



South China Resources, Inc.

Parent Company Financial Statements
December 31, 2012 and 2011

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 Parent Company Financial Statements

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

Management's Responsibility for the Parent Company Financial Statements

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the parent company financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the parent company 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 parent company 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 parent company 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 parent company financial statements present fairly, in all material respects, the financial position of South China Resources, Inc. as at December 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Report on the Supplementary Information Required Under Revenue Regulations 19-2011 and 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 19-2011 and 15-2010 in Notes 18 and 19 to the parent company financial statements, respectively, is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the management of South China Resources, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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.**PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2012	2011
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱595,693,581	₱674,138,103
Receivables (Note 5)	38,780,168	5,139,383
Due from related parties (Note 13)	562,909,428	279,237,931
Prepayments and other current assets (Note 6)	683,778	294,147
Total Current Assets	1,198,066,955	958,809,564
Noncurrent Asset Held for Sale (Note 8)	–	31,722,243
Noncurrent Assets		
Investments in a subsidiary and an associate (Note 8)	322,298,000	322,298,000
Available-for-sale (AFS) financial assets (Note 7)	290,576,239	284,849,125
Property and equipment (Note 9)	103,482	3,270,913
Deferred exploration costs (Note 1)	–	21,563,806
Other noncurrent assets (Note 10)	–	3,823,191
Total Noncurrent Assets	612,977,721	635,805,035
TOTAL ASSETS	₱1,811,044,676	₱1,626,336,842
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and other liabilities (Note 11)	₱11,000,350	₱736,062
Income tax payable (Note 12)	7,758,921	21,962
Total Current Liabilities	18,759,271	758,024
Noncurrent Liabilities		
Deferred tax liability (Note 12)	1,322,249	–
Total Noncurrent Liabilities	1,322,249	–
Total Liabilities	20,081,520	758,024
Equity (Note 14)		
Capital stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 600,489,569 shares in 2012 and 2011	600,489,569	600,489,569
Subscribed - 306,070,000 shares in 2012 and 2011 (net of subscription receivables of ₱229,552,500 as of December 31, 2012 and 2011)	76,517,500	76,517,500
Additional paid-in capital	72,272,140	72,272,140
Unrealized valuation gains on AFS financial assets - net of deferred tax liability (Note 7)	18,499,717	10,389,619
Share in unrealized valuation gains on AFS financial assets (Note 8)	–	–
Retained earnings		
Appropriated	500,000,000	500,000,000
Unappropriated	524,224,980	366,487,990
Treasury stock	(1,040,750)	(578,000)
Equity	1,790,963,156	1,625,578,818
TOTAL LIABILITIES AND EQUITY	₱1,811,044,676	₱1,626,336,842

See accompanying Notes to Parent Company Financial Statements.



SOUTH CHINA RESOURCES, INC.**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2012	2011
REVENUES		
Gain on sale of AFS financial assets (Note 7)	₱183,593,532	₱–
Interest income (Notes 4, 7 and 13)	26,676,945	34,101,179
Dividend income (Note 7)	4,300,582	165,918
Gain on sale of HTM investments (Note 7)	1,274,911	–
Foreign exchange gains - net	–	259
	215,845,970	34,267,356
COSTS AND EXPENSES		
Write-off of deferred exploration costs (Note 1)	21,633,806	–
Foreign exchange losses - net	17,460,202	–
Personnel costs	8,164,568	3,210,863
Travel and representation	6,609,541	1,778,057
Professional fees	6,272,638	1,351,660
Write-off of project advances (Note 10)	4,128,213	–
Taxes and licenses	3,399,367	881,860
Depreciation and amortization (Note 9)	3,228,362	2,541,408
Entertainment and representation	1,647,966	144,602
Dues and subscription	452,962	78,293
Supplies	288,032	116,896
Telecommunications and postage	219,688	302,762
Trainings and seminars	156,334	25,117
Rent and utilities (Note 15)	143,224	357,249
Repairs and maintenance	72,342	37,800
Provision for impairment loss on AFS financial assets (Note 7)	7,263	–
Others	3,552,696	980,926
	77,437,204	11,807,493
GAIN ON DISPOSAL OF NONCURRENT ASSET HELD FOR SALE (Note 8)	32,153,046	–
EQUITY IN NET LOSSES OF AN ASSOCIATE (Note 8)	–	(114,740)
SHARE IN UNREALIZED VALUATION GAINS ON AFS INVESTMENTS OF AN ASSOCIATE (Note 8)	–	13,393
INCOME BEFORE INCOME TAX	170,561,812	22,358,516
PROVISION FOR INCOME TAX (Note 12)	12,824,822	86,099
NET INCOME	157,736,990	22,272,417
OTHER COMPREHENSIVE INCOME (LOSS)		
Unrealized valuation gains (losses) on AFS financial assets - net of deferred tax liability (Note 7)	8,110,098	(7,282,929)
Share in unrealized valuation gains on AFS financial assets of an associate (Note 8)	–	(13,393)
	8,110,098	(7,296,322)
TOTAL COMPREHENSIVE INCOME	₱165,847,088	₱14,976,095

See accompanying Notes to Parent Company Financial Statements.



