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

(Month & Day)

17-A

Form Type

Not Applicable

Amendment Designation (if applicable)

December 31, 2006

Period Ended Date

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, 2006**

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**
Province, Country or other jurisdiction of Incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

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 **₱252,660,120.00** as of **March 30, 2007.**

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 (DOE) Department of Energy Service Contract No. 60 (SC-60), effectively converting Geophysical Survey and Exploration Contract NO. 99 (GSEC-99) into an SC. KUFPEC is a wholly owned subsidiary of the national company Kuwait Petroleum Company (KPC) and its entry into eastern offshore Palawan is a significant development in proving this new playing ground for oil exploration in the country. A 1000-line km 2D program and a 450-sq km 3D program were committed to government 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 covers nine blocks scattered within the Philippine territory and will end on May 30, 2007. The Company is currently reviewing the bid round and evaluating the areas for possible participation in the bid.

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 ₱7.558M 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 2006. Please refer to page 20 for information on the business of its associate, Bell Telecommunication Philippines, Inc. (Bell Tel).

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

In 1996, without changing its primary purpose, the Company diversified into its secondary purpose of real estate development business. The Company, through a property for share exchange, acquired fifty percent ownership of almost a hectare of land with unfinished buildings located at Pilipinas Plaza Building EDSA corner Chino Roces Avenue. The owners of the building acquired a study determining a development scheme for the best use of the subject property. Several entities have shown their interest on the property. A financial study is now being undertaken on how best to embark the development plan. The property can be a major commercial/residential center with focus on the residential for the middle market. The property has been enhanced by the MRT station located immediately in front of it. Because of this property acquisition, the Company increased its authorized capital stock to ₱1 Billion of which ₱667 Million has been paid-up. The property is not subject to any lien or encumbrances. The Company has no present plan of acquiring any new real estate property within the year 2007. 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 30, 2007, the high is 1.2 and low price is 1.12, 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 (2006 and 2005).

STOCK PRICES

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
2005	**High**	**Low**
First Quarter	0.8030	0.4230
Second Quarter	0.6900	0.6000
Third Quarter	0.7500	0.6430
Fourth Quarter	0.6333	0.6033

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, 2005 and 2006.

The number of shareholders of record as of December 31, 2006 was 535. Common shares issued and subscribed as of December 31, 2006 were 906,559,568.

TOP TWENTY STOCKHOLDERS

As of December 31, 2006

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)	113,683,434	12.5401%
5.	F. Yap Securities, Inc.	10,594,000	1.1134%
6.	Benjamin Chua	10,051,500	1.1088%
7.	PCD Nominee Corporation (Non-Filipino)	7,337,566	0.8093%
8.	Wilson Chua	5,877,500	0.6483%
9.	Kho Giok En	5,877,500	0.6081%
10.	The Philodrill Corporation	5,513,000	0.3530%
11.	R. Coyiuto Securities, Inc.	3,200,000	0.2410%
12.	Samuel Uy Chua	2,185,000	0.1765%
13.	New World Securities Co., Inc.	1,600,000	0.1666%
14.	EBC Securities Corp.	1,510,000	0.1408%
15.	Gilbert Liu	1,276,000	0.1103%
16.	Jose Mari R. Moraza	1,000,000	0.1103%
17.	Quintin UY	1,000,000	0.1103%
18.	Gregoria Licuanan	1,000,000	0.0772%
19.	Julian T. Ong &/or Susan O. Villafuerte	650,000	0.0717%
20.	Tansengco & Co., Inc.	640,000	0.0706%
	TOTAL	**862,377,368**	**95.1264%**

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 – based on outcome of the adoption of PFRS and Philippine Financial Reporting Interpretations Committee (IFRIC) and restated values for CY 2005 Financial Statements.

The Company's current ratio as of December 31, 2006 was ₱0.295 for every peso liability – an increase of ₱0.208 from last year's current ratio of ₱0.087. The increase was caused by 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.

Current ratio for the year 2005 decreased by ₱0.064 compared to 2004 due to advances from the officers and the reclassification of Marketable Securities from Current Assets to Noncurrent Assets Available for Sale (AFS) investments amounting to ₱0.579 million.

The Company's total assets which stood at ₱740.652 million in 2006, was lower than last year by about ₱26.384 million. This is due to the decrease in investments in associates which also resulted to the decrease in total assets of ₱29.708 million in 2005 compared to 2004 due to the Company's share in net losses of associates.

Cash and cash equivalents increased in 2006 compared to prior year by ₱3.941 million due to increase in advances from the Company's officers, payment of a partner's farm-in share in exploration projects, and partial collection subscriptions receivable. For the year 2005, the increase is ₱0.477 million compared to 2004 due to increase in advances from the Company's officers.

