



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

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

and

Independent Auditors' Report

SyCip Gorres Velayo & Co.



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

## INDEPENDENT AUDITORS' REPORT

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

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of South China Resources, Inc. and its subsidiary, which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, and the consolidated statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

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

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

#### *Auditors' Responsibility*

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

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

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



***Opinion***

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

SYCIP GORRES VELAYO & CO.

*John Nai Peng C. Ong*

John Nai Peng C. Ong

Partner

CPA Certificate No. 85588

SEC Accreditation No. 0327-AR-2 (Group A),  
March 29, 2012, valid until March 28, 2015

Tax Identification No. 103-093-301

BIR Accreditation No. 08-001998-57-2012,  
April 11, 2012, valid until April 10, 2015

PTR No. 3670008, January 2, 2013, Makati City

March 22, 2013



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

	<b>Years Ended December 31</b>	
	<b>2012</b>	<b>2011</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 4)	<b>₱659,437,345</b>	₱730,161,936
Receivables (Note 5)	<b>48,575,758</b>	8,376,798
Real estate for sale (Note 6)	<b>660,056,016</b>	447,615,888
Due from related parties (Note 16)	<b>72,919,608</b>	70,248,111
Prepayments and other current assets (Note 7)	<b>14,836,796</b>	17,692,759
<b>Total Current Assets</b>	<b>1,455,825,523</b>	1,274,095,492
<b>Noncurrent Asset Held for Sale</b> (Note 9)	–	31,722,243
<b>Noncurrent Assets</b>		
Available-for-sale (AFS) financial assets (Note 8)	<b>290,576,239</b>	284,849,125
Property and equipment (Note 10)	<b>19,174,495</b>	21,046,176
Deferred exploration costs (Note 1)	–	21,563,806
Other noncurrent assets (Note 11)	<b>34,883,378</b>	3,823,191
<b>Total Noncurrent Assets</b>	<b>344,634,112</b>	331,282,298
<b>TOTAL ASSETS</b>	<b>₱1,800,459,635</b>	₱1,637,100,033
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other liabilities (Note 12)	<b>₱88,105,661</b>	₱43,311,080
Income tax payable (Note 15)	<b>7,758,921</b>	21,962
<b>Total Current Liabilities</b>	<b>95,864,582</b>	43,333,042
<b>Noncurrent Liabilities</b>		
Deferred tax liabilities (Note 15)	<b>1,322,249</b>	–
<b>Total Noncurrent Liabilities</b>	<b>1,322,249</b>	–
<b>Total Liabilities</b>	<b>97,186,831</b>	43,333,042
<b>Equity</b>		
Common stock - ₱1 par value (Note 17a)		
Authorized - 1,000,000,000 shares		
Issued - 600,489,569 shares in 2012 and 2011	<b>600,489,569</b>	600,489,569
Subscribed - 306,070,000 shares in 2012 and 2011 (net of subscription receivables of ₱229,552,500 as of December 31, 2012 and 2011)	<b>76,517,500</b>	76,517,500
Additional paid-in capital	<b>72,272,140</b>	72,272,140
Unrealized valuation gains on AFS financial assets - net of deferred tax liability (Note 8)	<b>18,499,717</b>	10,389,619
Share in unrealized valuation gains on AFS financial assets of an associate (Note 8)	–	–
Retained earnings		
Appropriated (Note 17b)	<b>500,000,000</b>	500,000,000
Unappropriated	<b>436,534,628</b>	334,676,163
Treasury stock (Note 17c)	<b>(1,040,750)</b>	(578,000)
<b>Equity</b>	<b>1,703,272,804</b>	1,593,766,991
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱1,800,459,635</b>	₱1,637,100,033

*See accompanying Notes to Consolidated Financial Statements.*



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

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

*See accompanying Notes to Consolidated Financial Statements.*



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

	Years Ended December 31		
	2012	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	P114,683,287	(P7,160,050)	P17,413,578
Adjustments for:			
Write-off of:			
Deferred exploration costs (Note 1)	21,633,806	–	–
Project advances (Note 11)	4,128,213	–	–
Unrealized foreign exchange losses (gains)	16,644,348	(259)	13,397
Depreciation and amortization (Note 10)	5,894,159	3,419,289	2,576,190
Provision for impairment loss on:			
AFS financial assets (Note 8)	7,263	–	499,356
Deferred exploration costs (Note 1)	–	–	13,248,734
Gain on sale of:			
AFS financial assets (Note 8)	(183,593,532)	–	–
Noncurrent asset held for sale (Note 9)	(32,153,046)	–	–
HTM investments (Note 8)	(1,274,911)	–	–
Interest income (Notes 4, 8 and 16)	(26,768,573)	(34,169,434)	(51,497,524)
Dividend income (Note 8)	(4,300,582)	(165,918)	(1,005)
Equity in net losses of an associate (Note 9)	–	114,740	2,280,818
Share in unrealized valuation gains on AFS financial assets of an associate (Note 9)	–	(13,393)	–
Operating loss before working capital changes	(85,099,568)	(37,975,025)	(15,466,456)
Decrease (increase) in:			
Real estate for sale	(212,440,128)	(126,567,636)	–
Receivables	(8,261,316)	(3,225,787)	(3,876,419)
Prepayments and other current assets	2,855,963	(8,557,192)	(8,825,214)
Other noncurrent assets	(34,883,378)		
Increase in accounts payable and other liabilities	44,794,581	42,596,712	13,588
Net cash used in operations	(293,033,846)	(133,728,928)	(28,154,501)
Interest received	18,276,103	39,778,474	44,650,862
Income tax paid	(5,087,863)	(183,495)	(159,582)
Net cash flows from (used in) operating activities	(279,845,606)	(94,133,949)	16,336,779
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Proceeds from sale of:			
AFS financial assets	495,559,937	–	–
Noncurrent asset held for sale	31,937,645	–	–
HTM investments	17,844,160	–	–
Payments received from related parties (Note 16)	7,240,199	–	25,000,000
Dividends received (Note 8)	4,300,582	40,165,918	–
Interest received (Note 8)	3,412,373	–	–
Acquisitions of:			
AFS financial assets (Note 8)	(223,498,601)	(6,176,049)	(264,000,000)
HTM investments (Note 8)	(103,898,005)	–	–
Property and equipment (Note 10)	(4,022,478)	(18,366,708)	(388,792)
Investment property (Note 1)	–	–	(321,048,252)

