



# SOUTH CHINA RESOURCES, INC.

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

April 24, 2009

**The Disclosure Department**

4/F Philippine Stock Exchange, Inc.  
PSE Centre, Exchange Road  
Ortigas Center, Pasig City

Attention: **Mr. NOEL B. DEL CASTILLO**  
OIC, Disclosure Department

Gentlemen:

Please find herewith Annual Report (on SEC Form 17-A) for year ended December 31, 2008 of South China Resources, Inc.

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

Yours faithfully,

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

SEC Number : ASO92-06441

File Number : \_\_\_\_\_

---

**SOUTH CHINA RESOURCES, INC.**

---

**(Company's Full Name)**

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

---

**(Company's Address)**

(632) 812-2383 / 892-2049

---

**(Telephone Number)**

December 31

---

**(Fiscal Year - Month & Day)**

17-A/AFS

---

**(Form Type)**

Not Applicable

---

**Amendment Designation (if applicable)**

December 31, 2008

---

**(Reporting Period/Period Ended Date)**

Corporation Finance Department

---

**(Department in SEC requiring this report)**

450

---

**(Total Number of Stockholders as of December 31, 2008)**

Not Applicable

---

**(Secondary License Type and File Number)**

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended **December 31, 2008**
2. SEC Identification Number **ASO92-06441** 3. BIR Tax Identification No. **001-945-016**
4. Exact name of issuer as specified in its charter **SOUTH CHINA RESOURCES, INC.**
5. **Not Applicable** 6.  (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
Incorporation or organization
7. **3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City** **1200**  
Address of principal office Postal Code
8. **(632) 812-2383 / 892-2049**  
Issuer's telephone number, including area code
9. **12/F Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City**  
Former name, former address and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
- | Title of Each Class  | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|----------------------|--|
| <b>Common Shares</b> | <b>906,559,568</b>   |

11. Are any or all of these securities listed on a Stock Exchange?

Yes [ ☒ ] No [ ☐ ]

Name of Stock Exchange

Class of Securities Listed

**Philippine Stock Exchange**

**U**

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the issuer was required to file such reports);

Yes [ ☒ ]                      No [ ☐ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ☒ ]                      No [ ☐ ]

13. Aggregate market value of the voting stock held by non-affiliates is **₱227,286,108.00** as of **April 8, 2009**.

## PART I - BUSINESS AND GENERAL INFORMATION

### ITEM 1. BUSINESS

The Company was incorporated and registered with the SEC on September 25, 1992 primarily to undertake oil and gas exploration, development and production. Starting in 1995, South China opted to strengthen its core business by diversifying into investments in banking and telecommunications.

The Securities and Exchange Commission (SEC) on October 30, 2003 approved the amendment of the Company's Articles of Incorporation so as to change the primary purpose thereof to that of a holding company and to include its then existing primary purpose of oil exploration as among the secondary purposes of the Company, the latter has continued to maintain its oil exploration assets and activities until the Company is able to spin-off the same to a wholly owned subsidiary to be established by the Company.

Since its incorporation, the Company has been actively involved in the review and exploration of the different sedimentary basins in the Philippines. The participating interests in the exploration areas of the Company are as follows:

Area	Interest	Expiry/Expected Expiry
1. SC-41 Sulu Sea	- 1.09%	May 10, 2010
2. SC-60/GSEC-99 NE Palawan	- 15.00%	January 26, 2013

South China continues to be a significant player in oil exploration in the country. The Company operates prudently by reducing upfront costs in frontier exploration. South China has proven that the exploration strategy and the technical concepts using data driven models are effective in opening up frontier areas like Northeast Palawan. On January 27, 2006, in joint agreement, the South China and SPEX (Shell Philippines Exploration B. V.) together with KUFPEC (Kuwait Foreign Petroleum Co. ksc) signed with the Department of Energy (DOE), Service Contract No. 60 (SC-60). This converted Geophysical Survey and Exploration Contract NO. 99 (GSEC-99) into an SC. KUFPEC is a wholly owned subsidiary of the national company Kuwait Petroleum Company (KPC) and its entry into eastern offshore Palawan is a significant development in proving this new playing ground for oil exploration in the country. A significant 500 sq-km 3D program was shot without any untoward incident in mid-2007 focusing on areas high graded by the previous 2D survey. In a letter sent by SPEX to the Department of Energy last July 8, 2008, the SC – 60 Joint Operations elected to enter the second sub-phase of SC – 60. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase. The second sub-phase is valid until February 10, 2010. South China retains 15% interest in the block.

The DOE, in their letter to block operator Tap (Philippines) Pty Ltd dated 23 January 2007, approved the extension of Contract Year 9 to May 10, 2008. As a consequence of such extension, Contract Year 10 commenced on May 10, 2008. Tap Oil, on behalf of the Joint Operation, applied with the DOE for the approval for an extension of the term of the SC for a further two years. SC-41 for its 10<sup>th</sup> and final contract year will run to May 10, 2010 and may be extended to May 2011 upon commitment to drill another well. The minimum work commitments for contract years 9 and 10 were: a) acquisition of 300 sq km of 3D seismic; b) relinquishment of 25% of the contract area and the drilling of one (1) exploration well. On July 19, 2008 Tap Oil along with the joint operation partners spudded the Lumba-Lumba-1/1A well. The well was drilled by the semi-submersible rig, Transocean Legend, down to a total depth of 2174 meters, approximately 830 meters short of the programmed total depth. Tap Oil plugged and abandoned the well on August 20, 2008 after the well had encountered numerous down-hole problems and was unable to make further progress. The well encountered no reservoir quality rocks but elevated gas readings were observed. The SC-41 group still believes that the block has the potential to host commercial hydrocarbons despite the momentary set back as Lumba-Lumba-1/1A well only tested one of the several different independent prospects in the block. Tap on behalf of the SC-41 group continues the reprocessing and inversion studies based on the Alpine 3D survey of the area. This will enable the group to delineate which prospects will be considered for further exploration. South China has 1.090%

participating interest in this block.

Even as its exploration activities are currently within the two above-mentioned blocks, South China continues to pursue its interest in other areas like the Offshore Cuyo Platform, East Palawan and NW Palawan Block.

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

Oil exploration is a high risk, high reward endeavor which the company is actively involved in. The Company primarily explores in frontier areas where data constraints and costs are relatively lower as against areas that have had substantial exploration consideration. The Company is considered one of the most active players in local oil exploration and is involved in several exploration areas.

The Company is, at present, still engaged only in oil exploration and has not realized any production or sale of any crude oil or gas yet. Exploration is done through a Service Contract (SC), which is contracted from government through the Department of Energy (DOE). Under the Service Contract, the Contractor (in this case, the Company) undertakes to furnish the necessary services, technology and financing of the exploration and assumes all exploration risks. Before any contract is awarded by the DOE, a company is assessed that it has the financial resources, technical competence and professional skills to carry out its operations.

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

In order to minimize risk in the exploration of an area, local exploration companies usually form consortiums or partnerships with other companies specially when undertaking full exploration operations. Environmental considerations are taken into account only when there is a drilling activity as required by the DOE, to which costs for environmental studies and compliance thereto are built-in in the drilling costs.

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

The Company has no subsidiaries for the year ended 2008. Please refer to Note 8, pages 30 to 35 for information on the business of its associates, Bell Telecommunication Philippines, Inc. (Bell Tel) and Premiere Development Bank (PDB).

The Company does not expect any significant changes in its number of employees. Presently, the Company has a total of six (6) employees, all working full-time, one (1) Chairman, one (1) Vice-President for Operations, one (1) Accounting & Finance Manager, one (1) Accounting Supervisor, one (1) Investor Relations Officer and one (1) Messenger. The Company has no Collective Bargaining Agreements (CBA).

Since the company has only six (6) employees, it is not legally required to establish a formal retirement plan for its employees because under Republic Act No. 7641, a company is required to set up a retirement plan if it has ten (10) or more employees.

## **ITEM 2. PROPERTIES**

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

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

The Company leases its office space with Bell Telecommunication Philippines, Inc. (BellTel) located at the 3/F Low Rise Pacific Star Building, Sen. Gil Puyat Ave. cor. Makati Ave., Makati City. The term of the contract is for a period of one (1) year, from September 1, 2007 to September 1, 2008 and renewable automatically, on a monthly rental of ₱36,561.18.

## **ITEM 3. LEGAL PROCEEDINGS**

There are no materials pending legal proceedings to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

## **ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

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

In a special meeting of the stockholders held on 22 October 2003, whereas stockholders representing 787,975,268 shares out of the 906,559,568 shares then outstanding and entitled to vote were present in person or by proxy, the stockholders present unanimously approved the further amendment of Article Second of the Company's Articles of Incorporation by changing the PRIMARY PURPOSE clause to that of a holding company and relegating its existing primary purpose of oil exploration as among the SECONDARY PURPOSES of the Company. The stockholders at the same said meeting also unanimously approved the spinning off of the Company's oil exploration activities to a wholly owned subsidiary to be established by the Company.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### ITEM 5. MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

#### (1) Market Information

The Principal Market where the Issuer's common equity is traded is in the Philippine Stock Exchange.

As of the trading date, April 17, 2009, the high and low price is 1.1, respectively. The Corporation has no securities to be issued in connection with an acquisition, business combination or other re-organization. Furthermore, the following are the high and low sales prices for each quarter within the last two years (2008 and 2007).

#### Stock Prices

<b>2008</b>	<b>High</b>	<b>Low</b>
First Quarter	1.8000	1.3400
Second Quarter	1.5266	1.3400
Third Quarter	1.4133	1.2733
Fourth Quarter	0.7166	0.6000
<b>2007</b>	<b>High</b>	<b>Low</b>
First Quarter	1.2200	1.0266
Second Quarter	1.4600	1.2500
Third Quarter	1.4800	1.2600
Fourth Quarter	1.7400	1.4000



## (2) Holders

The number of shareholders of record as of December 31, 2008 was 450. Common shares issued and subscribed as of December 31, 2008 were 906,559,568.

### Top Twenty (20) Stockholders

As of December 31, 2008

No.	NAME OF STOCKHOLDERS	NUMBER OF SHARES HELD	% OWNED
1.	Edgardo P. Reyes	231,853,123	25.5751%
2.	Wilfrido P. Reyes	231,853,123	25.5751%
3.	Belen R. Castro	231,353,122	25.5199%
4.	PCD Nominee Corporation (Filipino)	125,185,434	13.8088%
5.	PCD Nominee Corporation (Non-Filipino)	12,287,566	1.3554%
6.	Benjamin Chua	10,051,500	1.1088%
7.	Wilson Chua	5,877,500	0.6483%
8.	Kho Giok En	5,513,000	0.6081%
9.	Samuel Uy Chua	4,000,000	0.4412%
10.	The Philodrill Corporation	3,200,000	0.3530%
11.	F. Yap Securities, Inc.	2,855,000	0.3149%
12.	R. Coyiuto Securities, Inc.	2,025,000	0.2234%
13.	EBC Securities Corp.	1,276,000	0.1407%
14.	Gilbert Liu	1,000,000	0.1103%
15.	Jose Mari R. Moraza	1,000,000	0.1103%
16.	Michael Escaler	630,000	0.0695%
17.	Ma. Georgina V. Perez	610,000	0.0673%
18.	Remedios J. Manguiat	580,000	0.0640%
19.	Mandarin Securities Corp.	561,000	0.0619%
20.	Benito T. Dela Cruz	520,000	0.0574%
<b>TOTAL</b>		<b>872,231,368</b>	<b>96.2134%</b>

The effect of any transaction on the amount and percentage of present holdings of the registrant's common equity owned beneficially by (i) more than five percent (5%) beneficial owner of the registrant's common equity; (ii) each director and nominee; and (iii) all directors and officers as a group, and the registrant's present commitments to such persons with respect to the issuance of shares, cannot yet be determined as the Company is still in the process of getting approval on the proposal to spin-off the Corporation's oil exploration assets and activities to a wholly owned subsidiary to be established.

## (3) Dividends

The Company has no earnings yet from commercial production. The restriction that limits the Company to pay dividends on common equity is its inability to accumulate retained earnings. Therefore, there were no dividends declared for the two (2) most recent years ended December 31, 2008 and 2007.

## (4) Recent Sale of Unregistered or Exempt Securities

There had been no sale of unregistered or exempt securities, including recent issuance of securities constituting an exempt transaction by the Company in the last three years.

## ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

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

### CALENDAR YEAR ENDED DECEMBER 31, 2008 VS CY ENDED DECEMBER 31, 2007

#### 2008 RESULTS OF OPERATIONS

##### Financial Highlights

(in Philippine pesos)

	<u>12/31/2008</u>	<u>12/31/2007</u> <u>(Restated)</u>	<u>% Change</u>
Revenues	133,880,831	45,238	2,959.48x
Expenses	121,233,782	5,752,809	21.07 x
Income / (Loss) from Operations	12,647,049	(5,707,571)	54.87%
Equity in Net Income / (Losses) of Associates	100,222,956	(43,187,664)	56.91%
Net Income/ (Loss)	112,856,711	(52,054,506)	53.88%

Total Revenues- 2959x increase from PHP 45,238 to PHP 133,880,831

Total Revenues generated for 2008 reached PHP 133.881 million consisting of the following : (a) Gain on sale of investment property to Alpha Land Corporation amounting to PHP 113.020 million gross of capital gains taxes and documentary stamps taxes of PHP 45 million; (b) Interest income from amounts owed by a related party, Puyat Steel Corporation (PSC) amounting to PHP 9.678 MM and (c) Interest income on deposits and short-term placements with BPI, Metrobank & Premiere Bank totalling PHP 11.183 million. There was a remarkable revenue growth in 2008 as compared to 2007.

Total Expenses- 21.07x increase from PHP 5.752 million to PHP 121.233 MM

Total Expenses incurred for 2008 amounted to PHP 121.233 million as compared to the PHP 5.752 million in 2007. Major expense items for 2008 were as follows: (a) provision for impairment of deferred exploration costs of PHP 62.846 MM; (b) taxes and licenses of PHP 45.270 million consisting mostly of the abovementioned PHP 36 million capital gains taxes and PHP 9 million documentary stamps taxes related to the sale of investment property to Alphaland Corporation; (c) legal and professional fees of PHP 2.486 million related to the sale of investment property; (d) travel and transportation fees of PHP 4.918 million and (e) salaries and wages of 2.448 million; (f) depreciation expenses of PHP 1.810 million due to the purchase of additional transportation equipment during the year.

Given the above, income from operations for 2008 was PHP12.647 MM translating to an operating margin of 9.44% during the year. This was a 54% improvement over the previous year's.

Equity in net earnings of associates – 56% improvement from loss of PHP 43.187 million to income of PHP 100.222 million

Other income and losses recognized during the year were as follows: (a) the equity share in net income of Bell Telecommunication Phils. Inc. (BellTel) amounting to PHP 101.296 million as well as (b) the share in equity loss of Premiere Bank amounting to PHP 1.08 million.

The PHP 101.269 million equity share in net income of Belltel was computed as follows-- the 32.40% share of the Company on Belltel's net profit for 2008 amounting to PHP 386.355 MM less the derecognized equity in net loss of Belltel in 2007 amounting to PHP 23.91 MM.

The PHP 1.04 million share in equity loss of Premiere Bank represented the 4.81% share of the Company on Premiere Bank's net loss for 2008 amounting to PHP 21.799 million.

*Net Income – 54% improvement from loss of PHP52.054 million to PHP 112.856 million*

Net income of the Company as of yearend 2008 was registered at PHP 112.856 million, a notable improvement over the previous year's net loss of PHP 52.054 million.

The positive bottomline figure for 2008 resulted to a 34% reduction of the deficit level on the 2008 Balance Sheet from PHP 329.624 million in 2007 to PHP 216.767 million in 2008.

The Company has no earnings yet from commercial production pertaining to the oil exploration segment of the business hence there were no dividends declared for the period ending December 31, 2008.

## **2008 FINANCIAL POSITION**

### **Financial Highlights**

**(in Philippine pesos)**

	<u><b>12/31/2008</b></u>	<u><b>12/31/2007 (Restated)</b></u>	<u><b>% Change</b></u>
Current Assets	172,942,560	538,616,964	(67.89%)
Noncurrent Assets	524,791,854	120,213,103	336.79%
<b>Total Assets</b>	<b>697,734,414</b>	<b>658,830,067</b>	<b>5.91%</b>
Current Liabilities	597,425	73,501,201	(99.19%)
Noncurrent Liabilities	171,720,000	171,720,000	None
<b>Total Liabilities</b>	<b>172,317,425</b>	<b>245,221,201</b>	<b>(29.73%)</b>
<b>Equity</b>	<b>525,416,989</b>	<b>413,608,866</b>	<b>27.03%</b>
<b>Total Liabilities &amp; Equity</b>	<b>697,734,414</b>	<b>658,830,067</b>	<b>5.91%</b>

*Cash and cash equivalents- 82.33% increase from PHP 50.912 million to PHP 92.829 million*

Due to the additional bank deposits and short-term placements made by the Company during the year with its depository banks, namely, BPI, Metrobank and Premiere Bank. The additional fresh funds emanated from the proceeds from the sale of Investment Property to Alphaland Corporation.

*Accounts receivable- 1003.34x increase from PHP 78,722 to PHP78.985 million*

Due to the following: (a) the Php 75 million amount owed by a related party , Puyat Steel Corporation and the related accrued interest of PHP 3.949 million; and (b) the write- off of impaired receivables from Tab Phils. Inc. amounting to PHP 766,908.42. The write off was approved by the BOD during the year.

The BOD through board resolution dated January 23, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to P130 million for the acquisition of raw

materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment of the Company of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished products. The funding facility is renewable on a yearly basis. Under this arrangement, the Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

In 2008, out of the approved P130 million, the Company invested a total of P125 million whereby the Company earned interest income amount to P9.68 million. As at December 31, 2008, the balance of the investment to PSC amounts to P75 million.