Upon the adoption of PAS 39, *Financial Instruments – Recognition and Measurement*, the 2004 classification of Current Marketable Securities, Marketable Equity Securities, and Investment in Shares of Stocks having an aggregate total of ₱5.662 million was changed to "Available for sale (AFS) investments" beginning January 1, 2005. As of December 31, 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 decreased by ₱2.153 million in 2006. Upon adoption of the standards in 2005, the total recovery of unrealized losses on market value of AFS investments amounted to ₱3.084 million.

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.

Accounts payable and accrued expenses for the period increased by ₱1.512 million compared to 2005 and an increase of ₱6.864 million in 2005 compared to 2004 due to advances from officers.

For 2006, deferred exploration cost decreased by a net amount of ₱4.876 million as compared to 2005 due to the payment of partner's farm-in share in exploration project. For 2005, the increase was ₱4.218 million compared to 2004 due to capitalization of general and administrative expenses validated by the Department of Energy for the exploration cost of NE Palawan amounting to ₱3.468 million and remittance of the company's share in NE Palawan and Sulu block projects amounting to ₱0.750 million.

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

Issued shares increased by ₱1.100 million due to the issuance stock certificates to fully paid shares of some stockholders thereby decreasing the subscribed shares by the same amount.

Net loss for the year amounted to ₱26.330 million which resulted to a total deficit of ₱190.610 million as of December 31, 2006. The Company has no earnings yet from commercial production. Therefore, there were no dividends declared for the period ended December 31, 2006.

The net loss incurred during 2006 is a decrease of ₱9.837 million compared to 2005 due to gain on sale of an associate, unrealized foreign exchange gain and decrease in net loss of associates. For 2005, the decrease was ₱12.576 million compared to 2004 due to decrease in general and administrative expenses and net loss of investee companies.

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, 2006 and 2005 are as follows: a) increase in cash by 342.97% due to increase in cash advances from the Company's officers, payment of farm-in share in exploration project and partial collection of subscriptions receivable; b) increase in accounts receivable by 7.42% due to advances subject for liquidation; c) increase in prepayments by 30.30% due to annual dues and input tax; d) decrease in Noncurrent AFS investments by 34.29% due to reclassification and sales of some listed and unlisted shares and decrease in the market value of the remaining traded shares; e) decrease in investments in associates by 31.54% due to net loss of the investee company; f) decrease in deferred exploration costs by 5.59% due to payment of partner's farm-in share in exploration project; g) increase in property and equipment by 50.04% due to purchase of new office equipments; h) increase in current liabilities by 8.60% due to advances from officers; i) decrease in unrealized gains on AFS investments by 74.54% due to net effect of realized gain on sale of AFS investments, decline in market value and deferred income tax liability recognized on the unrealized gain; j) 100% decrease in share in unrealized losses on AFS investment of an associate due to its acquisition of the Company's subscribed capital stock; and, k) increase in deficit by 16.03% due to net loss for the period.

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, 2006, 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 as follows:

The company has adopted the following amendments to PFRS and Philippine/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 6, *Exploration for and Evaluation of Mineral Resources*
- Philippine Accounting Standards (PAS) 19, *Amendment – Employee Benefits*
- PAS 21, Amendment – *The Effect of Changes in Foreign Exchange Rates*
- PAS 39, Amendments – *Financial Instruments:Recognition and Measurement*
- Philippine Interpretation IFRIC 4, *Determining whether an Arrangement Contains a Lease*

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

The Company has also early adopted the following interpretation. Adoption of these interpretations did not have any effect on the financial position of the company. These, however, require additional disclosures on the financial statements.

- Philippine Interpretation IFRIC 8, Scope of PFRS 2
- Philippine Interpretation IFRIC 9, Reassessment of Embedded Derivatives
- Philippine Interpretation IFRIC 10, Interim Financial Reporting and Impairment

Please refer to Note 2 pages 5 to 6 on the Notes to Financial Statements, for the principal effects of these changes, if any.

Future Changes in Accounting Policies

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

- PFRS 7, *Financial Instruments:Disclosures* – applicable on January 1,2007
- Complementary amendment to PAS 1, *Presentation of Financial Statements* – effective on January 1, 2007
- PFRS 8, *Operating Segments* – effective on January 1, 2009.

- Philippine Interpretation IFRIC 11, PFRS 2- *Group and Treasury Share Transactions,* this interpretation will be effective in annual periods beginning on or after March 1, 2007.
- Philippine Interpretation IFRIC 12, *Service Concession Agreements* – effective on January 8, 2008

The Company will apply PFRS 7 and amendments to PAS 1 in 2007, Philippine Interpretations IFRIC 11 and 12 in 2008 and PFRS 8 in 2009. Except for PFRS 7 and the amendments to PAS 1, the Company does not expect any significant changes in its accounting policies when it adopts the above standards, amendments and interpretations.

