del>P</del> 2,148,015)	₽5,224,073
Additions to (reductions in) income tax			
resulting from:			
Nondeductible expenses	2,375,390	782,912	2,505,742
Gain on disposal of asset held for sale			
subject to CGT	(9,645,914)	_	_
Changes in unrecognized deferred tax			
assets	(8,207,412)	10,464,415	5,898,930
Interest income subjected to final tax	(5,482,831)	(8,963,360)	(13,658,893)
Nontaxable income	(619,397)	(49,853)	(301)
Provision for impairment in value of AFS			
investments	_	_	149,807
	P12,824,822	₽86,099	₽119,358

# 16. Related Party Disclosures

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Group, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Group. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Group and close members of the family of these individuals, and companies associated with these individuals also constitute related parties. In considering each possible related entity relationship, attention is directed to the substance of the relationship and not merely the legal form.

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

			Outstanding		
	Transaction	Amount	balance	Terms	Conditions
Under common control:					
Puyat Steel Corporation					
(PSC)					
2012	Advances	₽–	P45,300,000	30 days,	Secured by receivables and
				8% per	finished goods with fair value
2011		30,000,000	45,000,000	annum	equivalent; No impairment.
Other related parties					
International Pipe Industries	1				
Corporation (IPIC)					
2012	Advances	5,000,000	27,493,111	30 days,	Secured by receivables and
				8% per	finished goods with fair value
2011		35,000,000	25,138,667	annum	equivalent; No impairment.
South China Petroleum					
International (SCPI)					
2012	Advances	17,053	126,497	Due and	Unsecured;
2011		11,082	109,444	demandable	No impairment
2012		P5,017,053	<b>P72,919,608</b>		
2011		₽65,011,082	₽70,248,111		



#### a. IPIC

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

In May 2011, the BOD authorized the Group to enter into a related party agreement with IPIC to provide a standby fund facility of up to ₱50.0 million for the acquisition of raw materials to be processed into finished steel pipe products. The Group will receive a guaranteed return on investment of at least 8% per annum. Interest earned by the Group in relation to these advances amounted to ₱1.7 million and ₱0.6 million in 2012 and 2011, respectively. Amounts due from IPIC includes outstanding interest receivable amounting to ₱493,111 and ₱138,667 as of December 31, 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the outstanding receivable from IPIC amounted to \$\text{P27.0}\$ million and \$\text{P25.0}\$ million, respectively. The amount is collectible within a year.

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

#### b. PSC

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

The BOD through a board resolution dated January 24, 2008 authorized the Group to enter into a related party agreement with PSC to advance an amount of up to \$\mathbb{P}\$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. Interest earned by the Group in relation to these advances amounted to \$\mathbb{P}\$3.2 million, \$\mathbb{P}\$3.7 million and \$\mathbb{P}\$6.0 million in 2012, 2011 and 2010, respectively.

As of December 31, 2012 and 2011, the outstanding receivable from PSC amounted to \$\mathbb{P}45.3\$ million and \$\mathbb{P}45.0\$ million, respectively. Interest receivable included in to the total outstanding balance amounted to \$\mathbb{P}0.3\$ million as of December 31, 2012. The amount is collectible within a year. These are due and demandable. PSC's accounts receivable and finished goods with fair value equivalent to the outstanding balance are used as collateral for the amount owed to the Group.



#### c. SCPI

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

The total amount of receivable from SCPI as of December 31, 2012 and 2011 amounting to \$\mathbb{P}0.1\$ million pertains to the amount paid for business permit and registration. The amount is due and demandable.

## d. Key Management Personnel Compensation

Salaries and short-term employee benefits of key management personnel amounted to \$\mathbb{P}2.3\$ million, \$\mathbb{P}2.2\$ million and \$\mathbb{P}2.1\$ million in 2012, 2011 and 2010, respectively.

## 17. Equity

#### a. Common Stock

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

	December 31, 2012		December 31, 2011	
	No. of Shares	Amount	No. of Shares	Amount
Authorized - P1 par value	1,000,000,000	<b>₽1,000,000,000</b>	1,000,000,000	£1,000,000,000
Issued	600,489,569	600,489,569	600,489,569	600,489,569
Subscribed	306,070,000	306,070,000	306,070,000	306,070,000
Treasury	907,000	(1,040,750)	500,000	(578,000)

The Parent Company was registered on September 25, 1992 with authorized capital stock amounting to \$\mathbb{P}1.0\$ billion composed of one billion shares with par value \$\mathbb{P}1.0\$ per share.

In 2011, 3,300,000 subscribed shares were fully paid and issued. Collections from such subscribed shares amounted to \$\mathbb{P}2.5\$ million in 2011. There were no collections in 2012.

