



## South China Resources, Inc. and Subsidiary

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

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.

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

## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of South China Resources, Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2010 and 2009, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2010, and a summary of significant accounting policies and other explanatory information. We did not audit the 2009 and 2008 financial statements of Premiere Development Bank (PDB), the investment in which is reflected in the accompanying consolidated financial statements using the equity method of accounting. The investment in PDB represents about 2.15% of total assets as of December 31, 2009, and the equity in the net income (losses) represents about 0.03% and 0.95%, of the net income in 2009 and 2008, respectively. The financial statements of PDB were audited by other auditors whose report has been furnished to us, and our opinion on the 2009 and 2008 consolidated financial statements, insofar as it relates to the amounts included for PDB, is based solely on the report of the other auditors.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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



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

***Opinion***

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

SYCIP GORRES VELAYO & CO.

*John Nai Peng C. Ong*

John Nai Peng C. Ong

Partner

CPA Certificate No. 85588

SEC Accreditation No. 0327-AR-1

Tax Identification No. 103-093-301

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

June 1, 2009, Valid until May 31, 2012

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

April 13, 2011



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

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

*See accompanying Notes to Consolidated Financial Statements.*



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

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

*See accompanying Notes to Consolidated Financial Statements.*



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

	Years Ended December 31		
	2010	2009	2008
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱17,413,578	₱1,041,555,654	₱112,856,711
Adjustments for:			
Provision for impairment losses on deferred exploration costs (Note 1)	13,248,734	–	62,846,077
Depreciation and amortization (Note 9)	2,576,190	2,528,807	1,809,582
Equity in net losses (income) of associates (Note 8)	2,280,818	40,035,540	(100,222,956)
Provision for impairment in value of AFS investments (Note 7)	499,356	270,000	–
Net foreign exchange losses	13,397	5,439	13,294
Interest income (Notes 4 and 14)	(51,498,529)	(9,920,148)	(20,861,310)
Gain on sale of investments in an associate (Note 20)	–	(1,171,904,480)	–
Gain on sale of investment property (Note 20)	–	–	(113,019,521)
Operating loss before working capital changes	(15,466,456)	(97,429,188)	(56,578,123)
Decrease (increase) in:			
Accounts receivable	21,025,221	4,930,083	(75,033,962)
Prepayments and other current assets	(7,724,208)	(215,199)	(483,091)
Increase (decrease) in accounts payable and accrued expenses	13,588	1,060,846	(12,903,776)
Net cash used in operations	(2,151,855)	(91,653,458)	(144,998,952)
Income tax paid	(159,582)	–	–
Net cash flows used in operating activities	(2,311,437)	(91,653,458)	(144,998,952)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	44,650,861	13,792,523	16,988,935
Decrease (increase) in deferred exploration costs	20,607	(70,876)	(130,907)
Acquisitions of:			
Investment property (Note 10)	(321,048,252)	–	–
AFS investments (Note 7)	(264,000,000)	–	–
Property and equipment (Note 9)	(388,792)	(106,115)	(12,355,939)
Increase in other noncurrent assets	(3,410,249)	–	–
Net changes in investments in associates	(347,353)	362,807,749	(357,807,750)
Net proceeds from:			
Sale of investments in associate	–	1,227,825,489	–
Sale of investment property (Note 20)	–	–	540,000,000
Decrease in refundable deposits and others	–	–	137,054
Payment of subscriptions payable (Note 20)	–	(171,720,000)	–
Net cash flows from (used in) investing activities	(544,523,178)	1,432,528,770	186,831,393
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Collections of subscriptions receivable	5,760,000	472,500	97,500
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
	(13,397)	(5,439)	(13,294)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(541,088,012)	1,341,342,373	41,916,647
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	1,434,171,590	92,829,217	50,912,570
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	₱893,083,578	₱1,434,171,590	₱92,829,217

See accompanying Notes to Consolidated Financial Statements.



