



SOUTH CHINA RESOURCES, INC.

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

April 29, 2008

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

Attention: **Atty. PETE M. MALABANAN**
Head, Disclosure Department

Gentlemen:

Please find herewith Annual Report (on SEC Form 17-A) for year ended December 31, 2007 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, 2007

(Reporting Period/Period Ended Date)

Corporation Finance Department

(Department in SEC requiring this report)

463

Total Number of Stockholders (as of December 31, 2007)

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, 2007

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 Outstanding and Amount of Debt Outstanding
Common Shares	906,559,568

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 **₱315,675,150.00** as of **March 26, 2008**.

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. In the light of the effects of the Asian Crisis, South China opted to refocus its core business objectives, diversifying into investments in banking and telecommunication.

The Securities and Exchange Commission 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-SPEX (Shell Philippines Exploration B. V.) consortium together with KUFPEC (Kuwait Foreign Petroleum Co. ksc) signed with the Department of Energy (DOE), Service Contract No. 60 (SC-60). This effectively 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. The group acquired 1000-line km 2D program and a 499-sq km 3D program for the initial exploration sub-phase prior to arriving at a drilling decision. For the whole seven-year exploration period the consortium is expected to spend a minimum of US\$24 million or about P1.2 billion.

On September 25, 2006, Tap Oil Ltd, an Australian oil company completed its documentation and acquired majority interest from the all Filipino consortium of SC-41 offshore Sandakan Basin, in Sulu Sea and assumed operatorship of the block. On January 22, 2007, the DOE approved the assignment and operatorship of Tap Oil subsidiary Tap (Philippines) Pty. Ltd. On January 23, 2007, the DOE also approved the extension of SC-41's contract year 9 to May 10, 2008 and contract year 10 to May 10, 2009. South China's participating interest in the block is 1.090%.

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.

After a moratorium on applications for new exploration contract areas, the DOE launched PECR-3 (Philippine Energy Contracting Round No. 3) in December 22, 2006. The bid round covered nine blocks scattered within the Philippine territory and ended on May 30, 2007. On that date, the Company together with UK company Pitkin Petroleum Ltd., submitted a joint application for Area-4 covering the offshore Cuyo area. Both companies are awaiting finalization by the DOE for the award of the Service Contract.

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. (See above).

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 are contracted from government through the Department of Energy (DOE) in order to investigate an area. Under these contracts, 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.

The major risk the Company may encounter in its exploration activities is the depletion of cash investment and its other resources should it fail to discover commercial oil because of high financial exposure that is involved in the drilling project.

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. The Company has incurred about ₱4.717M in the last three years for its exploration activities. 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, dependence on one or few customers, and significant transactions with and/or related parties are/or not applicable with the registrant at this time.

The Company has no subsidiaries for the year ended 2007. Please refer to Note 8, pages 19 to 21 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 Manager, one (1) Accounting Supervisor, one (1) Administrative Assistant, 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 Pilipinas Plaza building, the Company's investment in property situated in Makati City to Alphaland Corporation for a gross selling price of ₱600 million. 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, 2006 to September 1, 2007 and renewable automatically, on a monthly rental of ₱40,948.52.

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

In a special meeting of the stockholders held on 22 October 2003, whereat 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 – SECURITIES OF THE REGISTRANT

ITEM 5. Market for Issuer's Common Equity and Related Stockholder Matters

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

As of the trading date, March 26, 2008, the high and low price is 1.50, 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 (2007 and 2006).

STOCK PRICES

2007	High	Low
First Quarter	1.2200	1.0266
Second Quarter	1.4600	1.2500
Third Quarter	1.4800	1.2600
Fourth Quarter	1.7400	1.4000
2006	High	Low
First Quarter	0.8833	0.6366
Second Quarter	1.0933	0.7466
Third Quarter	1.0833	0.8366
Fourth Quarter	1.0533	0.9066

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, 2007 and 2006.

The number of shareholders of record as of December 31, 2007 was 463. Common shares issued and subscribed as of December 31, 2007 were 906,559,568.

TOP TWENTY STOCKHOLDERS

As of December 31, 2007

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)	124,881,434	13.7753%
5.	Benjamin Chua	10,051,500	1.1087%
6.	PCD Nominee Corporation (Non-Filipino)	9,992,566	1.1023%
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.	Quintin Uy	1,000,000	0.1103%
17.	Michael Escaler	630,000	0.0695%
18.	Ma. Georgina V. Perez	610,000	0.0673%
19.	Remedios J. Manguiat	580,000	0.0640%
20.	Mandarin Securities Corp.	561,000	0.0619%
TOTAL		870,112,368	95.9796%

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.

PART III – FINANCIAL INFORMATION

ITEM 6. Management's Discussion and Analysis or Plan of Operation.

(A) Financial Position – the Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards

The Company's current ratio as of December 31, 2007 was ₱7.328 for every peso liability – an increase of ₱7.033 from last year's current ratio of ₱0.295. The increase was caused mainly by the payment of deposit from Alphaland 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.

Current ratio for the year 2006 increased by ₱0.207 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 ₱0.042 million. Such reclassification was made because of the Company's intention to hold them only for a year. On November 8, 2006, part of the reclassified AFS having a fair market value of ₱0.934 million as of September 30, 2006, were subsequently sold.

The Company's total assets which stood at ₱658.830 million in 2007, was higher than last year by net amount of ₱5.139 million mainly due to the deposit from Alphaland and decrease in investments in associates. For the year 2006, it was lower than 2005 by about ₱78.189 million due to the decrease in investments in associates and deferred exploration costs.

Cash and cash equivalents increased in 2007 compared to prior year by ₱45.822 million due to payment of deposit from Alphaland and partial collection of subscriptions receivable. For the year 2006, the increase was ₱3.941 million compared to 2005 due to payment of partner's farm-in share in exploration, additional advances from officers and partial collection of subscriptions receivable.

Available for sale (AFS) investments increased by ₱1.835 million as compared to 2006 due to recovery unrealized losses on market value of AFS investment. For 2006, AFS investments amounted to ₱5.788 million, wherein current and noncurrent portion amounted to ₱0.042 million and ₱5.746 million, respectively. The total recovery of unrealized losses on market value of AFS investment increased by ₱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 ₱1.962 million.

The Company's investment in properties account decreased by ₱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*.

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 ₱35.156 million and ₱51.805 million as of January 1, 2006 and December 31, 2006, respectively.

Investments in associates decreased by ₱57.503 million compared to last year due to share in net losses of associates and the acquisition of capital stock by Premiere Development Bank (PDB) amounting to ₱34.844 million. For 2005, the decrease was ₱37.014 million as compared to 2004 due to share in net losses of associates.

On December 29, 2006, the Company sold its investment in PDB for a total consideration of ₱34.844 million, resulting in a gain of ₱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.

Investments in associates decreased by ₱3.156 million compared to last year due to share in net losses of associates. For 2006 the decrease was ₱109.308 due to share in net losses of associates and acquisition of capital stock investments by Premiere Bank.

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

Deferred exploration cost decreased by ₱4.726 million compared to 2006 and a decrease of ₱4.876 million in 2006 compared to 2005 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 ₱54.412 million compared to 2006 due to deposit made and partial payment of advances from officers and an increase of ₱1.512 million in 2006 compared to 2005 due to the advances from officers.

Subscriptions receivable in 2007 decreased by ₱1.010 million compared to 2006 due to the payment of the 75% balance by some stockholders.

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

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

Net loss for the year amounted to ₱52.054 million which resulted to a restated deficit of ₱329.625 million as of December 31, 2007. The Company has no earnings yet from its commercial production. Therefore, there were no dividends declared for the period ended December 31, 2007.

The net loss incurred in 2007 decreased by of ₱26.080 million compared to 2006 due to net loss of investee company. For 2006, the net increase was ₱6.813 million compared to 2005 due to gain on sale of an associate, unrealized foreign exchange gain, general and administrative expenses and decrease in net loss of associates.

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

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.