*Prepayments and other current assets- 74.88% increase from PHP 645,193 to PHP 1.128 million*

Due to increase in input taxes, prepayments and supplies inventories during the year

*Current Assets- 67.89% decrease from PHP 538.616 million to PHP 172.942 million*

Largely due to the sale of Investment Property during the year with a carrying value of PHP 486.980 MM in 2007. This was classified in the 2007 balance sheet as Noncurrent Assets classified as held for sale.

*Investments in and Advances to Associates- 14.21x increase from PHP 34.678 million to PHP 492.394 million*

Increase was largely brought about by the following : (1) Equity in net earnings of associate for PHP 100.222 million ; (2) the new investments in Beltel for PHP 362.807 million.

*Available for Sale (AFS) Investments- 10.90% decrease from PHP 7.623 million to PHP 6.792 million*

Due to the decline in market value of listed shares namely Petron & Aboitiz Equity ventures as well as the provision of additional allowance for decline in value of shares in Southwest Resources Inc..

*Deferred Exploration Costs – 80.81% decrease from PHP 77.606 million to PHP 14.891 million*

Due to the provision of additional allowance for impairment losses amounting to PHP 62.846 million broken down as follows: GSEC 83- PHP 38.333 million and GSEC 96 - PHP 24.512 million. The amount of total allowance in 2008 reached PHP 75.464 million as there was an existing allowance provided in the previous years amounting to PHP 12.618 million.

*Property and equipment - 6490.47% increase from PHP 162,490 to PHP 10.708 million*

Due to the purchase of additional transportation equipment during the year.

*Noncurrent assets- 336.79% increase from PHP 120.213 million to PHP 524.792 million*

Noncurrent assets rose from PHP 120.213 million in 2007 to PHP 524.792 million in 2008 due to the abovementioned increases in the levels of Investments & advances in associates and Property and equipment.

*Total Assets – 5.95% increase from PHP 658.830 million to PHP 697.734 million*

Total Assets for 2008 stood at PHP 697.024 million as against the PHP 658.830 million level previously. The 6% increase was largely due to the 336% increase in Noncurrent assets during the year as previously discussed.

*Accounts payable and accrued expenses- 95.58% decrease from PHP 13.501 million to PHP 597,425*

Due to the full settlement of the PHP 12.912 million advances from officers during the year

*Current Liabilities – 99% decrease from PHP 73.501 million to PHP 597,525*

Current liabilities declined by almost 100% from PHP 73.501 million in 2007 to PHP 597,525 in 2008 due to the reversal in the entry made in 2007 for PHP 60 million initial deposit from Alpha Land Corporation related to the sale of the Investment Property. This amount was classified as Deposit from contract to Sell Investment Property in 2007.

*Noncurrent Liabilities- no change*

Noncurrent liability consisting of Subscriptions Payable of PHP 171.720 million remained unchanged during the year. This amount are unpaid subscribed capital stock of Bell Tel.

*Total Liabilities- 29% decrease from PHP 245.221 million to PHP 172.317 million*

Total Liabilities slid by 29.73% from PHP 245.221 million in 2007 to PHP 172.317 million in 2008 because of the abovementioned 95.58% drop in the level of accounts payable and accrued expenses as well as the reversal entry made on the PHP 60.00 million initial deposit previously discussed

Share capital or issued shares increased by PHP 130,000 from PHP 588,749,569 to PHP 588,879,569 due to the issuance of additional shares to fully paid subscribers thereby decreasing the subscribed shares by the same amount. Subscriptions receivable in 2008 decreased by PHP 97,500 from PHP 238,357,500 in 2007 to PHP 238,260,000 in 2008 due to the payment of the 75% balance by some stockholders.

There was no change in Share Premium or Additional Paid in capital during the year. This account remained at PHP 72.272 million.

*Unrealized Gains on AFS Investments - 27.08% decrease from PHP 2.571 million to PHP 1.740 million*

Representing net unrealized marked to market gains on investments on listed shares of stocks during the year. This level however was lower in 2008 as against the previous year stance

*Deficit- 34.19% decrease from PHP 329.624 million to PHP 216.768 million*

Due to the generation of net income for the year amounting to PHP 112.856 million

*Equity- 21% increase from PHP 413.608 million to PHP 525.416 million*

Equity level for 2008 increased from PHP 413.608 million to PHP 525.416 million during the year by 21% mainly due to the 34% reduction in deficits during the year as previously discussed.

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

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

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

## **2008 KEY PERFORMANCE INDICATORS**

The following are the major financial ratios of the Company for the years ended December 31, 2008 and 2007:

<b>Key Financial Ratios</b>	<b>12/31/2008</b>	<b>12/31/2007</b>
Revenue Growth / (Decline)	2959x	(99.95%)
Net Income Growth / (Decline)	53.88%	(33.38%)
EBITDA	PHP 14,456,631	NA
Return on Equity	21.47%	NA
Return on Assets	16.17%	NA
Current ratio (in x)	289.48x	7.33x
Debt-to-equity ratio (in x)	0.33x	0.59x

For the year 2008, there was a marked improvement in both revenue and net income growth rates as against the Company's 2007 levels as evidenced by the above figures. Profitability was also measured by ROE and ROA reaching 21.44% and 16.14% respectively.

The Company posted a very high liquidity ratio of 289.48x in 2008 vis a vis the 7.33 x in 2007. This was due to the increases in cash and cash equivalents by 82% brought about by the sale of investment property to Alphaland Corporation as well as the new interest-bearing investments made by the Company in Puyat Steel Corporation.

In both years, the Company's leverage ratios were at low but favourable levels.

Earnings before interest taxes depreciation and amortization (EBITDA) for 2008 was at PHP 14.456 million.

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

Key Financial Ratios	Formula
Revenue Growth	Total Revenues (current period)/ Total Revenues (prior period)
Net Income Growth	Net Income (current period)/Net Income (prior period)
EBITDA	Income from operations plus depreciation and amortization
Return on Equity (ROE)	Net Income/Equity
Return on Assets (ROA)	Net income/ Total Assets
Current Ratio	Current Assets/ Current Liabilities
Debt- to Equity Ratio	Total Liabilities/ Equity

- **PROSPECTS FOR THE FUTURE**

The outlook for South China in the coming years is very optimistic. We expect to drill a well in SC-60, and if a discovery is made then it shall open up a new playground for oil exploration in the country. Other investments all the more look very promising and are discussed below.

**(1) Prospects for Oil and Gas Exploration Investments**

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

SC-41 is on its tenth contract year which started in May 10, 2008 and will last until May 10, 2010 unless extended. The program for Service Contract Year #10 (SCY 10) operator, Tap Oil Ltd., is to continue reprocessing of the Alpine 3D seismic data and consequent inversion studies and re-interpretation and prospect modelling. In the event a prospect is determined to be drillable in 2010 or earlier, then the SC-41 joint group will apply for an extension of SCY10 to May 10, 2011. If petroleum in commercial quantity is discovered and the group declares commerciality then SC-41 will be extended for production purposes.

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

The joint group of South China, Shell Philippines Exploration B.V. and Kuwait Foreign Petroleum Co. ksc. entered the second sub-phase of SC-60 in July 8, 2008 and will last until February 10, 2010. The SC-60 joint group is committed to drill one well during this period and South China is carried for this first well. After this period the Joint group may at its option continue with the work program and enter a third sub-phase and commit to drill another well until August 10, 2011. A fourth sub-phase with a commitment to drill will continue the term of the SC until February 2013. If petroleum is discovered during any sub-phase, the joint group may opt for an appraisal program to determine its commerciality. Petroleum declared commercial will then be set for development and eventual production.

## **Offshore Mindoro-Cuyo Area 4, NW Palawan Block (former GSEC-83)**

The Company expects to get the award and sign the Service Contract for this block to which it had jointly applied for with Pitkin Petroleum back in May 2007. Once signed the joint group will embark on a comprehensive seismic reprocessing of existing seismic data over the area for its initial 12-month phase of work. The second sub-phase will entail acquisition, processing and interpretation of 750 line kms of 2D seismic. The last three sub-phases of the SC all carry a well commitment for the duration of 60 months. If petroleum is discovered during any sub-phase, the joint group may opt for an appraisal program to determine its commerciality. Petroleum declared commercial will then be set for development and eventual production.

### **(2) Prospects for Bell Telecommunication Phils., Inc.**

BellTel is currently in discussions with several potential strategic and equity investors for additional equity infusion. With the additional funds, BellTel will be able to expand its network by increasing the equipped capabilities of its existing base stations where huge customer demands remain unmet and establishing nationwide coverage. For this planned expansion, BellTel will be using the latest broadband wireless access systems which are compliant with WIMAX standards in order to attain optimum reliability and spectral efficiency, improved capabilities and increased capacities. In addition, the company will be in a more advantageous position to utilize its assigned 1.8 gigahertz spectrum for mobile services. These will broaden BellTels' market base by providing services to a bigger consumer segment in addition to its present enterprise market and create a critical mass to put it in equal footing with other telcos.

### **(3) Prospects for Premiere Bank**

For 2009, the Bank's major goals are as follows: (a) continue to aggressively expand its consumer loans and SME finance portfolio; (b) sustain the program started in 2008 to strengthen its distribution system through the renovation and strategic relocation of its branches; and (3) stepped-up customer acquisition programme via competitive products, quick turnaround times and structured sales activities for the Bank's frontliners.

These thrusts are consistent with the new business model of Premiere Bank that was launched in 2007 and which is anchored on the fundamental principles of improving the Bank's value proposition to its customers and differentiating the bank via its services and needs driven products.

- **Key variable and other qualitative and quantitative factors:**

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

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

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

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

There is no expected purchase or sale of plant and significant equipment in the next twelve months.

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

For the period ended December 31, 2008, the Company is still in exploration stage, and therefore, no commercial production yet for the performance indicators analysis. It has no majority-owned subsidiaries.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

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

#### **CALENDAR YEAR ENDED DECEMBER 31, 2007 VS DECEMBER 31, 2006**

#### **2007 RESULTS OF OPERATIONS**

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

	<b><u>12/31/2007</u></b>	<b><u>12/31/2006</u> <u>(Restated)</u></b>	<b><u>% Change</u></b>
Revenues	45,238	6,088,262	(99.95%)
Expenses	5,752,809	5,880,176	(2.17%)
Income / (Loss) from Operations	(5,707,571)	208,086	(27.43x)
Equity in Net Income / (Losses) of Associates	(43,187,664)	(80,181,235)	46.14%
Net Income/ (Loss)	(52,054,506)	(78,134,928)	33.38%

The Company has no earnings yet from its commercial production pertaining to the oil and gas exploration projects therefore there were no dividends declared for the period.

Net Loss for 2007 amounted to PHP 52.054 million which resulted to a restated deficit of PHP 329.625 million. The Net loss incurred in 2007 decreased by PHP 26.080 million compared to 2006 due to the decrease in the net losses of associates by 46% from PHP 80.181 million in 2006 to PHP 43.187 million in 2007 as well as the operating loss during the year which amounted to PHP 5.708 million.



**2007 FINANCIAL POSITION**  
**Financial Highlights**  
**(in Philippine pesos)**

	<b><u>12/31/2007</u></b>	<b><u>12/31/2006</u></b> <b><u>(Restated)</u></b>	<b><u>% Change</u></b>
Current Assets	538,616,964	5,622,927	9478.94%
Noncurrent Assets	120,213,103	648,070,412	(81.45%)
<b>Total Assets</b>	<b>658,832,067</b>	<b>653,693,339</b>	<b>0.79%</b>
Current Liabilities	73,501,201	19,089,294	285.04%
Noncurrent Liabilities	171,720,000	171,720,000	No change
<b>Total Liabilities</b>	<b>245,221,201</b>	<b>190,809,294</b>	<b>28.52%</b>
<b>Equity</b>	<b>413,608,866</b>	<b>462,882,039</b>	<b>(10.64%)</b>
<b>Total Liabilities &amp; Equity</b>	<b>658,832,074</b>	<b>653,693,339</b>	<b>0.79%</b>

The Company's total assets which stood at PHP 658.830 million in 2007 were higher than last year by net amount of PHP 5.139 million mainly due to the deposit from Alpha Land and decrease in net investments in associates.

Cash and cash equivalents increased in 2007 compared to prior year by PHP 45.822 million due to payment of deposit from Alpha Land and partial collection of subscriptions receivable.

Available-for-sale (AFS) investments increased by PHP 1.835 million as compared to 2006 due to recovery on unrealized losses on market value of AFS investments.

The Company's investment property account decreased by PHP 486.980 million as a result of its reclassification to noncurrent asset classified as held for sale, which is in accordance with PFRS 5 Noncurrent Assets Held for Sale.

Investment in associates decreased by PHP 3.156 million compared to last year due to share in net losses of associates.

The deposit for future investment of PHP 34.844 million in Premiere Bank was converted to investment in associates on September 30, 2007 for 5% equity. As of December 31, 2007, the Company's equity was 4.94% as of December 31, 2007.

Deferred exploration costs decreased by PHP 4.726 million compared to 2006 due to payment of a partner's farm-in share in exploration project.

Current Liabilities consisting of Deposit from Alphaland and accounts payable and accrued expenses for the period increased by a net amount of PHP 54.412 million compared to 2006 due to deposit made and partial payment of advances from officers.

Subscriptions receivable in 2007 decreased by PHP 0.758 million compared to 2006 due to the payment of the 75% balance by some stockholders.

Issued shares increased by PHP 1.010 million due to the issuance of stock certificates to fully paid shares of some stockholders thereby decreasing the subscribed shares by the same amount.

## **2007 KEY PERFORMANCE INDICATORS**

The following are the major financial ratios of the Company for the years ended December 31, 2007 and 2006:

<b>Key Financial Ratios</b>	<b>12/31/2007</b>	<b>12/31/2006</b>
Revenue Growth / (Decline)	(99.95%)	754x
Net Income Growth / (Decline)	33.38%	(209.55%)
EBITDA	NA	NA
Return on Equity (ROE)	NA	12.35%
Return on Assets (ROA)	NA	9.30%
Current ratio (in x)	7.33x	0.09x
Debt-to-equity ratio (in x)	0.59x	0.33x

The Company's current ratio as of December 31, 2007 was PHP 7.328 for every peso liability—an increase of PHP 7.033 from last year's current ratio of PHP 0.295. The increase was caused mainly by the payment of deposit from Alpha Land for the sale of Pilipinas Plaza building which was consummated on January 23, 2008, reclassification of investment in properties to noncurrent asset classified as held for sale, partial collection of subscriptions receivable and additions to prepayments consisting of annual dues and input tax.

Debt-to-equity ratios for both years were at low but favourable levels.

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

<b>Key Financial Ratios</b>	<b>Formula</b>
Revenue Growth	Total Revenues (current period)/ Total Revenues (prior period)
Net Income Growth	Net Income (current period)/Net Income (prior period)
EBITDA	Income from operations plus depreciation and amortization
Return on Equity (ROE)	Net Income/Equity
Return on Assets (ROA)	Net income/ Total Assets
Current Ratio	Current Assets/ Current Liabilities
Debt- to Equity Ratio	Total Liabilities/ Equity

**CALENDAR YEAR ENDED DECEMBER 31, 2006 VS DECEMBER 31, 2005****2006 RESULTS OF OPERATION****Financial Highlights****(in Philippine pesos)**

	<b><u>12/31/2006</u></b> <b><u>(Restated)</u></b>	<b><u>12/31/2005</u></b> <b><u>(Restated)</u></b>	<b><u>% Change</u></b>
Revenues	6,088,262	8,072	754x
Expenses	5,880,176	2,833,434	107.53%
Income/ (Loss) from Operations	208,086	(2,825,362)	92.64%
Equity in Net Income / (Losses) of Associates	(80,181,235)	(68,680,431)	(16.75%)
Net Income/ (Loss)	(78,134,928)	71,322,319	(209.55%)

During the year 2006 revenues garnered reached PHP 6.088 million as compared to the previous year translating to a 754 x revenue growth rate.

Expenses during the year however escalated by 107.53% resulting to a slim operating income during the year.

Equity in losses of associates further declined in 2006 as against the 2005 level by 16.75%.

A net loss was incurred in 2006 amounting to PHP 78.134 million as compared to the positive bottomline figure in 2005 of PHP 71.322 million due to the loss in equity of associates recognized during the year amounting to PHP 80.181 million.

**2006 FINANCIAL POSITION****Financial Highlights****(in Philippine pesos)**

	<b><u>12/31/2006</u></b> <b><u>(Restated)</u></b>	<b><u>12/31/2005</u></b> <b><u>(Restated)</u></b>	<b><u>% Change</u></b>
Current Assets	5,622,927	1,536,409	265.98%
Noncurrent Assets	648,070,412	765,501,638	(15.34%)
<b>Total Assets</b>	<b>653,693,339</b>	<b>767,038,047</b>	<b>(14.78%)</b>
Current Liabilities	19,089,294	17,577,444	8.60%
Noncurrent Liabilities	171,720,000	171,720,000	No change
<b>Total Liabilities</b>	<b>190,809,294</b>	<b>189,297,444</b>	<b>0.80%</b>
<b>Equity</b>	<b>462,882,039</b>	<b>577,738,598</b>	<b>(19.88%)</b>
<b>Total Liabilities &amp; Equity</b>	<b>653,693,339</b>	<b>767,038,047</b>	<b>(14.78%)</b>

The Company's total assets of PHP 653.693 million were lower than PHP 78.189 million as compared to 2005 due to the decrease in investments in associates and deferred exploration costs.

Cash and cash equivalents increased by PHP 3.941 million compared to 2005 due to the payment of partner's farm-in share in exploration, additional advances from officers and partial collection of subscriptions receivable.