#### b. Retained Earnings

On April 7, 2010, the BOD approved a resolution earmarking \$\overline{2}500.0\$ million of the retained earnings for purposes of funding its investments in SOC Land related to the Anuva Residences and Diwalwal Mine Reserve projects. On December 21, 2011, the BOD approved a resolution for the reversal of the 2010 appropriation of retained earnings and further earmarking \$\overline{2}500.0\$ million in 2011 for purposes of funding its investments related to the Anuva Residences and other investment projects.



# c. Treasury Stock

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

In 2012 and 2011, the Parent Company acquired 407,000 and 500,000 of its own shares for a total cost of P0.5 million and P0.6 million, respectively.

# 18. Basic/Diluted Earnings (Loss) Per Share

	2012	2011	2010
Net income (loss)	P114,683,287	( <del>P</del> 7,246,149)	₽17,294,220
Weighted average number of shares	906,048,899	906,167,902	912,269,569
Basic/Diluted Earnings (Loss)			_
per Share	<b>P</b> 0.1266	(P0.0080)	₽0.0190

There are no dilutive potential common shares outstanding as of December 31, 2012, 2011 and 2010.

#### 19. Financial Instruments

## Financial Risk Management Objectives and Policies

The Group has various financial assets and liabilities such as cash and cash equivalents, receivables, due from related parties, refundable deposits, AFS financial assets. The main purpose of the Group's financial instruments is to finance its operations. The Group has other financial instruments such as accounts payable and other liabilities 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, liquidity risk, foreign exchange risk, interest rate 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 is exposed to credit risk primarily because of its investing and operating activities. The Group is exposed to credit risk arising from the counterparties (ie., foreign currency denominated



debt instruments, fixed income deposits and receivables) to its financial assets.

#### Credit Risk Management

In managing credit risk on these investments, capital preservation is paramount. The Group trades only with recognized, creditworthy third parties. It is the Group's policy that all counterparties who wish to trade on credit terms are subject to credit verification procedures. For investment in bonds, funds are invested in highly recommended, creditworthy debt instruments that provides satisfactory interest yield and capital appreciation. Investment in equities securities represent investments in companies with good dividend track record, as well as capital appreciation. The investment portfolio mix between debt and equity is reviewed by management.

With respect to credit risk arising from the other financial assets of the Group, which comprise of "Cash and cash equivalents", "Receivables", "Due from related parties" and security deposits, management monitors these financial assets on an ongoing basis with the result that the Group's exposure to impairment losses is not significant.

#### Credit Risk Exposures

The maximum exposure to credit risk for financial assets, which is composed of "Cash and cash equivalents", "Receivables", "AFS financial assets" and security deposits, is equivalent to the carrying amount of these financial assets as carried in the consolidated statement of financial position. The maximum exposure to credit risk for "Due from related parties" is equivalent to the carrying amount of these financial assets as carried in the consolidated statement of financial position, which is secured by collateral.

#### Credit Risk Concentration Profile

Given the Group's diverse base of counterparties, it is not exposed to large concentrations of credit risk.

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

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

The tables below show the credit quality by class of financial asset based on the Group's rating system as of December 31, 2012 and 2011:

			2012		
	Neither Past Due	Nor Impaired	Past Due		_
		Standard	<b>But Not</b>		
	High Grade	Grade	Impaired	Impaired	Total
Loans and receivables					
Cash and cash equivalents*	P659,329,585	₽–	₽–	₽–	P659,329,585
Receivables	44,182,582	_	4,165,836	_	48,348,418
Due from related parties	793,111	72,126,497	_	_	72,919,608
Refundable deposits	_	1,268,038	_	_	1,268,038

(Forward)



2012 **Neither Past Due Nor Impaired** Past Due Standard **But Not High Grade Impaired** Grade **Impaired Total AFS financial assets ₽191,169,730** Shares of stock ₽-**₽3,340,763** P194,510,493 ₽-87,451,509 **Bonds** 87,451,509 Golf club shares 11,955,000 11,955,000 ₽982,926,517 P85,349,535 P3,340,763 P1,075,782,651 P4,165,836

\*Excluding cash on hand.

			2011		
	Neither Past Due	Nor Impaired	Past Due		
		Standard	But Not		
	High Grade	Grade	Impaired	Impaired	Total
Loans and receivables					
Cash and cash equivalents*	₽730,111,936	₽–	₽–	₽–	₽730,111,936
Receivables	1,238,627	3,245,384	4,039,423	_	8,523,434
Due from related parties	_	70,109,444	_	_	70,109,444
Refundable deposits	_	355,520	_	_	355,520
AFS financial assets					
Shares of stock	19,432,125	265,287,000	_	3,333,500	288,052,625
Golf club shares	_	130,000	_	_	130,000
	₽750,782,688	₽339,127,348	₽4,039,423	₽3,333,500	₽1,097,282,959

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

Cash and cash equivalents are considered high grade as the Group trades only with top banks in the Philippines. AFS financial assets are considered high grade due to high probability of collection when sold. High grade receivables pertain to installment contract receivables with no default in payments and settlements are obtained from counterparty in advance or ahead of the due date. Standard grade receivables are for receivables from officers and employees and third parties, due from related parties and refundable deposits which would require some reminder follow-ups to obtain settlement from the counterparties.