SOUTH CHINA RESOURCES, INC.
PARENT COMPANY STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	¥170,561,812	¥22,358,516
Adjustments for:		
Write-off of deferred exploration costs (Note 1)	21,633,806	–
Unrealized foreign exchange losses (gains)	16,644,348	(259)
Write-off of project advances (Notes 10)	4,128,213	–
Depreciation and amortization (Note 9)	3,228,362	2,541,408
Provision for impairment loss on AFS financial assets (Note 7)	7,263	–
Gain on sale of:		
AFS financial assets (Note 7)	(183,593,532)	–
Noncurrent asset held for sale (Note 8)	(32,153,046)	–
HTM investments (Note 7)	(1,274,911)	–
Interest income (Notes 4, 7 and 13)	(26,676,945)	(34,101,179)
Dividend income (Note 7)	(4,300,582)	(165,918)
Equity in net losses of an associate (Note 8)	–	114,740
Share in unrealized valuation gains on AFS financial assets of an associate (Note 8)	–	(13,393)
Operating loss before working capital changes	(31,795,212)	(9,266,085)
Decrease (increase) in:		
Receivables	(1,703,141)	15,885
Prepayments and other current assets	(389,631)	50,763
Increase in accounts payable and other liabilities	10,264,288	141,875
Net cash used in operations	(23,623,696)	(9,057,562)
Interest received	18,184,475	39,710,220
Income tax paid	(5,087,863)	(183,495)
Net cash flows from (used in) operating activities	(10,527,084)	30,469,163
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of:		
AFS financial assets (Note 7)	495,559,937	–
Noncurrent asset held for sale (Notes 5 and 8)	31,937,645	–
HTM investments (Note 7)	17,844,160	–
Payments received from related parties	7,240,199	–
Dividends received	4,300,582	165,918
Interest received	3,412,373	–
Advances to related parties (Note 13)	(286,017,053)	(213,993,682)
Acquisitions of:		
AFS financial assets (Note 7)	(223,498,601)	(6,176,049)
HTM investments (Note 7)	(103,898,005)	–
Property and equipment (Note 9)	(60,931)	(6,054)
Additions to:		
Deferred exploration costs (Note 1)	(70,000)	–
Project advances (Note 10)	(305,022)	(21,297,030)
Net cash flows used in investing activities	(53,554,716)	(241,306,897)

(Forward)



	Years Ended December 31	
	2012	2011
CASH FLOWS FROM FINANCING ACTIVITIES		
Acquisition of treasury stock (Note 14)	(₱462,750)	(₱578,000)
Collections of subscription receivables (Note 14)	–	2,475,000
Net cash flows (used in) from financing activities	(462,750)	1,897,000
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(13,899,972)	259
NET DECREASE IN CASH AND CASH EQUIVALENTS	(78,444,522)	(208,940,475)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	674,138,103	883,078,578
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱595,693,581	₱674,138,103

See accompanying Notes to Parent Company Financial Statements.



SOUTH CHINA RESOURCES, INC.

**PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 and 2011**

	Common Stock (Note 14a)		Additional Paid-in Capital	Unrealized Valuation Gains on AFS Financial Assets - net (Note 7)	Share in Unrealized Valuation Gains on AFS Financial Assets (Note 8)	Retained Earnings (Note 14b)		Treasury Stock (Note 14c)	Total
	Issued	Subscribed - net				Appropriated	Unappropriated		
Balances at January 1, 2010	₱597,189,569	₱77,342,500	₱72,272,140	₱17,672,548	₱13,393	₱500,000,000	₱344,215,573	₱-	₱1,608,705,723
Collection of subscriptions receivable	-	2,475,000	-	-	-	-	-	-	2,475,000
Issuance of common stock	3,300,000	(3,300,000)	-	-	-	-	-	-	-
Appropriation for future investments	-	-	-	-	-	500,000,000	(500,000,000)	-	-
Reversal of appropriation for future investments	-	-	-	-	-	(500,000,000)	500,000,000	-	-
Acquisition of treasury stock	-	-	-	-	-	-	-	(578,000)	(578,000)
Net income	-	-	-	-	-	-	22,272,417	-	22,272,417
Other comprehensive income	-	-	-	(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	366,487,990	(578,000)	1,625,578,818
Acquisition of treasury stock	-	-	-	-	-	-	-	(462,750)	(462,750)
Net income	-	-	-	-	-	-	157,736,990	-	157,736,990
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	₱524,224,980	(₱1,040,750)	₱1,790,963,156

See accompanying Notes to Parent Company Financial Statements.



SOUTH CHINA RESOURCES, INC.

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

1. Organization and Business

Corporate Information

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

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

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

The Parent Company has six (6) and seven (7) employees in 2012 and 2011, respectively. The Parent Company did not recognize retirement benefit obligations based on Republic Act 7641 as it has less than 10 employees.

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 I’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 parent company 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. 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.

In 2012, the Parent Company wrote-off the balance of allowance for impairment loss on deferred exploration costs which amounted to ₱88.8 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.

Approval of the Parent Company Financial Statements

The parent company financial statements as at December 31, 2012 and 2011 and for the years then ended were approved and authorized for issue by the Board of Directors (BOD) on March 22, 2013.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

These are the Parent Company's separate financial statements prepared in accordance with PFRS. The Parent Company also prepares and issues consolidated financial statements for the same period as the parent company financial statements. The consolidated financial statements may be obtained at ENZO Bldg., 399 Senator Gil Puyat Avenue, Makati City.

Statement of Compliance

The accompanying parent company financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS includes statements named PFRS and Philippine Accounting Standards (PAS) and Philippine Interpretations from the International



Financial Reporting Interpretation Committee (IFRIC) issued by the Philippine Financial Reporting Standards Council.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new and amended PFRS and Philippine Interpretations which were adopted as of January 1, 2011. Unless otherwise indicated, adoption of these new and amended standards or interpretations did not have any significant impact to the Parent Company 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 did not have significant impact on the Parent Company'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 Parent Company has no investment property measured at fair value.

Standards Issued but not yet Effective

The Parent Company will adopt the following new, revised and amended PFRS, PAS and Philippine Interpretations enumerated below, as applicable, when these become effective. The Parent Company 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 Parent Company'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 Parent Company'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 Parent Company'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 Parent Company'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 Parent Company 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 Parent Company'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 Parent Company has to apply the amendments retroactively to the earliest period presented. The Parent Company 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 Company'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 adoption of the amended PAS 27 will not have a significant impact on the separate financial statements of the Parent Company.