AFS investments for 2006 amounted to PHP 5.788 million wherein current and noncurrent portion amounted to PHP 0.042 million and PHP 5.746 million, respectively. The total recovery of unrealized losses on market value of AFS investment increased by PHP 1.835 million in 2005. Upon adoption of the standards in 2005, the total recovery of unrealized losses on market value of AFS investments amounted to PHP 1.962 million.

The financial statements for 2006 have been restated to reflect the recognition of share in the prior period adjustments of an associate. This correction decreased the Company's investment in associates by PHP 35.156 million and PHP 51.805 million as of January 1, 2006 and December 31, 2006, respectively.

On December 29, 2006, the Company sold its investment in PDB for a total consideration of PHP 34.844 million resulting in a gain of PHP 5.956 million. The sale was to give way to the new foreign investor pending its application for the increase in capital stock. On the same date, the Company's BOD approved the resolution to deposit the same amount to PDB as future subscription to its shares.

Investment in associates for 2006 the decrease was PHP 109.308 million due to the share in net losses of associates and acquisition of capital stock investments by Premiere Bank.

Deferred exploration costs decreased by PHP 4.876 million in 2006 compared to 2005 due to payment of a partner's farm-in share in exploration project.

Accounts payable and accrued expenses for the period increased by PGHP 1.512 million in 2006 compared to 2005 due to the advances from officers.

Subscriptions receivable in 2006 decreased by PHP 0.825 million compared to 2005 due to the payment of the 75% balance by some stockholders.

Issued shares increased by PHP 1.10 million due to the issuance of stock certificates to fully paid shares of some stockholders thereby decreasing the subscribed shares by the same amount.

## **2006 KEY PERFORMANCE INDICATORS**

The following are the major financial ratios of the Company for the years ended December 31, 2006 and 2005:

<b>Key Financial Ratios</b>	<b>12/31/2006</b>	<b>12/31/2005</b>
Revenue Growth / (decline)	754x	
Net Income Growth / (decline)	(209.55%)	
EBITDA		
Return on Equity	NA	12.35%
Return on Assets	NA	9.30%
Current ratio (in x)	0.29x	0.09
Debt-to-equity ratio (in x)	0.41x	0.33

Current ratio for the year 2006 was PHP 0.295, an increase of PHP 0.207 as compared to 2005 due to additional advances from officers, payment of a partner's farm-in share in exploration projects, partial collection of subscriptions receivable, additions to prepayments consisting of annual dues and input tax

and reclassification of some Noncurrent Assets- available for sale (AFS) investments to Current Assets amounting to PHP 0.042 million. Such reclassification was made because of the Company's intention to hold them only for the year. On November 8, 2006, part of the reclassified AFS having a fair market value of PHP 0.934 million as of September 30, 2006 were subsequently sold.

Leverage ratios for both years were at low but favourable levels

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

Key Financial Ratios	Formula
Revenue Growth	Total Revenues (current period)/ Total Revenues (prior period)
Net Income Growth	Net Income (current period)/Net Income (prior period)
EBITDA	Income from operations plus depreciation and amortization
Return on Equity (ROE)	Net Income/Equity
Return on Assets (ROA)	Net income/ total assets
Current Ratio	Current Assets/ Current Liabilities
Debt- to Equity Ratio	Total Liabilities/ Equity

## Summary of Significant Accounting Policies

### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for AFS investments, which are carried at fair value. The financial statements are presented in Philippine pesos which is the Company's functional currency. All values are in whole numbers, except when otherwise indicated.

### Statement of Compliance

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

### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Company:

- Philippine Interpretation IFRIC 11, PFRS 2 - *Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, *Philippine Accounting Standards (PAS) 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

### New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008

The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of

these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

*Effective in 2009*

*PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

*PFRS 2, Share-based Payment - Vesting Condition and Cancellations*

*PFRS 8, Operating Segments*

*Amendments to PAS 1, Presentation of Financial Statements*

*PAS 23, Borrowing Costs*

*Amendments to PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

*Amendment to PAS 32, Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

*Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*

*Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation*

*Improvements to PFRS*

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are the separate transitional provisions for each standard:

*PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*

- When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

*PAS 1, Presentation of Financial Statements*

- Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

*PAS 16, Property, Plant and Equipment*

- The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.
- Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

*PAS 19, Employee Benefits*

- Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future

- services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
- Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
  - Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
  - Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*

- Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

PAS 23, *Borrowing Costs*

- Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

PAS 28, *Investment in Associates*

- If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
- An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

PAS 29, *Financial Reporting in Hyperinflationary Economies*

- Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

PAS 31, *Interest in Joint Ventures*

- If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.

PAS 36, *Impairment of Assets*

- When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

PAS 38, *Intangible Assets*

- Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
- Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

*PAS 39, Financial Instruments: Recognition and Measurement*

- Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
- When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4 Insurance Contracts, this is a change in circumstance, not a reclassification.
- Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
- Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

*PAS 40, Investment Properties*

- Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

*PAS 41, Agriculture*

- Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
- Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

*Effective in 2010*

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

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

Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

*Effective in 2012*

*Philippine Interpretation IFRIC 15, Agreement for 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. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

**SIGNIFICANT ACCOUNTING JUDGMENTS & ESTIMATES**

Please refer to Note 3 on the Notes to Financial Statements



## **FINANCIAL RISK MANAGEMENT OBJECTIVES & POLICIES**

Please refer to Note 15 on the Notes to Financial Statements

## **MATERIAL RELATED PARTY TRANSACTIONS WHICH AFFECT THE FINANCIAL STATEMENTS**

Please refer to Notes 4 & 12 of the Notes to Financial Statements

## **UNCERTAINTIES ABOUT GOING CONCERN**

The financial statements were prepared on the assumption that South China Resources Inc. is a going concern and will continue in operation for the foreseeable future. The Company's management has neither the intention nor the need to liquidate or curtail materially the scale of its operations. As of the date of the financial statements, no material uncertainties that could cast significant doubt upon the Company's ability to continue as a going concern have come to the attention of the management. Hence, no disclosure regarding such uncertainties and the Company's ability to continue as a going concern were made since the concept of going concern is a basic assumption that underlies the preparation of the financial statement and the related supplemental notes.

DEFAULTS- none to be disclosed

### Cash

Cash consists of cash on hand and with banks, which are carried at face value.

### Noncurrent Asset Classified as Held for Sale

A noncurrent asset is classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Noncurrent asset held for sale is measured at the lower of carrying amount and fair value less costs to sell. Depreciation of such asset ceases. Liabilities associated with this asset are presented separately in the balance sheet.

### Property and Equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets of five (5) years, or the terms of the lease in case of leasehold improvements, whichever is shorter.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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 property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the property and equipment is derecognized.

The property and equipment's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

### Investment Property

Investment property is measured initially 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. Subsequent to initial recognition, investment property, which consists of land (with an unfinished building), is carried at cost less any accumulated impairment losses.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

#### Deferred Exploration Costs

Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the 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.

#### Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's estimated 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 estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

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 recoverable amount is estimated. 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Associates are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company.

The Company's investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The statement of income reflects the Company's share of the net income/losses of the associates.

Goodwill relating to associates is included in the carrying amount of the investment and is not amortized. Where there has been a change recognized directly in equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement

of changes in equity. Profits and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

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

If the Company's share of losses of an associate equals or exceeds its interest in the associate, the Company discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate.

After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate. The carrying amount of the investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there are indicators that the investment may be impaired. In determining the value in use of the investment, the Company estimates:

- its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal

#### Financial Assets

Financial assets within the scope PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at FVPL, directly attributed transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. 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.

#### Financial assets at FVPL

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or is designated by management as FVPL. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in the statement of income.

When a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial asset at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

As of December 31, 2008 and 2007, no financial assets have been designated as at FVPL.

#### HTM Investments

HTM investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2008 and 2007, the Company had no HTM investments.

#### 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 method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets when it is expected to be realized within twelve months after the balance sheet date or within the normal operating cycle, whichever is longer.

As of December 31, 2008 and 2007, the Company has designated as loans and receivable its cash and accounts receivable (see Note 4).

#### AFS financial assets

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in stockholders' equity under the 'Unrealized gains on AFS investments'. AFS financial assets are

generally classified as noncurrent. However, when management expects that the investments are to be realized within twelve months after the balance sheet date, these are classified as current. When the investment is disposed of, the cumulative gains or loss previously recorded in stockholders' equity is recognized in the statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate.

As of December 31, 2008 and 2007, the Company's AFS investments include quoted and unquoted shares of stocks (see Note 6).

#### Determination of Fair Value

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments 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 are substantially the same; discounted cash flow analysis and other valuation models.

#### Day 1 profit and loss

Where the transaction price in a non-active market is different from the fair value of 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 profit and loss) in the consolidated statement of income unless it qualifies for 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 the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit and loss amount.

#### Financial Liabilities

Financial liabilities consist of financial liabilities at FVPL and other financial liabilities. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of income.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivatives do not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded.

As of December 31, 2008 and 2007, the Company has no financial liabilities at FVPL.

#### Other Financial Liabilities

This classification includes accounts payable and accrued expenses.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve months from the balance sheet date or the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

#### Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.

#### Assets carried at amortized cost

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 expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or 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 a collective assessment of impairment.

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 the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

#### AFS financial assets

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in statement of income, is transferred from stockholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial

assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the 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 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 Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the 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 Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

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

Where 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 statement of income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

#### Interest income

Interest income is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

#### Dividend income

Dividend income is recognized when the shareholders' right to receive the payment is established.

### 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 or the arrangement conveys a right to use the asset. A reassessment is made after the 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 and extension granted, unless the 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.

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

### Company as a lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term.

### Provisions and Contingencies

Provisions are recognized when the 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is possible.

### 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 by the balance sheet date.

#### *Deferred income tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:



- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and 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 the carryforward of unused tax credits and NOLCO can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

#### Events After the Balance Sheet Date

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

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

### **(1) Information on Independent Public Accountant**

In compliance with SRC Rule 68 Paragraph 3(b)(iv), the engagement partner from Sycip Gorres Velayo & Co. is Mr. Ladislao Z. Avila. The Corporation recommends the appointment of Sycip Gorres Velayo & Co. as the Principal Accountant of the Corporation. Sycip Gorres Velayo & Co. is the incumbent Public Accountant of the Company.

The Company's Principal Accountant is Sycip Gorres Velayo & Co. The engagement partner for the previous completed reporting year, 2008, is Mr. Ladislao Z. Avila, Jr.

Sycip Gorres Velayo & Co. is the incumbent Public Accountant of the Company. The Company, through its Audit Committee, recommends the re-appointment of Sycip Gorres Velayo & Co. as the Principal Accountant of the Corporation. The Company's Audit Committee is composed of Mr. Manuel G. Arteficio as Chairman, Mrs. Belen R. Castro, Member, and Mr. Wilfrido P. Reyes, Member.

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

In compliance with SEC Memo Circular No. 14 Series of 2004, External Audit Fees, progress billing, for 2008 amounted to ₱185,678.08. External Audit Fees billed for 2007 amounted to ₱338,800.00. These pertain to the annual audit fees for the Company's Financial Statements and no other services were provided and billed for by the external auditors for the last two (2) fiscal years.

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

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

Tap Oil farmed-in into SC-41 last January 2007 and in mid-2007 Salamander Energy of UK entered the group via a farm-in through Tap Oil.

The DOE, in their letter to block operator Tap (Philippines) Pty Ltd dated 23 January 2007, approved the extension of Contract Year 9 to May 10, 2008. As a consequence of such extension, Contract Year 10 commenced on May 10, 2008 and was supposed to end on May 10, 2009. Tap Oil, on behalf of the Joint Operation, applied with the DOE for the approval for an extension of the term of the SC for a further two years. SC-41 for its 10<sup>th</sup> and final contract year will run to May 10, 2010 and may be extended to May 2011 upon commitment to drill another well. The minimum work commitments for contract years 9 and 10 were: a) acquisition of 300 sq km of 3D seismic; b) relinquishment of 25% of the contract area and the drilling of one (1) exploration well.

On July 19, 2008 Tap Oil along with the joint operation partners spudded the Lumba-Lumba-1/1A well with a planned depth of 3000 meters. The well was drilled by the semi-submersible rig, Transocean Legend, down to a total depth of 2174 meters, approximately 830 meters short of the programmed total depth. Tap Oil plugged and abandoned the well on August 20, 2008 after the well had encountered numerous down-hole problems and was unable to make further progress. The well drilled through the main objectives but failed to encounter reservoir quality rocks though elevated gas readings were observed. The SC-41 group still believes that the block has the potential to host commercial hydrocarbons despite the momentary set back as Lumba-Lumba-1 well only tested one of the several different independent prospects in the block. Tap on behalf of the SC-41 group continues the reprocessing and inversion studies based on the Alpine 3D survey of the area. This will enable the group to delineate which prospects will be considered for further exploration. South China has 1.090% participating interest in this block.

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

SC-60 is one of the Company's as well as the country's most promising areas in terms of potential for large accumulations for petroleum. Our joint agreement with SPEX (Shell Philippines Exploration B.V.) and KUFPEC (Kuwait Foreign Petroleum Co. ksc) in Service Contract No. 60 has paved the way for further exploration covering an area of one million eight thousand hectares where large hydrocarbon accumulations is deemed to exist. In the seven year exploration period of SC-60, the group shall conduct seismic and exploration work, including well drilling. The seven year period is divided into several sub-phases wherein the group must exercise its option to move to the succeeding phase or terminate the contract. The SC also includes a 25 year production term in the event of commercial discovery and operations.

In a letter sent by SPEX to the Department of Energy last July 8, 2008, the SC – 60 Joint Operations elected to enter the second sub-phase of SC – 60. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase. The second sub-phase is valid until February 10, 2010. A rigorous study of the 3D seismic data highlighted a number of leads several of which have been elevated to prospect status. The group believes that northeast Palawan is one of the few areas in the Philippines that has the potential to yield large accumulations of hydrocarbons.

South China retains 15% interest in the block and will be carried for all activities including the drilling of one deep water exploration well.

**Offshore Mindoro-Cuyo Area 4, NW Palawan Block (former GSEC-83)**

In the quest to continue exploration in areas where the company has an edge in terms of data and technical conceptualization, South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). PECR-3 commenced on December 22, 2006. On May 30, 2007, the last day of the bid round, South China together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The Service Contract for the block has yet to be awarded and signed by the DOE with the group.

Philodrill, operator of the Swan Block covering the former GSEC-83 area has yet to inform the Company the results of its negotiations with PNOC-EC (Philippine National Oil Company-Exploration Corporation) which now operates the service contracts (SC-57/58) covering the block.

**The following are the estimated cash requirements for South China Operations in the next twelve months (based on the work programs of the corresponding GSEC's and SC as submitted to the Department of Energy):**

SC-60 NE Palawan	\$50,000 for General & Administrative
SC-41 Sulu Sea	\$40,000 for General & Administrative
Area 4	\$10,000 for General & Administrative

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

BellTel was incorporated in August 1993 and was granted in 1994 by the Congress of the Philippines a franchise to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

BellTel, which targets the business and high-end residential markets, provides high-speed internet access, voice and data services to leading educational institutions, corporate clients and government institutions, through its multiple access technologies, namely, fixed wireless, cable, digital subscriber line (DSL), and satellite.

BellTel is currently in discussions with several potential strategic and equity investors for sale of 10% to 30% of its authorized capital stock of 20 million shares with par value of P100 per share. With the additional equity infusion, BellTel will be able to expand its network by increasing the equipped capabilities of its existing base stations where huge customer demands remain unmet and establishing nationwide coverage. For this planned expansion, BellTel will be using the latest broadband wireless access systems which are compliant with WIMAX standards in order to attain optimum reliability and spectral efficiency, improved capabilities and increased capacities. BellTel will likewise embark on a very aggressive and large scale advertising and marketing program to further enhance BellTel's corporate image and build brand awareness of its products.

BellTel's product offering and careful selection of its target markets contributed to the successful capture of close to 1,000 corporate accounts which include some of the largest domestic and multinational corporations, educational, financial and government institutions, as well as 25% of all industrial locators in the special economic zones of Cavite and Laguna. It recently launched residential and SOHO services, delivering bundled broadband internet, voice and video, which will be major contributors in building up the subscriber base.

The Company has subscriptions payable to BellTel amounting to P171.7 million which the Company is allowed to settle within a period of one year from the date of call. As of December 31, 2008 and 2007, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheet.

The estimated recoverable amount of the investment in BellTel had been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the top management covering five-year period. As of December 31, 2008 and 2007, BellTel has projected profitable operations in the medium-term, indicating the realizability of the Company's investment in the associate.

During the last quarter of 2008, the Company extended additional advances to Belltel amounting to P 196.5 million bringing the total advances to Belltel in the amount of P357.8 million as of December 31, 2008. The Company believes that Belltel continues to maintain its long-term prospects having acquired new broadband bandwidth frequencies as well as new mobile licenses in addition to its existing licenses. An independent third party assessment of Belltel showed the fair value of its franchise at over P14 billion. Other shareholders of Belltel have also made similar advances in order to keep it on track in evolving into a full service telecommunications company.

South China's investment in the share of stock in BellTel is at 32.4%.

Premiere Development Bank (Premiere Bank) was established as Pasay City Development Bank in 1960. Its present name was acquired in 1979. Premiere Bank offers savings and current account time deposits to its clients as well as a host of services including ATM services, loan and credit products and services, foreign currency deposits, trust operations, and acts as a payment and collection agent for various utility companies and GOCC's. Premiere Bank has 38 branches located in Metro Manila and the nearby provinces of Rizal, Laguna, Cavite, Batangas and Bulacan.