The tables below show the aging analysis of financial assets per class that the Group held as of December 31, 2012 and 2011. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

				2	012		
	Neither Past		Past Due but I	Not Impaired			
	Due nor	Less than	31 to 60	61 to 90	More than		
	Impaired	30 Days	Days	Days	91 Days	Impaired	Total
Loans and receivables							
Cash and cash							
equivalents*	₽659,329,585	₽-	₽–	₽–	₽–	₽–	₽659,329,585
Receivables	44,182,582	4,115,836	_	50,000	_	_	48,348,418
Due from related							
parties	_	186,000	2,008,889	187,942	70,536,777	_	72,919,608
Refundable deposits	_	1,268,038	_	_	_	_	1,268,038
AFS financial assets							
Shares of stock	191,169,730	_	_	_	_	3,340,763	194,510,493
Bonds	87,451,509	_	_	_	_	_	87,451,509
Golf club shares	11,955,000	_	_	_	_	_	11,955,000
	₽994,088,406	₽5,569,874	P2,008,889	₽237,942	₽70,536,777	P3,340,763	₽1,075,782,651

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



2011 Past Due but Not Impaired Neither Past 61 to 90 More than Due nor Less than 31 to 60 91 Days 30 Days Impaired Total Impaired Davs Days Loans and receivables Cash and cash equivalents\* ₽730,111,936 ₽-₽-₽-₽730,111,936 8,400 4,484,011 31,023 4,000,000 8,523,434 Receivables Due from related parties 12,000,000 58.109.444 70,109,444 Refundable deposits 355,520 355.520 AFS financial assets 284 719 125 3,333,500 288 052 625 Shares of stock Golf club shares 130,000 130,000 P1,031,800,592 ₽31,023 ₽58,117,844 ₽4,000,000 ₽3,333,500 ₽1,097,282,959

#### Liquidity Risk

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

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

**2012** 

	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
T: 114 4	Total	Demand	Wiontins	Months	Woltens
Financial Assets					
Loans and receivables:	DC50 425 245	DC50 425 245	TD.	D.	ъ
Cash and cash equivalents	₽659,437,345	₽659,437,345	₽-	<b>P</b> –	P-
Receivables	48,348,418	_	12,341,641	50,000	35,956,777
Due from related parties	72,919,608	_	2,382,831	_	70,536,777
AFS financial assets					
Shares of stock	191,169,730	191,169,730	_	_	_
Bonds	87,451,509	87,451,509		_	_
Golf club shares	11,955,000	_	11,955,000	_	_
	P1,071,281,610	₽938,058,584	P26,679,472	P50,000	P106,493,554
Financial Liabilities Other financial liabilities: Accounts payable and other liabilities**	₽85,482,682	₽-	₽85,482,682	₽_	₽_
**Excluding government payables.	100,102,002	<u> </u>	102,102,002	<u> </u>	
2011	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
Financial Assets					
Loans and receivables:					
Cash and cash equivalents	₽730,161,936	₽730,161,936	₽–	₽–	₽-
Receivables	8,523,434	4,039,423	4,484,011	_	_
Due from related parties	70,109,444	58,109,444	12,000,000	_	_
Refundable deposits	355,520	, , , _	355,520	_	_
AFS financial assets			,		
Shares of stock	284,719,125	284,719,125	_	_	_
Golf club share	130,000	130,000	_	_	_
	P1,093,999,459	₽1,077,159,928	₽16,839,531	₽-	₽-

(Forward)



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

	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
Financial Liabilities Other financial liabilities:					
Accounts payable and other liabilities**	₽19,762,172	₽–	₽19,762,172	₽–	₽-

<sup>\*\*</sup>Excluding government payables.

#### 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 financial assets 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 domestic AFS financial assets by using stock market index fluctuations and its effect to respective share prices. For foreign AFS financial assets, the Group uses index fluctuation in the respective stock exchanges where these assets are quoted.

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2012, with all other variables held constant, of the Group's equity:

	Change in Stock		Effect on Equity
Stock Exchange	Market Index	2012	2011
PSE	+10%	10,785,432	1,943,213
	-10%	(10,785,432)	(1,943,213)
HKEx	+5%	2,082,175	_
	-5%	(2,082,175)	_
NYSE	+10%	2,858,335	_
	-10%	(2,858,335)	_
SSE	+5%	197,759	_
	-5%	(197,759)	_
MYX	+5%	86,420	_
	-5%	(86,420)	_
SET	+5%	444,292	_
	-5%	(444,292)	_
TWSE	+5%	646,610	_
	-5%	(646,610)	_
NASDAQ	+10%	436,197	_
	-10%	(436,197)	_
LSE	+10%	549,865	_
	-10%	(549,865)	_

#### Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of the Group's financial instruments will fluctuate because of changes in foreign currencies.