The material changes for this year in comparison with the prior year-end based on line items in the Comparative Balance Sheets as of December 31, 2007 and 2006 are as follows: a) increase in cash and cash equivalents increase of 9.00% due to deposits received from Alphaland and partial collection of subscriptions receivable; b) increase in accounts receivable of 18.09% due to advances subject for liquidation; c) increase in prepayments and other current assets of 52.29% due to additions to payments of annual dues and input tax; d) increase in available for sale of 32.67% due to increase in market value of investments; e) decrease in investments in associates of 8.34% due to the net loss of the investee company; f) 100% decrease in deposit for future investment due to its conversion to investment in associates; g) decrease in deferred exploration costs of 5.74% due to payment of a partner's farm-in share in exploration project; h) decrease in property and equipment of 14.42% due to depreciation of office equipment; i) decrease in accounts payable and accrued expenses by 29.27% due to partial payment of advances from officers; j) 100% increase in deposit from Alphaland due to deposit received; k) increase in unrealized gains on AFS investments of 249.55% due to recovery in market value; and l) increase in deficit of 18.75% due to net loss for the period and the equity share in the net loss of investees.

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

The Company's cash requirement is provided by the stockholders and officers. There is no foreseen increase in funds for the next twelve months however should the need arise, the stockholders and officers are committed in keeping the company operational by providing the needed funds until the company is able to liquefy the advances received. Such advances are carried in the books as liabilities.

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, 2007, 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 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 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.

Summary of Significant Accounting Policies

Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for AFS investments

that have been measured at fair value. The financial statements are presented in Philippine peso, which is the company's functional and presentation currency.

Statement of Compliance

The financial statements of the company 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 that the Company has adopted the following new and amended PFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the Company except for the additional disclosures on the financial statements.

- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Amendment – Presentation of Financial Statements*
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
- Philippine Interpretation IFRIC 9, *Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

Please refer to Notes 2 on pages 4 to 5 on the Notes to Financial Statements, for the principal effects of these changes, if any.

The Company has not yet adopted the following standards, amendments or interpretations that have been approved but are not yet effective:

- Amendment to PAS, *Amendment –Amendment on Statement of Comprehensive Income*
- PAS 23, *Borrowing Costs*
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 11, *PFRS 2, Operating Segments, effective January 1, 2009*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements, effective on January 1, 2008*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction, effective on or after January 1, 2008*

Significant Accounting Judgments and Estimates – Please refer to Note 2 on the Notes to Financial Statements

Financial Risk Management Objectives and Policies - Please refer to Note 15 pages 25 to 29 on the Notes to Financial Statements

Material related party transactions which affect the financial statements

A. Related party disclosure

1. Nature of relationship – please refer to Note 8 (Investments) of the Notes to Financial Statements

2-4. Nature of relationship and related party transactions are disclosed in Note 8 (Investments) of the Notes to Financial Statements.

B. Understanding of relationship and names of related parties

The names of the Company's affiliates were disclosed in Note 2 (Basis of Preparation) and in Note 8 (Investments) of the Notes to Financial Statements

C. Reporting Corporation and one or more corporations

Please refer to Note 1 (Corporate Information and Status of Operations) 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

Revenue Recognition

Revenue - is recognized to the extent that 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 tax or duties. The following specific recognition criteria must also be met before revenue is recognized:

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 assets).

Dividend income – is recognized when the shareholders' right to receive the payment is established. As of December 31, 2007, the Company has no commercial operation yet.

Balance Sheet

Cash - consists of cash on hand and in 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 cost to sell. Depreciation of such asset ceases. Liabilities associated with this asset is presented separately in the balance sheet. *Please refer also to Note 7 on the Notes to Financial Statements for details.*

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 terms of the lease in case of leasehold improvements, whichever is shorter. *Please refer to Note 9 on the Notes to Financial Statements for breakdown.*

Investment Property – is initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing 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 in 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 – 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 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. SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development. *Please refer to Note 1 on the Notes to Financial Statements for details.*

Trade and other receivables – The accounts receivable represent non-trade receivables mainly from the Company's affiliate for the share in office renovation cost. Provision for allowance for doubtful assets was provided for accounts not collectible within one year. *Please refer to Note 4 on the Notes to Financial Statements for breakdown.*

AFS Financial Assets – are those non-derivative financial assets that are designated as available-for-sale or are not classified as Financial Assets at FVPL, HTM investments or Loans and Receivables. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in stockholders' equity in the 'Unrealized gains on AFS investments'. 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. *Please refer to Note 6 on the Notes to Financial Statements for breakdown.*

Prepayments and Other Current Assets – for breakdown please refer to Note 5 on the Notes to Financial Statements

Trade and other payables – total accounts payable and accrued expenses are all current liabilities.

The total amount of accrued expenses is disclosed in Note 10 (Accounts Payable and Accrued Expenses) of the Notes to Financial Statements.

Subscription payable – this is composed of unpaid subscribed capital stock of Bell Telecommunication Philippines, Inc. (Bell Tel) amounting to ₱171.72 million.

Subsidiaries – Relative to affiliates fully disclosed in Note 8 of Notes to Financial Statements.

Income Statement

Finance Cost – Not applicable. No interest-bearing loans.

Other Income – Interest income on securities – not applicable

Other Expenses – classified as miscellaneous and is immaterial to be shown in detail.

Foreign Currency Transaction – Transactions in foreign currencies are initially recognized using the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

Retained Earnings – the Company has no appropriated earnings.

(B) Information on Independent Accountant and other Related Matters

In compliance with SEC Memo Circular No. 14 Series of 2004, the External Audit Fees billed for 2007 and 2006 amounted to ₱338,800.00 and ₱279,400.00, respectively. 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.

RESULTS AND PLANS OF OPERATIONS

SC-41 Offshore Sulu Sea Sandakan Basin

The entry of Tap Oil Ltd as operator of SC-41 last January 2007 was further augmented with the entry of UK based company Salamander Energy in mid-2007. Salamander acquired 35% participating interest in the block from Tap Oil. Tap completed the Alpine 3D seismic survey in July 2007, covering an area of 750 square kilometers.

The 3D program is currently running through as data processing commenced immediately after acquisition and fast track interpretation is being undertaken. The 3D seismic program has been geared towards enhancing the prospectivity of SC-41. SC-41 is on Contract Year 9 which has been extended to May 10, 2008. It is anticipated a drilling decision will be reached by this time. South China retains 1.090% interest in the block and is carried for all activities up to the completion of an exploration well.

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) 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 hundred 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 \$24MM. 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.

A 1000 line km 2D seismic program was then immediately undertaken after the contract signing. A significant 499 sq-km 3D program was shot without any untoward incident in mid-2007 focusing on areas high graded by the previous 2D survey. The 3D seismic data is currently undergoing scrutiny and preliminary evaluation looks promising. In order to accommodate the extra time needed to complete the 3D program, the Department of Energy extended the first sub-phase of the SC to July 10, 2008 where a drilling decision has to be reached. 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 block has yet to be awarded to the group as no formal awards have been made by the DOE at this time. It will be recalled that South China was in this block previously with Murphy Oil of Louisiana.

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.

Oil exploration is a high risk but high reward endeavor. The Company as with any exploration contractor with the DOE has the technical and financial wherewithal to accomplish its exploration activities. The Company also assumes all exploration risks involved in its activities. The Company has enough resources to support its current exploration work program.

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	\$10,000 for General & Administrative
SC-41 Sulu Sea	\$10,000 for General & Administrative
Area 4	\$10,000 for General & Administrative

Other Investments

Bell Telecommunication Philippines, Inc. (BellTel) incorporated in 1993 and granted by the Congress of the Philippines with a franchise to install, operate and maintain telecommunications systems throughout the Philippines. It is authorized to provide a full range of services of multiple leading edge access technologies such as fixed wireless, fiber optics, DSL and satellite, allowing the company's network to provide the entire range of voice, data, video and convergent services to various industries, corporate clients, educational institutions, government agencies and high-end residential markets nationwide.

BellTel began its commercial operations in January 2002 and successfully rolled out in the greater Metro Manila area where the two major central business districts (Makati and Ortigas) are located as well as the provinces of Cavite and Laguna which host some of the country's most matured special economic zones and industrial parks. The special economic zones receive majority of direct foreign investments into the Philippines and generate 80% of the country's total exports. BellTel instituted a Quality Management System which distinguishes it from other service providers as it remains the only local telco to obtain a company wide ISO 9001-2000 Certification.

BellTel is currently in discussions with several potential strategic and equity investors for sale of 10% to 30% of the company's authorized capital stock of 20 Million shares with par value of P100 per share. With the additional equity infusion, the company will be able to expand its network by increasing the equipped capacities of its existing base stations where huge customer demands remain unmet and establishing presence in seventeen (17) of the most progressive areas throughout the country thus 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 for its products.

BellTel's product offerings 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 is expected to be positive EBITDA by the end of six months and will be profitable at the end of second year of expansion. South China 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 P34.844 million and a new equity share of 4.94%.