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

	Common Stock (Note 15)		Additional Paid-in Capital	Unrealized Gains on AFS Investments (Note 7)	Share in Unrealized Valuation Gains (Losses) on AFS Investments of an Associate (Note 8)	Retained Earnings (Deficit) (Note 15)		Total
	Issued	Subscribed - net				Appropriated	Unappropriated	
Balances at January 1, 2008	₱588,749,569	₱79,452,500	₱72,272,140	₱2,571,002	₱188,346	₱—	(₱329,624,691)	₱413,608,866
Collection of subscriptions receivable	—	97,500	—	—	—	—	—	97,500
Issuance of common stock	130,000	(130,000)	—	—	—	—	—	—
Total comprehensive income	—	—	—	(831,259)	(314,829)	—	112,856,711	111,710,623
Balances at December 31, 2008	588,879,569	79,420,000	72,272,140	1,739,743	(126,483)	—	(216,767,980)	525,416,989
Collection of subscriptions receivable	—	472,500	—	—	—	—	—	472,500
Issuance of common stock	630,000	(630,000)	—	—	—	—	—	—
Total comprehensive income	—	—	—	249,900	68,026	—	1,041,396,072	1,041,713,998
Balances at December 31, 2009	589,509,569	79,262,500	72,272,140	1,989,643	(58,457)	—	824,628,092	1,567,603,487
Collection of subscriptions receivable	—	5,760,000	—	—	—	—	—	5,760,000
Issuance of common stock	7,680,000	(7,680,000)	—	—	—	—	—	—
Appropriation for future investments (Note 15)	—	—	—	—	—	500,000,000	(500,000,000)	—
Total comprehensive income	—	—	—	15,682,905	71,850	—	17,294,220	33,048,975
<b>Balances at December 31, 2010</b>	<b>₱597,189,569</b>	<b>₱77,342,500</b>	<b>₱72,272,140</b>	<b>₱17,672,548</b>	<b>₱13,393</b>	<b>₱500,000,000</b>	<b>₱341,922,312</b>	<b>₱1,606,412,462</b>

See accompanying Notes to Consolidated Financial Statements.



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

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## **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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

#### Corporate Information of the Parent Company

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

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

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

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

SCRI has seven employees in 2010 and 2009.

#### Status of Operations

##### *Real Estate*

In 2010, SCRI diversified its business and invested into real property development through SOC Land Development Corporation (SOC Land), a wholly-owned subsidiary. SOC Land was incorporated in the Philippines and registered with the Philippine SEC on November 25, 2010. The primary purpose of SOC Land is to deal and engage in real estate business. SOC Land has not yet started its commercial operations as of December 31, 2010.

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

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





*Oil and Gas Exploration Operations*

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

Contract Areas	Percentage of Working Interest	
	2010	2009
SC-60 Northeast Palawan [formerly Geophysical Survey and Exploration Contract (GSEC) 99]	<b>15.00</b>	15.00
SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)	<b>15.00</b>	15.00
SC-41 Offshore Sulu Sea Sandakan Basin	<b>1.09</b>	1.09

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements, which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts are estimated to be about US\$10.0 million and US\$10.1 million as of December 31, 2010 and 2009, respectively.

SCRI has existing SCs as follows:

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

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

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

During the second half of November 2010, a Controlled Source Electro-Magnetics survey in line with a request to the DOE to extend the decision period whether or not to enter the third sub-phase was launched. As of December 31, 2010, the request is still under process with the DOE.

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

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

On April 1, 2009, SCRI, Pitkin Petroleum (Pitkin), and the DOE signed SC-71. SC-71 covers an area of 1.164 MM hectares in the Cuyo/Mindoro/East Palawan region. The operator, Pitkin, is currently conducting geological and geophysical assessment of the block. SC-71 completed comprehensive reprocessing of over 3000 lines kilometers of 2D seismic data over the area. Interpretative assessment, reprocessing and re-interpretation of the magnetic and gravity data was also ongoing as of December 31, 2010. As per advice of Pitkin, the first sub-phase of work was extended to April 1, 2011.