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 Parent Company 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 Parent Company'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 Parent Company and its subsidiary have decided not to early adopt PFRS 9 for its parent company financial statements. PFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Effectivity deferred

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 *Annual Improvements to PFRS* (2009-2011 cycle) contain non-urgent but necessary amendments to PFRS. The amendments are effective for annual periods beginning on or after January 1, 2013 and are applied retrospectively. 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 Parent Company 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 Parent Company'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 Parent Company'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 Parent Company 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 Parent Company'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 (3) 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 parent company statement of financial position when the Parent Company becomes a party to the contractual provisions of the instrument. The Parent Company 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 Parent Company has financial assets under Levels 1 and 3 of the fair value hierarchy as of December 31, 2012 and 2011 (see Note 16).

"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, HTM investments and 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 Parent Company has no financial assets or liabilities at FVPL and HTM investments 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 Parent Company's loans and receivables consist of cash and cash equivalents, receivables and due from related parties (see Notes 4, 5 and 13).

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 the parent company profit or loss. Interest earned while holding AFS financial assets is reported as interest income using EIR method.

The Parent Company evaluates its AFS financial assets whether the ability and intention to sell them in the near term is appropriate. When the Parent Company is unable to trade these financial assets due to inactive markets and management's intent to do so significantly changes in the foreseeable future, the Parent Company 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 Parent Company's AFS financial assets consist of quoted and unquoted shares and debt securities (see Note 7).



HTM Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held to maturity when the Parent Company 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 income statement. The losses arising from impairment are recognized in the income statement in 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 Parent Company initially recognized debt securities 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 7).

Other Financial Liabilities

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

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

The Parent Company's other financial liabilities consist of "Accounts payable and other liabilities" (see Note 11).

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

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

Where the Parent Company has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement 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 Parent Company'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 Parent Company 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 parent company statement of comprehensive income.

Offsetting Financial Instruments

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

Prepayments and Other Current Assets

Prepayments

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



Input Value-added Tax (VAT)

Input VAT represents VAT imposed on the Parent Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. The input VAT is recognized as an asset and will be used to offset against the Parent Company's current output VAT liabilities and any excess will be claimed as tax credits. 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 parent company 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 is 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.

Investments in a Subsidiary and an Associate

Investments in a Subsidiary

Investments in a subsidiary is accounted for at cost less any allowance for impairment loss in the parent company financial statements. A subsidiary is an entity over which the Parent Company has a power to govern the financial and operating policies, generally accompanying a shareholding of more than one half of the voting rights.

Investments in an Associate

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

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

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

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



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

After application of the equity method, the Parent Company determines whether it is necessary to recognize an additional impairment loss on the Parent Company's investment in its associate. The Parent Company 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 Parent Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the "Equity in net income (losses) of an associate" in profit or loss.

Upon loss of significant influence over an associate, the Parent Company 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 Parent Company 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 Parent Company 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 Parent Company 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:

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

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

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

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

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

Impairment of Nonfinancial Assets

The Parent Company 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 Parent Company 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 Parent Company makes an estimate of recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss.

Common Stock

The Parent Company has issued common stocks 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 and 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 Parent Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Parent Company's BOD. 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 parent company statement of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company'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 Parent Company and no dividends are allocated to them respectively. When the stocks are retired, the common stock account is reduced by its par value and the excess of cost over par value upon retirement is debited to additional paid-up capital when the shares were issued and to retained earnings for the remaining balance.

Revenue Recognition

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

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 Parent Company'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 Parent Company 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 incurrence of liabilities that result in decreases in equity, other than those relating to distributions to equity participants.

General and Administrative Expenses

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

Income Taxes

Current Income Tax

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

Deferred Tax

Deferred tax is provided, using the 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 foreign exchange 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 Parent Company'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.

Provisions

Provisions are recognized when the Parent Company 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.

Contingencies

Contingent liabilities are not recognized in the parent company 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 parent company financial statements but are disclosed in the notes to parent company 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 Parent Company's position at the reporting date (adjusting events) are reflected in the parent company financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to parent company financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

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

Judgment

Determining Functional Currency

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

Classification of Financial Instruments

The Parent Company 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 parent company statement of financial position.

In addition, the Parent Company 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 Parent Company considers its investment in Premiere Development Bank (PDB) as an investment in an associate. The Parent Company 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 Parent Company has no control over PDB since it does not own directly or indirectly more than 50% of the voting rights of the latter.

Operating Leases - The Parent Company as Lessee

The Parent Company has entered into a lease for its administrative office location. The Parent Company 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

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 Parent Company 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 Parent Company's financial assets and liabilities are disclosed in Note 16.

Impairment Losses on Accounts Receivable and Due from Related Parties

The Parent Company reviews the balance of accounts receivable 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 loans and receivables, the Parent Company 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 Parent Company's assessment of the accounts since their inception. These assessments take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

There are no allowance for impairment losses on accounts receivable and due from related parties as of December 31, 2012 and 2011. Accounts receivable and due from related parties amounted to ₱601.7 million and ₱284.4 million as of December 31, 2012 and 2011, respectively (see Notes 5 and 13).

Impairment of AFS financial assets

The Parent Company 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 Parent Company treats 'significant' generally as 20% or more of the cost of AFS and 'prolonged' if greater than 6 months. In addition, the Parent Company 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 Parent Company also considers the ability of the investee to provide dividends.