ITEM 7. Financial Statements

The Financial Statements and Schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules (pages 24-67) 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.

Cash and cash equivalents consist of:	2007	2006
Cash on hand and in banks	50,912,570	5,090,607
Total:	P50,912,570	P5,090,607

Accounts receivable consist mainly of:	2007	2006
Accounts receivable – Officers and employees	10,939	5,560
- Others	834,691	828,012
Total	845,630	833,572
Less allowance for doubtful accounts	766,908	766,908
Total:	P78,722	P66,664

ITEM 8. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

PART IV - CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Issuer

<u>Position</u>	<u>Name</u>	<u>Birthdate</u>
Edgardo P. Reyes	Chairman/CEO	December 2, 1945
Wilfrido P. Reyes	President	January 21, 1947
Belen R. Castro	VP & Treasurer	April 9, 1948
Francisco M. Ortigas III	Director	October 5, 1945
Manuel G. Arteficio	Director	January 13, 1945
Jaime M. Blanco, Jr.	Corporate Secretary	March 21, 1954
David R. Baladad	VP – Operations	September 13, 1956

EDGARDO P. REYES, 62 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, 61 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, 59 years of age, Filipino, has been the VICE PRESIDENT, TREASURER & DIRECTOR of the Company since 1992 up to the present; DIRECTOR & VICE PRESIDENT of Gonzalo Puyat & Sons, Inc.; CORPORATE SECRETARY of Reyson Realty & Development Corp.; VICE PRESIDENT of Computer Data Vision, Inc.; 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 currently a DIRECTOR of CTB. She was the PRESIDENT of Premiere Development Bank since 1992 and is currently its CHAIRMAN since 2007. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

FRANCISCO M. ORTIGAS III, 62 years of age, Filipino, has been a DIRECTOR of the Company since 2005. He has also been PRESIDENT of Concrete Aggregate Corp. He is the PRESIDENT & CEO of Rotary Golfing Foundation of the Philippines from 1986 to present; CHAIRMAN OF THE BOARD of Philam Bond Fund, Inc., Philam Strategic Growth Fund, Inc., Philam Management Asset, Inc., Philam Fund, Inc., Bayer (Phils.), and Orica Explosives, Inc. He is GENERAL PARTNER/TREASURER of Ortigas & Company, Limited Partnership for the past five (5) years. He is also a CORPORATE NOMINEE/DIRECTOR of Francisco Ortigas Securities, Inc. He is also a DIRECTOR of Philippine Golf Foundation, Bell Telecommunication Phils., Inc. for the past five (5) years, Commonwealth Foods Corp., J. Romero & Associates, and Valle Verde Country Club.

MANUEL G. ARTEFICIO, 63 years of age, Filipino, has been a DIRECTOR of the Company since 2007. He has been PRESIDENT of San Miguel 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.

JAIME M. BLANCO, JR., 53 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, 51 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 was elected Independent Director during the 2007 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Arteficio as the independent director to be elected during the 2008 Annual Stockholders' Meeting, upon the recommendation of stockholder Ms. Remedios Manguiat who is not related to the nominee. Mr. Arteficio is qualified to be nominated and elected as an Independent Director 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. He holds 100,000 shares of the Company. He is a graduate of AB Economics from the Ateneo de Manila University. He is a candidate for Masters in Business Administration at the Ateneo de Manila Graduate School. He has been a stockholder of the Company since its inception. The Company adopted the guidelines on the nomination and election of independent directors based on the Company's Manual of Corporate

Governance, and also in accordance with SEC Circulars mentioned.

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.

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.

The Issuer is not aware of any legal proceedings of the nature required to be disclosed under Part IV paragraph (A)(4) of SRC Rule 12 (Annex C) with respect to its directors and executive officers.

There is no employee who is not an executive officer but who is expected to make a significant contribution to the business.

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:

Name and Principal Position	Year	Salary (P)	Bonus (P)	Other Annual Compensation
Edgardo P. Reyes Chairman / CEO				
David R. Baladad VP-Operations				
Imelda D. Olalia Accounting Officer				
Aggregate compensation –	2008	992,520(est)	248,130(est)	N/A
CEO & all other officers and	2007	989,640	247,770	N/A
Directors as a group unnamed	2006	981,700	246,050	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, 2007 (owning more than 5% of any class of voting securities)**

Title of Class	Name, address of record owner and relationship with issuer	Citizenship	No. of Shares Held	Percent
Common	EDGARDO P. REYES 1371 Caballero St., Dasmariñas Vill., Makati	Director	Filipino	231,853,123 25.5751%
Common	WILFRIDO P. REYES 1545 Mahogany St., Dasmariñas Vill., Makati	Director	Filipino	231,853,123 25.5751%
Common	BELEN R. CASTRO 4889 Pasay Road, Dasmariñas Vill., Makati	Director	Filipino	231,353,122 25.5199%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 13.7753% 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	Record and Beneficial	Filipino 25.5751%
Common Shares	Wilfrido P. Reyes	231,853,123	Record and Beneficial	Filipino 25.5751%
Common Shares	Belen R. Castro	231,353,122	Record and Beneficial	Filipino 25.5199%
Common Shares	Francisco M. Ortigas III	400,000	Record and Beneficial	Filipino 00.0441%
Common Shares	Manuel G. Arteficio	100,000	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	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	Record and Beneficial 00.0552%
Common Shares	David R. Baladad	50,000	Record and Beneficial 00.0055%
Total		550,100	00.0607%

Directors and Officers as a Group

Title of Class	Name of Beneficial owner	Amount of Beneficial ownership	Percent of Class
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

The Company has not entered into any transaction during the last two years, or proposed transactions, to which the registrant was or is to be a party, in which any director, executive officer or security holder, or any of their immediate family members, of the Company had a direct or indirect material interest. Neither has the Company had any transaction with any promoter.

The Company's related party transactions represent receivables from officers and employees (Please refer to Note 4 on Notes to financial statements) as well as advances from officers (Please refer to Note 10 and Note 12 in the financial statements). Only balances were reflected on the notes since no services to or from these affiliates occurred during the calendar year except for the extension of the related advances.

The Company obtains non-interest bearing advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances have no definite repayment terms. These are denominated in US dollars and are payable in the same currency. Advances from officers amounted to ₱12.912 million and ₱184.34 million for 2007 and 2006, respectively.

On November 16, 1997 and December 6, 1999, the Board of Directors approved the subscription to 1.2 million shares and 2.04 million shares, respectively, from unissued capital stock of BellTel at a par value of P100 per share. Payments were made upon subscription equivalent to 25% of the subscriptions made. Subsequently, payment amounting to P71.28 million was made pursuant to a cash call made by BellTel in 2000. The balance of P171.72 million will be paid subject to further cash calls thereafter.

In applying PAS 32 and 39, the standards on financial instruments, the Company has made a judgment that the fair value of subscriptions payable is not reliably determinable in the absence of a reasonable estimate relating to the timing of its settlement, since the decision as to the call date lies with the investee company. The variation in the possible call dates is so significant that the usefulness of a single estimate of fair value may be negated. The Company has been granted by BellTel the option to settle the subscriptions payable within one year from the date a call for payment is made. As of December 31, 2007 and 2006, no call has yet been received from BellTel for such subscriptions. Accordingly, the obligation is presented under noncurrent liabilities in the balance sheets.

PART V – 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 VI - 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.

Item 9. Other Events - March 24, 2008
(Postponement of annual stockholders' meeting from 16 April 2008 to 30 May 2008)


Item 9. Other Events - January 23, 2008
(Sale of the Company's investment in a property (Pilipinas Plaza building) situated in Makati City to Alphaland Corporation for a gross selling price of ₱600 million)

Item 9. Other Events - September 13, 2007
(Approval of the Board of Directors of the sale of Pilipinas Plaza building to Alphaland Corporation for the selling price of ₱600 million)

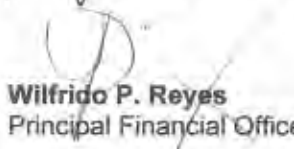
SIGNATURES

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 29 April, 2008.