(Forward)



	<b>Years Ended December 31</b>		
	<b>2012</b>	2011	2010
Additions to:			
Deferred exploration costs (Note 1)	<b>(₱70,000)</b>	(₱19,871,191)	₱20,607
Project advances (Note 11)	<b>(305,022)</b>	(1,425,840)	(2,397,351)
Advances to related parties (Note 16)	<b>(5,017,053)</b>	(65,011,082)	(10,253)
Net changes in investments in an associate	-	-	(347,353)
Net cash flows from (used in) investing activities	<b>223,483,737</b>	(70,684,952)	(563,171,394)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Acquisition of treasury stock (Note 17c)	<b>(462,750)</b>	(578,000)	-
Collections of subscriptions receivables (Note 17a)	-	2,475,000	5,760,000
	<b>(462,750)</b>	1,897,000	5,760,000
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(13,899,972)</b>	259	(13,397)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(70,724,591)</b>	(162,921,642)	(541,088,012)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>730,161,936</b>	893,083,578	1,434,171,590
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)</b>	<b>₱659,437,345</b>	₱730,161,936	₱893,083,578

*See accompanying Notes to Consolidated Financial Statements.*



**SOUTH CHINA RESOURCES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 and 2010**

	Common Stock (Note 17a)		Additional Paid-in Capital	Unrealized Valuation Gains on AFS Financial Assets - net (Note 8)	Share in Unrealized Valuation Gains on AFS Financial Assets of an Associate (Note 9)	Retained Earnings (Note 17b)		Treasury Stock (Note 17c)	Total
	Issued	Subscribed - net				Appropriated	Unappropriated		
Balances at January 1, 2010	₱589,509,569	₱79,262,500	₱72,272,140	₱1,989,643	(₱58,457)	₱-	₱824,628,092	₱-	₱1,567,603,487
Collection of subscription receivables	-	5,760,000	-	-	-	-	-	-	5,760,000
Issuance of common stock	7,680,000	(7,680,000)	-	-	-	-	-	-	-
Appropriation for future investments	-	-	-	-	-	500,000,000	(500,000,000)	-	-
Net income	-	-	-	-	-	-	17,294,220	-	17,294,220
Other comprehensive income	-	-	-	15,682,905	71,850	-	-	-	15,754,755
Balances at December 31, 2010	597,189,569	77,342,500	72,272,140	17,672,548	13,393	500,000,000	341,922,312	-	1,606,412,462
Collection of subscriptions receivables	-	2,475,000	-	-	-	-	-	-	2,475,000
Issuance of common stock	3,300,000	(3,300,000)	-	-	-	-	-	-	-
Treasury stock acquisition	-	-	-	-	-	-	-	(578,000)	(578,000)
Reversal of appropriation for future investments	-	-	-	-	-	(500,000,000)	500,000,000	-	-
Appropriation for future investments	-	-	-	-	-	500,000,000	(500,000,000)	-	-
Net loss	-	-	-	-	-	-	(7,246,149)	-	(7,246,149)
Other comprehensive loss	-	-	-	(7,282,929)	(13,393)	-	-	-	(7,296,322)
Balances at December 31, 2011	600,489,569	76,517,500	72,272,140	10,389,619	-	500,000,000	334,676,163	(578,000)	1,593,766,991
Treasury stock acquisition	-	-	-	-	-	-	-	(462,750)	(462,750)
Net income	-	-	-	-	-	-	101,858,465	-	101,858,465
Other comprehensive income	-	-	-	8,110,098	-	-	-	-	8,110,098
Balances at December 31, 2012	₱600,489,569	₱76,517,500	₱72,272,140	₱18,499,717	₱-	₱500,000,000	₱436,534,628	(₱1,040,750)	₱1,703,272,804

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

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

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

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

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

On July 28, 2010, the Parent Company purchased 24,023 square meters parcel of land located at East Service Road of South Superhighway, Barangay Buli, Muntinlupa City at a price of ₱321.0 million. As of December 31, 2010, the Parent Company classified the land under "Investment property" in the consolidated statement of financial position at cost of ₱321.0 million, which approximates its fair value. On March 4, 2011, the Parent Company transferred the investment property to SOC Land, in exchange for 312,298 additional shares in SOC Land.



Status of Operations

*Oil and Gas Exploration*

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

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

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

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

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

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

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

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

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

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



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

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

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

- SC-41 (Offshore Sulu Sea Sandakan Basin)

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

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

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

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

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

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

In 2012, the Parent Company wrote-off the balance of allowance for impairment loss on deferred exploration costs which amounted to ₱88.7 million as of December 31, 2011. The allowance for impairment losses on deferred exploration costs pertains to the following SCs and GSECs:

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



#### *Real Estate Development*

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

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

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

#### Approval of the Consolidated Financial Statements

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

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## **2. Summary of Significant Accounting Policies**

#### Basis of Preparation

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

#### Statement of Compliance

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

#### Basis of Consolidation

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

Subsidiaries are entities over which the Parent Company has control or generally has an interest of more than one half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Parent Company controls another entity. Control is achieved where the Parent Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.



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

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

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

#### Changes in Accounting Policies and Disclosures

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

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

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

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

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

#### Standards Issued but not yet Effective

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



*Effective in 2013*

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

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

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

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

*PFRS 10, Consolidated Financial Statements*

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

*PFRS 11, Joint Arrangements*

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

*PFRS 12, Disclosure of Interests in Other Entities*

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



*PFRS 13, Fair Value Measurement*

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

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

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

*PAS 19, Employee Benefits (Revised)*

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

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

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

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

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

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

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



*Effective in 2014*

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

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

*Effective in 2015*

*PFRS 9, Financial Instruments: Classification and Measurement*

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

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

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

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





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

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

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

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

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

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

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

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

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

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

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

Summary of Accounting Policies

Cash and Cash Equivalents

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



## Financial Instruments

### *Date of Recognition*

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

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

### *Initial Recognition of Financial Instruments*

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

### *Determination of Fair Value*

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

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

The Group has financial assets under Levels 1 and 3 of the fair value hierarchy as of December 31, 2012 and 2011 (see Note 19).