In 2012, the Parent Company recognized impairment loss amounting to ₱7,263 due to the significant decline in value of an AFS financial asset (see Note 7). No provision for impairment loss was recognized in 2011. As of December 31, 2012 and 2011, the Parent Company's allowance for impairment on AFS financial assets pertaining to unquoted shares of stock amounted to ₱3.3 million, respectively (see Note 7).



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 7). 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 parent company 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 7).

Useful Lives of Property and Equipment

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

Impairment of Nonfinancial Assets

The Parent Company 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 Parent Company 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 Parent Company is required to make estimates and assumptions that can materially affect the parent company financial statements.

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

	2012	2011
Investments in a subsidiary and an associate (see Note 8)	₱322,298,000	₱322,298,000
Property and equipment (see Note 9)	103,482	3,270,913
Prepayments and other current assets (Note 6)	640,950	289,647
Noncurrent asset held for sale (Note 8)	–	31,722,243
Other noncurrent assets (see Note 10)	–	3,823,191
	₱323,042,432	₱361,403,994



Impairment of Deferred Exploration Costs

The full recovery of the deferred exploration costs incurred in connection with the Parent Company'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 Parent Company 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 ₱88.8 million as of December 31, 2011. The balances of deferred exploration costs and the valuation allowance, including deferred exploration costs incurred during the year, 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. No deferred tax assets have been recognized on deductible temporary differences, unused NOLCO and excess MCIT amounting to ₱18.0 million and ₱99.3 million as of December 31, 2012 and 2011, respectively (see Note 12).

4. Cash and Cash Equivalents

	2012	2011
Cash on hand and with banks	₱84,970,345	₱7,992,193
Cash equivalents	510,723,236	666,145,910
	₱595,693,581	₱674,138,103

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 Parent Company and earn interest at the respective short-term investment rates. Interest income earned amounted to ₱18.2 million and ₱29.8 million in 2012 and 2011, 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
Receivable from officers and employees	₱4,115,966	₱4,031,023
Accrued interest (see Notes 4 and 7)	2,428,777	1,099,960
Others	32,235,425	8,400
	₱38,780,168	₱5,139,383



Receivables from officers and employees

Receivables from officers and employees pertain to advances which are settled through liquidation. These receivables will be settled within the next financial year.

Other receivables

Other receivables as of December 31, 2012 include receivable from Security Bank Corporation (SBC) for the sale of the Parent Company's common shares in Premier Development Bank (see Note 8). This is expected to be collected within the next financial year.

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

6. Prepayments and Other Current Assets

	2012	2011
Input VAT	₱421,088	₱37,853
Prepayments	117,632	80,852
Supplies	102,230	170,942
Security deposit (see Note 15)	42,828	4,500
	₱683,778	₱294,147

Input VAT can be applied against output VAT. The Company believes that the amount is fully recoverable in the future.

7. 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
	293,917,002	288,182,625
Less allowance for impairment loss on AFS financial assets	3,340,763	3,333,500
	₱290,576,239	₱284,849,125

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

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



Movements in the allowance for impairment loss are as follows:

	2012	2011
Balances at beginning of year	₱3,333,500	₱3,333,500
Provision	7,263	-
Balances at end of year	₱3,340,763	₱3,333,500

Quoted Shares

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

Dividend income earned from equity securities classified as “AFS financial assets” amounted to ₱4.3 million in 2012 and ₱0.2 million in 2011.

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 parent company 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 Parent Company acquired various bonds which were initially recognized as HTM investments and measured at amortized cost using the effective interest method.

Sale of HTM investments

On November 2, 2012, the Parent Company sold a significant amount of its HTM investments before maturity with amortized cost of ₱16.6 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 ₱87.5 million, with amortized cost of ₱83.0 million.



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

Unquoted Shares

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

In 2012, the Parent Company 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)

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

In 2010, the Parent Company subscribed to and subsequently fully paid for 26,086,957 preferred shares of AGP International 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.



8. Investments in a Subsidiary and an Associate

The Parent Company's investments in a subsidiary and an associate consist of:

	Business	Percentage of Ownership	
		2012	2011
Subsidiary:			
SOC Land	Real estate	100.00	100.00
Associate:			
Premiere Development Bank	Banking	–	–

The details of the Parent Company's investments in a subsidiary and an associate accounted for under the equity method follow:

	2012	2011
Investment in a subsidiary:		
Balances at beginning of year	₱322,298,000	₱10,000,000
Additional investment	–	312,298,000
Balances at end of year	₱322,298,000	₱322,298,000
Investment in an associate:		
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
Balances at end of year		–
Share in unrealized valuation gains on AFS investments of an associate:		
Balance at beginning of year		13,393
Reversal to profit or loss		(13,393)
Balance at end of year		₱–

SOC Land

As discussed in Note 1, the Parent Company has a wholly owned subsidiary, SOC Land. In November 2010, the Parent Company subscribed to and paid for 40,000,000 and 10,000,000 shares in SOC Land, respectively. The total cost of the investment amounted to ₱10.0 million. On March 4, 2011, the Parent Company transferred investment property with a fair value of ₱312.3 million, in exchange for 312,298 additional shares in SOC Land.

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 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 parent company statement of financial position at cost of ₱321.0 million which approximates its fair value. On March 4, 2011, the Parent Company transferred this investment property with fair value of ₱312.3 million (see Note 8), in exchange for 312,298 additional shares in SOC Land.

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. On December 14, 2011, the Housing and Land Use Regulatory Board (HLURB) released the Company’s License to Sell (LTS) for the Project (see Note 14b).

SOC Land has gained access to local and international markets and is currently marketing the units under the Tandem Building 1.