In the normal course of business, the Group enters into transactions denominated in US dollar and other foreign currencies. As a result, the Group is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Group regularly monitors outstanding financial assets in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related these foreign currency denominated assets.



Information on the Group's foreign currency denominated monetary assets and their Philippine peso equivalent as of December 31, 2012 are as follows:

	2012		2011	
	Original	Peso	Original	Peso
	Currency	<b>Equivalent</b>	Currency	Equivalent
Financial Assets				
Cash - USD	6,401,477	<b>P</b> 262,780,630	3,667	₽160,774
Receivables - USD	18,065	741,572	_	_
AFS financial assets:				
Shares of stock				
Hong Kong Dollar	7,835,974	41,643,498	_	_
USD	732,776	30,080,469	_	_
Taiwan Dollar	9,113,598	12,932,195	_	_
Thailand Baht	6,609,526	8,885,847	_	_
Malaysia Ringgit	128,355	1,728,399	_	_
Bonds - USD	2,130,366	87,451,509	_	_
		P446,244,119		₽160,774

The table below demonstrate the sensitivity to a reasonable change in the foreign exchange rates, with all other variables held constant, of the Group's income (loss) before income tax (due to the changes in the fair value of the foreign-currency-denominated assets and liabilities). The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period end for the following percentage change in foreign currency rates:

	20	12	2011		
	Effect on inco	me before tax	Effect on inco	me before tax	
	Change in Peso-For	eign Exchange Rate	Change in Peso-Fore	eign Exchange Rate	
	Increase by 5%	Decrease by 5%	Increase by 5%	Decrease by 5%	
USD	P19,052,709	(P19,052,709)	₽8,039	( <del>P</del> 8,039)	
HKD	2,082,175	(2,082,175)	_	_	
NTD	646,610	(646,610)	_	_	
THB	444,292	(444,292)	_	_	
MYR	86,420	(86,420)	_		
	P22,312,206	(P22,312,206)	₽8,039	(₽8,039)	

The exchange rates as of December 31, 2012 and 2011 were:

	USD	HKD	MYR	THB	NTD
2012	P41.05	P5.31	₽13.47	₽1.34	P1.42
2011	43 84	_	_	_	_

#### Interest Rate Risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

The Group derives a portion of its revenue from interest-bearing cash equivalents and bonds. Accordingly, the Group is subject to financial risk arising from changes in interest rates. The Group manages interest rate risk by investing mainly on fixed coupon bonds and other investment.



By doing so, the Group is assured of future interest revenues from such investments.

Since the Group invests on fixed coupon interest bonds and other investments, the Group is not exposed significantly to cash flow interest rate risk.

# 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
	2012	2011	2012	2011
Financial Assets				_
Loans and receivables:				
Cash and cash equivalents	<b>P</b> 659,437,345	₽730,161,936	₽659,437,345	₽730,161,936
Receivables	48,348,418	8,523,434	48,348,418	8,523,434
Due from related parties	72,919,608	70,109,444	72,919,608	70,109,444
Refundable deposits	1,268,038	355,520	1,268,038	355,520
AFS financial assets:				
Shares of stock	191,169,730	284,719,125	191,169,730	284,719,125
Bonds	87,451,509	_	87,451,509	_
Golf club shares	11,955,000	130,000	11,955,000	130,000
	P1,072,549,648	₽1,093,999,459	<b>P1,072,549,648</b>	₽1,093,999,459
Financial Liabilities				
Other financial liabilities:				
Accounts payable and other				
liabilities	P85,482,682	₽19,762,172	₽85,482,682	₽19,762,172

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, Receivables, Due from Related Parties, Refundable Deposits and Accounts Payable and Other Liabilities

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

#### AFS financial assets

Fair value of AFS financial assets 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 is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value for the period ended December 31, 2012 and 2011.

D 1	0.1	20	. ~
December	- 1 I	70	12

<u> </u>	Level 1	Level 2	Level 3	Total
AFS financial assets:				
Shares of stock	<b>₽191,169,730</b>	₽–	₽–	<b>P</b> 191,169,730
Bonds	87,451,509	_		87,451,509
Golf club shares	_	_	11,955,000	11,955,000
	<b>P</b> 278,621,239	₽–	₽11,955,000	P290,576,239
December 31, 2011				
	Level 1	Level 2	Level 3	Total
AFS financial assets:				
Shares of stock	₽19,432,125	₽–	₽–	₽19,432,125
Golf club shares	_	_	130,000	130,000
	₽19,432,125	₽–	₽130,000	₽19,562,125

The following table is a reconciliation of Level 3 investments for which significant unobservable inputs were used to determine fair value for the period ended December 31, 2012 and 2011.