In 2006, the entry of a consortium led by The Rohatyn Group, a New York-based private investment firm specializing in emerging markets with US\$ 2.0 Billion funds under management, and the Madrigal-Gonzalez family, infused fresh equity into Premiere Bank acquiring fifty percent (50%) ownership. The forged partnership between The Rohatyn Group led consortium and the Reyes family allows Premiere Bank to expand its small and medium enterprise lending operations and the consumer market. As a result, Premiere Bank ranks as 5th largest capitalized thrift bank as of 2006 year end.

On September 30, 2007, the Company subscribed to 348,438 new shares of Premiere Development Bank at the subscription price of ₱34.844 million and a new equity share of 4.81% as of yearend 2008 from 4.94% in yearend 2007.

The Company's Board of Directors approved the sale of its investment in the property situated in Makati City known as Pilipinas Plaza Building on September 13, 2007. The sale was consummated in January 23, 2008 for a gross selling price of ₱600Million.

Puyat Steel Corporation (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. It was established in 1956 as a division of Gonzalo Puyat and Sons Inc. PSC set up the first galvanizing plant in the Philippines in answer to the need of the country for galvanized iron sheets to be used in 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 putting the mill in a globally competitive stature. By the year 2000, PSC became the first NOF continuous galvanizing plant to be ISO 9002 certified.

## ITEM 7. FINANCIAL STATEMENTS

The Financial Statements and Schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this SEC Form 17 - A.

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

<b>Cash and cash equivalents consist of:</b>	<b>2008</b>	<b>2007</b>
Cash on hand and in banks	92,829,217	50,912,570
<b>Total:</b>	<b>₱92,829,217</b>	<b>₱50,912,570</b>

<b>Accounts receivable consist mainly of:</b>	<b>2008</b>	<b>2007</b>
Accounts receivable – Amounts owed by a Related party	75,000,000	-
- Officers and employees	35,298	10,939
- Others	3,949,761	834,691
Total	78,985,059	845,630
Less: allowance for impairment	-	766,908
<b>Total:</b>	<b>₱78,985,059</b>	<b>₱78,722</b>

## ITEM 8. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

There are no changes in and disagreements with independent accountants on accounting and financial disclosure and no change in the Company's independent accountants during the two most recent fiscal years or any subsequent interim period.

## PART III - CONTROL AND COMPENSATION INFORMATION

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

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

<u>Position</u>	<u>Name</u>	<u>Birthdate</u>
<b>NAME</b>	<b>POSITION</b>	<b>BIRTHDATE</b>
Edgardo P. Reyes	Chairman/CEO	December 2, 1945
Wilfrido P. Reyes	President	January 21, 1947
Belen R. Castro	VP & Treasurer	April 9, 1948
Manuel G. Arteficio	Director	January 13, 1945
Francisco M. Bayot, Jr.	Director	January 29, 1954
Jaime M. Blanco, Jr.	Corporate Secretary	March 21, 1954
David R. Baladad	VP – Operations	September 13, 1956

**EDGARDO P. REYES**, 63 years of age, Filipino, has been the CHAIRMAN of the Board of Directors of the Company since 1992. He has also been the CHAIRMAN of Gonzalo Puyat and Sons, Inc., Puyat Steel Corp., Bell Telecommunication Philippines Inc., Purex Mineral Corp., and Philippine Flour Mills; PRESIDENT of International Pipe Industries Corp., Pipe Machinery Corp., Apo Pipe Industries Corp., Reyson Realty & Development Corp., Puyat Flooring Products Inc., Proleo Realty Inc., and BenePara Realty Inc.; SENIOR VICE PRESIDENT of PFM Agro-Industrial Development Corp. and Armorply Concrete Forming Systems Inc.; and, DIRECTOR of Surigao Development Corp., and Puyat Investment & Realty for the past five (5) years. He is a DIRECTOR of Premiere Development Bank. Mr. Reyes is the brother of Mr. Wilfrido P. Reyes and Ms. Belen R. Castro.

**WILFRIDO P. REYES**, 62 years of age, Filipino, has been the PRESIDENT of the Company since 1992. He has also been the CHAIRMAN of La Dulcinea Restaurant Inc. and Warrest Realty Inc.; CHAIRMAN/PRESIDENT of WPR Realty & Management Corp.; EXECUTIVE VICE PRESIDENT/DIRECTOR of Gonzalo Puyat & Sons Inc. and Purex Mineral Corp.; EVP/GENERAL MANAGER of Philippine Flour Mills and PFM-Agro Development Corp.; SVP/DIRECTOR of Puyat Steel Corporation; DIRECTOR of Premiere Development Bank; TREASURER/DIRECTOR of Surigao Development Corp.; SECRETARY/DIRECTOR of Surigao Marine Products, Inc.; VP/GENERAL MANAGER of Reyson Realty & Development Corp.; PRESIDENT of Proleo Realty Inc., VP/TREASURER of Bell Telecommunication Philippines Inc.; TREASURER/DIRECTOR of International Pipe Industries Corp. and Apo Pipe Industries Corp; and, DIRECTOR of Pipe Machinery Corp. for the past five (5) years. Mr. Reyes is the brother of Mr. Edgardo P. Reyes and Ms. Belen R. Castro.

**BELEN R. CASTRO**, 60 years of age, Filipino, has been the VICE PRESIDENT, TREASURER & DIRECTOR of the Company since 1992 up to the present; DIRECTOR & ASST. TREASURER of Gonzalo Puyat & Sons, Inc.; CORPORATE SECRETARY of Reyson Realty & Development Corp.; and DIRECTOR of Bell Telecommunication Phils., Inc. for the past five (5) years. Mrs. Castro was also the PRESIDENT of the Chamber of Thrift Banks (CTB), & the Development Bankers Association of the Philippines Foundation (DBAP) in 1993. She is still a DIRECTOR of CTB. She was the PRESIDENT/CEO of Premiere Development Bank since 2002 before she became its CHAIRMAN last 2007 up to the present. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

**MANUEL G. ARTEFICIO**, 64 years of age, Filipino, has been an INDEPENDENT DIRECTOR of the Company since 2007. He has been PRESIDENT of San Manuel Mining Corp. from 1990 to present; Assissi Mining Corp., Bonaventures Mining Corp., Ignatius Mining Corp., all three from 1994 to present; he is also the PRESIDENT of Egerton Gold Phils., Inc. from 2006 to present.

**FRANCISCO M. BAYOT, JR.**, 55 years of age, Filipino, has been an INDEPENDENT DIRECTOR of the Company since 2008. He is the CHAIRMAN of Madrigal Business Park Association, Inc.;

CEO/DIRECTOR of Solid Cement Corp. and Rizal Cement Co., Inc.; PRESIDENT/DIRECTOR of JM Investment Corp.; and DIRECTOR of Solidbank Corp., Alabang Commercial Corp., and Bell Telecommunication Phils., Inc.

**JAIME M. BLANCO, JR.**, 55 years of age, Filipino, has been the CORPORATE SECRETARY of the Company since 1992. He is a Senior Partner of the Esguerra & Blanco Law Offices. Atty. Blanco obtained his Bachelor of Science in Business Administration from De La Salle College and Bachelor of Laws from the University of the Philippines. Atty. Blanco since 1980, and during the last five (5) years, has been engaged in the practice of law.

**DAVID R. BALADAD**, 52 years of age, Filipino, has been the VICE PRESIDENT FOR OPERATIONS of the Company since 1994. He obtained his Bachelor of Science in Geology in the University of the Philippines and he is also a licensed Geologist. Prior to joining the Company, Mr. Baladad was the Chief of the Oil and Gas Division of the former Office of Energy Affairs (now DOE) and a consultant to other local exploration companies. He has been directing the upstream activities of the Company since 1994 and for the last five (5) years.

Mr. Manuel G. Arteficio and Mr. Francisco M. Bayot, Jr. were elected Independent Directors during the 2008 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Arteficio and Mr. Bayot as independent directors to be elected during the 2009 Annual Stockholders' Meeting, upon the recommendation of stockholder Ms. Remedios Manguiat and Ms. Efigenia Ocol who are not related to the nominees. Both Mr. Arteficio and Mr. Bayot are qualified to be nominated and elected as Independent Directors of the Company in accordance with the qualifications specified with SEC Circular No. 16 Series of 2002 and SEC Circular No. 16 Series of 2006.

Directors elected in the annual stockholders' meeting have a term of office of one (1) year and serve as such until their successors are elected and qualified in the succeeding annual meeting of stockholders.

## **(2) Significant Employees**

While all employees are expected to make a significant contribution to the Company, there is no one particular employee, not an executive officer, expected to make a significant contribution to the business of the Company on his own.

## **(3) Family Relationships**

Mr. Edgardo P. Reyes, Chairman and CEO; Mr. Wilfrido P. Reyes, President; and Ms. Belen R. Castro, Vice President, Treasurer and Director of the Company are brothers and sister. All other Directors and Executive Officers are not related to each other. Other than the ones disclosed, there are no other family relationships known to the registrant.

## **(4) Involvement in Certain Legal Proceedings**

None of the directors, nominees for election as a director, executive officers or control persons of the Company have been involved in any legal proceeding required to be disclosed under Part IV paragraph (A)(4) of SRC Rule 12 (Annex C, Amended), including without limitation being the subject of any:

- (a) bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- (b) conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- (c) order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and
- (d) order or judgment of a domestic or foreign court of competent jurisdiction (in a civil action), the



Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization finding him/her to have violated a securities or commodities law or regulation, for the past five (5) years up to the latest date, that is material to the evaluation of the ability or integrity to hold the relevant position in the Company.

#### ITEM 10. EXECUTIVE COMPENSATION

There are no bonuses, profit sharing or other compensation plan, contract or arrangement in which any director, nominee for election as a director, or executive officer of the issuer will participate.

The Company has no pension or retirement plan in which any such person will participate.

There are no employment contracts arrangements for this year.

The aggregate compensation paid or accrued during the last two calendar years and to be paid in the ensuing calendar year to the Chief Executive Officer and three most highly compensated executive officers are as follows:

<b>Name and Principal Position</b>	<b>Year</b>	<b>Salary (P)</b>	<b>Bonus (P)</b>	<b>Other Annual Compensation</b>
Edgardo P. Reyes Chairman / CEO				
David R. Baladad VP-Operations				
Imelda D. Olalia Accounting Officer				
Aggregate compensation –	2009	1,500,000(est.)	270,000(est.)	N/A
CEO & all other officers and	2008	1,076,260	262,398.31	N/A
Directors as a group unnamed	2007	989,640	247,770	N/A

Among the directors and officers of the company, only the three (3) stated above are being compensated.

## ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### (a) Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2008 (owning more than 5% of any class of voting securities)

Title of Class	Name and address of record owner and	Relationship with Issuer	Name of Beneficial ownership and relationship with record owner	Citizenship	No. of Shares Held	Percent
Common	EDGARDO P. REYES 1371 Caballero St., Dasmariñas Vill., Makati	Director	EDGARDO P. REYES, same person	Filipino	231,853,123	25.5751%
Common	WILFRIDO P. REYES 1545 Mahogany St., Dasmariñas Vill., Makati	Director	WILFRIDO P. REYES, same person	Filipino	231,853,123	25.5751%
Common	BELEN R. CASTRO 4889 Pasay Road, Dasmariñas Vill., Makati	Director	BELEN R. CASTRO, same person	Filipino	231,353,122	25.5199%
Common	PCD Nominee Corp. (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati	Stockholder	PCD Nominee Corp. (Filipino), depository agent	Filipino	125,185,434	13.8088%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 13.8088% of the total shares of the Company.

### (b) Security Ownership of Management Directors

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common Shares	Edgardo P. Reyes	231,853,123 Direct, Record and Beneficial	Filipino	25.5751%
Common Shares	Wilfrido P. Reyes	231,853,123 Direct, Record and Beneficial	Filipino	25.5751%
Common Shares	Belen R. Castro	231,353,122 Direct, Record and Beneficial	Filipino	25.5199%
Common Shares	Francisco M. Bayot, Jr.	400,000 Direct, Record and Beneficial	Filipino	00.0441%
Common Shares	Manuel G. Arteficio	100,000 Direct, Record and Beneficial	Filipino	00.0110 %
Total		695,559,368		76.7252%

### Executive Officers

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Class
Common Shares	Edgardo P. Reyes	-----		-----
Common Shares	Wilfrido P. Reyes	-----		-----
Common Shares	Belen R. Castro	-----		-----
Common Shares	Jaime M. Blanco, Jr.	500,100 Direct, Record and Beneficial	Filipino	00.0552%
Common Shares	David R. Baladad	50,000 Direct, Record and Beneficial	Filipino	00.0055%
Total		550,100		00.0607%

**Directors and Officers as a Group**

<b>Title of Class</b>	<b>Name of Beneficial owner</b>	<b>Amount of Beneficial ownership</b>	<b>Percent of Class</b>
Common Shares	Directors as a Group	695,559,368	76.7252%
Common Shares	Executive Officers as a Group	550,100	00.0607%
Total		696,109,468	76.7859%

No person holding more than 5% of a class is under a voting trust or similar agreement.

The Company has no arrangements which may result in a change in control of the registrant.

## **ITEM 12. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS**

(In reference to Note 12 of the 2008 Audited Financial Statements)

The Company, in the regular course of business, obtains advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances are due and demandable anytime. The advances amounting to ₱12.91 million was fully settled in 2008 (see Note 10).

Amounts owed by Puyat Steel Corporation (PSC)

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

The BOD through Board Resolution dated January 24, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to ₱130 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 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 Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

PSC is under common control with the Company. In 2008, out of the approved ₱130 million, the Company invested a total of ₱125 million whereby the Company earned interest income amounting to ₱ 9.68 million.

Short-term employee benefits of key management personnel amounted to ₱1.34 million and ₱1.24 million in 2008 and 2007, respectively.

## **PART IV – CORPORATE GOVERNANCE**

### **ITEM 13. CORPORATE GOVERNANCE**

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

The Company adopts the Self Rating for Corporate Governance and the Corporate Governance Scorecard in accordance to SEC Memorandum Circular No. 2 and 3 Series of 2007 to identify areas where there are deficiencies, if any.

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

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

## **PART V - EXHIBITS AND SCHEDULES**

### **ITEM 14. EXHIBITS AND REPORTS ON SEC FORM 17-C**

#### **(a) Exhibits – *None***

#### **(b) Reports on SEC Form 17-C**

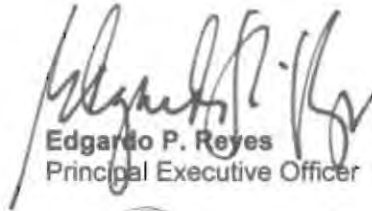
The reports indicated below were filed on SEC Form 17-C during the last six-month period covered by this report.

April 1, 2009	-	Item 9. Other Events South China has been awarded and signed Service Contract No. 71 (SC-71) together with Pitkin Petroleum Ltd.
March 19, 2009	-	Item 9. Other Events Postponement of Annual Stockholders' Meeting from 16 April 2009 to 29 May 2009
October 13, 2008	-	Item 9. Other Events Implementation of the Company's website
July 21, 2008	-	Item 9. Other Events SC-41 Joint Operations spudded the exploration well Lumba-Lumba 1 on July 19, 2008.
July 15, 2008	-	Item 9. Other Events SC-60 Joint Operations submitted to the Dept. of Energy (DOE) its election to enter into sub-phase 2 to continue further exploration in the block in Northeast Palawan.


## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 23, 2009.


By:

  
**Edgardo P. Reyes**  
Principal Executive Officer

Date: 23 April 2009

  
**Wilfrido P. Reyes**  
Principal Financial Officer

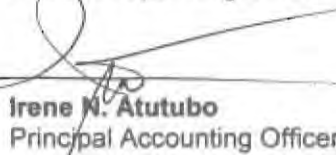
Date: 23 April 2009

  
**Belen R. Castro**  
Comptroller

Date: 23 April 2009

  
**David R. Baladad**  
Principal Operating Officer

Date: 23 April 2009

  
**Irene N. Atutubo**  
Principal Accounting Officer

Date: 23 April 2009

  
**Jaime M. Blanco, Jr.**  
Corporate Secretary

Date: 23 April 2009

**SUBSCRIBED AND SWORN** to before me this 23rd day of April, 2009 affiant(s) exhibiting to me their residence Certificate, as follows:

Name	Res. Cert. No.	Date of Issue	Place of Issue
Edgardo P. Reyes	27212705	Feb. 04, 2009	Makati City
Wilfrido P. Reyes	12362135	Jan. 16, 2009	Makati City
Belen R. Castro	03004267	Jan. 12, 2009	Manila
David R. Baladad	16684976	Jan. 22, 2009	Quezon City
Irene N. Atutubo	12351656	Jan. 13, 2009	Makati City
Jaime M. Blanco, Jr.	27206089	Feb. 05, 2009	Makati City

Doc. No. : 317  
 Page No. : 65  
 Book No. : I  
 Series of 2009.