By:


Edgardo P. Reyes
Principal Executive Officer


Date: April 29, 2008


Wilfrido P. Reyes
Principal Financial Officer

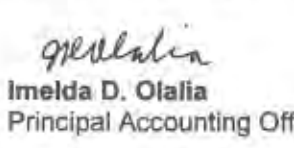
Date: April 29, 2008


Belen R. Castro
Comptroller


Date: April 29, 2008


David R. Baladad
Principal Operating Officer

Date: April 29, 2008


Imelda D. Olalia
Principal Accounting Officer

Date: April 29, 2008


Jaime M. Blanco, Jr.
Corporate Secretary

Date: April 29, 2008

SUBSCRIBED AND SWORN to before me this 29th day of April, 2008 affiant(s) exhibiting to me their residence Certificate, as follows:

Name	Res. Cert. No.	Date of Issue	Place of Issue
Edgardo P. Reyes	19300854	Feb. 04, 2008	Makati City
Wilfrido P. Reyes	19486486	Jan. 17, 2008	Makati City
Belen R. Castro	07562724	Jan. 14, 2008	Manila
David R. Baladad	16425373	Mar. 04, 2008	Quezon City
Imelda D. Olalia	19458405	Jan. 08, 2008	Makati City
Jaime M. Blanco, Jr.	19333363	Feb. 20, 2008	Makati City

Doc. No. : 269
Page No. : 101
Book No. : I
Series of 2008.

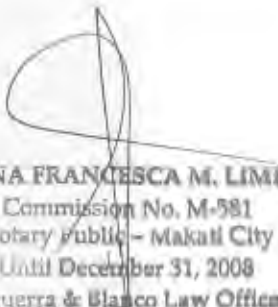

ANNA FRANCESCA M. LIMBO
Commission No. M-581
Notary Public - Makati City
Until December 31, 2008
Esquerre & Blanco Law Offices
4/F S & L Building, Dela Rosa cor. Esteban St.
Legaspi Village, Makati City 1229
PTR No. 0988777/01-07-08/Makati City
Lifetime IBP No. 06664/Q.C. Chapter
Roll No. 54325



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

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* 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

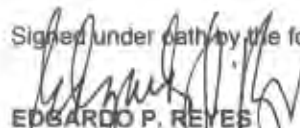
The management of South China Resources, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006 and for the three years in the period ended December 31, 2007. The financial statements have been prepared in conformity 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 29th day of April 2008 affiants exhibiting to me their Residence Certificates, as follows:

Name	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgardo P. Reyes	19300854	Feb. 04, 2008	Makati City
Wilfrido P. Reyes	19486486	Jan. 17, 2008	Makati City
Belen R. Castro	07562724	Jan. 14, 2008	Manila

Doc. No.: 268
Page No.: 101
Book No.: I
Series of 2008.

ANNA FRANCESCA M. LIMBO
Commission No. M-51 Notary Public
Notary Public - Makati City
Until December 31, 2008
Esguerra & Blanco Law Offices
4/F S & L Building, Dela Rosa cor. Esteban Sts.
Legaspi Village, Makati City 1229
PTR No. 0988777/01-07-08/Makati City
Lifetime IBP No. 06664/Q.C. Chapter
Roll No. 54325

Telephone No. 892-2049 * Telefax No. 812-2383



PS FOR FILING WITH SEC

COVER SHEET

AFTER THE DPT HAS MAY
STAMPED "RECORDED"

A S 0 9 2 - 0 6 4 4 1

SEC Registration Number

S O U T H C H I N A R E S O U R C E S , I N C .

(Company's Full Name)

3 / F L o w R i s e P a c i f i c S t a r B l d g . ,
S e n . G i l P u y a t c o r . M a k a t i A v e n u e
, M a k a t i C i t y

(Business Address: No. Street City/Town/Province)

Ms. Imelda D. Olalia

(Contact Person)

812-2383

(Company Telephone Number)

1 2

Month Day
(Calendar Year)

3 1

1 7 A R

(Form Type)

Month

Day

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Corporate Finance Department

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

463

Total No. of Stockholders

Nil

Domestic

Nil

Foreign

To be accomplished by SEC Personnel concerned

File Number

Document ID

LCU

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.



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, 2007 and 2006, 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, 2007, 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 and 2005 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 investments in PDB and BellTel represent about 5.26% and 4.87% of total assets as of December 31, 2007 and 2006, respectively, and the equity in the net losses represents about 0.70%, 102.56% and 96.29%, of the net loss in 2007, 2006 and 2005, respectively. The financial statements of PDB and the 2006 and 2005 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.



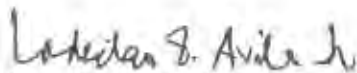
An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or 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, 2007 and 2006, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2007 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. 0017573, January 3, 2008, Makati City

April 29, 2008



SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

	December 31	
	2007	2006 (As restated, see Note 18)
ASSETS		
Current Assets		
Cash	₱50,912,570	₱5,090,607
Accounts receivable - net (Note 4)	78,722	66,664
Available-for-sale (AFS) investments (Note 6)	—	42,000
Prepayments and other current assets (Note 5)	645,193	423,656
	51,636,485	5,622,927
Noncurrent asset classified as held for sale (Note 7)	486,980,479	—
Total Current Assets	538,616,964	5,622,927
Noncurrent Assets		
AFS investments - net of current portion (Note 6)	7,623,815	5,746,328
Investment property (Note 7)	—	486,980,479
Investments in and advances to associates (Note 8)	34,678,994	37,834,512
Deposit for future investment (Note 8)	—	34,843,800
Deferred exploration costs - net of allowance for impairment losses of ₱12,618,353 (Note 1)	77,606,250	82,331,858
Property and equipment - net (Note 9)	162,490	189,875
Refundable deposits	141,554	141,554
Total Noncurrent Assets	120,213,103	648,068,406
TOTAL ASSETS	₱658,830,067	₱653,691,333
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	₱13,501,201	₱19,089,294
Deposit from contract to sell investment property (Note 7)	60,000,000	—
Total Current Liabilities	73,501,201	19,089,294
Noncurrent Liability		
Subscriptions payable (Note 8)	171,720,000	171,720,000
Equity		
Common stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 588,749,569 shares in 2007 and 587,739,569 shares in 2006	588,749,569	587,739,569
Subscribed - 317,810,000 shares in 2007 and 318,820,000 shares in 2006 (net of subscriptions receivable of ₱238,357,500 in 2007 and ₱239,115,000 in 2006)	79,452,500	79,705,000
Additional paid-in capital	72,272,140	72,272,140
Unrealized gains on AFS investments - net (Note 6)	2,571,002	735,515
Share in unrealized gains on AFS investments of an associate (Note 8)	188,346	—
Deficit	(329,624,691)	(277,570,185)
Total Equity	413,608,866	362,882,039
TOTAL LIABILITIES AND EQUITY	₱658,830,067	₱653,691,333

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

	Years Ended December 31		
	2007	2006 (As restated, see Note 18)	2005 (As restated, see Note 18)
REVENUES			
Interest income	₱44,888	₱20,440	₱7,372
Dividend income	350	50,227	700
Gain on sale of an associate (Note 8)	—	5,955,505	—
Gain on sale of AFS investment - net	—	62,090	—
	45,238	6,088,262	8,072
EXPENSES			
Salaries and wages	2,326,394	2,159,065	1,236,559
Travel and transportation	1,045,639	1,026,113	395,113
Professional fees	610,300	821,071	120,000
Rent and utilities (Note 14)	572,868	606,564	345,445
Taxes and licenses	220,559	225,794	222,015
Communication	189,002	219,730	104,034
Office supplies	102,634	119,774	74,089
Entertainment, amusement and recreation	95,356	126,989	137,599
Repairs and maintenance	88,141	36,778	16,930
Gasoline and oil	84,851	76,516	11,100
Depreciation and amortization (Note 9)	54,376	131,250	77,769
Training and seminars	18,500	18,072	13,000
Miscellaneous	344,189	312,460	79,781
	5,752,809	5,880,176	2,833,434
EQUITY IN NET LOSSES OF ASSOCIATES (Notes 8 and 18)	(43,187,664)	(80,181,235)	(68,680,431)
UNREALIZED FOREIGN EXCHANGE GAINS (LOSSES) - Net	(3,159,271)	1,791,273	183,474
LOSS BEFORE INCOME TAX	52,054,506	78,181,876	71,322,319
BENEFIT FROM INCOME TAX (Note 11)	—	(46,948)	—
NET LOSS	₱52,054,506	₱78,134,928	₱71,322,319
Basic/Diluted Loss Per Share (Note 13)	₱0.0574	₱0.0862	₱0.0787