### *"Day 1" Difference*

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

### *Classification of Financial Instruments*

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



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

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

The Group has no financial assets or liabilities at FVPL as of December 31, 2012 and 2011.

#### *Loans and Receivables*

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

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

#### *AFS Financial Assets*

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

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in "Unrealized valuation gains (losses) on AFS financial assets" until the investment is derecognized, at which time the cumulative gain or loss is transferred to other income (expenses), or determined to be impaired, at which time the cumulative loss is recognized in profit or loss as other expenses. Interest earned while holding AFS financial assets is reported as interest income using the EIR method.

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

For a financial asset reclassified out of the AFS category, the fair value carrying amount at the date of reclassification becomes its new amortized cost and any previous gain or loss on the asset that has been recognized in other comprehensive income is amortized to profit or loss over the remaining life of the investment using EIR method. Any difference between the new amortized



cost and the maturity amount is also amortized over the remaining life of the asset using the EIR method. If the asset is subsequently determined to be impaired, then the amount recorded in other comprehensive income is reclassified to profit or loss.

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

#### *HTM Investments*

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

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

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

#### *Other Financial Liabilities*

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

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

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

#### Impairment of Financial Assets

An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in profit or loss. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (an incurred "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of



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

*Financial Assets Carried at Amortized Cost*

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

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (the effective interest rate computed at initial recognition). If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss is recognized in profit or loss.

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

*AFS Financial Assets Carried at Fair Value*

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

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

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



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

#### *AFS Financial Assets at Cost*

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

#### Derecognition of Financial Assets and Liabilities

##### *Financial Assets*

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

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

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

##### *Financial Liabilities*

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

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

#### Offsetting Financial Instruments

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



### Real Estate for Sale

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

Cost includes:

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

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

### Prepayments and Other Current Assets

#### *Prepayments*

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

#### *Advances to Suppliers and Contractors*

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

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

Input VAT represents VAT imposed on the Group by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. Input VAT will be used to offset against the Group's current output VAT liabilities. Any excess which will be claimed as tax credits within twelve (12) months or within the normal operating cycle is presented as part of "Prepayments and other current assets" in the consolidated statement of financial position. Otherwise, these are classified as other noncurrent assets. Input VAT is stated at its estimated NRV.

### Noncurrent Asset Held for Sale

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

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



### Investment in an Associate

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

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

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

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

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

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

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

### Deferred Exploration Costs

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

Deferred exploration costs are assessed for impairment when:

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





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

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

#### Property and Equipment

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

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

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

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

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

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

#### Investment Property

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



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

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

#### Impairment of Nonfinancial Assets

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

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

#### Common Stock

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

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

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

#### Retained Earnings

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



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

#### Treasury Stock

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

#### Revenue Recognition

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

#### *Real Estate Sales*

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

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

#### *Interest Income*

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

#### *Dividend Income*

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

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

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

#### Costs and Expenses

Costs and expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.



*Cost of real estate sales*

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

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

*Sales and Marketing Expenses*

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

*General and Administrative Expenses*

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

Commission Expense

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

Income Taxes

*Current Income Tax*

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

*Deferred Tax*

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

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

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



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

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

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

#### Foreign Currency-denominated Transactions

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

#### Leases

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

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

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

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

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

#### Basic Earnings (Loss) Per Share

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

#### Diluted Earnings (Loss) Per Share

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



### Segment Reporting

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

### Provisions

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

### Borrowing Costs

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

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

### Contingencies

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

### Events After the Reporting Date

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

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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 and its subsidiary, the functional currency of the Parent Company and its subsidiary has been determined to be the Philippine peso. It is the currency that mainly influences its revenues and costs of operation.

### *Classification of Financial Instruments*

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

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

### *Determining Control over a Subsidiary*

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

### *Determining Significant Influence over an Associate*

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

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

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

### *Classification of Properties*

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

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



*Revenue Recognition on Real Estate Sales*

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

*Collectibility of Sales Prices*

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

*Operating Leases - The Group as Lessee*

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

Estimates and Assumptions

*Revenue and Cost Recognition*

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

*Estimated Development Costs*

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

*Valuation of Financial Instruments*

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

*Impairment Losses on Receivables and Due from Related Parties*

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

In addition to specific allowance against individually significant receivables and due from related parties, the Group also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Group's assessment of the accounts since their inception.





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

There is no allowance for impairment losses on receivables and due to related parties as of December 31, 2012 and 2011. Receivables amounted to ₱48.6 million and ₱8.4 million as of December 31, 2012 and 2011, respectively (see Note 5). Due from related parties amounted to ₱72.9 million and ₱70.2 million as of December 31, 2012 and 2011, respectively (see Note 16).

#### *Impairment of AFS financial assets*

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

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

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

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

#### *Evaluation of NRV of Real Estate for Sale*

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

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

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



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

The change in useful lives was applied prospectively. As a result of the change, depreciation expense decreased by ₱2.4 million; noncurrent assets increased by ₱2.4 million.

The net book values of property and equipment amounted to ₱19.2 million and ₱21.0 million as of December 31, 2012 and 2011, respectively (see Note 10).

#### *Impairment of Nonfinancial Assets*

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

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

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

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

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

	<b>2012</b>	2011
Property and equipment (see Note 10)	<b>₱19,174,495</b>	₱21,046,176
Prepayments and other current assets (Note 7)*	<b>13,568,758</b>	17,332,739
Other noncurrent assets (see Note 11)	<b>34,883,378</b>	3,823,191
	<b>₱67,626,631</b>	₱42,202,106

\*Excluding refundable deposits

#### *Impairment of Deferred Exploration Costs*

The full recovery of the deferred exploration costs incurred in connection with the Group's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. When the SC/GSEC is permanently abandoned or the entity has withdrawn from the consortium, the related deferred exploration costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development. The Group has provided full valuation



allowance on deferred exploration costs incurred for certain SCs and GSECs on which management has no definite plans for further exploration and development.