	2012	2011
Balances at beginning of year	P130,000	₽130,000
Acquisition	12,163,000	_
Disposal	(338,000)	_
Balances at end of year	₽11,955,000	₽130,000

As of December 31, 2012 and 2011, 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 2012 and 2011.

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

	2012	2011
Common stock	P600,489,569	₽600,489,569
Subscribed common stock – net	76,517,500	76,517,500
Additional paid-in capital	72,272,140	72,272,140
Retained earnings	936,534,628	834,676,163
Treasury stock	(1,040,750)	(578,000)
	P1,684,773,087	₽1,583,377,372



# 20. Segment Information

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

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

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

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

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

#### **2012**

	Oil and Gas	Real Estate				
	Exploration	Development	Others	Total	Eliminations	Consolidated
	Lapiorution	Бетегоричен	Others	10111	Diffinitions	Consonanca
Segment results						
Income (loss) before						
income tax	₽–	( <b>P</b> 55,878,525)		₽114,683,287	₽–	₽114,683,287
Provision for income tax	_		12,824,822	12,824,822		12,824,822
Net income (loss)	₽-	(P55,878,525)	P157,736,990	P101,858,465	₽-	P101,858,465
Assets						
Segment assets	₽_	P801.702.780	₽1,488,746,675	P2,290,449,455	(P489.989.820)	P1,800,459,635
Investments	_		322,298,000	322,298,000	(322,298,000)	_
III Comence	₽–	P801,702,780		P2,612,747,455		P1,800,459,635
Segment liabilities	₽-	₽567,095,131	₽20,081,520	₽587,176,651	(P489,989,820)	₽97,186,831
Other segment information	on					
Depreciation and	_				_	
amortization	₽–	₽2,665,797	P3,228,362	₽5,894,159	₽-	₽5,894,159
2011						
2011	Oil and Gas	Real Estate				
	Exploration	Development	Others	Total	Eliminations	Consolidated
	Exploration	Development	Oulcis	Total	Liminations	Consortaated
Segment results						
Income (loss) before						
income tax	₽–	( <del>P</del> 29,518,566)	₽22,358,516	(P7,160,050)	₽–	(P7,160,050)
Provision for income tax	_	_	(86,099)	(86,099)	_	(86,099)
Net income (loss)	₽–	(P29,518,566)	₽22,272,417	(P7,246,149)	₽–	(P7,246,149)
Assets						
Segment assets	₽_	₽542,051,011	₽1,282,475,036	₽1,824,526,047	(P208 080 820)	₽1,615,536,227
Investments	<b>I</b>	£342,031,011	322,298,000	322,298,000	(322,298,000)	£1,013,330,227
Deferred exploration costs	21,563,806		322,270,000	21,563,806	(322,270,000)	21,563,806
Deferred exploration costs	£21,563,806	₽542.051.011	P1,604,773,036	P2,168,387,853	(P531.287.820)	₽1.637.100.033
	,,	,,	,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	,,	(,,)	,,,
Segment liabilities	₽–	₽251,564,838	₽758,024	₽252,322,862	(P208,989,820)	₽43,333,042
Other segment information	n					
Depreciation and						
amortization	₽–	₽877,881	₽3,228,362	₽5,894,159		₽5,894,159



2010						
	Oil and Gas	Real Estate				
	Exploration	Development	Others	Total	Eliminations	Consolidated
Segment results						
Income (loss) before						
income tax	(P13,248,734)	(P2,293,260)	₽32,955,572	₽17,413,578	₽–	₽17,413,578
Provision for income tax	_	_	(119,358)	(119,358)	_	(119,358)
Net income	(P13,248,734)	( <del>P</del> 2,293,260)	₽32,836,214	₽17,294,220	₽–	₽17,294,220
Assets						
Segment assets	₽–	₽19.083.889	₽1,565,889,669	₽1,584,973,558	(£11.256.968)	₽1,573,716,590
Investments	_	_	41,836,983	41,836,983	(10,000,000)	
Deferred exploration costs	1,692,615	_		1,692,615		1,692,615
	₽1,692,615	₽19,083,889	₽1,607,726,652	₽1,628,503,156	(P21,256,968)	₽1,607,246,188
Segment liabilities	₽–	₽11,377,149	₽713,545	₽12,090,694	(P11,256,968)	₽833,726
Other segment information	n					
Provision for impairment						
losses on deferred	D12 240 724	ъ		D10 040 504	ъ	D10 040 504
exploration costs	₽13,248,734	₽–	₽–	₽13,248,734	₽–	₽13,248,734
Depreciation and		15.056	2.560.224	2.576.100		2.576.100
amortization	<del>_</del> _	15,956	2,560,234	2,576,190		2,576,190
	₽13,248,734	₽15,956	₽2,560,234	₽15,824,924	₽–	₽15,824,924

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

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

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

#### 22. Contracts and Commitments

The Group has the following significant commitments and agreements:

# Construction Agreements and Purchase Commitments

On various dates in 2011 and 2012, the Subsidiary entered into various construction-related contracts for the Tandem Building 1. These contracts pertain to construction management, general construction works, exterior wall construction works, land development works, mechanical works and electrical and auxiliary works. The contracts commenced on various dates in 2011 and 2012, with terms ranging from three (3) weeks to two (2) years. These contracts will expire on various dates in 2012 until December 2013, the anticipated turnover date of Tandem Building 1.