  
**VIVIAN S. TAN**  
 Commission No. M-  
 Notary Public - Makati City  
 \* Until December 31, 2010  
 Esguerra & Blanco Law Offices  
 4th & 5th Floors, S&L Building, De La Rosa corner  
 Esteban Sts., Legaspi Village, Makati City 1229  
 PTR No. 1569352/1-06-09/Makati City  
 IBP No. 769876/1-08-09/Makati City  
 Roll No. 55883

*Makati City, Philippines*  
**NOTARY PUBLIC**  
 Roll No. 55883  
*Vivian S. Tan*

## TABLE OF CONTENTS

	Page
 <b>Part I - BUSINESS AND GENERAL INFORMATION</b>	
Item 1 Business.....	1
Item 2 Properties.....	3
Item 3 Legal Proceedings.....	3
Item 4 Submissions of Matters to a Vote of Security Holders.....	3
 <b>Part II – OPERATIONAL AND FINANCIAL INFORMATION</b>	
Item 5 Market for Issuer's Common Equity and Related Stockholder Matters.....	4
Item 6 Management's Discussion and Analysis or Plan of Operation .....	6
Item 7 Financial Statements .....	34
Item 8 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	34
 <b>Part III - CONTROL AND COMPENSATION INFORMATION</b>	
Item 9 Directors and Executive Officers of the Issuer .....	35
Item 10 Executive Compensation.....	37
Item 11 Security Ownership of Certain Beneficial Owners and Management.....	38
Item 12 Certain Relationships and Related Transactions .....	40
 <b>Part IV – CORPORATE GOVERNANCE</b>	
Item 13 Corporate Governance .....	41
 <b>Part V - EXHIBITS AND SCHEDULES</b>	
Item 14 a. Exhibits.....	41
b. Reports on SEC Form 17-C.....	41
<b>SIGNATURES.....</b>	<b>42</b>
<b>INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES .....</b>	<b>45</b>



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

	PAGE
<b>FINANCIAL STATEMENTS</b>	
Statement of Management's Responsibility for Financial Statements	46
Report of Independent Auditors	49
Balance Sheets as of December 31, 2008 and 2007	51
Statements of Income	52
Statements of Changes in Stockholders' Equity	53
Statements of Cash Flow	56
Notes to Financial Statements	57-94
 <b>SUPPLEMENTARY SCHEDULES</b>	
Report of Independent Public Accountants on Supplementary Schedules	*
A. Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)	*
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	95
C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments	96
D. Indebtedness of Unconsolidated Subsidiaries and Related Parties	*
E. Intangible Assets - Other Assets	*
F. Long-Term Debt	*
G. Indebtedness to Related Parties	*
H. Guarantees of Securities of Other Issuers	*
I. Capital Stock	*
 Aging of Accounts Receivable	 97

\* These schedules, which are required by Annex 68.1-M of the Amended SRC Rule 68, have been omitted because they are either not required, not applicable, or the information required to be presented is included in the Company's Balance Sheets or Notes to Financial Statements.



# SOUTH CHINA RESOURCES, INC.

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

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

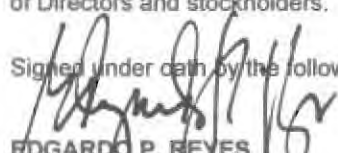
The management of South China Resources, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2008 and 2007 and for the three years in the period ended December 31, 2008. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the company in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:

  
EDGARDO P. REYES

Chairman/Chief Executive Officer

  
WILFRIDO P. REYES

President/Chief Financial Officer

  
BELEN R. CASTRO

Vice President/Treasurer

SUBSCRIBED AND SWORN to before me this 23<sup>rd</sup> day of April 2009 affiants exhibiting to me their Residence Certificates, as follows:

Name	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgardo P. Reyes	27212705	Feb. 04, 2009	Makati City
Wilfrido P. Reyes	12362135	Jan. 16, 2009	Makati City
Belen R. Castro	03004267	Jan. 12, 2009	Manila

Doc. No.: 316  
Page No.: 65  
Book No.: I  
Series of 2009.

  
VIVIAN S. TAN

Commission No. M-50

Notary Public - Makati City

Until December 31, 2010

Esquerro & Blanco Law Offices

4th & 5th Floors, S&L Building, De La Rosa corner

Del Mar Village, Makati City 1229

Telephone No. 892-2049 / 892-2049 / Makati City

Telephone No. 892-2049 / 892-2049 / Makati City

Telephone No. 892-2049 / 892-2049 / Makati City

Notary Public

Makati City, Philippines  
NOTARY PUBLIC

Roll No. 55883

Vivian S. Tan

FS FOR FILING WITH SEC

A	S	0	9	2	-	0	6	4	4	1
---	---	---	---	---	---	---	---	---	---	---

[illegible][illegible]

STAMPS



## INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors  
South China Resources, Inc.  
3/F Low Rise Pacific Star Bldg.  
Sen. Gil Puyat cor. Makati Avenue  
Makati City

We have audited the accompanying financial statements of South China Resources, Inc., which comprise the balance sheets as of December 31, 2008 and 2007, and the statements of income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Premiere Development Bank (PDB) and the 2006 financial statements of Bell Telecommunications Philippines, Inc. (BellTel) the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The investment in PDB represent about 4.81% and 5.26% of total assets as of December 31, 2008 and 2007, respectively, and the equity in the net income/losses represents about 0.95%, 0.70% and 102.56%, of the net income/loss in 2008, 2007 and 2006, respectively. The financial statements of PDB and the 2006 financial statements of BellTel were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PDB and BellTel is based solely on the reports of the other auditors.

### Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

### Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits and the reports of the other auditors. 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 whether the financial statements are free from material misstatement.



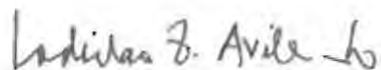
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 financial statements.

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

### Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements present fairly, in all material respects, the financial position of South China Resources, Inc. as of December 31, 2008 and 2007, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.



Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-AR-1

Tax Identification No. 109-247-891

PTR No. 1566404, January 5, 2009, Makati City

April 23, 2009



**SOUTH CHINA RESOURCES, INC.**  
**BALANCE SHEETS**

	December 31	
	2008	2007
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	₱92,829,217	₱50,912,570
Accounts receivable - net (Notes 4 and 12)	78,985,059	78,722
Available-for-sale (AFS) investments (Note 6)	—	—
Prepayments and other current assets (Note 5)	1,128,284	645,193
	172,942,560	51,636,485
Noncurrent asset classified as held for sale (Note 7)	—	486,980,479
<b>Total Current Assets</b>	172,942,560	538,616,964
<b>Noncurrent Assets</b>		
Investments in and advances to associates (Note 8)	492,394,871	34,678,994
AFS investments - net of current portion (Note 6)	6,792,556	7,623,815
Deferred exploration costs - net of allowance for impairment of ₱75,464,430 and ₱ 12,618,353 for 2008 and 2007 respectively (Note 1)	14,891,080	77,606,250
Property and equipment - net (Note 9)	10,708,847	162,490
Refundable deposits	4,500	141,554
<b>Total Noncurrent Assets</b>	524,791,854	120,213,103
<b>TOTAL ASSETS</b>	₱697,734,414	₱658,830,067
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and accrued expenses (Note 10)	₱597,425	₱13,501,201
Deposit from contract to sell investment property (Note 7)	—	60,000,000
<b>Total Current Liabilities</b>	597,425	73,501,201
<b>Noncurrent Liability</b>		
Subscriptions payable (Note 8)	171,720,000	171,720,000
<b>Equity</b>		
Common stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 588,879,569 shares in 2008 and 588,749,569 shares in 2007	588,879,569	588,749,569
Subscribed - 317,680,000 shares in 2008 and 317,810,000 shares in 2007 (net of subscriptions receivable of ₱238,260,000 in 2008 and ₱238,357,500 in 2007)	79,420,000	79,452,500
Additional paid-in capital	72,272,140	72,272,140
Unrealized gains on AFS investments - net (Note 6)	1,739,743	2,571,002
Share in unrealized gains (losses) on AFS investments of an associate (Note 8)	(126,483)	188,346
Deficit	(216,767,980)	(329,624,691)
<b>Total Equity</b>	525,416,989	413,608,866
<b>TOTAL LIABILITIES AND EQUITY</b>	₱697,734,414	₱658,830,067

See accompanying Notes to Financial Statements.

APR 24 2009





**SOUTH CHINA RESOURCES, INC.**  
**STATEMENTS OF INCOME**

	Years Ended December 31		
	2008	2007	2006 (As restated, see Note 18)
<b>REVENUES</b>			
Gain on sale of:			
Investment property (Note 7)	₱113,019,521	₱—	₱—
An associate (Note 8)	—	—	5,955,505
AFS investment - net	—	—	62,090
Interest income	20,861,310	44,888	20,440
Dividend income	—	350	50,227
	<b>133,880,831</b>	<b>45,238</b>	<b>6,088,262</b>
<b>EXPENSES</b>			
Provision for impairment on deferred exploration costs	62,846,077	—	—
Taxes and licenses	45,270,389	220,559	225,794
Travel and transportation	4,917,723	1,045,639	1,026,113
Professional fees	2,486,775	610,300	821,071
Salaries and wages	2,448,603	2,326,394	2,159,065
Depreciation and amortization (Note 9)	1,809,582	54,376	131,250
Rent and utilities (Note 14)	580,261	572,868	606,564
Communication	220,296	189,002	219,730
Office supplies	120,893	102,634	119,774
Entertainment, amusement and recreation	104,550	95,356	126,989
Repairs and maintenance	81,594	88,141	36,778
Gasoline and oil	72,328	84,851	76,516
Training and seminars	17,300	18,500	18,072
Miscellaneous	257,411	344,189	312,460
	<b>121,233,782</b>	<b>5,752,809</b>	<b>5,880,176</b>
<b>EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES</b>			
(Notes 8 and 18)	100,222,956	(43,187,664)	(80,181,235)
<b>UNREALIZED FOREIGN EXCHANGE GAINS (LOSSES) - Net</b>	<b>(13,294)</b>	<b>(3,159,271)</b>	<b>1,791,273</b>
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>112,856,711</b>	<b>(52,054,506)</b>	<b>(78,181,876)</b>
<b>BENEFIT FROM INCOME TAX</b>			
(Note 11)	—	—	(46,948)
<b>NET INCOME (LOSS)</b>	<b>₱112,856,711</b>	<b>(₱52,054,506)</b>	<b>(₱78,134,928)</b>
<b>Basic/Diluted Income (Loss) Per Share (Note 13)</b>	<b>₱0.1245</b>	<b>(₱0.0574)</b>	<b>(₱0.0862)</b>

See accompanying Notes to Financial Statements.



**SOUTH CHINA RESOURCES, INC.**

**STATEMENTS OF CHANGES IN EQUITY**

**FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006**

	Common Stock		Additional Paid-in Capital	Unrealized Gains (Losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains (Losses) on AFS Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2006, as previously Stated	P586,639,569	P79,980,000	P72,272,140	P2,888,340	(P1,678,590)	(P158,978,181)	P581,123,278
Share in prior period adjustments of associates (Notes 8 and 18)	-	-	-	-	1,916,810	(40,457,076)	(38,540,266)
Balances at January 1, 2006, as restated	586,639,569	79,980,000	72,272,140	2,888,340	238,220	(199,435,257)	542,583,012
Unrealized valuation losses on AFS investments	-	-	-	(2,090,735)	-	-	(2,090,735)
Valuation gains taken to the statements of income on sale of AFS investments	-	-	-	(62,090)	-	-	(62,090)
Share in unrealized gains on AFS investments of an associates	-	-	-	-	162,498	-	162,498
Derecognition of share in unrealized gains on AFS investments of a disposed associate	-	-	-	-	(400,718)	-	(400,718)
Total loss reeognized directly in equity	-	-	-	(2,152,825)	(238,220)	-	(2,391,045)
Net loss for the year as restated	-	-	-	-	-	(78,134,928)	(78,134,928)
Total recognized expense for the year	-	-	-	(2,152,825)	(238,220)	(78,134,928)	(80,525,973)
Collection of subscriptions receivable	-	825,000	-	-	-	-	825,000
Shares of stoek issued from subscribed	1,100,000	(1,100,000)	-	-	-	-	-
Balances at December 31, 2006, as restated	P587,739,569	P79,705,000	P72,272,140	P735,515	P-	(P277,570,185)	P462,882,039

(Forward)





	Common Stock		Additional Paid-in Capital	Unrealized Gains (Losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains (Losses) on AFS Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2007, as previously stated	P587,739,569	P79,705,000	P72,272,140	P735,515	P-	(P225,765,195)	P514,687,029
Share in prior period adjustments of associates (Notes 8 and 18)	-	-	-	-	-	(51,804,990)	(51,804,990)
Balances at January 1, 2006, as restated	587,739,569	79,705,000	72,272,140	735,515	-	(277,570,185)	462,882,039
Unrealized valuation gains on AFS investments	-	-	-	1,835,487	-	-	1,835,487
Share in unrealized gains on AFS investments of an associates	-	-	-	-	188,346	-	188,346
Total income recognized directly in equity	-	-	-	1,835,487	188,346	-	2,023,833
Net loss for the year as restated	-	-	-	-	-	(52,054,506)	(52,054,506)
Total recognized income (expense) for the year	-	-	-	1,835,487	188,346	(52,054,506)	(50,030,673)
Collection of subscriptions receivable	-	757,500	-	-	-	-	757,500
Shares of stock issued from subscribed	1,010,000	(1,010,000)	-	-	-	-	-
Balances at December 31, 2007, as restated	P588,749,569	P79,452,500	P72,272,140	P2,571,002	P188,346	(P329,624,691)	P413,608,866

(Forward)

APR 24 2010



	Common Stock		Additional Paid-in Capital	Unrealized Gains (Losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains (Losses) on AFS Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2008	₱588,749,569	₱79,452,500	₱72,272,140	₱2,571,002	₱188,346	(₱329,624,691)	₱413,608,866
Unrealized valuation losses on AFS investments	-	-	-	(831,259)	-	-	(831,259)
Share in unrealized losses on AFS investments of an associates	-	-	-	-	(314,829)	-	(314,829)
Total income (loss) recognized directly in equity	-	-	-	(831,259)	(314,829)	-	(1,146,088)
Net income (loss) for the year	-	-	-	-	-	112,856,711	112,856,711
Total recognized income (expense) for the year	-	-	-	(831,259)	(314,829)	112,856,711	111,710,623
Collection of subscriptions receivable	-	97,500	-	-	-	-	97,500
Shares of stock issued from subscribed	130,000	(130,000)	-	-	-	-	-
Balances at December 31, 2008	₱588,879,569	₱79,420,000	₱72,272,140	₱1,739,743	(₱126,483)	(₱216,767,980)	₱525,416,989

See accompanying Notes to Financial Statements.



**SOUTH CHINA RESOURCES, INC.**  
**STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2008	2007	2006 (As restated, see Note 18)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income (loss) before income tax	¥112,856,711	(¥52,054,506)	(¥78,181,876)
Adjustments for:			
Gain on sale of investment property	(113,019,521)	—	—
Equity in net (income) losses of associates (Notes 8 and 18)	(100,222,956)	43,187,664	80,181,235
Provision for impairment on deferred exploration costs	62,846,077	—	—
Interest income	(20,861,310)	(44,888)	(20,440)
Depreciation and amortization (Note 9)	1,809,582	54,376	131,250
Net unrealized foreign exchange losses (gains)	13,294	3,159,271	(1,791,273)
Gain on sale of an associate (Note 8)	—	—	(5,955,504)
Gain on sale of AFS investment	—	—	(62,090)
Dividend income	—	(350)	(50,227)
Operating loss before working capital changes	(56,578,123)	(5,698,433)	(5,748,925)
Increase in:			
Accounts receivable	(75,033,962)	(12,058)	(4,604)
Prepayments and other current assets	(483,091)	(221,537)	(98,507)
Increase (decrease) in accounts payable and accrued expenses	(12,903,776)	(7,847,420)	3,525,176
Net cash flows used in operating activities	(144,998,952)	(13,779,448)	(2,326,860)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net proceeds from the sale of investment property	540,000,000	—	—
Interest received	16,988,935	44,888	20,440
Decrease in refundable deposits and others	137,054	—	—
Advances to associates	(357,807,750)	(5,000,000)	—
Additions to:			
Property and equipment (Note 9)	(12,355,939)	(26,991)	(194,574)
AFS investments	—	—	(400,000)
Decrease (increase) in deferred exploration costs	(130,907)	4,725,608	4,876,188
Proceeds from deposit from contract to sell investment property (Note 7)	—	60,000,000	—
Dividend received	—	350	50,227
Proceeds from sale of AFS investments	—	—	1,313,040
Net cash flows from investing activities	186,831,393	59,743,855	5,665,321
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Collection of subscriptions receivable	97,500	757,500	825,000
<b>NET INCREASE IN CASH</b>	<b>41,929,941</b>	<b>46,721,907</b>	<b>4,163,461</b>
<b>EFFECT OF EXCHANGE RATE CHANGES     ON CASH</b>	<b>(13,294)</b>	<b>(899,944)</b>	<b>(222,054)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>50,912,570</b>	<b>5,090,607</b>	<b>1,149,200</b>
<b>CASH AT END OF YEAR</b>	<b>¥92,829,217</b>	<b>¥50,912,570</b>	<b>¥5,090,607</b>

See accompanying Notes to Financial Statements.



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

### **NOTES TO FINANCIAL STATEMENTS**

---

#### **1. Corporate Information and Status of Operations**

##### Corporate Information

South China Resources, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1992, primarily to undertake oil and gas exploration, development and production. In light of the effects of the Asian economic crisis in 1997, the Company opted to refocus its core business objectives, diversifying into investments in banking and telecommunication. However, it will still continue its exploration in certain areas it considers the most promising in the country, mainly concentrating in the Sulu Sea. The registered office address of the Company is 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat cor. Makati Avenue, Makati City.

In October 2003, the SEC approved the amendment of the Company's articles of incorporation, particularly the change in its primary purpose of business. The 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 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 then primary purpose of oil and gas exploration was reclassified as among the secondary purposes of the Company.

The financial statements of the Company as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008 were approved and authorized for issue by the Board of Directors (BOD) on April 23, 2009.

The Company has six employees as of December 31, 2008 and 2007.

##### Plan to Spin-off Oil and Gas Exploration Operations

On September 11, 2003, the BOD approved the plan to spin-off the Company's oil and gas exploration operations to a wholly owned subsidiary, which can then be listed in a foreign stock exchange. The Company's stockholders ratified the plan during the special stockholders' meeting on October 22, 2003. As of December 31, 2008, the transfer of the Company's oil and gas exploration assets to the new entity has not yet commenced pending the determination of the proper valuation of such assets.