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



- SC-41 Offshore Sulu Sea Sandakan Basin

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

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

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

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

SCRI has 1.09% paying participating interest in the block.

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

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

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

#### Segment Reporting

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

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



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

	Oil and Gas Exploration	Real Property	Total	Eliminations	Consolidated
<b>Segment results</b>					
Income before income tax	₱21,694,882	(₱2,293,260)	₱19,401,622	₱-	₱19,401,622
Provision for income tax	119,358	-	119,358	-	119,358
Net income	₱21,575,524	(₱2,293,260)	₱19,282,264	₱-	₱19,282,264
<b>Assets</b>					
Segment assets	₱1,288,666,444	₱19,083,889	₱1,307,750,333	(₱21,256,968)	₱1,286,493,365
Investment property	-	321,048,252	321,048,252	-	321,048,252
Deferred exploration cost	1,692,615	-	1,692,615	-	1,692,615
	₱1,290,359,059	₱340,132,141	₱1,630,491,200	(₱21,256,968)	₱1,609,234,232
<b>Segment liabilities</b>					
	₱713,545	₱11,377,149	₱12,090,694	(₱11,256,968)	₱833,726
<b>Other segment information</b>					
Depreciation and amortization	₱2,560,234	₱15,956	₱2,576,190	₱-	₱2,576,190

#### Approval of the Consolidated Financial Statements

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

## 2. Summary of Significant Accounting Policies

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new, revised and amended PFRS and interpretations and improvements to PFRS that became effective during the year. Adoption of these new and amended standards or interpretations did not have any significant impact to the Group except for the additional required disclosures and use of titles, captions and formats of presentation.

- Amendment to PFRS 2, *Share-based Payments* - Group Cash-settled Share-based Payment Transactions



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

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

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

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

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

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

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

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

#### *Improvements to PFRS*

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

- PAS 1, *Presentation of Financial Statements*

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



- PAS 7, *Statement of Cash Flows*

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

- PAS 36, *Impairment of Assets*

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

- PAS 17, *Leases*

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

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

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

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

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

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

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

#### Future Changes in Accounting Policies

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



*Effective in 2011*

- Amendment to PAS 24, *Related Party Disclosures*

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

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

The amendment to PAS 32 is effective for annual periods beginning on or after February 1, 2010 and amended the definition of a financial liability in order to classify rights issues (and certain options or warrants) as equity instruments in cases where such rights are given pro-rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency.

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

The amendment to Philippine Interpretation IFRIC 14 is effective for annual periods beginning on or after January 1, 2011 with retrospective application. The amendment provides guidance on assessing the recoverable amount of a net pension asset. The amendment permits an entity to treat the prepayment of a minimum funding requirement as an asset.

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

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

*Improvements to PFRS Effective 2011*

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

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



*Effective in 2012*

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

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

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

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

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

This interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, Construction Contracts, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and rewards of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

*Effective in 2013*

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

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

Basis of Consolidation

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



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

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

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

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

#### Cash and Cash Equivalents

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

#### Financial Instruments

##### *Date of Recognition*

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

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

##### *Initial Recognition of Financial Instruments*

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

##### *Determination of Fair Value*

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





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

The Group has financial assets under Levels 1 and 3 of the fair value hierarchy as of December 31, 2010 and 2009 (see Note 18).

#### *Classification of Financial Instruments*

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

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

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

The Group has no financial assets or liabilities at FVPL and HTM investments as of December 31, 2010 and 2009.

#### *Loans and Receivables*

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

The Group's loans and receivables consist of cash and cash equivalents and accounts receivables (see Notes 4 and 5).

#### *AFS Investments*

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



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

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

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

The Group’s AFS investments consist of listed and unlisted shares (see Note 7).