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

#### *Recognition of Deferred Tax Assets*

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

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

#### *Estimating Provision for Legal Obligations*

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

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

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#### 4. Cash and Cash Equivalents

	2012	2011
Cash on hand and with banks	<b>₱148,714,109</b>	₱64,016,026
Cash equivalents	<b>510,723,236</b>	666,145,910
	<b>₱659,437,345</b>	₱730,161,936

Cash with banks earn interest at the respective bank deposit rates. Cash equivalents are made for varying periods of up to three months depending on the immediate cash requirements of the Group and earn interest at the respective short-term investment rates. Interest income earned amounted to ₱18.2 million, ₱29.9 million and ₱38.7 million in 2012, 2011 and 2010, respectively. Outstanding accrued interest receivable related to the short-term investments amounted to ₱0.8 million and ₱1.2 million as of December 31, 2012 and 2011, respectively (see Note 5).



## 5. Receivables

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

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

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

### Receivable from Officers and Employees

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

### Others

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

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

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

## 6. Real Estate for Sale

	2012	2011
Land	<b>₱309,327,632</b>	₱312,298,000
Construction/development costs incurred	<b>350,728,384</b>	135,317,888
	<b>₱660,056,016</b>	₱447,615,888

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

	2012	2011
Balances at beginning of year	<b>₱447,615,888</b>	₱-
Land transferred from investment property (see Note 1)	-	312,298,000
Construction/development costs incurred (see Note 22)	<b>226,998,844</b>	135,317,888
Disposals (recognized as cost of real estate sold)	<b>(14,558,716)</b>	-
	<b>₱660,056,016</b>	₱447,615,888



In 2012, the amount of land and development costs recognized as “Cost of real estate sold” in the statements of comprehensive income amounted to ₱14.6 million. In 2011, no revenue and cost from sale of real estate were recognized.

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

## 7. Prepayments and Other Current Assets

	2012	2011
Input VAT - current portion (see Note 11)	₱10,148,747	₱16,625,326
Prepayments		
Commission	2,547,172	–
Tax	410,217	400,070
Others	311,744	128,432
Refundable deposits (see Note 22)	1,268,038	360,020
Supplies	102,230	170,942
Advances to suppliers and contractors	48,648	7,969
	<b>₱14,836,796</b>	<b>₱17,692,759</b>

### Input VAT -current portion

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

### Refundable Deposits

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

### Advances to Suppliers and Contractors

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

## 8. AFS financial assets

	2012	2011
Shares of stock		
Quoted	₱191,169,730	₱19,432,125
Unquoted	3,340,763	268,620,500
Quoted bonds	87,451,509	–
Golf club shares	11,955,000	130,000
	<b>293,917,002</b>	<b>288,182,625</b>
Less allowance for impairment loss on AFS financial assets	3,340,763	3,333,500
	<b>₱290,576,239</b>	<b>₱284,849,125</b>



Movements in the allowance for impairment loss are as follows:

	2012	2011
Balances at beginning of year	<b>₱3,333,500</b>	₱3,333,500
Provision (see Note 13)	<b>7,263</b>	–
Balances at end of year	<b>₱3,340,763</b>	₱3,333,500

#### Quoted Shares

Listed shares consist of equity securities that are traded in the PSE, New York Stock Exchange (NYSE), Shanghai Stock Exchange (SSE), Taiwan Stock Exchange (TWSE), Bursa Malaysia (MYX), Stock Exchange of Thailand (SET), London Stock Exchange (LSE) and the Stock Exchange of Hong Kong Limited (HKEx). Listed shares have no fixed maturity dates or coupon rates and are measured at fair value. The fair values of listed shares are determined at their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs as of reporting date. The unrealized fair value changes of the investments are presented as “Unrealized valuation gains on AFS financial assets” in the equity section of the consolidated statement of financial position.

Dividend income earned from equity securities classified as “AFS financial assets” amounted to ₱4.3 million in 2012, ₱165,918 in 2011 and ₱1,005 in 2010.

#### Quoted Bonds

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

#### *Acquisition of bonds*

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

#### *Sale of HTM investments in bonds*

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

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

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

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

As of December 31, 2012, the fair value of bonds classified as “AFS financial assets” amounted to ₱87.3 million, with amortized cost of ₱83.2 million.



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

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

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

#### Unquoted Shares

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

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

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

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

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

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



## 9. Investment in an Associate

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

### Premiere Development Bank (PDB)

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

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

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

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

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

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

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





## 10. Property and Equipment

### December 31, 2012

	Building	Office Furniture and Equipment	Transportation Equipment	Leasehold Improvements	Total
<b>Cost:</b>					
Balances at beginning of year	₱15,451,939	₱3,963,071	₱13,762,035	₱693,694	₱33,870,739
Additions	913,717	3,081,973	–	26,788	4,022,478
<b>Balances at end of year</b>	<b>16,365,656</b>	<b>7,045,044</b>	<b>13,762,035</b>	<b>720,482</b>	<b>37,893,217</b>
<b>Accumulated depreciation and amortization:</b>					
Balances at beginning of year	–	2,274,127	9,927,487	622,949	12,824,563
Depreciation and amortization (see Notes 13 and 14)	801,125	1,700,983	3,303,447	88,604	5,894,159
<b>Balances at end of year</b>	<b>801,125</b>	<b>3,975,110</b>	<b>13,230,934</b>	<b>711,553</b>	<b>18,718,722</b>
<b>Net book values</b>	<b>₱15,564,531</b>	<b>₱3,069,934</b>	<b>₱531,101</b>	<b>₱8,929</b>	<b>₱19,174,495</b>

### December 31, 2011

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

#### *Acquisitions of property and equipment*

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

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

#### *Fully depreciated property and equipment*

The cost of fully depreciated property and equipment classified as “leasehold improvements” amounted to ₱261,596 as of December 31, 2012. These are retained in the records and still used by the Group until they vacate the leased property. The Group has no temporary idle property and equipment as of December 31, 2012.