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	Common Stock		Additional Paid-in Capital	Unrealized Gains (losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains on Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2005	586,639,569	79,980,000	72,272,140	(195,237)	—	(128,112,938)	610,583,534
Recovery of unrealized losses on AFS investments	—	—	—	3,083,577	—	—	3,083,577
Share in recovery of unrealized losses on AFS investments of an associate	—	—	—	—	238,220	—	238,220
Total income recognized directly in equity	—	—	—	3,083,577	238,220	—	3,321,797
Net loss for the year as restated (Notes 8 and 18)	—	—	—	—	—	(71,322,319)	(71,322,319)
Total recognized income (expense) for the year	—	—	—	3,083,577	238,220	(71,322,319)	(68,000,522)
Balances at December 31, 2005, as restated	P586,639,569	P79,980,000	P72,272,140	P2,888,340	P238,220	(P199,435,257)	P542,583,012

(Forward)



	Common Stock		Additional Paid-in Capital	Unrealized Gains (losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains on 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 recovery of unrealized losses 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 income (loss) recognized 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 income (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 stock 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 on Investments of an Associate (Note 8)	Deficit	Total
	Issued	Subscribed - net					
Balances at January 1, 2007, as previously stated	₱587,739,569	₱79,705,000	₱72,272,140	₱735,515	₱-	(₱225,765,195)	₱514,687,029
Share in prior adjustments of associate (Notes 8 and 18)	-	-	-	-	-	(51,804,990)	(51,804,990)
Balances at January 1, 2007, as restated	587,739,569	79,705,000	72,272,140	735,515	-	(277,570,185)	462,882,039
Unrealized valuation losses on AFS investments	-	-	-	1,835,487	-	-	1,835,487
Share in recovery of unrealized losses on AFS investments of an associates	-	-	-	-	188,346	-	188,346
Total income (loss) recognized directly in equity	-	-	-	1,835,487	188,346	-	2,023,833
Net loss for the year	-	-	-	-	-	(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	₱588,749,569	₱79,452,500	₱72,272,140	₱2,571,002	₱188,346	(₱329,624,691)	₱413,608,866

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007	2006 (As restated, see Note 18)	2005 (As restated, see Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	(P52,054,506)	(P78,181,876)	(P71,322,319)
Adjustments for:			
Equity in net losses of associates (Notes 8 and 18)	43,187,664	80,181,235	68,680,431
Net unrealized foreign exchange losses (gains) - net	3,159,271	(1,791,273)	(183,474)
Depreciation and amortization (Note 9)	54,376	131,250	77,769
Dividend income	(350)	(50,227)	(700)
Interest income	(44,888)	(20,440)	(7,372)
Gain on sale of AFS investment	-	(62,090)	-
Gain on sale of an associate (Note 8)	-	(5,955,504)	-
Loss on derecognition of property and equipment	-	-	76,768
Operating loss before working capital changes	(5,698,433)	(5,748,925)	(2,678,897)
Decrease (increase) in:			
Accounts receivable	(12,058)	(4,604)	27,392
Prepayments and other current assets	(221,537)	(98,507)	(43,150)
Increase (decrease) in accounts payable and accrued expenses	(7,847,420)	3,525,176	7,109,806
Net cash flows from (used in) operating activities	(13,779,448)	(2,326,860)	4,415,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from deposit from contract to sell investment property (Note 7)	60,000,000	-	-
Decrease (increase) in deferred exploration costs	4,725,608	4,876,188	(4,217,574)
Interest received	44,888	20,440	7,372
Dividend received	350	50,227	700
Additions to:			
Property and equipment (Note 9)	(26,991)	(194,574)	(5,114)
AFS investments	-	(400,000)	-
Proceeds from sale of AFS investments	-	1,313,040	-
Decrease in refundable deposits and others	-	-	339,058
Net cash flows from (used in) investing activities	64,743,855	5,665,321	(3,875,558)
CASH FLOWS FROM FINANCING ACTIVITIES			
Collection of subscriptions receivable	757,500	825,000	-
Advances to associates	(5,000,000)	-	-
Net cash flows from (used in) financing activities	(4,242,500)	825,000	-
NET INCREASE IN CASH	46,721,907	4,163,461	539,593
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(899,944)	(222,054)	(62,527)
CASH AT BEGINNING OF YEAR	5,090,607	1,149,200	672,134
CASH AT END OF YEAR	P50,912,570	P5,090,607	P1,149,200

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

The financial statements of the Company as of December 31, 2007 and 2006 and for each of the three years in the period ended December 31, 2007 were approved and authorized for issue by the Board of Directors (BOD) on April 29, 2008.

The Company has six employees as of December 31, 2007 and 2006.

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, 2007, 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.

Amendment of the Company's Articles of Incorporation

In October 2003, the SEC approved the amendment of the Company's Articles of Incorporation, particularly 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.



Status of Oil and Gas Exploration Operations

The Company is a participant in Service Contracts (SCs) 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	
	2007	2006
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 is estimated to be about US\$20,000 as of December 31, 2007.

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

On January 27, 2006, the Company and Shell Philippines Exploration B.V. (SPEX) signed the Kuwait Foreign Petroleum Exploration Company ksc (KUFPEC) into the consortium. The companies subsequently signed with the DOE SC-60 converting GSEC-99 into an SC. SC-60 covers an area of one million eight thousand hectares in Northeast Palawan. It is one of the promising sites identified by a study performed by the Norwegian Agency for Development Cooperation and the DOE.

During the seven-year exploration period, the consortium is expected to spend a minimum of US\$24 million or about ₱1.2 billion for the exploration of the contract area. The consortium shall conduct seismic and exploration work to find petroleum within the first seven years. The seven-year exploration period is divided into several sub-phases wherein the consortium must exercise its option to move into the succeeding sub-phase or terminate the contract. SC-60 also includes a 25-year production term in the event of a commercial discovery.

SPEX is now the operator of the project. To accommodate the entry of KUFPEC, the Company reduced its participating interest in the block to 15%. The consortium completed a 1,000 kilometer 2D seismic survey in the block using the seismic vessel Veritas Voyager. The survey commenced on August 6, 2006 and was finished on August 25, 2006. The survey is in partial compliance of its obligations to the DOE. The 2D seismic survey was a precursor to 3D seismic survey. A significant 499 sq-km 3D program was shot without any untoward incident in mid-2007 focusing on areas high graded by the previous 2D survey. The 3D seismic data is currently undergoing scrutiny and preliminary evaluation looks promising. In order to accommodate the extra time needed to complete the 3D program, the Department of Energy extended the first sub-phase of the SC to July 10, 2008 where a drilling decision has to be reached. The Company was carried in the acquisition and processing of the 2D seismic and carried in the 3D seismic and evaluation of the contract area (first sub-phase) as well. Once a drilling decision has been made, the Company will also be carried in the drilling of one deepwater exploration well (second sub-phase).



The area presents good potential in the northeastern side of Palawan, particularly in terms of size of mapped structures. It is considered one of the few remaining areas in the country with the possibility of large hydrocarbon accumulations.

SC-41- Offshore Sulu Sea Sandakan Basin

TAP Oil Ltd (Tap Oil), an Australian exploration and production company completed documentation of its farm-in into the SC-41 consortium on September 25, 2006. Tap Oil acquired majority interest and assumes operatorship of the block. A UK-based company Salamander Energy acquired 35% participating interest in the block from Tap Oil. Tap completed the Alpine 3D seismic survey in July 2007, covering an area of 750 square kilometers. The Filipino companies of the SC-41 consortium reduced their participating interest to allow the entry of Tap Oil. South China retains 1.09% interest in the block and is fully carried until completion of the option well. On January 22, 2007, the DOE approved the assignment and operatorship of Tap Oil subsidiary, Tap (Philippines) Pty, Ltd.

SC-41 was awarded on September 1, 1998. Several wells have been drilled in the area with mixed results, two wells having significant oil and gas shows. The consortium has fully complied with the work program for the first seven-year exploration stage of the contract. Prior to entering contract year eight (8), the Filipino contingent of the consortium proceeded forward and negotiated with the DOE for a new program for contract year 8, reducing the SC Year 8 commitment well to a geological and geophysical program. In the last quarter of 2006, Tap Oil, as the new operator, sought an extension on contract years 9 and 10 with the DOE, by expanding its 300 sq km 3D seismic commitment to 600 sq kms. On January 23, 2007, the DOE approved the extension of SC-41's contract year 9 to May 10, 2008 and contract year 10 to May 10, 2009.

The Company is also interested in acquiring exploration acreages in the following Nonexclusive Geophysical Permit and GSEC areas:

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

After a moratorium on applications for new exploration contract areas, DOE launched Philippine Energy Contracting Round No. 3 (PECR-3) on December 22, 2006. The bid round covers nine blocks scattered within the Philippine territory and ended on May 30, 2007.