These agreements require down payment of 15% to 20% of the contract price while the balance will be settled through progress billings. The agreements also include a provision whereby the



Subsidiary shall deduct 10% retention from every progress payment until full completion of the project work. Retention payable related to these contracts amounted to £13.6 million and £4.1 million as of December 31, 2012 and 2011, respectively (see Note 12). These are expected to be settled upon completion of the Tandem Building 1 in 2013.

On various dates in 2011 and 2012, the Company entered into agreements to purchase steel, pipes and other construction materials. Outstanding purchase commitments amounted to \$\mathbb{P}49.6\$ million and \$\mathbb{P}70.8\$ million as of December 31, 2012 and 2011, respectively.

The estimated construction and development cost of the Tandem Building 1 is approximately ₱621.3 million. Costs capitalized as real estate for sale amounted to ₱227.0 million and ₱135.3 million in 2012 and 2011, respectively (see Note 6). Accrued liabilities related to these contracts amounted to ₱20.9 million and ₱17.1 million as of December 31, 2012 and 2011, respectively (see Note 12).

## **Advertising Agreements**

The Subsidiary entered into various contracts related to marketing and promotions of the Project. These contracts pertain to billboard lease, transit advertising and public relations and communication.

Sales and marketing expenses related to these agreements amounted to \$\mathbb{P}14.6\$ and \$\mathbb{P}7.1\$ million in 2012 and 2011, respectively (see Note 13).

#### Lease Agreements

- a. In 2012, the Parent Company entered into a renewable lease contract with Haldane Investment NV, duly represented by E. Zobel, Inc. for the lease of the 4/F Unit of ENZO Building, located at No. 399 Gil J. Puyat Avenue, Makati City. The contract is for a term of eight (8) months commencing on May 1, 2012 and expiring December 31, 2012. In line with the contract, the Parent Company paid a rental deposit amounting \$\text{P42},828\$, which is classified under "Prepayment and other current assets". Rent expense related to this lease contract, presented as "Rental and Utilities" amounted to \$\text{P0.1}\$ million in 2012 (see Note 14). The agreement was renewed for one year under the same terms. Minimum lease payments related to this lease is \$\text{P0.1}\$ million.
- b. On February 1, 2011, SOC Land entered into a lease contract with YL Holdings Corporation for the lease of office space at 6/F, YL Holdings Building, 115 VA Rufino corner Salcedo Streets, Legaspi Village, Makati City. SOC Land renews the lease agreement on a yearly basis. SOC Land paid security deposit amounting to \$\mathbb{P}0.2\$ million to answer for any and all damages to the leased premises and as security for the return of the leased premises in proper condition (see Note 7). The related rent expense recognized by the Company amounted to \$\mathbb{P}1.6\$ million and \$\mathbb{P}0.7\$ million in 2012 and 2011, respectively (see Notes 13 and 14). The agreement was renewed for one year under the same terms. Minimum lease payments related to this lease is \$\mathbb{P}60,180.
- c. In 2010, the Parent Company entered into a sublease contract with Bell Telecommunications, Inc. (BellTel) for the lease of office space located at 3/F Low Rise Pacific Star Building, Makati City. The contract is for a term of one year, renewable for another one year at the lessee's discretion. The related rent expense recognized by the Parent Company in 2011 and 2010 amounted to \$\mathbb{P}0.4\$ million and \$\mathbb{P}0.5\$ million, respectively (see Notes 13 and 14).



#### Contingencies

SOC Land is contingently liable for amounts arising from lawsuits or claims. On December 3, 2012, the Subsidiary received a copy of the decision that ruled against the Subsidiary. The Company recognized provision arising from the legal obligation amounting to \$\mathbb{P}0.5\$ million (see Notes 10 and 12).

On December 13, 2012, the Company filed its Notice of Appeal and Appeal Memorandum with the National Labor Relation Commission. SOC Land is still awaiting resolution of the Notice of Appeal.