### Status of Oil and Gas Exploration Operations

The 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	Percentage of Working Interest	
	2008	2007
Northeast Palawan (SC-60, former Geophysical Survey and Exploration Contract (GSEC) 99)	15.00	15.00
South Sulu Sea Block B (SC-41)	1.09	1.09

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements (JOA), 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\$100,000 and US\$20,000 as of December 31, 2008 and December 31, 2007, respectively.

The Company has two (2) existing service contracts namely, SC60 and SC41:

- *SC-60 (former Geophysical Survey and Exploration Contract (GSEC) 99 - Offshore NE Palawan )*

SC-60 is one of the Company's as well as the country's most promising areas in terms of potential for large accumulations for petroleum. The Company's joint agreement with Shell Philippines Exploration B.V. (SPEX) and Kuwait Foreign Petroleum Co. (KUFPEC) to enter into Service Contract No. 60 last January 27, 2006 has paved the way for further exploration covering an area of one million eight thousand hectares where large hydrocarbon accumulations is deemed to exist. In the seven year exploration period of SC-60, the group shall conduct seismic and exploration work, including drilling at an expected minimum cost of \$24 million. The seven-year period is divided into several sub-phases wherein the group must exercise its option to move to the succeeding phase or terminate the contract. The SC 60 also includes a 25-year production term in the event of commercial discovery and operations.

A 1,000 line kilometers 2D seismic program was then immediately undertaken after the contract signing. A significant 500 sq-km 3D program was shot without any untoward incident in mid-2007 focusing on areas high graded by the previous 2D survey.

In a letter sent by SPEX to the DOE last July 8, 2008, the SC-60 Joint Operations elected to enter the second sub-phase of SC-60. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase. The second sub-phase is valid until February 10, 2010. A rigorous study of the 3D seismic data highlighted a number of leads several of which have been elevated to prospect status. The group believes that northeast Palawan is one of the few areas in the Philippines that has the potential to yield large accumulations of hydrocarbons.

The Company retains 15% interest in the block and will be carried for all activities including the drilling of one deep water exploration well.





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

Tap Oil Ltd. (Tap Oil) farmed in into SC-41 last January 2007 and in middle of 2007 Salamander Energy of UK entered the group via a farm-in through Tap Oil.

The DOE, in their letter to contract area operator Tap (Philippines) Pty Ltd dated January 23 2007, approved the extension of Contract Year 9 to May 10, 2008. As a consequence of such extension, Contract Year 10 commenced on May 10, 2008 and was supposed to end on May 10, 2009. Tap Oil, on behalf of the Joint Operation, applied with the DOE for the approval for an extension of the term of the SC for a further two years. SC-41 for its 10th and final contract year will run to May 10, 2010 and may be extended to May 2011 upon commitment to drill another well. The minimum work commitments for contract years 9 and 10 were: a) acquisition of 300 square kilometers of 3D seismic; b) relinquishment of 25% of the contract area and the drilling of one exploration well.

On July 19, 2008, Tap Oil along with the Joint Operation partners spudded the Lumba-Lumba-1/1A well with a planned depth of 3,000 meters. The well was drilled by the semi-submersible rig, Transocean Legend, down to a total depth of 2174 meters, approximately 830 meters short of the programmed total depth. Tap Oil plugged and abandoned the well on August 20, 2008 after the well had encountered numerous down-hole problems and was unable to make further progress. The well drilled through the main objectives but failed to encounter reservoir quality rocks though elevated gas readings were observed. The SC-41 group still believes that the block has the potential to host commercial hydrocarbons despite the momentary set back as Lumba-Lumba-1 well only tested one of the several different independent prospects in the block. The Company has 1.090% participating interest in this block.

The Company is also interested in acquiring exploration acreages in the following areas:

- *Offshore Cuyo Platform (former GSEC-96), NW Palawan Block (formerly GSEC-83)*

In the quest to continue exploration in areas where the Company has an edge in terms of data and technical conceptualization, the Company participated in the DOE's Philippine Energy Contracting Round No. 3 (PECR-3). PECR-3 commenced on December 22, 2006. On May 30, 2007, the last day of the bid round, the Company together with operator United Kingdom company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The Service Contract for the block has yet to be awarded and signed by the DOE with the group.

Philodrill, operator of the Swan Block covering the former GSEC-83 area has yet to inform the Company the results of its negotiations with Philippine National Oil Company-Exploration Corporation (PNOC-EC) which now operates the service contracts (SC-57/58) covering the block.



## 2. Summary of Significant Accounting Policies

### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for AFS investments, which are carried at fair value. The financial statements are presented in Philippine pesos which is the Company's functional currency. All values are in whole numbers, except when otherwise indicated.

### Statement of Compliance

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

### Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine International Financial Reporting Interpretations Committee (IFRIC) Interpretations which became effective on January 1, 2008, and an amendment to an existing standard that became effective on July 1, 2008. Adoption of these changes in PFRS did not have any significant effect to the Company:

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
- Philippine Interpretation IFRIC 14, *Philippine Accounting Standards (PAS) 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
- Amendments to PAS 39, *Financial Instruments: Recognition and Measurement* and PFRS 7, *Financial Instruments: Disclosures - Reclassification of Financial Assets*

### New Accounting Standards, Interpretations, and Amendments to Existing Standards Effective Subsequent to December 31, 2008

The Company will adopt the following standards and interpretations enumerated below when these become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PFRS and Philippine Interpretations to have significant impact on its financial statements.

### *Effective in 2009*

#### *PFRS 1, First-time Adoption of Philippine Financial Reporting Standards - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

The amended PFRS 1 allows an entity, in its separate financial statements, to determine the cost of investments in subsidiaries, jointly controlled entities or associates (in its opening PFRS financial statements) as one of the following amounts: a) cost determined in accordance with PAS 27; b) at the fair value of the investment at the date of transition to PFRS, determined in accordance with PAS 39; or c) previous carrying amount (as determined under generally accepted accounting principles) of the investment at the date of transition to PFRS.



*PFRS 2, Share-based Payment - Vesting Condition and Cancellations*

The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. It further requires non-vesting conditions to be treated in a similar fashion to market conditions. Failure to satisfy a non-vesting condition that is within the control of either the entity or the counterparty is accounted for as cancellation. However, failure to satisfy a non-vesting condition that is beyond the control of either party does not give rise to a cancellation.

*PFRS 8, Operating Segments*

PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a full management approach to identifying, measuring and disclosing the results of an entity's operating segments. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the consolidated balance sheet and consolidated statement of income and the Company will provide explanations and reconciliations of the differences. This standard is only applicable to an entity that has debt or equity instruments that are traded in a public market or that files (or is in the process of filing) its financial statements with a securities commission or similar party.

*Amendments to PAS 1, Presentation of Financial Statements*

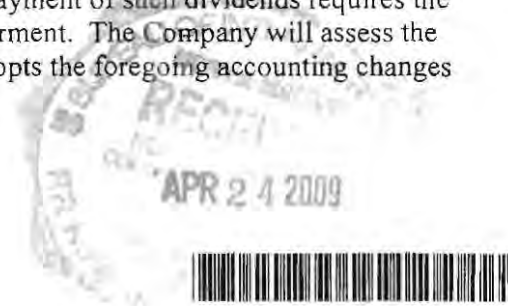
This Amendment introduces a new statement of comprehensive income that combines all items of income and expenses recognized in the profit or loss together with 'other comprehensive income'. Entities may choose to present all items in one statement, or to present two linked statements, a separate statement of income and a statement of comprehensive income. This Amendment also requires additional requirements in the presentation of the balance sheet and owner's equity as well as additional disclosures to be included in the financial statements.

*PAS 23, Borrowing Costs*

The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009.

*Amendments to PAS 27, Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*

Amendments to PAS 27 will be effective on January 1, 2009 which has changes in respect of the holding companies separate financial statements including (a) the deletion of 'cost method', making the distinction between pre- and post-acquisition profits no longer required; and (b) in cases of reorganizations where a new parent is inserted above an existing parent of the group (subject to meeting specific requirements), the cost of the subsidiary is the previous carrying amount of its share of equity items in the subsidiary rather than its fair value. All dividends will be recognized in the statement of income. However, the payment of such dividends requires the entity to consider whether there is an indicator of impairment. The Company will assess the impact of this amended accounting standard when it adopts the foregoing accounting changes effective January 1, 2009.





*Amendment to PAS 32, Financial Instruments: Presentation and PAS 1 Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*

These amendments specify, among others, that puttable financial instruments will be classified as equity if they have all of the following specified features: (a) the instrument entitles the holder to require the entity to repurchase or redeem the instrument (either on an ongoing basis or on liquidation) for a pro rata share of the entity's net assets, (b) the instrument is in the most subordinate class of instruments, with no priority over other claims to the assets of the entity on liquidation, (c) all instruments in the subordinate class have identical features (d) the instrument does not include any contractual obligation to pay cash or financial assets other than the holder's right to a pro rata share of the entity's net assets, and (e) the total expected cash flows attributable to the instrument over its life are based substantially on the profit or loss, a change in recognized net assets, or a change in the fair value of the recognized and unrecognized net assets of the entity over the life of the instrument.

*Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*

This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and realized in income over the period that the award credits are redeemed or expire.

*Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation*

This Interpretation provides guidance on identifying foreign currency risks that qualify for hedge accounting in the hedge of net investment; where within the group the hedging instrument can be held in the hedge of a net investment; and how an entity should determine the amount of foreign currency gains or losses, relating to both the net investment and the hedging instrument, to be recycled on disposal of the net investment.

*Improvements to PFRS*

In May 2008, the International Accounting Standards Board issued its first omnibus of amendments to certain standards, primarily with a view to removing inconsistencies and clarifying wording. There are the separate transitional provisions for each standard:

*PFRS 5, Noncurrent Assets Held for Sale and Discontinued Operations*

- When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.

*PAS 1, Presentation of Financial Statements*

- Assets and liabilities classified as held for trading are not automatically classified as current in the balance sheet.

*PAS 16, Property, Plant and Equipment*

- The amendment replaces the term 'net selling price' with 'fair value less costs to sell', to be consistent with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* and PAS 36, *Impairment of Assets*.

APR 24 2009



- Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. Proceeds of such sales are subsequently shown as revenue. Cash payments on initial recognition of such items, the cash receipts from rents and subsequent sales are all shown as cash flows from operating activities.

PAS 19, *Employee Benefits*

- Revises the definition of 'past service costs' to include reductions in benefits related to past services ('negative past service costs') and to exclude reductions in benefits related to future services that arise from plan amendments. Amendments to plans that result in a reduction in benefits related to future services are accounted for as a curtailment.
- Revises the definition of 'return on plan assets' to exclude plan administration costs if they have already been included in the actuarial assumptions used to measure the defined benefit obligation.
- Revises the definition of 'short-term' and 'other long-term' employee benefits to focus on the point in time at which the liability is due to be settled.
- Deletes the reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*

- Loans granted with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as a government grant.

PAS 23, *Borrowing Costs*

- Revises the definition of borrowing costs to consolidate the types of items that are considered components of 'borrowing costs', i.e., components of the interest expense calculated using the effective interest rate method.

PAS 28, *Investment in Associates*

- If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.
- An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

PAS 29, *Financial Reporting in Hyperinflationary Economies*

- Revises the reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property, plant and equipment as being an example, rather than implying that it is a definitive list.

PAS 31, *Interest in Joint Ventures*

- If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply.



*PAS 36, Impairment of Assets*

- When discounted cash flows are used to estimate 'fair value less cost to sell' additional disclosure is required about the discount rate, consistent with disclosures required when the discounted cash flows are used to estimate 'value in use'.

*PAS 38, Intangible Assets*

- Expenditure on advertising and promotional activities is recognized as an expense when the Group either has the right to access the goods or has received the services. Advertising and promotional activities now specifically include mail order catalogues.
- Deletes references to there being rarely, if ever, persuasive evidence to support an amortization method for finite life intangible assets that results in a lower amount of accumulated amortization than under the straight-line method, thereby effectively allowing the use of the unit of production method.

*PAS 39, Financial Instruments: Recognition and Measurement*

- Changes in circumstances relating to derivatives - specifically derivatives designated or de-designated as hedging instruments after initial recognition - are not reclassifications.
- When financial assets are reclassified as a result of an insurance company changing its accounting policy in accordance with paragraph 45 of PFRS 4 *Insurance Contracts*, this is a change in circumstance, not a reclassification.
- Removes the reference to a 'segment' when determining whether an instrument qualifies as a hedge.
- Requires use of the revised effective interest rate (rather than the original effective interest rate) when re-measuring a debt instrument on the cessation of fair value hedge accounting.

*PAS 40, Investment Properties*

- Revises the scope (and the scope of PAS 16, *Property, Plant and Equipment*) to include property that is being constructed or developed for future use as an investment property. Where an entity is unable to determine the fair value of an investment property under construction, but expects to be able to determine its fair value on completion, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete.

*PAS 41, Agriculture*

- Removes the reference to the use of a pre-tax discount rate to determine fair value, thereby allowing use of either a pre-tax or post-tax discount rate depending on the valuation methodology used.
- Removes the prohibition to take into account cash flows resulting from any additional transformations when estimating fair value. Instead, cash flows that are expected to be generated in the 'most relevant market' are taken into account.

*Effective in 2010*

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

The revised PFRS 3 introduces a number of changes in the accounting for business combinations that will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs, and future reported results. The revised PAS 27 requires, among others, that



APR 24 2009

(a) change in ownership interests of a subsidiary (that do not result in loss of control) will be accounted for as an equity transaction and will have no impact on goodwill nor will it give rise to a gain or loss; (b) losses incurred by the subsidiary will be allocated between the controlling and non-controlling interests (previously referred to as 'minority interests'); even if the losses exceed the non-controlling equity investment in the subsidiary; and (c) on loss of control of a subsidiary, any retained interest will be remeasured to fair value and this will impact the gain or loss recognized on disposal. The changes introduced by the revised PFRS 3 and PAS 27 must be applied prospectively and will affect future acquisitions and transactions with non-controlling interests.

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

Amendment to PAS 39 will be effective on July 1, 2009, which addresses only the designation of a one-sided risk in a hedged item, and the designation of inflation as a hedged risk or portion in particular situations. The amendment clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item.

*Effective in 2012*

*Philippine Interpretation IFRIC 15, Agreement for 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. This Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on stage of completion.

Cash

Cash consists of cash on hand and in banks, which are carried at face value.

Noncurrent Asset Classified as Held for Sale

Noncurrent asset classified as held for sale is measured at the lower of carrying amount and fair value less cost to sell. Noncurrent asset is classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Property and Equipment

Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and amortization and accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Depreciation and amortization are calculated on a straight-line basis over the useful life of the assets of five (5) years, or the terms of the lease in case of leasehold improvements, whichever is shorter. Repairs and maintenance costs are recognized in the statement of income as incurred.



APR 2 2010



When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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 property and equipment (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the property and equipment is derecognized.

The property and equipment's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

#### Investment Property

Investment property is measured initially 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. Subsequent to initial recognition, investment property, which consists of land (with an unfinished building), is carried at cost less any accumulated impairment losses.

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

#### Deferred Exploration Costs

Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the 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.

#### Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's estimated 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 estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.



APR

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 recoverable amount is estimated. 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Investments in Associates

Associates are entities in which the Company has significant influence and which are neither subsidiaries nor joint ventures of the Company.

The Company's investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. The statement of income reflects the Company's share of the net income/losses of the associates.

Goodwill relating to associates is included in the carrying amount of the investment and is not amortized. Where there has been a change recognized directly in equity of the associate, the Company recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. Profits and losses resulting from transactions between the Company and the associates are eliminated to the extent of the interest in the associates.

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

If the Company's share of losses of an associate equals or exceeds its interest in the associate, the Company discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate.

After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate. The carrying amount of the investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there are indicators that the investment may be impaired. In determining the value in use of the investment, the Company estimates:



APR 3

- its share of the present value of the estimated future cash flows expected to be generated by the associate, including the cash flows from the operations of the associate and the proceeds on the ultimate disposal of the investment; or
- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal

#### Financial Assets

Financial assets within the scope PAS 39 are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments, and AFS financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at FVPL, directly attributed transaction costs. The Company considers whether a contract contains an embedded derivative when the entity first becomes a party to it. The embedded derivatives are separated from the host contract which is not measured at fair value through profit or loss when the analysis shows that the economic characteristics and risks of embedded derivatives are not closely related to those of the host contract.

The Company determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. 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.

#### *Financial assets at FVPL*

Financial assets at FVPL include financial assets held for trading and financial assets designated upon initial recognition as FVPL.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term or is designated by management as FVPL. Derivative financial instruments are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognized in the statement of income.

When a contract contains one or more embedded derivatives, the entire hybrid contract maybe designated as a financial asset at FVPL, except when the embedded derivative does not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded.

As of December 31, 2008 and 2007, no financial assets have been designated as at FVPL.



00242009

*HTM investments*

HTM investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process.

As of December 31, 2008 and 2007, the Company had no HTM investments.

*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 method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are classified as current assets when it is expected to be realized within twelve months after the balance sheet date or within the normal operating cycle, whichever is longer.

As of December 31, 2008 and 2007, the Company has designated as loans and receivable its cash in banks and accounts receivable (see Note 4).

*AFS financial assets*

AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in equity under the 'Unrealized gains on AFS investments'. AFS financial assets are generally classified as noncurrent. However, when management expects that the investments are to be realized within twelve months after the balance sheet date, these are classified as current. When the investment is disposed of, the cumulative gains or loss previously recorded in stockholders' equity is recognized in the statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate.

As of December 31, 2008 and 2007, the Company's AFS investments include quoted and unquoted shares of stocks (see Note 6).

*Determination of fair value*

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, fair value is determined using valuation techniques.



APR 24 2009



Such techniques include using recent arm's-length market transactions; reference to the current market value of another instrument, which are substantially the same; discounted cash flow analysis and other valuation models.