#### *Other Financial Liabilities*

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

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

The Group’s other financial liabilities consist of accounts payables and accrued expenses (see Note 12).

#### Impairment of Financial Assets

##### *Financial Assets Carried at Amortized Cost*

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



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

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

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

#### *AFS Investments Carried at Fair Value*

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

#### *AFS Investments at Cost*

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

### Derecognition of Financial Assets and Liabilities

#### *Financial Assets*

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a pass-through arrangement; or



- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

#### *Financial Liabilities*

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

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

#### Offsetting Financial Instruments

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

#### Prepayments and Other Current Assets

##### *Prepayments*

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

##### *Advances to Contractors*

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

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

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



### Investments in an Associate

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

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

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

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

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

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

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

### Investment Property

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

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

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



### Deferred Exploration Costs

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

### Property and Equipment

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

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

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

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

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

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

### Impairment of Nonfinancial Assets

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



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

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

#### Common Stock

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

#### Additional Paid-in Capital

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

#### Retained Earnings

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

#### Revenue Recognition

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

#### *Interest Income*

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

#### Costs and Expenses

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



### Retirement Benefit Costs

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

### Income Taxes

#### *Current Income Tax*

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

#### *Deferred Tax*

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

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

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

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

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

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

### Foreign Currency-denominated Transactions

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





### Leases

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

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

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

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

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

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

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

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

### Segment Reporting

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

### Provisions

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



### Contingencies

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

### Events After the Reporting Date

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

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## 3. Significant Accounting Judgments, Estimates and Assumptions

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

### Judgment

#### *Determining Functional Currency*

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

#### *Classification of Financial Instruments*

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

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

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

The Group considers its investments in associates as investments in associate. The Group concluded that it has significant influence over the operating and financial policies of PDB due to the following:

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



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

*Operating Leases - The Group as Lessee*

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

*Recognition of Deferred Tax Assets*

Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Group recognizes deferred tax liabilities from taxable temporary differences. No deferred tax assets have been recognized on temporary differences and unused NOLCO amounting to ₱147.0 million and ₱133.8 million as of December 31, 2010 and 2009, respectively (see Note 13).

Estimates and Assumptions

*Allowance for Impairment Losses of Accounts Receivable*

The Group reviews the balance of accounts receivable at each reporting date to assess whether an allowance for impairment losses should be recorded in profit or loss. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance. In addition to specific allowance against individually significant loans and receivables, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception. These assessments take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

There are no allowance for impairment losses of accounts receivable as of December 31, 2010 and 2009. Accounts receivable amounted to ₱56.0 million and ₱70.2 million as of December 31, 2010 and 2009, respectively (see Note 5 and 14).

*Estimating Impairment of Nonfinancial Assets*

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

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



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

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

No provision for impairment losses were recognized in 2010, 2009 and 2008. The carrying values of nonfinancial assets that are subjected to impairment testing are as follows:

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

#### *Estimating Useful Lives of Property and Equipment*

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

The net book values of property and equipment amounted to ₱6.1 million and ₱8.3 million, respectively as of December 31, 2010 and 2009, respectively (see Note 9).

#### *Impairment of Deferred Exploration Costs*

The full recovery of the deferred exploration costs incurred in connection with the Group's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. When the SC/GSEC is permanently abandoned or the entity has withdrawn from the consortium, the related deferred exploration costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development. The Group has provided full valuation allowance on deferred exploration costs incurred for certain SCs and GSECs on which management has no definite plans for further exploration and development. The Group recognized allowance for impairment losses on deferred exploration costs amounting to ₱88.8 million and ₱75.5 million as of December 31, 2010 and 2009, respectively (see Note 1). Net deferred exploration costs amounted to ₱1.7 million and ₱15.0 million as of December 31, 2010 and 2009, respectively.