## 23. Other Matters and Notes to Consolidated Statements of Cash Flows

- a. Comparative figures have been adjusted to conform to changes in presentation in the current year. Receivables from related parties which was previously presented under "Receivables" account was reclassified under "Due from related parties" account in the consolidated statement of financial position.
- b. The composition of the selling and marketing and general and administrative expenses accounts in the 2011 financial statements was reclassified to conform to the 2012 presentation of the financial statements. The reclassification has no impact to the Group's financial position, financial performance and cash flows.
- c. In 2012, the noncash activities pertain to the reclassification of investments in debt securities of about \$\mathbb{P}66.6\$ million from HTM investment to AFS financial assets on November 2, 2012 as discussed in Note 8.
- d. In 2010, the noncash activities pertain to the reclassification of investment property to real estate inventory as discussed in Note 1.





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

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

BOA/PRC Reg. No. 0001, December 28, 2012, valid until December 31, 2015 SEC Accreditation No. 0012-FR-3 (Group A), November 15, 2012, valid until November 16, 2015

# INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors South China Resources, Inc. ENZO Bldg 399 Senator Gil Puyat Avenue Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of South China Resources, Inc. and Subsidiary as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012, included in this Form 17-A, and have issued our report thereon dated March 22, 2013. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of Company's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

John Nai Feng C. ONB

John Nai Peng C. Ong
Partner
CPA Certificate No. 85588
SEC Accreditation No. 0327-AR-2 (Group A),
March 29, 2012, valid until March 28, 2015
Tax Identification No. 103-093-301
BIR Accreditation No. 08-001998-57-2012,
April 11, 2012, valid until April 10, 2015
PTR No. 3670008, January 2, 2013, Makati City

March 22, 2013

A member firm of Ernst & Young Global Limited

# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# SCHEDULE RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION FOR THE YEAR ENDED DECEMBER 31, 2012

Unappropriated retained earnings as of December 31, 2011,	₽366,487,990
Adjustments	
Unappropriated retained earnings as of December 31, 2011, as adjusted to available for dividend declaration	₽366,487,990
Net income actually incurred/realized during the period	157,736,990
	524,224,980
Less: Treasury shares	(1,040,750)
RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION AS OF DECEMBER 31, 2012	₽523,184,230



# SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY

# SCHEDULE OF ALL EFFECTIVE STANDARDS AND INTERPRETATIONS DECEMBER 31, 2012

List of Philippine Financial Reporting Standards (PFRSs) [which consist of PFRSs, Philippine Accounting Standards (PASs) and Philippine Interpretations] and Philippine Interpretations Committee (PIC) Q&As effective as of December 31, 2012:

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of December 31, 2012			Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements Conceptual Framework Phase A: Objectives and qualitative characteristics		,		
PFRSs Prac	tice Statement Management Commentary	e Statement Management Commentary		1
Philippine F	inancial Reporting Standards	1		
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards	1		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate		7	1
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			1
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			1
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			1
	Amendments to PFRS 1: Government Loans			1
PFRS 2	Share-based Payment			1
	Amendments to PFRS 2: Vesting Conditions and Cancellations			1
	Amendments to PFRS 2: Group Cash-settled Share- based Payment Transactions			1
PFRS 3 (Revised)	Business Combinations			1
PFRS 4	Insurance Contracts			1
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	1		
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	1		
PFRS 6	Exploration for and Evaluation of Mineral Resources	1		
PFRS 7	Financial Instruments: Disclosures	1		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	1		

<sup>\*</sup>Not early adopted



INTERPRE	TATIONS of December 31, 2012	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	1		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	1		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	1		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities		<b>/</b> *	
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures		<b>/</b> *	
PFRS 8	Operating Segments	1		
PFRS 9	Financial Instruments		<b>/</b> *	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		<b>/</b> *	
PFRS 10	Consolidated Financial Statements		<b>/</b> *	
PFRS 11	Joint Arrangements		<b>√</b> *	
PFRS 12	Disclosure of Interests in Other Entities		<b>/</b> *	
PFRS 13	Fair Value Measurement		<b>√</b> *	
Philippine A	accounting Standards			
PAS 1	Presentation of Financial Statements	1		
(Revised)	Amendment to PAS 1: Capital Disclosures	1		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			1
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income		<b>/</b> *	
PAS 2	Inventories	1		
PAS 7	Statement of Cash Flows	1		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	1		
PAS 10	Events after the Reporting Date	1		
PAS 11	Construction Contracts	1		
PAS 12	Income Taxes	1		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	1		
PAS 16	Property, Plant and Equipment	1		
PAS 17	Leases	1		
PAS 18	Revenue	1		
PAS 19	Employee Benefits	1		