## 11. Other Noncurrent Assets

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

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

## 12. Accounts Payable and Other Liabilities

	2012	2011
Customers' deposits	<b>₱28,013,009</b>	₱19,033,889
Retention payable (see Note 22)	<b>13,595,561</b>	4,105,929
Accounts payable	<b>7,363,826</b>	595,336
Accrued expenses		
Construction costs	<b>20,917,426</b>	17,069,254
Taxes	<b>4,810,505</b>	1,381,586
Personnel	<b>3,188,300</b>	-
Travel	<b>2,505,000</b>	-
Entertainment representation and outside services	<b>1,715,201</b>	-
Professional fees	<b>528,165</b>	150,000
Commission	<b>407,426</b>	-
Others	<b>503,500</b>	565,996
Government payables	<b>2,622,979</b>	409,090
Advanced processing fees	<b>1,413,764</b>	-
Provision for legal obligation (see Note 22)	<b>520,999</b>	-
	<b>₱88,105,661</b>	<b>₱43,311,080</b>

### SOC Land's Customers' Deposits

Customers' deposits include collections received from buyers which:

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

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

### Retention Payable

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



Accounts Payable

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

Accrued Expenses

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

Government Payables

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

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**13. General and Administrative Expenses**

	2012	2011	2010
Write-off of deferred exploration costs (see Note 1)	<b>₱21,633,806</b>	₱–	₱–
Personnel costs	<b>13,940,185</b>	9,719,782	3,147,724
Professional fees	<b>9,023,102</b>	2,324,952	1,971,697
Travel and transportation	<b>6,824,961</b>	1,891,339	4,878,809
Depreciation and amortization (see Note 10)	<b>5,369,454</b>	3,419,289	2,576,190
Write-off of project advances (see Note 11)	<b>4,128,213</b>	–	–
Taxes and licenses	<b>4,001,929</b>	1,401,106	819,629
Outside services	<b>3,098,467</b>	288,631	–
Entertainment and representation	<b>2,621,203</b>	851,572	1,533,358
Rent and utilities (see Note 22)	<b>1,726,504</b>	1,288,753	643,931
Telecommunications and postage	<b>815,038</b>	721,011	216,370
Supplies	<b>662,346</b>	598,135	168,703
Dues and subscription	<b>542,370</b>	93,463	–
Provision for legal obligation (see Note 22)	<b>520,999</b>	–	–
Trainings and seminars	<b>508,880</b>	29,582	202,253
Business development costs	<b>493,010</b>	130,710	119,877
Repairs and maintenance	<b>137,578</b>	60,892	118,964
Insurance	<b>267,278</b>	70,000	–
Provision for impairment loss on AFS financial assets (see Note 8)	<b>7,263</b>	–	499,356
Provision for impairment of deferred exploration costs (see Note 1)	–	–	13,248,734
Others	<b>6,233,038</b>	2,410,289	939,658
	<b>₱82,555,624</b>	₱25,299,506	₱31,085,253

Others include donations, bank charges and other miscellaneous costs.



Personnel expenses consist of:

	2012	2011	2010
Salaries and wages	<b>₱12,167,225</b>	₱7,936,003	₱3,147,724
Short term employee benefits	<b>1,772,960</b>	1,783,779	–
	<b>₱13,940,185</b>	₱9,719,782	₱3,147,724

#### 14. Sales and Marketing Expenses

	2012	2011	2010
Advertising (see Note 22)	<b>₱14,632,823</b>	₱7,129,001	₱332,590
Consultancy fees	<b>11,360,079</b>	5,299,494	340,851
Product presentation	<b>4,136,611</b>	2,209,006	–
Personnel costs	<b>3,397,172</b>	1,090,058	–
Commissions and incentives	<b>1,980,090</b>	51,234	–
Rent and utilities (see Note 22)	<b>1,344,437</b>	28,255	–
Trainings and seminars	<b>905,824</b>	76,803	19,542
Travel and transportation	<b>542,369</b>	68,956	–
Depreciation and amortization (see Note 10)	<b>524,705</b>	–	–
Supplies	<b>485,014</b>	25,507	–
Telecommunications and postage	<b>120,918</b>	21,552	–
Repairs and maintenance	<b>82,077</b>	1,887	–
Others	<b>473,969</b>	75,333	12,500
	<b>₱39,986,088</b>	₱16,077,086	₱705,483

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

Personnel expenses consist of:

	2012	2011	2010
Salaries and wages	<b>₱2,799,241</b>	₱1,090,058	₱–
Other employee benefits	<b>597,931</b>	–	–
	<b>₱3,397,172</b>	₱1,090,058	₱–

#### 15. Income Taxes

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

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



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

	2012	2011
NOLCO	<b>₱66,273,973</b>	₱ 41,936,090
Unrealized foreign exchange losses	<b>16,644,348</b>	-
Difference between tax and book basis of accounting for real estate transactions	<b>17,736,023</b>	-
Accrued expenses	<b>3,325,403</b>	-
Provision for legal obligation	<b>520,999</b>	-
Allowance for impairment loss on AFS financial assets	<b>7,263</b>	-
Allowance for impairment losses on deferred exploration costs	-	88,713,164
MCIT	-	365,039
	<b>₱104,508,009</b>	<b>₱131,014,293</b>

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

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

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

NOLCO

	2012	2011
Balances at beginning of year	<b>₱41,936,090</b>	₱ 57,879,037
Additions	<b>34,573,441</b>	34,433,678
Application	<b>(10,235,558)</b>	-
Expirations	-	(50,376,625)
Balances at end of year	<b>₱66,273,973</b>	<b>₱41,936,090</b>

MCIT

	2012	2011
Balances at beginning of year	<b>₱365,039</b>	₱278,940
Additions	-	86,099
Application	<b>(365,039)</b>	-
Balances at end of year	<b>₱-</b>	<b>₱365,039</b>