*Impairment of AFS Investments*

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

As of December 31, 2010 and 2009, the Group’s allowance for decline in market value of unlisted AFS investments amounted to ₱3.3 million and ₱2.8 million, respectively (see Note 7). In 2010, 2009 and 2008, the Group recognized impairment loss amounting to ₱0.5 million, ₱0.3 million and nil due to the significant decline in value of its AFS investments, respectively (see Note 7).

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

*Valuation of Financial Instruments*

PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Group utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity. The fair value of the Group’s financial assets and liabilities are disclosed in Note 18.

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**4. Cash and Cash Equivalents**

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

Cash with banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income earned amounted to ₱38.7 million, ₱1.9 million and ₱11.2 million in 2010, 2009 and 2008, respectively.

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**5. Accounts Receivable**

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



Others include accrued interest receivable from the Group's short-term investments amounting to ₱6.8 million as of December 31, 2010.

## 6. Prepayments and Other Current Assets

	2010	2009
Advances to contractors	₱7,726,768	₱-
Prepayments	176,560	72,507
Supplies	175,373	185,877
Others	36,000	132,109
	<b>₱8,114,701</b>	<b>₱390,493</b>

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

## 7. AFS Investments

	2010	2009
Shares - listed		
Petron Corporation	₱21,595,950	₱6,081,750
Aboitiz Equity Ventures, Inc.	222,600	54,000
Philippine Long Distance Telephone Group	7,455	7,350
	<b>21,826,005</b>	<b>6,143,100</b>
Shares - unlisted		
AGP International Holdings Ltd. (AGP International)	<b>264,000,000</b>	-
Southwest Resources, Inc. (Southwest)	<b>3,333,500</b>	3,333,500
Mt. Malarayat Golf and Country Club (Mt. Malarayat)	<b>130,000</b>	130,000
	<b>267,463,500</b>	<b>3,463,500</b>
Less allowance for impairment on AFS investments	<b>3,333,500</b>	2,834,144
	<b>264,130,000</b>	<b>629,356</b>
	<b>₱285,956,005</b>	<b>₱6,772,456</b>

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

### Listed Shares

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



Movements in AFS investments are as follows:

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

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

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

#### Unlisted Shares

Unlisted shares without available market values are carried at cost less any impairment losses. In 2010 and 2009, due to the significant decline in value of the shares, the Group recognized provisions for impairment in value of AFS investments on its Southwest shares and Mt. Malarayat shares amounting to ₱0.5 million and ₱0.3 million in profit or loss, respectively. No provision for impairment in value of AFS investments was recognized in 2008. Allowance for impairment in value of unlisted shares amounted to ₱3.3 million and ₱2.8 million as of December 31, 2010 and 2009, respectively.

#### *AGP International*

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

In 2010, SCRI subscribed to and subsequently fully paid for 26,086,957 preferred shares of AGP International Holdings, Ltd., which represents a 6.52% interest at a purchase price of ₱264.0 million.

AGP International invested in 40% of the outstanding capital stock of AGP Philippines Holdings I, Inc. (AGP Philippines), which was incorporated on December 13, 2010. In 2010, AGP Philippines finalized the acquisition of all of the shares of DMCI Holdings, Inc. (DMCI-HI) in Atlantic Gulf & Pacific Group of Manila, Inc. (AG&P). The shares comprise of 973,089,025 shares directly owned and 17 shares beneficially owned by DMCI-HI, representing 98.19% of the outstanding capital of AG&P. AG&P provides modular engineering and construction and general engineering design services, including fabrication, assembly and manpower services, particularly in the oil, gas, petrochemical, power generation and mining industries. Accordingly, the Group's risk factors include those factors that impact, either positively or negatively, the markets for engineering and construction services.

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



## 8. Investments in an Associate

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

### PDB

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

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

On November 5, 2010, the Group subscribed to and paid for 3,016 additional shares at the subscription price of ₱0.4 million. As of December 31, 2010 and 2009, the Group's equity share in PDB is 4.79% and 4.81%, respectively. The Group accounts for its investments in PDB under the equity method.