The summarized financial information of SOC Land for the years ended December 31, 2012 and 2011 are as follows:

	2012	2011
Total assets	₱801,702,780	₱542,051,011
Total liabilities*	567,095,131	251,564,837
Net loss	55,878,525	29,518,566

*Includes ₱490.0 million and ₱209.0 million due to the Parent Company as of December 31, 2012 and 2011, respectively.

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 Parent Company’s equity share in PDB is 4.79% of PDB’s outstanding shares and the Parent Company accounts for its investment in PDB under the equity method since the Parent Company 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 the “Noncurrent asset held for sale” account in the parent company statement of financial position as of December 31, 2011.

On January 20, 2012, the Monetary Board of the Bangko Sentral ng Pilipinas approved the transaction contemplated in the Agreement. The Parent Company recognized 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 in 2013 (see Note 5).

9. Property and Equipment

December 31, 2012

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Cost:				
Balances at beginning of year	₱13,020,964	₱1,748,577	₱432,098	₱15,201,639
Additions	–	34,143	26,788	60,931
Balances at end of year	13,020,964	1,782,720	458,886	15,262,570
Accumulated depreciation and amortization:				
Balances at beginning of year	9,865,731	1,632,897	432,098	11,930,726
Depreciation and amortization	3,155,233	55,270	17,859	3,228,362
Balances at end of year	13,020,964	1,688,167	449,957	15,159,088
Net book values	₱–	₱94,553	₱8,929	₱103,482

December 31, 2011

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	Total
Cost:				
Balances at beginning of year	₱13,020,964	₱1,742,523	₱432,098	₱15,195,585
Additions	–	6,054	–	6,054
Balances at end of year	13,020,964	1,748,577	432,098	15,201,639
Accumulated depreciation and amortization:				
Balances at beginning of year	7,413,538	1,543,682	432,098	9,389,318
Depreciation and amortization	2,452,193	89,215	–	2,541,408
Balances at end of year	9,865,731	1,632,897	432,098	11,930,726
Net book values	₱3,155,233	₱115,680	₱–	₱3,270,913



Fully depreciated property and equipment

As of December 31, 2012, the cost of fully depreciated property and equipment classified as “leasehold improvements” and “office furniture and equipment” amounted to ₱0.4 million and ₱0.3 million, respectively. These are retained in the records and still used by the Parent Company until these are disposed or the Parent Company vacate the leased premises. The Parent Company has no temporary idle property and equipment as of December 31, 2012.

10. 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 Parent Company’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, the balances of the advances as of December 31, 2011 and additional advances disbursed in 2012 amounting to ₱0.3 million for these projects were written-off due to the Parent Company’s assessment that they will no longer be recoverable.

11. Accounts Payable and Other Liabilities

	2012	2011
Accrued expenses		
Personnel	₱3,188,300	₱–
Travel and transportation	2,505,000	–
Entertainment and representation	1,500,000	–
Taxes	1,349,000	–
Professional fees	528,165	–
Others	503,500	550,197
Accounts payable	34,335	129,968
Government payables	1,392,050	55,897
	₱11,000,350	₱736,062

Accrued expenses

Accrued expenses are expected to be settled within the next financial year.

Accounts payable

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.

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.



12. Income Taxes

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

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

	2012	2011
Unrealized foreign exchange loss	P 16,644,348	P-
Accrued expenses	1,350,000	-
Allowance for impairment loss on AFS financial assets	7,263	-
Allowance for impairment loss on deferred exploration costs	-	88,713,164
NOLCO	-	10,235,558
MCIT	-	365,039
Balances at end of year	P18,001,611	P99,313,761

The Parent Company recognized directly in equity, deferred tax liability amounting to P1.3 million pertaining to unrealized valuation gains on fair value change of AFS financial assets as of December 31, 2012.

As of December 31, 2011, the Parent Company has NOLCO of P10.2 million and MCIT of P0.4 million that can be claimed as deduction from future taxable income and income tax due, respectively. The Parent Company utilized the balance of NOLCO and MCIT in 2012. The movement of the Parent Company's NOLCO and MCIT follows:

NOLCO

	2012	2011
Balances at beginning of year	P 10,235,558	P55,585,777
Additions	-	5,026,406
Application	(10,235,558)	-
Expirations	-	(50,376,625)
	P-	P10,235,558

MCIT

	2012	2011
Balances at beginning of year	P 365,039	P278,940
Application	(365,039)	-
Additions	-	86,099
Balances at end of year	P-	P365,039



Below is a reconciliation of income tax computed at the statutory income tax rate to provision for income tax shown in the parent company statement of comprehensive income:

	2012	2011
Income tax at statutory tax rate of 30%	₱51,168,544	₱6,707,555
Additions to (reductions in) income tax resulting from:		
Nondeductible expenses	2,026,104	782,911
Change in unrecognized deferred tax assets	(24,649,172)	1,588,369
Interest income subjected to final tax	(5,455,343)	-
Gain on sale of asset held for sale subjected to capital gains tax	(9,645,914)	-
Nontaxable income	(619,397)	(8,992,736)
	₱12,824,822	₱86,099

13. Related Party Transactions

Enterprises and individuals that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with the Parent Company, including holding companies, subsidiaries and fellow subsidiaries, are related parties of the Parent Company. Associates and individuals owning, directly or indirectly, an interest in the voting power of the Parent Company that gives them significant influence over the enterprise, key management personnel, including directors and officers of the Parent Company 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 Parent Company has significant related party transactions as “Due from related parties” in its parent company statements of financial position.