<sup>\*</sup>Not early adopted

INTERPRET	E FINANCIAL REPORTING STANDARDS AND FATIONS of December 31, 2012	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			1
PAS 19 (Amended)	Employee Benefits		<b>/</b> *	
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			1
PAS 21	The Effects of Changes in Foreign Exchange Rates	1		
	Amendment: Net Investment in a Foreign Operation			1
PAS 23 (Revised)	Borrowing Costs			1
PAS 24 (Revised)	Related Party Disclosures	1		
PAS 26	Accounting and Reporting by Retirement Benefit Plans			1
PAS 27	Consolidated and Separate Financial Statements	1	- 3	
PAS 27 (Amended)	Separate Financial Statements		<b>/</b> *	
PAS 28	Investments in Associates	1		
PAS 28 (Amended)	Investments in Associates and Joint Ventures		<b>/</b> *	
PAS 29	Financial Reporting in Hyperinflationary Economies			1
PAS 31	Interests in Joint Ventures			1
PAS 32	Financial Instruments: Disclosure and Presentation	1		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			1
	Amendment to PAS 32: Classification of Rights Issues			1
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities		/*	
PAS 33	Earnings per Share	1		
PAS 34	Interim Financial Reporting			1
PAS 36	Impairment of Assets	1		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	1		
PAS 38	Intangible Assets			1
PAS 39	Financial Instruments: Recognition and Measurement	1		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			1
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			1

<sup>\*</sup>Not early adopted



INTERPRE	E FINANCIAL REPORTING STANDARDS AND TATIONS of December 31, 2012	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 39: The Fair Value Option			1
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			1
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			1
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition			1
	Amendments to Philippine Interpretation IFRIC–9 and PAS 39: Embedded Derivatives			1
	Amendment to PAS 39: Eligible Hedged Items			1
PAS 40	Investment Property	1		
PAS 41	Agriculture			1
Philippine I	nterpretations			
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities	1		
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			1
IFRIC 4	Determining Whether an Arrangement Contains a Lease	1		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			1
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			1
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			1
IFRIC 8	Scope of PFRS 2			1
IFRIC 9	Reassessment of Embedded Derivatives			1
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives			1
IFRIC 10	Interim Financial Reporting and Impairment			1
IFRIC 11	PFRS 2- Group and Treasury Share Transactions	1		
IFRIC 12	Service Concession Arrangements			1
IFRIC 13	Customer Loyalty Programmes			1
IFRIC 14	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			1
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			1
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			1
IFRIC 17	Distributions of Non-cash Assets to Owners			1

<sup>\*</sup>Not early adopted



INTERPRE	E FINANCIAL REPORTING STANDARDS AND TATIONS of December 31, 2012	Adopted	Not Adopted	Not Applicable
IFRIC 18	Transfers of Assets from Customers			1
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			1
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine		<b>/</b> *	
SIC-7	Introduction of the Euro			1
SIC-10	Government Assistance - No Specific Relation to Operating Activities			1
SIC-12	Consolidation - Special Purpose Entities			1
	Amendment to SIC - 12: Scope of SIC 12			1
SIC-13	Jointly Controlled Entities - Non-Monetary Contributions by Venturers			1
SIC-15	Operating Leases - Incentives		-	1
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			1
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			1
SIC-29	Service Concession Arrangements: Disclosures.			1
SIC-31	Revenue - Barter Transactions Involving Advertising Services			1
SIC-32	Intangible Assets - Web Site Costs			1

<sup>\*</sup>Not early adopted



## South China Resources, Inc. and Subsidiary

Financial Soundness Indicator

As of December 31, 2012 and December 31,2011

KEY FINANCIAL RATIOS		<u>12/31/2012</u>	<u>12/31/2011</u>	
I.	Current/Liquidity Ratios	15.19 x	29.40 x	
II.	Solvency Ratio	137.92%	N/A	
III.	Debt-to-equity ratio (in x)	0.0571 x	0.0272 x	
IV.	Asset to Equity Ratio	1.0571 x	1.0272 x	
٧.	Interest Rate Coverage Ratio	N/A	N/A	
VI.	Profitability Ratio			
	Return on Equity	5.98%	-0.45%	
	Return on Assets	5.66%	-0.44%	
VII.	Other Relevant Ratios			
	Revenue Growth/ (Decline)	590.60%	-33.33%	
	Net Income Growth/ (Decline)	1505.69%	-141.90%	
	EBITDA	Php 134,042,905	(3,826,860)	

Key Financial Ratios Formula

Current Ratio Current Assets/ Current Liabilities

Solvency Ratio (After Tax Net Income+Depreciation)/Total Liabilities

Debt- to Equity Ratio
Asset- to Equity Ratio
Interest Rate Coverage Ratio

Return on Equity (ROE)

Total Liabilities/ Equity
Total Assets/Total Equity
EBITDA/Interest Expense

Return on Equity (ROE)

Return on Assets (ROA)

Net Income/Equity

Net income/ Total Assets

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

# South China Resources, Inc. and Subsidiary

Map of the Relationships of the Companies within the Group As of December 31, 2012 and December 31,2011

**SOUTH CHINA RESOURCES, INC.** (PARENT)



**SOC LAND DEVELOPMENT CORP.** (SUBSIDIARY 100% OWNED)