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

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

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





## 9. Property and Equipment

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

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

## 10. Investment Property

On July 28, 2010, SCRI purchased 24,023 square meters parcel of land located at East Service Road of South Superhighway, Barangay Buli, Muntinlupa City at a price of ₱321.0 million. The cost of the property equals its fair value as of December 31, 2010.

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



### 11. Other Noncurrent Assets

	2010	2009
Advances to contractors	P <b>2,397,352</b>	P-
Input VAT	<b>1,012,896</b>	-
	<b>P3,410,248</b>	P-

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

### 12. Accounts Payable and Accrued Expenses

	2010	2009
Accrued expenses	P <b>464,093</b>	P523,679
Government payables	<b>140,600</b>	69,024
Accounts payable	<b>109,675</b>	108,077
	<b>P714,368</b>	P700,780

### 13. Income Taxes

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

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

	2010	2009
Allowance for impairment losses on deferred exploration costs	P <b>88,713,164</b>	P75,464,430
NOLCO	<b>57,981,095</b>	58,198,849
MCIT	<b>278,940</b>	159,582
Unrealized foreign exchange loss	<b>18,836</b>	5,439
	<b>P146,992,035</b>	P133,828,300

As of December 31, 2010, the Group has the following NOLCO and MCIT that can be claimed as deduction from future taxable income and income tax due, respectively:

Year Incurred	Year of Expiry	NOLCO	MCIT
2010	2013	P6,003,109	P119,378
2009	2012	1,601,361	159,582
2008	2011	50,376,625	-
		<b>P57,981,095</b>	<b>P278,960</b>



Movement of the Group's NOLCO and MCIT follows:

NOLCO

	2010	2009
Balances at beginning of year	₱58,198,849	₱62,235,740
Additions	6,003,109	1,601,361
Expirations	(6,220,863)	(5,638,252)
Balances at end of year	<b>₱57,981,095</b>	₱58,198,849

MCIT

	2010	2009
Balances at beginning of year	₱159,582	₱-
Additions	119,378	159,582
Balances at end of year	<b>₱278,960</b>	₱159,582

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

	2010	2009	2008
Income tax computed at statutory tax rates (30% in 2010 and 2009; 35% in 2008)	<b>₱5,224,073</b>	₱312,466,697	₱39,499,849
Additions to (reductions in) income tax resulting from:			
Change in unrecognized deferred tax assets	5,898,930	39,765,548	3,971,166
Nondeductible expenses	2,505,742	-	-
Provision for impairment in value of AFS investments	149,807	81,000	-
Interest income subjected to final tax	(13,658,893)	(582,319)	(3,914,183)
Nontaxable income	(301)	-	-
Gain on sale of investments in associate	-	(351,571,344)	-
Gain on sale of an investment property	-	-	(39,556,832)
	<b>₱119,358</b>	₱159,582	₱-

**14. Related Party Disclosures**

a. Amounts Owed by Puyat Steel Corporation (PSC)

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



competitive stature. By the year 2000, PSC became the first NOF continuous galvanizing plant to be ISO 9002 certified. PSC is under common control with the Group.

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

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

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

b. Cash Deposits and Short-term Investments in PDB

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

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

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

c. Key Management Personnel Compensation

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

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## 15. Equity

a. Common Stock

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

b. Retained Earnings

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



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## 16. Basic/Diluted EPS

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

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

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## 17. Operating Lease Commitment

In 2010, the Group entered into a sublease contract with BellTel for the lease of office space located at 3/F Low Rise Pacific Star Building, Makati City. The contract is for a term of one year renewable for another one year at the lessee's discretion. The related rent expense recognized by the Group in 2010, 2009 and 2008 amounted to ₱0.5 million, ₱0.4 million, ₱0.4 million, respectively.