On that same date, the Company 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 block has yet to be awarded to the group as no formal awards have been made by the DOE at this time. The Company was in this block previously with Murphy Oil of Louisiana.

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 Company has not permanently abandoned the abovementioned GSEC 96 and GSEC 83, nor has it withdrawn from the consortiums relating to the contracted areas for these GSECs. Definite plans for further exploration and development are currently being undertaken.

APR 23 2008



2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale 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 year except that the Company has adopted the following new and amended Philippine Accounting Standards (PAS) and Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) significant during the period. Adoption of these revised standards and interpretations did not have significant effect on the Company except for the additional disclosures on the financial statements

- PFRS 7, *Financial Instruments: Disclosures*
- PAS 1, *Amendment - Presentation of Financial Statements*
- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
- Philippine Interpretation IFRIC 9, *Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

The principal effects of these changes, if any, are as follows:

- PFRS 7, *Financial Instruments: Disclosures*
This standard introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. It replaces PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, and the disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS.

The Company adopted the amendment to the transitional provisions of PFRS 7, as approved by the Financial Reporting Standards Council of the Philippines, which gives transitory relief with respect to the presentation of comparative information for the new risk disclosures about the nature and extent of risks arising from financial instruments. Accordingly, the Company does not need to present comparative information for the disclosures required by paragraphs 31- 42 of PFRS 7, unless the disclosure was previously required under PAS 32. Adoption of PFRS 7 resulted in additional disclosures, which are included throughout the financial statements. These disclosures include presenting the different classes of loans and receivables, rollforward of allowance for doubtful accounts, credit quality of financial assets, aging of past due but not impaired financial assets, and sensitivity analysis as to changes in interest and foreign exchange rates are shown in Note 15.



- *PAS 1, Amendment - Presentation of Financial Statements (Capital Disclosures)*
This amendment requires the Company to make new disclosures to enable users of its financial statements to evaluate the Company's objectives, policies, and procedures for managing capital. These new disclosures are shown in Note 17.
- *Philippine Interpretation IFRIC 8, Scope of PFRS 2*
This Interpretation requires PFRS 2 to be applied to any arrangements in which the entity can not identify specifically some or all of the goods received, in particular, where equity instruments are issued for consideration which appears to be less than fair value. As the Company does not have an employee share scheme, the Interpretation had no impact on the financial position or performance of the Company.
- *Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives*
This Interpretation states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly affects the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the Interpretation had no impact on the financial position or performance of the Company.
- *Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment*
This Interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the Interpretation had no impact on the financial position or performance of the Company.

Future Changes in Accounting Policies

The Company has not yet adopted the following standards, amendments or interpretations that have been approved but are not yet effective:

- *Amendment to PAS 1, Amendment on Statement of Comprehensive Income*
In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.
- *PAS 23, Borrowing Costs*
A revised PAS 23, *Borrowing Costs*, was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. 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. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such transactions currently exist.



- *PFRS 8, Operating Segments*

The Company will adopt PFRS 8, *Operating Segments*, effective January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. 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 balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences. As the Company operates only in one reportable segment, adoption of this standard will likely to have no significant impact on the current manner of reporting segment information in its separate financial statements.

- *Philippine Interpretation IFRIC 11, PFRS 2 - Company and Treasury Share Transactions*

Philippine Interpretation IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity if the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or the shareholders of the entity provide the equity instruments needed. Philippine Interpretation IFRIC 11 also extends the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instrument of the parent. Philippine Interpretation IFRIC 11 is effective on March 1, 2007. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such transactions currently exist.

- *Philippine Interpretation IFRIC 12, Service Concession Arrangements*

Philippine Interpretation IFRIC 12 outlines an approach to account for contractual arrangements arising from entities providing public services. It provides that the operator should not account for the infrastructure as property, plant and equipment, but recognize a financial asset and/or an intangible asset. A financial asset is recognized to the extent that the operator has a contractual right to receive cash from the grantor or has a guarantee from the grantor. An intangible asset is recognized to the extent that the entity has a right to charge the public for use of the asset. Philippine Interpretation IFRIC 12 is effective on January 1, 2008. The Company expects that this Interpretation will have no impact on the Company's financial statements as the Company has not entered into any contractual arrangements to provide public services.

- *Philippine Interpretation IFRIC 13, Customer Loyalty Programmes*

This Interpretation was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. 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 deferred over the period that the award credits are fulfilled. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such programs currently exist.



- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*

This Interpretation was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company will evaluate the impact of this interpretation on the financial position of the Company as the Company's defined benefit plan is currently in an asset position.

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 is 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.

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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.

Investments in Associates

The Company's investments in associates are as follows:

Investees	Business	Percentage of Ownership	
		2007	2006
Bell Telecommunication Philippines, Inc. (BellTel)	Telecommunication	32.40	32.40
Premiere Development Bank (PDB)	Banking	4.94	-

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

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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 income statement reflects the Company's share of the results of operations 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.

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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, 2007 and 2006, 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, 2007 and 2006, the Company had no HTM investments.

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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, 2007 and 2006, the Company has designated as loans and receivable its cash and accounts receivable.

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, 2007 and 2006, the Company's AFS investments include listed and unlisted shares of stocks (see Note 6).

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.

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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, carry-forward 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.

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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.

Allowance for impairment on receivables

The Company maintains allowances for impairment on 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.

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.

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The allowance for impairment of receivables as of December 31, 2007 and 2006 amounted to ₱766,908. Net accounts receivables as of December 31, 2007 and 2006 amounted to ₱78,722 and ₱66,664, respectively (see Note 4).

Impairment of investment property

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the investment property may be impaired or an impairment loss previously recognized no longer exists or may be decreased. If any such indication exists, the recoverable amount of the investment property is estimated. An impairment loss is recognized whenever the carrying amount of the asset exceeds its estimated recoverable amount.

As of December 31, 2007 and 2006, the Company has not identified any impairment indicator on its investment property.

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, 2007 and 2006, no impairment of investments in and advances to associates were recognized on their carrying amounts of ₱34,678,994 and ₱37,834,512, respectively.

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 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, 2007 and 2006, the Company recognized allowance for impairment losses on deferred exploration costs amounting to ₱12,618,353.

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 ₱28.82 million and ₱26.59 million as of December 31, 2007 and 2006, respectively (see Note 11).

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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, 2007 and 2006, the Company recognized allowance for decline in market value of AFS investments amounting to ₱2,699,185 (see Note 6).

4. Accounts Receivable

	2007	2006
Officers and employees	₱10,939	₱5,561
Others	834,691	828,011
	845,630	833,572
Less allowance for doubtful accounts	766,908	766,908
	₱78,722	₱66,664

5. Prepayments and Other Current Assets

	2007	2006
Input value added tax	₱500,428	₱296,458
Supplies	107,642	96,740
Prepayments	37,123	30,458
	₱645,193	₱423,656

6. AFS Investments

	2007	2006
Current		
Shares - listed	₱—	₱42,000
Noncurrent		
Shares - listed	6,589,500	4,712,013
Shares - unlisted (net of allowance for impairment in value of ₱2,699,185)	1,034,315	1,034,315
	7,623,815	5,746,328
	₱7,623,815	₱5,788,328

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, 2007 and 2006. Unlisted shares without available market values are carried at cost, less any impairment in value.



The Company recognized unrealized gains on increase in market value of its AFS investments amounting to P1.8 million and P2.0 million as of December 31, 2007 and 2006, respectively.

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

The Company's investment property represents parcels of land (with an unfinished building) which was acquired in 1996. The Company is 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.

The Company's share in the investment property's fair value as of December 31, 2006 was P602.3 million, exceeding its carrying value as of said date. The fair value was determined based on valuations performed by Asian Appraisal Company, Inc., an independent company specializing in valuing this type of investment property, and represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with International Valuation Standards.

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 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 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*.

8. Investments in and Advances to Associates

	2007	2006
Acquisition costs:		
Balance at beginning of year	P324,000,000	P358,843,800
Acquisition during the year	34,843,800	-
Disposal during the year	-	(34,843,800)
Balance at end of year	358,843,800	324,000,000
Accumulated equity in net losses:		
Balance at beginning of year	(286,165,488)	(211,939,758)
Equity in net losses for the year	(43,187,664)	(80,181,235)
Disposal during the year	-	5,955,505
Balance at end of year	(329,353,152)	(286,165,488)

(Forward)



	2007	2006
Share in unrealized gains on AFS investments of an associate:		
Balance at beginning of year	P-	P238,220
Share in fair value gains on AFS investments of an associate	188,346	162,498
Disposal during the year	-	(400,718)
Balance at end of year	188,346	-
Investments in associates	29,678,994	37,834,512
Advances to associates	5,000,000	-
	P34,678,994	P37,834,512

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 P23.91 million. As of December 31, 2007, the unrecognized equity in net losses of BellTel amounted to P23.91 million.