	Transaction	Amount	Outstanding balance	Terms	Conditions
<i>Subsidiary:</i>					
SOC Land					
2012	Advances	₱281,000,000	₱489,989,820	Due and demandable	Unsecured; No impairment
2011		197,732,852	208,989,820		
<i>Other related parties:</i>					
Puyat Steel Corporation (PSC)					
2012	Advances	-	45,300,000	30 days, 8% per annum	Secured by receivables and finished goods with fair value equivalent; No impairment.
2011		30,000,000	45,000,000		
International Pipe Industries Corporation (IPIC)					
2012	Advances	5,000,000	27,493,111	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)					
2012	Advances	17,053	126,497	Due and demandable	Unsecured; No impairment
2011		11,082	109,444		
		5,017,053	72,919,608		
2012		₱286,017,053	₱562,909,428		
		65,011,082	70,248,111		
2011		₱262,743,934	₱279,237,931		



a. SOC Land

Amounts owed by SOC Land amounted to ₱490.0 million and ₱209.0 million as of December 31, 2012 and 2011, respectively. These amounts are used to finance the construction of the Project, primarily consisting of building construction costs, consultancy fees, taxes and licenses, advertising and other business expenses. These advances are noninterest-bearing and are due and demandable.

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 a country for galvanized iron sheets to be used in the construction, building and roofing materials. In 1998, PSC inaugurated in Rosario, Batangas, the Philippines' first ever state-of-the-art continuous galvanizing line utilizing the modern non-oxidizing furnace (NOF) technology in a globally competitive stature. By the year 2000, PSC became the first NOF continuous galvanizing plant to be ISO 9002 certified. PSC is under common control with the Parent Company.

The BOD, through a board resolution dated January 24, 2008, authorized the Parent Company 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 Parent Company 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 Parent Company receives a guaranteed return on investment (ROI) of at least 8% per annum. Interest earned by the Parent Company in relation to these advances amounted to ₱3.2 million and ₱3.7 million in 2012 and 2011, respectively.

As of December 31, 2012 and 2011, the outstanding receivable from PSC amounted to ₱45.3 million. The outstanding balance includes interest receivable as of December 31, 2012 amounting to ₱0.3 million. 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 Parent Company.

c. 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 2011, the BOD authorized the Parent Company to enter into a related party agreement with IPIC to provide a standby fund facility in the amount of ₱50.0 million for the acquisition of raw materials to be processed into finished steel products. The Parent Company will receive a guaranteed return on investment of at least 8% per annum. Interest earned and interest receivable by the Parent Company in relation to these advances amounted to ₱1.7 million and ₱0.4 million in 2012 and 2011, respectively.



As of December 31, 2012 and 2011, the outstanding receivable from IPIC amounted to ₱27.5 million and ₱25.1 million, respectively. This includes interest receivable amounting to ₱0.5 million and ₱0.1 million as of December 31, 2012 and 2011, respectively. IPIC's accounts receivable and finished goods with fair value equivalent to the outstanding balance are used as collateral for the amount owed to the Parent Company.

d. 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.

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

e. Key Management Personnel Compensation

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

14. 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 Parent Company's 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 of the Parent Company's retained earnings in 2011 for purposes of funding its investments related to the Anuva Residences and other investment projects.

c. Treasury Stock

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

15. Contracts and Commitments

Lease Agreements

- a. 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 lease agreement expired in 2012.
- b. 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" (see Note 6). Minimum lease payments within a year under this contract is ₱0.1 million.

Rent expense relates to these lease contracts, presented as "Rental and Utilities" in the parent company statement of comprehensive income amounted to ₱0.1 million and ₱0.4 million in 2012 and 2011, respectively.



16. Financial Instruments

Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise cash and cash equivalents, accounts receivable, due from related parties, AFS financial assets and accounts payable and other liabilities. The main purpose of these financial instruments is to fund the Parent Company's operations.

The BOD has overall responsibility for the establishment and oversight of the Parent Company's risk management framework. The Parent Company's risk management policies are established to identify and manage the Parent Company'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 Parent Company's activities.

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

Credit Risk

Credit risk arises when a customer or counterparty fails to discharge an obligation and cause the Company to incur a financial loss.

The Parent Company is exposed to credit risk primarily because of its investing and operating activities. The Parent Company 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 Parent Company trades only with recognized, creditworthy third parties. 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 Parent Company, which comprise of "Cash and cash equivalents", "Receivables", "Due from related parties" and security deposits, management monitor these financial assets on an ongoing basis with the result that the Parent Company'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 parent company 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 parent company statement of financial position, which is secured by collateral.



Credit Risk Concentration Profile

The Parent Company has no significant concentrations of credit risk.

Credit Quality of Financial Assets

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

A high grade financial asset pertains to a counterparty that is not expected by the Parent Company 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 financial assets pertain to other financial assets not belonging to high quality financial assets.

The table below shows the credit quality by class of financial asset based on the Parent Company's rating system as of December 31, 2012 and 2011:

2012

	<u>Neither Past Due Nor Impaired</u>	<u>Standard</u>	<u>Past Due</u>		
	High Grade	Grade	But Not	Impaired	Total
			Impaired		
Loans and receivables					
Cash and cash equivalents*	₱595,678,581	₱-	₱-	₱-	₱595,678,581
Receivables	-	-	38,780,168	-	38,780,168
Due from related parties	793,111	278,306,153	283,810,164	-	562,909,428
Others	42,828	-	-	-	42,828
AFS financial assets					
Shares of stock	191,169,730	-	-	3,340,763	194,510,493
Bonds	87,451,509	-	-	-	87,451,509
Golf club shares	11,955,000	-	-	-	11,955,000
	₱887,090,759	₱278,306,153	₱322,590,332	₱3,340,763	₱1,491,328,007

*Excluding cash on hand.