*'Day 1' profit and loss*

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a 'Day 1' profit and loss) in the consolidated statement of income unless it qualifies for 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 the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit and loss amount.

Financial Liabilities

Financial liabilities consist of financial liabilities at FVPL and other financial liabilities. Financial liabilities at FVPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as at FVPL. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of income.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivatives do not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded.

As of December 31, 2008 and 2007, the Company has no financial liabilities at FVPL.

Other Financial Liabilities

This classification includes accounts payable and accrued expenses.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve months from the balance sheet date or the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

Impairment of Financial Assets

The Company assesses at each balance sheet date whether a financial asset or group of financial assets is impaired.



*Assets carried at amortized cost*

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 expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through the use of an allowance account. The amount of the loss shall be recognized in the statement of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or 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 a collective assessment of impairment.

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 the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

In relation to trade receivables, a provision for impairment loss is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all the amounts due under the original terms of the invoice. The carrying amount of the receivables is reduced through use of an allowance account. Impaired debts are derecognized when they are assessed as uncollectible.

*AFS financial assets*

If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

Derecognition of Financial Assets and Liabilities

*Financial assets*

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

- the rights to receive cash flows from the asset have expired;
- the 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 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 Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the 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 Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

#### *Financial liabilities*

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

Where 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 statement of income.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the balance sheet 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the balance sheet.

#### Classification of Financial Instruments Between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company; or
- satisfy 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.

If the Company does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

APR 2 2011



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.

#### Revenue Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

#### *Interest income*

Interest income is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

#### *Dividend income*

Dividend income is recognized when the shareholders' right to receive the payment is established.

#### 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 or the arrangement conveys a right to use the asset. A reassessment is made after the 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 and extension granted, unless the 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.

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

#### *Company as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term.

#### Provisions and Contingencies

Provisions are recognized when the 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. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the





statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, 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.

Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is possible.

### 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 by the balance sheet date.

#### *Deferred income tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax and 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 the carryforward of unused tax credits and NOLCO can be utilized, except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.



APR 24 2009

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

#### Events After the Balance Sheet Date

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

---

### **3. Significant Accounting Judgments and Estimates**

#### Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have most significant effect on the amounts recognized in the financial statements:

#### *Determining functional currency*

Based on the economic substance of underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of primary economic environment in which the Company operates.

#### *Operating lease commitments - Company as lessee*

The Company has entered into a commercial lease on its administrative office location. The Company has determined that it does not acquire all the significant risk and rewards of ownership of these properties which are leased on operating leases.

#### Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

#### *Impairment of investments in and advances to associates*

Investments in and advances to associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In determining the present value of estimated net future cash inflows expected to be generated from the investments, the Company is required to make certain estimates and assumptions. As of December 31, 2008 and 2007, no impairment of investments in and advances to associates were recognized on their carrying amounts of ₱492,394,871 and ₱34,678,994, respectively (see Note 8).

#### *Impairment of deferred exploration costs*

The full recovery of the deferred exploration costs incurred in connection with the 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



APR 24 2009

considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development. The Company has provided full valuation allowance on deferred exploration costs incurred for certain GSECs on which management has no definite plans for further exploration and development. As of December 31, 2008 and 2007, the Company recognized allowance for impairment losses on deferred exploration costs amounting to ₱75,464,430 and ₱12,618,353. Net deferred exploration costs amounted to ₱14,891,080 and ₱77,606,250 as of December 31, 2008 and 2007, respectively.

*Impairment of property and equipment*

PFRS requires that an impairment review be performed when certain impairment indicators are present. Determining the value of property and equipment which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Company to make estimates and assumptions that can materially affect its parent company financial statements. Future events could cause the Company to conclude that the property and equipment, investments in subsidiaries and associate, software development costs and other noncurrent assets are impaired. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations. The aggregate carrying values of property and equipment amounted to ₱10,708,847 and ₱162,490 and as of December 31, 2008 and 2007, respectively (see Note 9). The Company has no recognized impairment losses as of December 31, 2008.

*Impairment of AFS investments*

The Company follows the guidance of PAS 39 in determining whether an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the investments. As of December 31, 2008 and 2007, the Company recognized allowance for decline in market value of AFS investments amounting to ₱2,834,144 and ₱2,699,185, respectively (see Note 6).

*Allowance for impairment of receivables*

The Company maintains allowances for impairment of receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with debtors, their payment behavior and known market factors. The Company reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment losses would increase the Company's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.



APR 2 2009

The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department and non-moving account receivables.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility. The allowance for impairment of receivables as of December 31, 2008 and 2007 amounted to nil and ₱766,908, respectively. Net accounts receivables as of December 31, 2008 and 2007 amounted to ₱78,985,059 and ₱78,722, respectively (see Note 4).

*Recognition of deferred income tax assets*

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Company recognizes deferred income tax liabilities from taxable temporary differences. No deferred income tax assets have been recognized on temporary differences and unused NOLCO amounting to ₱137.53 million and ₱28.82 million as of December 31, 2008 and 2007, respectively (see Note 11).

---

**4. Accounts Receivable**

	2008	2007
Amounts owed by a related party (see Note 12)	₱75,000,000	₱-
Officers and employees	35,298	10,939
Others	3,949,761	834,691
	78,985,059	845,630
Less allowance for impairment	-	766,908
	₱78,985,059	₱78,722

Allowance for impairment amounting to ₱766,908 in 2007 represents the impaired receivables from a customer, Tab Philippines, Inc. (TPI). The receivables from TPI were written off in 2008.

---

**5. Prepayments and Other Current Assets**

	2008	2007
Input value added tax (VAT)	₱883,825	₱500,428
Supplies	157,163	107,642
Prepayments	87,296	37,123
	₱1,128,284	₱645,193

APR 24 2009





## 6. AFS Investments

	2008	2007
Shares – listed	₱5,893,200	₱6,589,500
Shares - unlisted (net of allowance for impairment in value of ₱2,834,144 and ₱2,699,185 as of December 31, 2008 and 2007, respectively)	899,356	1,034,315
	<b>₱6,792,556</b>	<b>₱7,623,815</b>

AFS investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

Listed shares consist of equity securities that are traded on the Philippine Stock Exchange. The fair values of these listed shares are based on their closing market price as of December 31, 2008 and 2007. Unlisted shares without available market values are carried at cost, less any impairment in value.

The Company recognized unrealized gains (losses) on increase (decrease) in market value of its AFS investments amounting to (₱0.8 million), ₱1.8 million and (₱0.2 million) in 2008, 2007 and 2006, respectively.

## 7. Noncurrent Asset Classified as Held for Sale/Investment Property

The Company's noncurrent asset classified as held for sale in 2007 pertains to an investment property which represents parcels of land (with an unfinished building) that was acquired in 1996. The Company was the registered and beneficial owner of fifty percent (50%) of the property. In 2002, the Company, together with its co-owners, commissioned a study to determine a development scheme for the best use of the property. Initial reports indicate that the property can be a major commercial and residential development as it is situated near a Metro Rail Transit station.

On September 13, 2007, the BOD approved the sale of the investment property. On December 15, 2007, the Company, together with all the other registered and beneficial owners of the property, entered into a Contract to Sell and Buy with a third party for the sale of the said property for and in consideration of the total amount of ₱1.2 billion, the Company's share of which is ₱600 million. In connection with the said Contract to Sell and Buy, a deposit amounting to ₱60 million was received by the Company in December 2007. The related Deed of Absolute Sale was executed on January 23, 2008. As a result of these events and circumstances, the Company classified the investment property as a noncurrent asset classified as held for sale as of December 31, 2007, in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*.

The sale of the investment property resulted in a gain of ₱113.0 million in 2008, net of the related capital gains tax and documentary stamp taxes.



## 8. Investments in and Advances to Associates

The Company's investments in associates are as follows:

Investees	Business	Percentage of Ownership	
		2008	2007
Bell Telecommunication Philippines, Inc. (BellTel)	Telecommunication	32.40	32.40
Premiere Development Bank (PDB)	Banking	4.81	4.94

The details of the Company's investments in associates accounted for under the equity method follow:

	2008	2007
Acquisition costs:		
Balance at beginning of year	₱358,843,800	₱324,000,000
Acquisition during the year	—	34,843,800
Balance at end of year	358,843,800	358,843,800
Accumulated equity in net losses:		
Balance at beginning of year	(329,353,152)	(286,165,488)
Equity in net income (losses) for the year	100,222,956	(43,187,664)
Balance at end of year	(229,130,196)	(329,353,152)
Share in unrealized gains (losses) on AFS investments of an associate:		
Balance at beginning of year	188,346	—
Share in fair value losses on AFS investments of an associate	(314,829)	188,346
Balance at end of year	(126,483)	188,346
Investments in associates	129,587,121	29,678,994
Advances to associates	362,807,750	5,000,000
	₱492,394,871	₱34,678,994

As of December 31, 2007, the Company's investment in BellTel has been reduced to zero and accordingly, the Company has discontinued recognizing further equity in net losses of BellTel for 2007 in the amount of ₱23.91 million. Total equity in net income of BellTel for the year ended December 31, 2008 amounted to ₱125.18 million and the Company resumed recognizing its share of net income of ₱101.27 million only after recognizing the previously unrecognized ₱23.91 million share of losses as of December 31, 2007.

The summarized financial information of BellTel and PDB as of and for the year ended December 31 follows:

	2008	2007
<b>BellTel:</b>		
Current assets	₱74,565,288	₱74,847,543
Noncurrent assets	616,528,218	698,109,788

(Forward)



	2008	2007
Current liabilities	₱155,415,459	₱956,303,380
Noncurrent liabilities	409,992,543	86,568,391
Net revenues	112,410,036	126,307,003
Loss from operations	(37,161,913)	(64,530,392)
Net income (loss)	386,355,203	(232,407,591)
<b>PDB:</b>		
Financial assets	₱2,609,058,620	₱2,194,024,961
Nonfinancial assets	466,169,776	385,894,913
Deposit liabilities	2,109,141,316	1,677,772,594
Other liabilities	167,332,392	94,268,750
Net interest income	191,899,571	117,403,262
Loss from operations	(5,583,081)	(19,806,844)
Net loss	(21,779,833)	(13,733,175)

#### Investment in BellTel

BellTel was incorporated in August 1993 and was granted in 1994 by the Congress of the Philippines a franchise to install, operate and maintain telecommunications systems throughout the Philippines and for other purposes.

BellTel, which targets the business and high-end residential markets, provides high-speed internet access, voice and data services to leading educational institutions, corporate clients and government institutions, through its multiple access technologies, namely, fixed wireless, cable, digital subscriber line (DSL), and satellite.

BellTel is currently in discussions with several potential strategic and equity investors for sale of 10% to 30% of its authorized capital stock of 20 million shares with par value of P100 per share. With the additional equity infusion, BellTel will be able to expand its network by increasing the equipped capabilities of its existing base stations where huge customer demands remain unmet and establishing nationwide coverage. For this planned expansion, BellTel will be using the latest broadband wireless access systems which are compliant with WIMAX standards in order to attain optimum reliability and spectral efficiency, improved capabilities and increased capacities. BellTel will likewise embark on a very aggressive and large scale advertising and marketing program to further enhance BellTel's corporate image and build brand awareness of its products. BellTel's product offering and careful selection of its target markets contributed to the successful capture of close to 1,000 corporate accounts which include some of the largest domestic and multinational corporations, educational, financial and government institutions, as well as 25% of all industrial locators in the special economic zones of Cavite and Laguna. It recently launched residential and SOHO services, delivering bundled broadband internet, voice and video, which will be major contributors in building up the subscriber base.

The Company has subscriptions payable to BellTel amounting to ₱171.7 million which the Company is allowed to settle within a period of one year from the date of call. As of December 31, 2008 and 2007, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheet.



FAPR 2



The estimated recoverable amount of the investment in BellTel had been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the top management covering five-year period. As of December 31, 2008 and 2007, BellTel has projected profitable operations in the medium-term, indicating the realizability of the Company's investment in the associate.

During the last quarter of 2008, the Company extended additional advances to Belltel amounting to ₱196.5 million bringing the total advances to Belltel in the amount of ₱357.8 million as of December 31, 2008. The Company believes that Belltel continues to maintain its long-term prospects having acquired new broadband bandwidth frequencies as well as new mobile licenses in addition to its existing licenses. A third party assessment of Belltel by Salmans Philippines, Inc. showed the fair value of its franchise at over ₱14 billion. Other shareholders of Belltel have also made similar advances in order to keep it on track in evolving into a full service telecommunications company.

#### Investment in PDB

PDB is a private development bank incorporated in the Philippines in 1960. PDB started off as a small, five-man operation founded by Dr. Procopio C. Reyes as the Pasay City Development Bank. In 1979, the bank's management adopted the bank's present name. The name change was attributed to the continuing aspirations of Premiere Bank to grow and to continue its commitment to service and excellence. In 1990, the BSP granted Premiere Bank a license to operate a foreign currency unit. In 1991, it launched its first credit card under the VISA brand name and launched its trust bank operations in 1992. PDB is engaged in transactions and undertakings, including but not limited to, trust functions, operation of demand deposit accounts, foreign currency transactions, quasi-banking functions, domestic letters of credit, dealership of bonds and other debt instruments, subject to applicable regulations, financial allied and non-allied undertakings, performance of all kinds of services for commercial banks or operation under an expanded banking authority and other transactions that may be allowed to be engaged in by private development banks.

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

On December 29, 2006, the Company sold its investment in PDB for a total consideration of ₱34.8 million, resulting in a gain of ₱6.0 million. The sale of the investment was to give way to the new foreign investor of PDB pending its application with the SEC for the increase in its capital stock. On the same date, the Company's BOD approved the resolution to deposit the same amount with PDB as future investment to its shares.

On September 30, 2007, the Company subscribed to 348,438 new shares at the subscription price of ₱34.8 million through application of the deposit. As of December 31, 2007, the Company's new equity share is 4.94%. However, the Company continues to account for its investment in PDB under the equity method since the Company continues to exercise significant influence over the operating and financial policies of PDB through their common BOD and Officers.



APR 24 2009

## 9. Property and Equipment

### December 31, 2008

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
<b>Cost:</b>				
Balances at beginning of year	₱1,461,087	₱432,098	₱760,000	₱2,653,185
Additions	94,975	—	12,260,964	12,355,939
Balances at end of year	1,556,062	432,098	13,020,964	15,009,124
<b>Accumulated depreciation and amortization:</b>				
Balances at beginning of year	1,298,597	432,098	760,000	2,490,695
Depreciation and amortization for the year	60,430	—	1,749,152	1,809,582
Balances at end of year	1,359,027	432,098	2,509,152	4,300,277
<b>Net book value</b>	<b>₱197,035</b>	<b>₱—</b>	<b>₱10,511,812</b>	<b>₱10,708,847</b>

### December 31, 2007

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
<b>Cost:</b>				
Balances at beginning of year	₱1,434,096	₱432,098	₱760,000	₱2,626,194
Additions	26,991	—	—	26,991
Balances at end of year	1,461,087	432,098	760,000	2,653,185
<b>Accumulated depreciation and amortization:</b>				
Balances at beginning of year	1,244,221	432,098	760,000	2,436,319
Depreciation and amortization for the year	54,376	—	—	54,376
Balances at end of year	1,298,597	432,098	760,000	2,490,695
<b>Net book value</b>	<b>₱162,490</b>	<b>₱—</b>	<b>₱—</b>	<b>₱162,490</b>

## 10. Accounts Payable and Accrued Expenses

	2008	2007
Accrued expenses	₱431,660	₱549,021
Nontrade payables	165,765	39,813
Advances from officers (see Note 12)	—	12,912,367
	<b>₱597,425</b>	<b>₱13,501,201</b>

Advances from officers in 2007 represent advances for oil and gas exploration expenditures. These advances are denominated in U.S. dollars and are payable in the same currency. As of December 31, 2008, all advances from officers were fully paid.





## 11. Income Taxes

For the years ended December 31, 2008, 2007 and 2006, the Company has no provision for income tax because of its gross loss and net taxable loss positions for both years.

A reconciliation of income tax expense applicable to income (loss) before income tax at the statutory income tax rate to provision for income tax follows:

	2008	2007	2006 (As restated, see Note 8)
Income (loss) before tax at statutory tax rate	<b>₱39,499,849</b>	<b>(₱18,219,077)</b>	<b>(₱27,363,657)</b>
Additions to (reductions in) income taxes resulting from:			
Unrecognized deferred income tax asset	<b>38,048,321</b>	732,974	(586,159)
Expired NOLCO	<b>1,000,880</b>	2,386,254	1,925,880
Gain on sale of an investment property	<b>(39,556,832)</b>	—	—
Equity in net losses of associates	<b>(35,078,035)</b>	15,115,682	28,063,433
Interest income subjected to final tax	<b>(3,914,183)</b>	(15,711)	(7,154)
Dividend income exempt from tax	—	(122)	(17,579)
Nondeductible expenses	—	—	44,446
Gain on sale of an associate not subject to income tax	—	—	(2,084,426)
Gain on sale of AFS investments not subject to income tax	—	—	(21,732)
	<b>₱—</b>	<b>₱—</b>	<b>(₱46,948)</b>

No deferred income tax assets have been recognized on the following temporary differences and unused NOLCO as it is not probable that sufficient taxable income will be available to allow the benefit of the deferred income tax assets to be utilized:

	2008	2007
NOLCO	<b>₱62,235,740</b>	<b>₱14,718,771</b>
Allowance for impairment losses on deferred exploration costs	<b>75,280,956</b>	12,434,879
Unrealized foreign exchange loss	<b>13,294</b>	899,944
Allowance for doubtful accounts	—	766,908
	<b>₱137,529,990</b>	<b>₱28,820,502</b>



As of December 31, 2008, the Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry Date	Amount
2008	2011	₱50,376,625
2007	2010	6,220,863
2006	2009	5,638,252
		<u>₱62,235,740</u>

Movement of the Company's NOLCO follows:

	2008	2007
Balance at beginning of year	₱14,718,771	₱15,315,777
Additions	50,376,625	6,220,863
Expirations	(2,859,656)	(6,817,869)
Balance at end of year	<u>₱62,235,740</u>	<u>₱14,718,771</u>

Republic Act (RA) No. 9337

On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as RA No. 9337 or the E-VAT Act (The Act) of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations 16-2005 which provided for the implementation of the rules and regulations of the new E-VAT law. The Act, among others, introduced the following changes:

- a. Regular corporate income tax rate for domestic corporations, and resident and non-resident foreign corporations is increased from 32% to 35% for the next three years effective on November 1, 2005, and will be reduced to 30% starting January 1, 2009 and thereafter;
- b. Grant of authority to the Philippine President to increase the VAT rate from 10% to 12% effective January 1, 2006, subject to compliance with certain economic conditions;
- c. Input VAT on capital goods should be spread evenly over the useful life or sixty months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds one million pesos; and
- d. On January 31, 2006, Revenue Memorandum Circular No. 7-2006 was issued increasing the VAT rate from 10% to 12% effective February 1, 2006.
- e. Input VAT credit in every quarter shall not exceed 70% of the output VAT excluding input VAT as of October 31, 2005. RA 9361 was enacted into law effective December 23, 2006, amending Section 110 (B) of the 1997 NIRC and abolishing the limitation on the amounts of VAT credits that can be claimed.