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

	2007	2006
BellTel:		
Current assets	P74,847,543	P79,038,056
Noncurrent assets	698,109,788	770,381,927
Current liabilities	956,303,380	795,933,568
Noncurrent liabilities	86,568,391	81,748,523
Net revenues	126,307,003	95,879,409
Loss from operations	(64,530,392)	(93,683,282)
Net loss	(232,407,591)	(245,606,865)
PDB:		
Financial assets	P2,194,024,961	P2,027,439,088
Nonfinancial assets	385,894,913	430,129,870
Deposit liabilities	1,677,772,594	1,516,155,290
Other liabilities	94,268,750	127,798,617
Net interest income	117,403,262	46,672,565
Loss from operations	(19,806,844)	(13,926,509)
Net loss	(13,733,175)	(23,319,185)

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.



In mid-2001, BellTel performed test marketing of its flagship broadband product called *iDirect*. This product utilizes fixed wireless technology in providing high-speed internet and telephone service to corporate clients. This product uses various platforms of fixed wireless point-to-multipoint radio systems to provide last mile access to a large number of customers belonging primarily to the corporate, high-end residential, educational and financial sectors. *iDirect* presently covers the Greater Manila Area including the provinces of Laguna, Cavite and Batangas where special economic zones and industrial parks are situated and are home to several locators engaged in the manufacturing, electronics and pharmaceutical industries.

In late November 2001, BellTel also introduced, on a test market basis, *MetroDirect*, a service that targeted households or businesses in provinces surrounding the Metro Manila area that frequently call and/or frequently get calls from Metro Manila. In the same period, BellTel announced its alliance with Destiny Cable, Inc. Through the alliance, BellTel will be able to deliver its *iCable* service that combines cable TV and high-speed Internet. This service, launched in August 2003, targets primarily towards residential customers as well as to the small office home office and small and medium enterprise markets.

BellTel also offers telecommunication connectivity for multinational and domestic corporations, financial institutions and government agencies called *Private Networks*. This products provides customized leased line services using wireless, fiber optic, Hybrid Fiber Coax (HFC) and VSAT technologies to address their intranet data, voice, internet, fax and video conferencing service requirements. It allows timely transmission and exchange of information between the head office and several branches or remote offices.

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, 2007 and 2006, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheet.

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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, 2007 and 2006, BellTel has projected profitable operations in the medium term, indicating the realizability of the Company's investment in the associate.

Investment in PDB

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

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

On 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.

9. Property and Equipment

December 31, 2007

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
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
Accumulated depreciation:				
Balances at beginning of year	1,244,221	432,098	760,000	2,436,319
Depreciation for the year	54,376	-	-	54,376
Balances at end of year	1,298,597	432,098	760,000	2,490,695
Net book value	₱162,490	₱-	₱-	₱162,490

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December 31, 2006

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	P1,239,522	P432,098	P760,000	P2,431,620
Additions	194,574	—	—	194,574
Balances at end of year	1,434,096	432,098	760,000	2,626,194
Accumulated depreciation:				
Balances at beginning of year	1,184,615	360,454	760,000	2,305,069
Depreciation for the year	59,606	71,644	—	131,250
Balances at end of year	1,244,221	432,098	760,000	2,436,319
Net book value	P189,875	P—	P—	P189,875

10. Accounts Payable and Accrued Expenses

	2007	2006
Advances from officers (see Note 12)	P12,912,367	P18,483,640
Accrued expenses	549,021	582,574
Nontrade payables	39,813	23,080
	P13,501,201	P19,089,294

Advances from officers represent advances for oil and gas exploration expenditures. These advances are denominated in U.S. dollars and are payable in the same currency.

11. Income Taxes

For the years ended December 31, 2007, 2006 and 2005, 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 loss before income tax at the statutory income tax rate to provision for income tax follows:

	2007	2006	2005
Income before tax at statutory tax rate	(P18,219,077)	(P27,363,657)	(P23,179,754)
Additions to (reductions in) income taxes resulting from:			
Equity in net losses of associates	15,115,682	28,063,433	22,321,141
Expired NOLCO	2,386,254	1,925,880	2,398,660
Unrecognized deferred income tax asset	732,974	—	—

(Forward)



	2007	2006	2005
Dividend income exempt from tax	(122)	(17,579)	(228)
Interest income subjected to final tax	(15,711)	(7,154)	(2,395)
Nonrecognition of deferred income tax assets	—	(586,159)	(1,537,424)
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)	—
	P—	(P46,948)	P—

In 2006, the Company recognized deferred income tax asset up to the extent of deferred income tax liability as follows:

Deferred income tax assets recognized directly in the statements of income:	
Allowance for probable losses on deferred exploration costs	P673,896
	673,896
Deferred income tax liability	
Recognized directly in the statements of income:	
Unrealized foreign exchange gain	(626,948)
Recognized directly in equity:	
Unrealized valuation gains on AFS investments	(46,948)
	673,896
	P—

No deferred income tax assets have been recognized on the following temporary differences and unused NOLCO as it is probable that no sufficient taxable income will be available to allow the benefit of the deferred income tax assets to be utilized:

	2007	2006
NOLCO	P14,718,771	P15,315,777
Allowance for impairment losses on deferred exploration costs	12,434,879	10,509,469
Unrealized foreign exchange loss	899,944	—
Allowance for doubtful accounts	766,908	766,908
	P28,820,502	P26,592,154

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As of December 31, 2007, the Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry Date	Amount
2007	2010	₱6,220,863
2006	2009	5,638,252
2005	2008	2,859,656
		₱14,718,771

Movement of the Company's NOLCO follows:

	2007	2006
Balance at beginning of year	₱15,315,777	₱15,180,040
Additions	6,220,863	5,638,252
Expirations	(6,817,869)	(5,502,515)
Balance at end of year	₱14,718,771	₱15,315,777

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:

- 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;
- 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;
- 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
- On January 31, 2006, Revenue Memorandum Circular No. 7-2006 was issued increasing the VAT rate from 10% to 12% effective February 1, 2006.
- 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 peso amounts of these advances are ₱12.91 million and ₱18.48 million as of December 31, 2007 and 2006, respectively (see Note 10).

Short-term employee benefits of key management personnel amounted to ₱1.240 million and ₱1.237 million in 2007 and 2006, respectively.

13. Basic/Diluted Loss Per Share

	2007	2006	2005
Net loss	₱52,054,506	₱78,134,928	₱71,322,319
Weighted average number of shares	906,559,569	906,559,569	906,559,569
Loss per share	₱0.0574	₱0.0862	₱0.0787

There are no dilutive potential common shares as of December 31, 2007, 2006 and 2005.

14. Operating Lease Commitment

The Company leases its office premises under an operating lease agreement. Lease expense under this operating lease amounted to ₱0.45 million, ₱0.49 million and ₱0.34 million in 2007, 2006 and 2005, respectively.

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.

As of December 31, 2007, the credit quality per class of financial assets follows:

	Neither past due nor impaired		Past due but not impaired	Individually impaired	Total
	High Grade	Standard Grade			
Cash	P50,912,570	P—	P—	P—	P50,912,570
Accounts receivable	21,243	57,479	—	766,908	845,630
AFS investments	7,623,815	—	—	2,699,185	10,323,000
	P58,557,628	P57,479	P—	P3,466,093	P62,081,200

High grade receivables pertain to receivables from 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 as of December 31, 2007 and the movement of the allowance used to record the impairment are as follows:

	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
At December 31, 2007	P78,722	P1,034,315	P1,113,037

The allowance for impairment losses account has no movement since December 31, 2007 and 2006.

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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, 2007, 2006 and 2005, no impairment losses on the financial assets were recognized in the statement 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 \$56,385 (P2,334,399) and \$87,927 (P4,375,432) as of December 31, 2007 and 2006, 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:

	2007		2006	
	US Dollar	Peso Equivalent	US Dollar	Peso Equivalent
Cash	\$56,385	P2,334,399	\$87,927	P4,375,432
Advances from officers	(312,780)	(12,912,367)	(376,563)	(18,483,640)
	(\$265,395)	(P10,577,968)	(\$288,636)	(P14,108,208)

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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:

	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 statement of income.