2011

	<u>Neither Past Due Nor Impaired</u>	<u>Standard</u>	<u>Past Due</u>		
	High Grade	Grade	But Not	Impaired	Total
			Impaired		
Loans and receivables					
Cash and cash equivalents*	₱674,123,103	₱-	₱-	₱-	₱674,123,103
Receivables	1,099,960	-	4,039,423	-	5,139,383
Due from related parties	138,667	279,099,264	-	-	279,237,931
AFS financial assets					
Shares of stock	19,432,125	265,287,000	-	3,333,500	288,052,625
Golf club shares	-	130,000	-	-	130,000
	₱694,793,855	₱544,516,264	₱4,039,423	₱3,333,500	₱1,246,683,042

*Excluding cash on hand.

Cash and cash equivalents are considered high grade as the Parent Company trades only with top banks in the Philippines. AFS financial assets are considered high grade due to high probability of collection when sold. Standard grade receivables are for receivables from officers and employees and third parties and due from related parties which would require some reminder follow-ups to obtain settlement from the counterparties.



The table below shows the aging analysis of financial assets per class that the Parent Company 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		
Loans and receivables							
Cash and cash equivalents*	₱595,678,581	₱-	₱-	₱-	₱-	₱-	₱595,678,581
Receivables	-	2,773,391	-	50,000	35,956,777	-	38,780,168
Due from related parties	279,099,264	186,000	2,008,889	80,187,942	201,427,333	-	562,909,428
Others	42,828	-	-	-	-	-	42,828
AFS financial assets							
Shares of stock	191,169,730	-	-	-	-	3,340,763	194,510,493
Bonds	87,451,509	-	-	-	-	-	87,451,509
Golf club shares	11,955,000	-	-	-	-	-	11,955,000
	₱1,165,396,912	₱2,959,391	₱2,008,889	₱80,237,942	₱237,384,110	₱3,340,763	₱1,491,328,007

*Excluding cash on hand.

2011

	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		
Loans and receivables							
Cash and cash equivalents*	₱674,123,103	₱-	₱-	₱-	₱-	₱-	₱674,123,103
Receivables	1,099,960	31,023	-	8,400	4,000,000	-	5,139,383
Due from related parties	12,138,667	80,000,000	-	3,000,000	184,099,264	-	279,237,931
AFS financial assets							
Shares of stock	284,719,125	-	-	-	-	3,333,500	288,052,625
Due from related parties	130,000	-	-	-	-	-	130,000
	₱972,210,855	₱80,031,023	₱-	₱3,008,400	₱188,099,264	₱3,333,500	₱1,246,683,042

*Excluding cash on hand.

Liquidity Risk

Liquidity risk is the risk that the Parent Company 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 Parent Company 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 Parent Company's financial assets used for liquidity purposes based on contractual undiscounted cashflows, and the Parent Company's financial liabilities based on contractual undiscounted payments.

2012

	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
Financial Assets:					
Cash and cash equivalents	₱595,693,581	₱595,693,581	₱-	₱-	₱-
Receivables	38,780,168	-	2,773,391	50,000	35,956,777
Due from related parties	562,909,428	-	793,111	-	562,116,317
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	-	-	-
	₱1,487,959,416	₱886,269,820	₱3,566,502	₱50,000	₱598,073,094

Financial Liabilities:

Accounts payable and other liabilities**	₱9,608,300	₱-	₱9,608,300	₱-	₱-
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**Excluding government payables



2011

	Total	On Demand	Less than 3 Months	3 to 6 Months	6 to 12 Months
Financial Assets:					
Cash and cash equivalents	₱674,138,103	₱674,138,103	₱-	₱-	₱-
Receivables	5,139,383	4,039,423	1,099,960	-	-
Due from related parties	279,237,931	279,099,264	138,667	-	-
AFS financial assets					
Shares of stock	288,052,625	288,052,625	-	-	-
Golf club shares	130,000	130,000	-	-	-
	₱1,246,698,042	₱1,245,459,415	₱1,238,627	₱-	₱-
Financial Liabilities:					
Accounts payable and other liabilities**	₱680,166	₱-	₱680,166	₱-	₱-

**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 Parent Company's AFS financial assets in equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

The Parent Company 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 Parent Company 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 Parent Company's income before income tax and equity:

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



The impact on the Parent Company's equity already excludes the impact on transactions affecting the parent company statement of comprehensive income.

Foreign Currency Risk

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

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

Information on the Parent Company'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	–	–
		₱446,244,119		₱160,774

The table below demonstrate the sensitivity to a reasonable change in the foreign exchange rates, with all other variables held constant, of the Parent Company's income (loss) before income tax (due to the changes in the fair value of the foreign-currency-denominated assets and liabilities). This analysis covers only translational risk, and based on the negative net exposure reflected in the foreign exchange risk gap, any devaluation in the Peso and/or strengthening of the US\$ will result in a drop in net income.

	2012		2011	
	Effect on income before tax		Effect on income before tax	
	Change in Peso-Foreign Exchange Rate		Change in Peso-Foreign Exchange Rate	
	Increase by 5%	Decrease by 5%	Increase by 5%	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)	–	–
	₱22,312,206	(₱22,312,206)	₱8,039	(₱8,039)



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 Parent Company derives a portion of its revenue from interest-bearing cash equivalents and bonds. Accordingly, the Parent Company is subject to financial risk arising from changes in interest rates. The Parent Company manages interest rate risk by investing mainly on fixed coupon bonds and other investment. By doing so, the Parent Company is assured of future interest revenues from such investments.

Since the Parent Company invests on fixed coupon interest bonds and other investments, the Parent Company 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 Parent Company's financial instruments that are carried in the parent company financial statements.