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## 18. Financial Instruments

### Financial Risk Management Objectives and Policies

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

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

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

### *Credit Risk*

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

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

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



*Credit Quality of Financial Assets*

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

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

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

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

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

\*Excluding cash on hand.

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

\*Excluding cash on hand.

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



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

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

\*Excluding cash on hand.

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

\*Excluding cash on hand.

#### Equity Price Risk

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

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

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2010, with all other variables held constant, of the Group's other comprehensive income and equity:

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

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



Fair Values of Financial Instruments

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

	Carrying Values		Fair Values	
	2010	2009	2010	2009
<b>Financial Assets</b>				
Loans and Receivables				
Cash and cash equivalents	<b>₱893,083,578</b>	₱1,434,171,590	<b>₱893,083,578</b>	₱1,434,171,590
Accounts receivable	<b>56,005,049</b>	70,182,601	<b>56,005,049</b>	70,182,601
AFS financial asset				
AFS investments	<b>285,956,005</b>	6,772,456	<b>285,956,005</b>	6,772,456
	<b>₱1,235,044,632</b>	₱1,511,126,647	<b>₱1,235,044,632</b>	₱1,511,126,647
<b>Financial Liability</b>				
Other financial liabilities				
Accounts payable and accrued expenses	<b>₱551,843</b>	₱631,756	<b>₱551,843</b>	₱631,756

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

*Cash and Cash Equivalents, Accounts receivable and Accounts Payable and Accrued Expenses*

The carrying amounts of cash and cash equivalents, accounts receivable and accounts payable and accrued expenses approximate their fair values due to the short-term maturities of these financial instruments.

*AFS Investments*

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

Fair Value Hierarchy

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

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

The following table shows the Group's financial instruments carried at fair value:

	2010			Total
	Level 1	Level 2	Level 3	
<b>Financial Assets</b>				
<b>AFS investments:</b>				
Listed	<b>₱21,826,005</b>	<b>₱-</b>	<b>₱-</b>	<b>₱21,826,005</b>
Unlisted	<b>130,000</b>	<b>-</b>	<b>264,000,000</b>	<b>264,130,000</b>
	<b>₱21,956,005</b>	<b>₱-</b>	<b>₱264,000,000</b>	<b>₱285,956,005</b>





	2009			Total
	Level 1	Level 2	Level 3	
Financial Assets				
AFS investments:				
Listed	₱6,143,100	₱-	₱-	₱6,143,100
Unlisted	130,000	-	499,356	629,356
	<b>₱6,273,100</b>	<b>₱-</b>	<b>₱499,356</b>	<b>₱6,772,456</b>

As of December 31, 2010 and 2009, there were no transfers between Level 1 and Level 3 fair value measurements.

#### Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes in 2010, 2009 and 2008.

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

	2010	2009
Common stock	<b>₱597,189,569</b>	₱589,509,569
Subscribed capital stock - net	<b>77,342,500</b>	79,262,500
Additional paid-in capital	<b>72,272,140</b>	72,272,140
Retained earnings	<b>841,922,312</b>	824,628,092
	<b>₱1,588,726,521</b>	<b>₱1,565,672,301</b>

## 19. Contracts and Commitments

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

On September 25, 2010, the Group entered into an MPDS with Nestor S. Mangio & Associates (NM & Associates) for total contract amount of ₱1.5 million, inclusive of VAT. The scope of work includes architectural design services specifically schematic design preparation, plan development and contract documents preparation. In addition, assistance shall be offered by NM & Associates in the bid process for obtaining contractor proposals.

Master planning fees paid included in advances to contractors under "Prepayment and other current assets" account in the statement of consolidated financial position amounted to ₱0.8 million in 2010 (see Note 6).



b. Architectural and Engineering Design Consultancy Services (AEDCS)

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

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

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20. **Other Matters**

a. Sale of Investments in BellTel

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

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

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

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