The Company recognized ₱3,159,271 foreign exchange losses for the year ended December 31, 2007 and ₱1,791,273 and ₱183,474 foreign exchange gain for the years ended December 31, 2006 and 2005, 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:

	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 statement of income.

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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, 2007 and 2006, the Company's accounts payable and accrued expenses amounted to ₱13,501,201 and ₱19,089,294, respectively.

16. Financial Instruments

Categories of Financial Instruments

As of December 31, 2007

	Financial assets		Nonfinancial assets	Total
	Loans and receivables	AFS	assets	
ASSETS				
Cash	₱50,912,570	₱—	₱—	₱50,912,570
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
Noncurrent asset classified as held for sale	—	—	486,980,479	486,980,479
Investments in and advances to associates	—	—	34,678,994	34,678,994
Deferred exploration cost	—	—	77,606,250	77,606,250
Property and equipment	—	—	162,490	162,490
Refundable deposits	—	—	141,554	141,554
TOTAL	₱50,991,292	₱7,623,815	₱600,073,406	₱658,830,067

As of December 31, 2006

	Financial assets		Nonfinancial assets	Total
	Loans and receivables	AFS	assets	
ASSETS				
Cash	₱5,090,607	₱—	₱—	₱5,090,607
Accounts receivables				
Officers and employees	5,561	—	—	5,561
Others	61,103	—	—	61,103

(Forward)

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	Financial assets		Nonfinancial assets	Total
	Loans and receivables	AFS		
Prepayments and other current assets	P-	P-	P423,656	P423,656
AFS investments	-	5,788,328	-	5,788,328
Investment properties	-	-	486,980,479	486,980,479
Investments in and advances to associates	-	-	37,834,512	37,834,512
Deposit for future investments	-	-	34,843,800	34,843,800
Deferred exploration costs	-	-	82,331,858	82,331,858
Property and equipment	-	-	189,875	189,875
Refundable deposits and others	-	-	141,554	141,554
TOTAL	P5,157,271	P5,788,328	P642,745,734	P653,691,333

As of December 31, 2007

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Accounts payable and accrued expenses			
Advances from officers	12,912,367	-	12,912,367
Accrued expenses	549,021	-	549,021
Nontrade payables	-	39,813	39,813
Deposit from contract to sell investment property	P-	P60,000,000	P60,000,000
Subscriptions payable	-	171,720,000	171,720,000
TOTAL	P13,461,388	P231,759,813	P245,221,201

As of December 31, 2006

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Accounts payable and accrued expenses			
Advances from officers	P18,483,640	-	18,483,640
Accrued expenses	582,574	-	582,574
Nontrade payables	-	23,080	23,080
Subscriptions payable	-	171,720,000	171,720,000
TOTAL	P19,066,214	P171,743,080	P190,809,294

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.

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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:

	2007		2006	
	Carrying Amount	Fair Values	Carrying Amount	Fair Values
Financial assets:				
Cash	P50,912,570	P50,912,570	P5,090,607	P5,090,607
Accounts receivables				
Officers and employees	10,939	10,939	5,561	5,561
Others	67,783	67,782	61,103	61,103
AFS investments	7,623,815	7,623,815	5,788,328	5,788,328
Financial liabilities:				
Accounts payable and accrued expenses				
Advances from officers	12,912,367	12,912,367	18,483,640	18,483,640
Accrued expenses	549,021	549,021	582,574	582,574

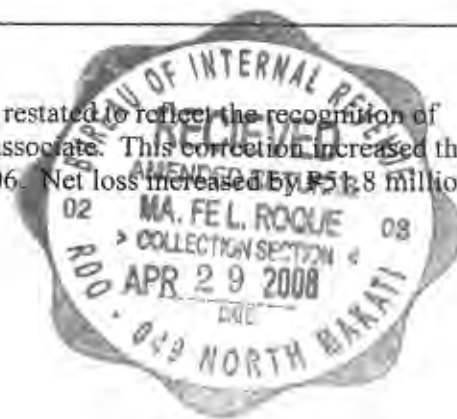
17. Capital Management

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, 2007 and 2006. The Company is not exposed to externally imposed capital requirements.

18. Prior Period Adjustment

The financial statements for 2006 and 2005 have been restated to reflect the recognition of additional share in the prior period adjustments of an associate. This correction increased the Company's deficit by P35 million as of January 1, 2006. Net loss increased by P51.8 million and P35 million in 2006 and 2005, respectively.



**Schedule B. Amounts Receivable from Directors, Officers, Employees, Related parties & Principal Stockholders
(other than affiliates)**

Name and Designation of Debtor	Balance at beginning of period -1/1/07	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period 12/31/2007
Employees							
R. Carreon	639.00	42,405.39	(43,045.39)				(1.00)
M. Cañizares		5,050.00	(5,050.00)				-
D. Baladad	4,216.90	45,256.00	(38,949.52)				10,523.38
R. Comon		13,000.00	(13,000.06)				(0.06)
I. Olalia	705.00	25,000.00	(25,287.91)				417.09
	5,560.90	130,711.39	(125,332.88)				10,939.41
Others	61,103.46	11,505.26	(4,826.63)				67,782.09
Total	66,664.36	142,216.65	(130,159.51)				78,721.50

Schedule C. Non-current marketable equity securities, other long-term investments 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 1/1/2007	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 12/31/2007
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INVESTMENTS IN ASSOCIATES AND OTHERS

Stocks:

Bell Tel-32.40%	3,240,000	124,795,088.43	-	(42,834,512.13)		(86,960,576.30)	5,000,000.00	0.00
PDB-4.94%	348,438	-	34,843,800.00	(353,151.31)	188,345.85			34,678,994.54
Share in Unrealized loss on noncurrent marketable equity securities/AFS investment of an associate		-			-			-
		-	34,843,800.00	(353,151.31)	188,345.85	-	-	34,678,994.54

TOTAL - INVESTMENTS IN ASSOCIATES

124,795,088.43	34,843,800.00	(43,187,663.44)	188,345.85	(86,960,576.30)	5,000,000.00	34,678,994.54
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	Number of Shares	Amount in Pesos Balance Beg 1/1/2007		Unrealized gain/ (losses) on marketable equity/securities/	Reclass to Noncurrent	Amount in Pesos Balance End 12/31/2007
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INVESTMENT IN SHARES OF STOCKS - AVAILABLE FOR SALE

CURRENT

Listed

Aboitiz	6,000	42,000.00				42,000.00
Reclass to Noncurrent	(6,000)				(42,000.00)	(42,000.00)
TOTAL CURRENT AFS		42,000.00	-	-	(42,000.00)	-

NONCURRENT

Listed

Petron	1,147,500	4,899,987.00		1,836,000.00		6,735,987.00
Allowance for decline in value		(195,237.00)				(195,237.00)
		4,704,750.00		1,836,000.00		6,540,750.00
Aboitiz	6,000			(600.00)	42,000.00	41,400.00
PLDT	700	7,262.50		87.50		7,350.00
Sub-total Listed Shares		4,712,012.50	-	1,835,487.50	42,000.00	6,589,500.00

Unlisted

Mt. Malarayat Golf Sahre	1	400,000.00				400,000.00
Southwest Resources	3,333,500	3,333,500.00				3,333,500.00
Allowance for decline in value		(2,699,185.06)				(2,699,185.06)
		634,314.94				634,314.94

Sub-total Unlisted Shares

1,034,314.94	-	1,034,314.94
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TOTAL NONCURRENT AFS

5,746,327.44	-	1,835,487.50	42,000.00	7,623,814.94
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TOTAL - AVAILABLE FOR SALE

5,788,327.44	-	-	-	1,835,487.50	-	7,623,814.94
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South China Resources, Inc. Aging of Accounts Receivable As of December 31, 2007									
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	10,939.41	417.03			10,522.38				
3) A/R Others	834,690.51	600.00			9,703.63	19,740.46	37,738.00	766,908.42	
Subtotal	845,629.92	1,017.03	-	-	20,226.01	19,740.46	37,738.00	766,908.42	
Less: Allow. For Doubtful Acct.	(766,908.42)							(766,908.42)	
Net Non-Trade receivable	78,721.50	1,017.03	-	-	20,226.01	19,740.46	37,738.00	-	
Net Receivables (a+b)	<u>78,721.50</u>								
Notes: 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
Notes : 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