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

	2012	2011	2010
Income tax computed at statutory tax rates	<b>₱34,404,986</b>	(₱2,148,015)	₱5,224,073
Additions to (reductions in) income tax resulting from:			
Nondeductible expenses	<b>2,375,390</b>	782,912	2,505,742
Gain on disposal of asset held for sale subject to CGT	<b>(9,645,914)</b>	-	-
Changes in unrecognized deferred tax assets	<b>(8,207,412)</b>	10,464,415	5,898,930
Interest income subjected to final tax	<b>(5,482,831)</b>	(8,963,360)	(13,658,893)
Nontaxable income	<b>(619,397)</b>	(49,853)	(301)
Provision for impairment in value of AFS investments	-	-	149,807
	<b>₱12,824,822</b>	<b>₱86,099</b>	<b>₱119,358</b>

## 16. Related Party Disclosures

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

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

	Transaction	Amount	Outstanding balance	Terms	Conditions
Under common control:					
Puyat Steel Corporation (PSC)					
<b>2012</b>	Advances	<b>₱-</b>	<b>₱45,300,000</b>	30 days, 8% per annum	Secured by receivables and finished goods with fair value equivalent; No impairment.
2011		30,000,000	45,000,000		
Other related parties					
International Pipe Industries Corporation (IPIC)					
<b>2012</b>	Advances	<b>5,000,000</b>	<b>27,493,111</b>	30 days, 8% per annum	Secured by receivables and finished goods with fair value equivalent; No impairment.
2011		35,000,000	25,138,667		
South China Petroleum International (SCPI)					
<b>2012</b>	Advances	<b>17,053</b>	<b>126,497</b>	Due and demandable	Unsecured; No impairment
2011		11,082	109,444		
<b>2012</b>		<b>₱5,017,053</b>	<b>₱72,919,608</b>		
2011		₱65,011,082	₱70,248,111		



a. IPIC

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

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

As of December 31, 2012 and 2011, the outstanding receivable from IPIC amounted to ₱27.0 million and ₱25.0 million, respectively. The amount is collectible within a year.

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

b. PSC

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

The BOD through a board resolution dated January 24, 2008 authorized the Group to enter into a related party agreement with PSC to advance an amount of up to ₱130.0 million for the acquisition of raw materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment to the Group of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished goods. The funding facility is renewable on a yearly basis. Under this arrangement, the Group receives a guaranteed return on investment (ROI) of at least 8% per annum. Interest earned by the Group in relation to these advances amounted to ₱3.2 million, ₱3.7 million and ₱6.0 million in 2012, 2011 and 2010, respectively.

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



c. SCPI

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

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

d. Key Management Personnel Compensation

Salaries and short-term employee benefits of key management personnel amounted to ₱2.3 million, ₱2.2 million and ₱2.1 million in 2012, 2011 and 2010, respectively.

## 17. Equity

a. Common Stock

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

	December 31, 2012		December 31, 2011	
	No. of Shares	Amount	No. of Shares	Amount
Authorized - ₱1 par value	1,000,000,000	₱1,000,000,000	1,000,000,000	₱1,000,000,000
Issued	600,489,569	600,489,569	600,489,569	600,489,569
Subscribed	306,070,000	306,070,000	306,070,000	306,070,000
Treasury	907,000	(1,040,750)	500,000	(578,000)

The Parent Company was registered on September 25, 1992 with authorized capital stock amounting to ₱1.0 billion composed of one billion shares with par value ₱1.0 per share.

In 2011, 3,300,000 subscribed shares were fully paid and issued. Collections from such subscribed shares amounted to ₱2.5 million in 2011. There were no collections in 2012.

b. Retained Earnings

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





c. Treasury Stock

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

In 2012 and 2011, the Parent Company acquired 407,000 and 500,000 of its own shares for a total cost of ₱0.5 million and ₱0.6 million, respectively.

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

	2012	2011	2010
Net income (loss)	₱114,683,287	(₱7,246,149)	₱17,294,220
Weighted average number of shares	906,048,899	906,167,902	912,269,569
Basic/Diluted Earnings (Loss) per Share	₱0.1266	(₱0.0080)	₱0.0190

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

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**19. Financial Instruments**

Financial Risk Management Objectives and Policies

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

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

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

*Credit Risk*

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

The Group is exposed to credit risk primarily because of its investing and operating activities. The Group is exposed to credit risk arising from the counterparties (ie., foreign currency denominated



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

*Credit Risk Management*

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

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

*Credit Risk Exposures*

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

*Credit Risk Concentration Profile*

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

*Credit Quality of Financial Assets*

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

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

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

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

	2012		2011		Total
	Neither Past Due Nor Impaired	Past Due But Not Impaired	Neither Past Due Nor Impaired	Past Due But Not Impaired	
	High Grade	Standard Grade	High Grade	Standard Grade	
<b>Loans and receivables</b>					
Cash and cash equivalents*	₱659,329,585	₱-	₱-	₱-	₱659,329,585
Receivables	44,182,582	-	4,165,836	-	48,348,418
Due from related parties	793,111	72,126,497	-	-	72,919,608
Refundable deposits	-	1,268,038	-	-	1,268,038

(Forward)



	2012				
	Neither Past Due Nor Impaired		Past Due But Not Impaired		Total
	High Grade	Standard Grade	Impaired	Impaired	
<b>AFS financial assets</b>					
Shares of stock	₱191,169,730	₱-	₱-	₱3,340,763	₱194,510,493
Bonds	87,451,509	-	-	-	87,451,509
Golf club shares	-	11,955,000	-	-	11,955,000
	<b>₱982,926,517</b>	<b>₱85,349,535</b>	<b>₱4,165,836</b>	<b>₱3,340,763</b>	<b>₱1,075,782,651</b>

\*Excluding cash on hand.

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

\*Excluding cash on hand.