## 12. Related Party Disclosures

The Company, in the regular course of business, obtains advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances are due and demandable anytime. The advances amounting to ₱12.91 million was fully settled in 2008 (see Note 10).

### Amounts owed by Puyat Steel Corporation (PSC)

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

The BOD through board resolution dated January 24, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to ₱130 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 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 Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

PSC is under common control with the Company.

In 2008, out of the approved ₱130 million, the Company invested a total of ₱125 million whereby the Company earned interest income amounting to ₱9.68 million.

Short-term employee benefits of key management personnel amounted to ₱1.34 million and ₱1.24 million in 2008 and 2007, respectively.

## 13. Basic/Diluted Income/(Loss) Per Share

	2008	2007	2006
Net income/(loss)	<b>₱112,832,200</b>	(₱52,054,506)	(₱78,134,928)
Weighted average number of shares	<b>906,559,569</b>	906,559,569	906,559,569
Income/(loss) per share	<b>₱0.1245</b>	(₱0.0574)	(₱0.0862)

There are no dilutive potential common shares as of December 31, 2008, 2007 and 2006.

## 14. Operating Lease Commitment

The Company leases its office premises under an operating lease agreement. Lease expense under this operating lease amounted to ₱0.46 million, ₱0.45 million and ₱0.49 million in 2008, 2007 and 2006, respectively.



APC



---

## 15. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and AFS investments. The main purpose of this financial instrument is to anticipate future funding requirements of the Company. The Company has various other financial assets and liabilities such as accounts receivable and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the financial instruments of the Company are credit risk involving possible exposure to counter-party default on its cash and receivables; foreign currency exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated savings account deposits in a local bank and advances from officers; equity price risk on its AFS investments; and liquidity risk in terms of meeting fund requirements for its oil and gas exploration projects. The Company's BOD reviews and approves the policies for managing each of these risk and they are summarized below:

### Credit risk

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

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

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Since the Company trades only with recognized counterparties, there is no requirement for collateral.

With respect to credit risk arising from the other financial assets, which comprise cash and receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. There are no significant accounts exposed in concentration risk.

The Company's exposure to credit risk from receivables is considered minimal since the carrying amounts are not material relative to the financial statements.



The credit quality per class of financial assets is as follows:

**December 31, 2008**

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High Grade	Standard Grade			
Cash in banks	P92,819,267	P-	P-	P-	P92,819,267
Accounts receivable	78,985,059	-	-	-	78,985,059
AFS investments	6,792,556	-	-	2,140,757	8,933,313
	P178,596,882	P-	P-	P2,140,757	P180,737,639

**December 31, 2007**

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High Grade	Standard Grade			
Cash in banks	P50,912,570	P-	P-	P-	P50,912,570
Accounts receivable	21,243	57,479	-	766,908	845,630
AFS investments	7,623,815	-	-	2,834,144	10,457,959
	P58,557,628	P57,479	P-	P3,601,052	P62,216,159

High grade receivables pertain to receivables from related party employees and third parties with good payment history. These receivables are considered to be of good quality and expected to be collectible without incurring any credit losses. Receivables that slide beyond the credit terms are classified under standard grade.

The Company's financial assets that are impaired and the movement of the allowance used to record the impairment are as follows:

**December 31, 2008**

	AFS investments	Total
Nominal amounts	P3,733,500	P7,718,559
Less allowance for impairment losses	2,834,144	2,834,144
	P6,567,644	P4,884,415

**December 31, 2007**

	Accounts receivable	AFS investments	Total
Nominal amounts	P845,630	P3,733,500	P4,579,130
Less allowance for impairment losses	766,908	2,699,185	3,466,093
	P78,722	P1,034,315	P1,113,037



The allowance for impairment losses account has no movement since December 31, 2008 and 2007.

*Impairment assessment*

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, nonmoving account receivables, and defaulted accounts.

As of December 31, 2008, 2007 and 2006, no impairment losses on the financial assets were recognized in the statements of income.

*Market risks*

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and equity prices. There has been no change in the Company's exposure to market risks or the manner in which it manages and measures the risk.

a. Foreign currency risk

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

The Company holds cash denominated in US dollar for working capital purposes which amounted to \$6,403 (P304,056) and \$56,385 (P2,334,399) as of December 31, 2008 and 2007, respectively.

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

Information on the Company's foreign currency denominated monetary assets and liabilities and their Philippine peso equivalent are as follows:

	2008		2007	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Cash	\$6,403	P304,056	\$56,385	P2,334,399
Advances from officers	—	—	(312,780)	(12,912,367)
	\$6,403	P304,056	(\$265,395)	(P10,577,968)



The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecast for 2008, with all other variables held constant, of the Company's 2007 income before income tax. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period end for the following % change in foreign currency rates:

**December 31, 2008**

	Effect on income before income tax
US dollar	
Strengthened by 16%	₱48,683
Weakened by 16%	(48,683)

**December 31, 2007**

	Effect on income before income tax
US dollar	
Strengthened by 16%	₱1,699,456
Weakened by 16%	(1,699,456)

There is no impact on the Company's equity other than those already affecting the statements of income.

The Company recognized ₱13,294 foreign exchange losses for the year ended December 31, 2008 and ₱3,159,271 and ₱1,791,273 foreign exchange gain for the years ended December 31, 2007 and 2006, respectively, arising from the translation of these foreign-currency-denominated financial instruments.

b. 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 Company's AFS investment in equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

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

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2008, with all other variables held constant, of the Company's income before income tax and equity:



AFS investments:

**December 31, 2008**

	Effect on income before income tax
Change in PSE stock market index (%)	
+10%	₱589,320
-10%	(₱589,320)

**December 31, 2007**

	Effect on income before income tax
Change in PSE stock market index (%)	
+10%	₱658,950
-10%	(₱658,950)

The impact on the Company's equity already excludes the impact on transactions affecting the statements of income.

**Liquidity risk**

Liquidity risk is the likelihood that the Company will encounter difficulty in meeting financial obligations due to shortage of funds.

The Company invests its fund primarily on oil and gas exploration projects. The Company's major stockholders provide sufficient funding for working capital and oil and gas exploration requirements while no revenue is generated yet from the Company's operations.

The Company's financial liability pertains to accounts payable and accrued expenses which are demandable anytime. As of December 31, 2008 and 2007, the Company's accounts payable and accrued expenses amounted to ₱597,425 and ₱13,501,201, respectively.

**16. Financial Instruments**

**Categories of Financial Instruments**

**December 31, 2008**

	Financial assets		Nonfinancial assets	Total
	Loans and receivables	AFS		
<b>ASSETS</b>				
Cash	₱92,829,217	₱-	₱-	92,829,217
(Forward)				



	Financial assets		Nonfinancial assets	Total
	Loans and receivables	AFS		
Accounts receivables				
Officers and employees	P35,298	P-	P-	P35,298
Amounts owed by a related party	75,000,000			75,000,000
Others	3,949,761	-	-	3,949,761
Prepayments and other current assets	-	-	1,128,284	1,128,284
AFS investments	-	6,792,556	-	6,792,556
Investments in and advances to associates	-	-	567,682,747	567,682,747
Deferred exploration cost	-	-	14,891,080	14,891,080
Property and equipment	-	-	10,708,847	10,708,847
Refundable deposits	-	-	4,500	4,500
	<b>P171,814,276</b>	<b>P6,792,556</b>	<b>P594,415,458</b>	<b>P773,022,290</b>

December 31, 2007

	Financial assets		Nonfinancial assets	Total
	Loans and receivables	AFS		
<b>ASSETS</b>				
Cash	P50,912,570	P-	P-	P50,912,570
Accounts receivables				
Officers and employees	10,939	-	-	10,939
Others	67,783	-	-	67,783
Prepayments and other current assets	-	-	645,193	645,193
AFS investments	-	7,623,815	-	7,623,815
Investment properties	-	-	486,980,479	486,980,479
Investments in and advances to associates	-	-	34,678,994	34,678,994
Deposit for future investments	-	-	-	-
Deferred exploration costs	-	-	77,606,250	77,606,250
Property and equipment	-	-	162,490	162,490
Refundable deposits and others	-	-	141,554	141,554
	<b>P50,991,292</b>	<b>P7,623,815</b>	<b>P600,214,960</b>	<b>P658,830,067</b>





**December 31, 2008**

	Other financial liabilities	Non-financial liabilities	Total
<b>LIABILITIES</b>			
Accounts payable and accrued expenses			
Advances from officers	P-	P-	P-
Accrued expenses	431,659	-	431,659
Nontrade payables	-	165,765	165,765
Subscriptions payable	-	171,720,000	171,720,000
	<u>P431,659</u>	<u>P171,885,765</u>	<u>P172,317,424</u>

**December 31, 2007**

	Other financial liabilities	Non-financial liabilities	Total
<b>LIABILITIES</b>			
Accounts payable and accrued expenses			
Advances from officers	P12,912,367	P-	P12,912,367
Accrued expenses	549,021	-	549,021
Nontrade payables	-	39,813	39,813
Deposit from contract to sell investment property	-	60,000,000	60,000,000
Subscriptions payable	-	171,720,000	171,720,000
	<u>P13,461,388</u>	<u>P231,759,813</u>	<u>P245,221,201</u>

**Fair Values of Financial Instruments**

The fair value of a financial instrument is the amount at which the instrument could be exchanged or set between knowledgeable and willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

The Company has determined that the carrying amounts of cash, accounts receivables, accounts payable and accrued expenses, based on their notional amounts, reasonably approximate their fair values because these are short-term in nature. AFS investments are stated at their fair values based on quoted prices.



Fair values and carrying amount comparison of financial instruments as of December 31 are as follows:

	2008		2007	
	Carrying Amount	Fair Values	Carrying Amount	Fair Values
Financial assets:				
Cash	₱90,819,267	₱90,819,267	₱50,902,620	₱50,902,620
Accounts receivables				
Officers and employees	35,298	35,298	10,939	10,939
Others	3,949,761	3,949,761	67,783	67,782
AFS investments	6,792,556	6,792,556	7,623,815	7,623,815
Financial liabilities:				
Accounts payable and accrued expenses				
Advances from officers	—	—	12,912,367	12,912,367
Accrued expenses	431,659	431,659	549,021	549,021

## 17. Capital Management

The primary objective of the 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 shareholder value.

The Company manages its capital which pertains to its equity, and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares.

No changes were made in the objectives, policies or processes during the years ended December 31, 2008 and 2007. The Company is not exposed to externally imposed capital requirements.

## 18. Prior Period Adjustment

The financial statements for 2006 have been restated in 2007 to reflect the recognition of additional share in the prior period adjustments of an associate. This correction increased the Company's deficit by ₱40.5 million as of January 1, 2006. Net loss increased by ₱11.35 million in 2006.





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

<b>Name and Designation of Debtor</b>	<b>Balance at beginning of Period - 1/1/08</b>	<b>Additions</b>	<b>Amounts Collected</b>	<b>Amounts written off</b>	<b>Current</b>	<b>Not Current</b>	<b>Balance at end of period 12/31/2008</b>
<b>Employees</b>							
Reynaldo P. Carreon	(1.00)	17,540.00	(17,539.00)				-
Michelle Cañizares	-	94,000.00	(79,224.46)				14,775.54
David R. Baladad	10,523.38	70,256.00	(70,257.12)				10,522.26
Ronald E. Comon	(0.06)	20,000.00	(9,999.94)				10,000.00
Imelda D. Olalia	417.09	-	(417.09)				-
	<b>10,939.41</b>	<b>201,796.00</b>	<b>(177,437.61)</b>				<b>35,297.80</b>
<b>Others</b>							
	834,690.51	78,948,938.90	(66,959.97)	(766,908.42)			78,949,761.02
<b>Total</b>	<b>845,629.92</b>	<b>79,150,734.90</b>	<b>(244,397.58)</b>	<b>(766,908.42)</b>			<b>78,985,058.82</b>

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

Name of issuing entity and description of investment	Number of shares or principal amount of bonds/notes	Restated Amount in Pesos Balance Beg a/1/2008	Repurchase of Capital Stock of Premiere Development Bank	Equity in earnings (losses) of investees for the period	Share in unrealized loss on noncurrent marketable equity securities/AFS investment of an associate	Share in prior period adjustment of an associate	Advances to an associate	Amount in Pesos Balance End 12/31/2008
--	---	---	--	---	--	--	--------------------------	--

**INVESTMENT IN ASSOCIATES AND OTHERS**

Stocks:

Bell Tel-32.40%	3,240,000			101,271,527.77			357,807,750.00	459,079,277.77
PDB - 4.81%	348,438.00		34,490,648.20	(1,048,571.97)	188,346.00			33,630,422.23
Share in fair value losses on AFS investments of an associate					(314,829.00)			(314,829.00)
			34,490,648.20	100,222,955.80	(126,483.00)		357,807,750.00	492,394,871.00

**TOTAL- INVESTMENT IN AND  
AND ADVANCES TO ASSOCIATES**

			34,490,648.20	100,222,955.80	(126,483.00)		357,807,750.00	492,394,871.00
--	--	--	---------------	----------------	--------------	--	----------------	----------------

	Number of Shares	Amount in Pesos Balance Beg 1/1/2008		Unrealized gain/ (losses) on marketable equity/securities	Amount in Pesos Balance End 12/31/2008
--	------------------	--------------------------------------	--	---	--

**INVESTMENT IN SHARES OF STOCKS-AVAILABLE FOR SALE**

**NONCURRENT**

**LISTED (TRADED SHARES)**

PETRON	1147500	6,540,750.00		(688,500.00)	5,852,250.00
ABOITIZ EQUITY VENTURES	6000	41,400.00		(7,800.00)	33,600.00

**PLDT**

Preferred U shares	350	3,675.00			3,675.00
Preferred Y Shares	350	3,675.00			3,675.00
		7,350.00			7,350.00

**Sub-total Listed Shares**

		6,589,500.00		(696,300.00)	5,893,200.00
--	--	--------------	--	--------------	--------------

**UNLISTED SHARES**

MT. MALARAYAT		400,000.00			400,000.00
SOUTHWEST RESOURCES		3,333,500.00			3,333,500.00
Allowances for decline in value		(2,699,185.06)		(134,959.26)	(2,834,144.32)
		634,314.94			499,355.68

**Sub-total Unlisted Shares**

		1,034,314.94		(134,959.26)	899,355.68
--	--	--------------	--	--------------	------------

**TOTAL AVAILABLE FOR SALE**

		7,623,814.94		(831,259.26)	6,792,555.68
--	--	--------------	--	--------------	--------------

<b>South China Resources, Inc.</b> <b>Aging of Accounts Receivable</b> <b>As of December 31, 2008</b>									
Type of Accounts Receivable	Total	1 Month	2-3 Mos.	4-6 Mos.	7 Mos. To 1 Year	1-2 Years	3-5 Years	5 Years - Above	Past due accounts & Items in Litigation
a) Trade Receivables									
1) XXX									
2) XXX									
3) XXX	n/a								
Subtotal									
Less: Allow. For Doubtful Acct.									
Net Trade receivable	-								
b) Non-Trade Receivables									
1) Interest receivable									
2) A/R employees	35,297.80								
3) A/R Others	78,949,761.02	3,872,375.30			75,009,603.63	10,303.63	57,478.46		
Subtotal	78,985,058.82	-	-	-	75,009,603.63	10,303.63	57,478.46	-	
Less: Allow. For Doubtful Acct.									
Net Non-Trade receivable	78,985,058.82	-	-	-	75,009,603.63	10,303.63	57,478.46	-	
Net Receivables (a+b)	78,985,058.82								
<b>Notes:</b> If the Company's collection period does not match with the above schedule and revision is necessary to make the schedule not misleading, the proposed collection period in this schedule may be changed to appropriately reflect the Company's actual collection period.									

#### Accounts Receivable Description

Type of Receivable	Nature/Description	Collection Period
1) Interest receivable	Interest arising from money market placements on a 30 days term.	monthly
2) A/R employees	Advances to employees for emergency purpose on a 1 year term payable monthly	monthly
3) A/R others	Receivable from third party for various chargeables	Immediate
<b>Notes :</b> Indicate a brief description of the nature and collection period of each receivable accounts with major balances or separate receivable captions, both for trade and non-trade accounts.		

Normal Operating Cycle: 1 (one) year