	Carrying Values		Fair Values	
	2012	2011	2012	2011
Financial Assets				
<i>Loans and receivables</i>				
Cash and cash equivalents	₱595,693,581	₱674,138,103	₱595,693,581	₱674,138,103
Receivables	38,780,168	5,139,383	38,780,168	5,139,383
Due from related parties	562,909,428	279,237,931	562,909,428	279,237,931
Others	42,828	-	42,828	-
<i>AFS financial assets</i>				
Shares of stock	191,169,730	19,432,125	191,169,730	19,432,125
Bonds	87,451,509	-	87,451,509	-
Golf club shares	11,955,000	265,417,000	11,955,000	265,417,000
	₱1,488,002,244	₱1,243,364,542	₱1,488,002,244	₱1,243,364,542
Financial Liabilities				
Other financial liabilities:				
Accounts payable and other liabilities**	₱9,608,300	₱680,165	₱9,608,300	₱680,165

**Excluding government payables

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 and Accounts Payable and Other Liabilities

The carrying amounts of cash and cash equivalents, receivables, due from related parties 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 Parent Company 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; or
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

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

December 31, 2012

	Level 1	Level 2	Level 3	Total
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
	₱278,621,239	₱-	₱11,955,000	₱290,576,239

December 31, 2011

	Level 1	Level 2	Level 3	Total
AFS financial assets:				
Shares of stock	₱19,432,125	₱-	₱-	₱19,432,125
Golf club shares	-	-	130,000	130,000
	₱19,432,125	₱-	₱130,000	₱19,562,125

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

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

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

Capital Management

The primary objective of the Parent Company'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 Parent Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Parent Company 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 Parent Company 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	1,024,224,980	866,487,983
Treasury stock	(1,040,750)	(578,000)
	₱1,772,463,439	₱1,615,189,192

17. Other Matters and Notes to Statements of Cash Flows

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 parent company statement of financial position.

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 Notes 7.

In 2011, noncash activity pertained to the acquisition of additional shares in SOC Land in exchange for the Parent Company's investment property.

18. Supplementary Information Required Under Revenue Regulation 19-2011

On December 9, 2011, the BIR has issued RR No. 19-2011 prescribing the new income tax forms to be used effective calendar year 2011. In the case of corporations using BIR Form 1702, the taxpayer is now required to include as part of its Notes to the Audited Financial Statements, which will be attached to the income tax return, schedules and information on taxable income and deductions taken.

The schedule and information of taxable income and deductions taken are as follows:

- a. Taxable revenues for the year ended December 31, 2012 consists of:

Gain on sale of AFS financial assets	₱185,150,851
Interest income	8,492,470
Dividend income	2,235,927
Gain on disposal of HTM investments	1,274,911
	₱197,154,159



b. Itemized deductions for the year ended December 31, 2012 consist of:

Write-off of deferred exploration costs and project advances	₱114,475,183
Professional fees	6,108,262
Transportation and travel	4,671,073
Director's fees	4,500,000
Salaries and allowances	3,503,330
Depreciation	3,228,362
Miscellaneous	2,239,931
Representation and entertainment	1,647,966
Realized foreign currency loss	815,854
Taxes and licenses	415,705
Office supplies	288,032
Communication, light and water	220,468
Commissions	164,376
SSS, GSIS, Philhealth, HDMF and other contributions	161,238
Trainings and seminars	156,334
Rental	142,444
Fuel and oil	103,727
Repairs and maintenance-materials/supplies	72,342
Insurance	37,769
	₱142,952,396

c. Taxes and licenses for the year ended December 31, 2012 consists of:

	OR number	OR date	Amount
Annual listing maintenance fee	040356	1/31/2013	₱250,000
Municipal license		2/29/2013	104,476
Travel tax	8149	6/26/2013	35,314
PSE listing and registration			10,000
Preliminary information statement	0718036	4/12/2013	5,050
Registration of vehicle	259874834	6/21/2013	3,244
Documentary stamp tax - insurance for 2009 Mitsubishi Montero	040356	12/21/2013	2,087
Community tax certificate	00188331 and 070227111		2,717
Barangay clearance	3356579		1,100
Locational clearance	3548600	9/5/2013	600
Registration and documentary stamp tax	BIR Payment Form 0605	7/2/2013	517
Annual BIR registration fee		1/31/2013	500
BIR certification fee	0605	2/27/2013	100
			₱415,705



19. Supplementary Information Required Under Revenue Regulation 15-2010

In compliance with the requirements set forth by RR 15-2010 hereunder are the information on taxes, duties and license fees paid or accrued during 2011:

Output VAT

The Parent Company is a VAT-registered company with output VAT declaration of ₱587,357 for the year based on the amount of interest income earned on the Parent Company's advances to Puyat Steel Corporation and International Pipe Industries Corporation of ₱3,214,286 and ₱1,680,357, respectively.

Input VAT

Balance at beginning of year	₱37,853
Current year's domestic purchases for:	
Goods other than for resale or manufacture	11,194
Services lodged under other accounts	906,598
	<hr/>
	955,645
Less application	587,357
Balance at end of year	<hr/> <hr/> ₱368,388

Documentary Stamp Tax (DST)

In 2012, DST paid to BIR ₱2,087 for insurance of transportation equipment and ₱517 due to change in address.

Capital Gains Tax (DST)

In 2012, the Parent Company paid ₱2,867,989 arising from the sale of Premier shares (see Note 8).

Stock Transaction Tax

In 2012, the Parent Company paid ₱115,673 arising from the sale of AFS financial assets listed in the PSE

Other Taxes and Licenses

In 2012, other taxes and licenses include all other taxes, local and national, including licenses and permit fees lodged under the taxes and licenses account under the costs and expenses section in the parent company statement of comprehensive income:

Details consist of the following:

License and permit fees	370,537
Others	45,168
	<hr/>
	₱415,705



Withholding Taxes

Details of withholding taxes in 2012 are as follows:

Tax on compensation and benefits	1,878,263
Expanded withholding tax	45,206
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	₱1,923,469
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