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

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

	2012						
	Neither Past Due nor Impaired	Past Due but Not Impaired				Impaired	Total
		Less than 30 Days	31 to 60 Days	61 to 90 Days	More than 91 Days		
<b>Loans and receivables</b>							
Cash and cash equivalents*	₱659,329,585	₱-	₱-	₱-	₱-	₱-	₱659,329,585
Receivables	44,182,582	4,115,836	-	50,000	-	-	48,348,418
Due from related parties	-	186,000	2,008,889	187,942	70,536,777	-	72,919,608
Refundable deposits	-	1,268,038	-	-	-	-	1,268,038
<b>AFS financial assets</b>							
Shares of stock	191,169,730	-	-	-	-	3,340,763	194,510,493
Bonds	87,451,509	-	-	-	-	-	87,451,509
Golf club shares	11,955,000	-	-	-	-	-	11,955,000
	<b>₱994,088,406</b>	<b>₱5,569,874</b>	<b>₱2,008,889</b>	<b>₱237,942</b>	<b>₱70,536,777</b>	<b>₱3,340,763</b>	<b>₱1,075,782,651</b>

\*Excluding cash on hand.



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

\*Excluding cash on hand.

### Liquidity Risk

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

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

### 2012

	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
<b>Financial Assets</b>					
<b>Loans and receivables:</b>					
Cash and cash equivalents	₱659,437,345	₱659,437,345	₱-	₱-	₱-
Receivables	48,348,418	-	12,341,641	50,000	35,956,777
Due from related parties	72,919,608	-	2,382,831	-	70,536,777
AFS financial assets					
Shares of stock	191,169,730	191,169,730	-	-	-
Bonds	87,451,509	87,451,509	-	-	-
Golf club shares	11,955,000	-	11,955,000	-	-
	₱1,071,281,610	₱938,058,584	₱26,679,472	₱50,000	₱106,493,554
<b>Financial Liabilities</b>					
<b>Other financial liabilities:</b>					
Accounts payable and other liabilities**	₱85,482,682	₱-	₱85,482,682	₱-	₱-

\*\*Excluding government payables.

### 2011

	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
<b>Financial Assets</b>					
<b>Loans and receivables:</b>					
Cash and cash equivalents	₱730,161,936	₱730,161,936	₱-	₱-	₱-
Receivables	8,523,434	4,039,423	4,484,011	-	-
Due from related parties	70,109,444	58,109,444	12,000,000	-	-
Refundable deposits	355,520	-	355,520	-	-
AFS financial assets					
Shares of stock	284,719,125	284,719,125	-	-	-
Golf club share	130,000	130,000	-	-	-
	₱1,093,999,459	₱1,077,159,928	₱16,839,531	₱-	₱-

(Forward)



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

\*\*Excluding government payables.

#### Equity Price Risk

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

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

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

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

#### Foreign Currency Risk

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

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



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

	2012		2011	
	Original Currency	Peso Equivalent	Original Currency	Peso Equivalent
Financial Assets				
Cash - USD	6,401,477	₱262,780,630	3,667	₱160,774
Receivables - USD	18,065	741,572	–	–
AFS financial assets:				
Shares of stock				
Hong Kong Dollar	7,835,974	41,643,498	–	–
USD	732,776	30,080,469	–	–
Taiwan Dollar	9,113,598	12,932,195	–	–
Thailand Baht	6,609,526	8,885,847	–	–
Malaysia Ringgit	128,355	1,728,399	–	–
Bonds - USD	2,130,366	87,451,509	–	–
		<b>₱446,244,119</b>		<b>₱160,774</b>

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

	2012		2011	
	Effect on income before tax		Effect on income before tax	
	Change in Peso-Foreign Exchange Rate Increase by 5%	Change in Peso-Foreign Exchange Rate Decrease by 5%	Change in Peso-Foreign Exchange Rate Increase by 5%	Change in Peso-Foreign Exchange Rate Decrease by 5%
USD	₱19,052,709	(₱19,052,709)	₱8,039	(₱8,039)
HKD	2,082,175	(2,082,175)	–	–
NTD	646,610	(646,610)	–	–
THB	444,292	(444,292)	–	–
MYR	86,420	(86,420)	–	–
	<b>₱22,312,206</b>	<b>(₱22,312,206)</b>	<b>₱8,039</b>	<b>(₱8,039)</b>

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

	USD	HKD	MYR	THB	NTD
2012	₱41.05	₱5.31	₱13.47	₱1.34	₱1.42
2011	43.84	–	–	–	–

#### Interest Rate Risk

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

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



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

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

#### Fair Values of Financial Instruments

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

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

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

#### *Cash and Cash Equivalents, Receivables, Due from Related Parties, Refundable Deposits and Accounts Payable and Other Liabilities*

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

#### *AFS financial assets*

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

#### Fair Value Hierarchy

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

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



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

<u>December 31, 2012</u>				
	Level 1	Level 2	Level 3	Total
<b>AFS financial assets:</b>				
Shares of stock	₱191,169,730	₱-	₱-	₱191,169,730
Bonds	87,451,509	-	-	87,451,509
Golf club shares	-	-	11,955,000	11,955,000
	<b>₱278,621,239</b>	<b>₱-</b>	<b>₱11,955,000</b>	<b>₱290,576,239</b>

  

<u>December 31, 2011</u>				
	Level 1	Level 2	Level 3	Total
<b>AFS financial assets:</b>				
Shares of stock	₱19,432,125	₱-	₱-	₱19,432,125
Golf club shares	-	-	130,000	130,000
	<b>₱19,432,125</b>	<b>₱-</b>	<b>₱130,000</b>	<b>₱19,562,125</b>

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

	2012	2011
Balances at beginning of year	₱130,000	₱130,000
Acquisition	12,163,000	-
Disposal	(338,000)	-
Balances at end of year	<b>₱11,955,000</b>	<b>₱130,000</b>

As of December 31, 2012 and 2011, there were no transfers between Level 1 and Level 3 fair value measurements.

#### Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes in 2012 and 2011.

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

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





## 20. Segment Information

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

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

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

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

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

### 2012

	Oil and Gas Exploration	Real Estate Development	Others	Total	Eliminations	Consolidated
<b>Segment results</b>						
Income (loss) before income tax	P-	(P55,878,525)	P170,561,812	P114,683,287	P-	P114,683,287
Provision for income tax	-	-	12,824,822	12,824,822	-	12,824,822
<b>Net income (loss)</b>	<b>P-</b>	<b>(P55,878,525)</b>	<b>P157,736,990</b>	<b>P101,858,465</b>	<b>P-</b>	<b>P101,858,465</b>
<b>Assets</b>						
Segment assets	P-	P801,702,780	P1,488,746,675	P2,290,449,455	(P489,989,820)	P1,800,459,635
Investments	-	-	322,298,000	322,298,000	(322,298,000)	-
	<b>P-</b>	<b>P801,702,780</b>	<b>P1,811,044,675</b>	<b>P2,612,747,455</b>	<b>(P812,287,820)</b>	<b>P1,800,459,635</b>
<b>Segment liabilities</b>	<b>P-</b>	<b>P567,095,131</b>	<b>P20,081,520</b>	<b>P587,176,651</b>	<b>(P489,989,820)</b>	<b>P97,186,831</b>
<b>Other segment information</b>						
Depreciation and amortization	P-	P2,665,797	P3,228,362	P5,894,159	P-	P5,894,159

### 2011

	Oil and Gas Exploration	Real Estate Development	Others	Total	Eliminations	Consolidated
<b>Segment results</b>						
Income (loss) before income tax	P-	(P29,518,566)	P22,358,516	(P7,160,050)	P-	(P7,160,050)
Provision for income tax	-	-	(86,099)	(86,099)	-	(86,099)
<b>Net income (loss)</b>	<b>P-</b>	<b>(P29,518,566)</b>	<b>P22,272,417</b>	<b>(P7,246,149)</b>	<b>P-</b>	<b>(P7,246,149)</b>
<b>Assets</b>						
Segment assets	P-	P542,051,011	P1,282,475,036	P1,824,526,047	(P208,989,820)	P1,615,536,227
Investments	-	-	322,298,000	322,298,000	(322,298,000)	-
Deferred exploration costs	21,563,806	-	-	21,563,806	-	21,563,806
	<b>P21,563,806</b>	<b>P542,051,011</b>	<b>P1,604,773,036</b>	<b>P2,168,387,853</b>	<b>(P531,287,820)</b>	<b>P1,637,100,033</b>
<b>Segment liabilities</b>	<b>P-</b>	<b>P251,564,838</b>	<b>P758,024</b>	<b>P252,322,862</b>	<b>(P208,989,820)</b>	<b>P43,333,042</b>
<b>Other segment information</b>						
Depreciation and amortization	P-	P877,881	P3,228,362	P5,894,159	P-	P5,894,159



2010

	Oil and Gas Exploration	Real Estate Development	Others	Total	Eliminations	Consolidated
<b>Segment results</b>						
Income (loss) before income tax	(P13,248,734)	(P2,293,260)	P32,955,572	P17,413,578	P-	P17,413,578
Provision for income tax	-	-	(119,358)	(119,358)	-	(119,358)
Net income	(P13,248,734)	(P2,293,260)	P32,836,214	P17,294,220	P-	P17,294,220
<b>Assets</b>						
Segment assets	P-	P19,083,889	P1,565,889,669	P1,584,973,558	(P11,256,968)	P1,573,716,590
Investments	-	-	41,836,983	41,836,983	(10,000,000)	31,836,983
Deferred exploration costs	1,692,615	-	-	1,692,615	-	1,692,615
	P1,692,615	P19,083,889	P1,607,726,652	P1,628,503,156	(P21,256,968)	P1,607,246,188
<b>Segment liabilities</b>						
	P-	P11,377,149	P713,545	P12,090,694	(P11,256,968)	P833,726
<b>Other segment information</b>						
Provision for impairment losses on deferred exploration costs	P13,248,734	P-	P-	P13,248,734	P-	P13,248,734
Depreciation and amortization	-	15,956	2,560,234	2,576,190	-	2,576,190
	P13,248,734	P15,956	P2,560,234	P15,824,924	P-	P15,824,924

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

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

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

**22. Contracts and Commitments**

The Group has the following significant commitments and agreements:

Construction Agreements and Purchase Commitments

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

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



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

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

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

#### Advertising Agreements

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

Sales and marketing expenses related to these agreements amounted to ₱14.6 and ₱7.1 million in 2012 and 2011, respectively (see Note 13).

#### Lease Agreements

- a. In 2012, the Parent Company entered into a renewable lease contract with Haldane Investment NV, duly represented by E. Zobel, Inc. for the lease of the 4/F Unit of ENZO Building, located at No. 399 Gil J. Puyat Avenue, Makati City. The contract is for a term of eight (8) months commencing on May 1, 2012 and expiring December 31, 2012. In line with the contract, the Parent Company paid a rental deposit amounting ₱42,828, which is classified under "Prepayment and other current assets". Rent expense related to this lease contract, presented as "Rental and Utilities" amounted to ₱0.1 million in 2012 (see Note 14). The agreement was renewed for one year under the same terms. Minimum lease payments related to this lease is ₱0.1 million.
- b. On February 1, 2011, SOC Land entered into a lease contract with YL Holdings Corporation for the lease of office space at 6/F, YL Holdings Building, 115 VA Rufino corner Salcedo Streets, Legaspi Village, Makati City. SOC Land renews the lease agreement on a yearly basis. SOC Land paid security deposit amounting to ₱0.2 million to answer for any and all damages to the leased premises and as security for the return of the leased premises in proper condition (see Note 7). The related rent expense recognized by the Company amounted to ₱1.6 million and ₱0.7 million in 2012 and 2011, respectively (see Notes 13 and 14). The agreement was renewed for one year under the same terms. Minimum lease payments related to this lease is ₱60,180.
- c. In 2010, the Parent Company entered into a sublease contract with Bell Telecommunications, Inc. (BellTel) for the lease of office space located at 3/F Low Rise Pacific Star Building, Makati City. The contract is for a term of one year, renewable for another one year at the lessee's discretion. The related rent expense recognized by the Parent Company in 2011 and 2010 amounted to ₱0.4 million and ₱0.5 million, respectively (see Notes 13 and 14).



Contingencies

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

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

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

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