Significant Accounting Judgments and Estimates – Please refer to Note 3 on the Notes to Financial Statements

Financial Risk Management Objectives and Policies - Please refer to Note 15 pages 27 to 28 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, 2006, the Company has no commercial operation yet.

Balance Sheet

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

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. Investment property which consists of land (with an unfinished building) is carried at cost less any accumulated impairment in value. *Please refer also to Note 7 on the Notes to Financial Statements for details*.

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 are 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.

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 2006 and 2005 amounted to ₱279,400.00 and ₱297,218.90, 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 Block B Offshore Sulu Sea Sandakan Basin

TAP Oil Ltd, an Australian exploration and production company completed documentation of its farm-in into the SC 41 consortium last September 25, 2006. Tap Oil acquired majority interest and assumed operatorship of the block. Tap Oil will undertake a 3D seismic program with the option to drill one well, all at its own expense. The Filipino companies of the SC-41 consortium reduced their participating interest to allow the entry of Tap Oil. On January 22, 2007, the DOE approved the assignment and operatorship of Tap Oil subsidiary Tap (Philippines) Pty. Ltd. South China retains 1.090% interest in the block and is fully carried until completion of option well.

SC-41 was awarded in September 1, 1998, several wells have been drilled in the area with mixed results, two wells having significant oil ad 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 8 the Filipino contingent of the consortium proceeded forward and negotiated with the DOE for a new program for contract year 8, reducing the Service Contract 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 also approved the extension of SC-41's contract year 9 to May 10, 2008 and contract year 10 to May 10, 2009.

SC-60 (GSEC-99 NE Palawan)

On January 27, 2006 South China and Shell Philippines Exploration B. V. (SPEX) signed the Kuwait Foreign Petroleum Co. ksc (KUFPEC) into the consortium and the consortium subsequently signed with the DOE Service Contract No. 60 (SC-60) converting Geophysical Survey and Exploration Contract NO. 99 (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 done by the Norwegian Agency for Development Cooperation (NORAD) and the DOE.

During the seven-year exploration period of the SC, the consortium is expected to spend a minimum of US$24 million or about P1.2 billion. 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, South China reduced its participating interest in the block to 15%. The consortium completed a 1000 kilometer 2D seismic survey in the block using the seismic vessel Veritas Voyager. The survey commenced August 6 and was finished August 25, 2006. The survey is in partial compliance of its obligation to the DOE. The 2D seismic survey is a precursor to an upcoming 3D seismic survey expected to cover a minimum of 450 sq kms. The 3D survey is expected to commence by first to second quarter of 2007 once a seismic vessel is available. The Company was carried in the acquisition and processing of the 2D seismic and will be carried in the 3D seismic and evaluation of the contract area (first sub-phase). Once a drilling decision has been made, South China 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 for large hydrocarbon accumulations.

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

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 covers nine blocks scattered within the Philippine territory and will end on May 30, 2007. The Company is currently reviewing the bid round and evaluating the areas for possible participation in the bid. In light of these developments, the Company continues to actively seek strategic partners for the joint exploration of these areas in preparation for the lifting of the moratorium.

Despite of a contract application pending over the NW Palawan area by the Swan Block consortium (of which the Company is a co-venturer); the DOE awarded the area to the Philippine National Oil Company-Exploration Corporation (PNOC-EC). Philodrill, deemed operator of the Swan block has informed the company that it is currently negotiating with PNOC-EC to jointly explore the Swan Block in conjunction with their SC-57/58 blocks.

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

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%.

The Company's investment in 348,438 shares of the capital stock of Premiere Development Bank was acquired by the latter into treasury and for which the Company was reimbursed the entire subscription price thereof amounting to P34.844 million. Thereafter, the Company will subscribe to the same number of new shares to be issued by Premiere Bank at the same subscription price of P34.844 million. Premiere Bank has represented to the Company that the foregoing was necessary to comply with certain requirements of the Bangko Sentral ng Pilipinas.

South China continues discussion with several property developers to study the various options for the best possible utilization and development of its property, the Pilipinas Plaza Building. This is located at EDSA corner Chino Roces Avenue. Located right in front of the building is the fully operational Magallanes MRT station. As previously reported, access to the Magallanes MRT station was provided (through the DOTC) by allowing the acquisition of a small portion of the lot frontage and construction of a stairwell therein. South China owns fifty (50%) percent of the property.

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:	2006	2005
Cash on hand and in banks	5,090,607	1,149,200
Total:	**₱5,090,607**	**₱1,149,200**

Accounts receivable consist mainly of:	2006	2005
Accounts receivable – Officers and employees	5,560	2,032
- Others	828,012	826,936
Total	833,572	828,968
Less allowance for doubtful accounts	766,908	766,908
Total:	**₱ 66,664**	**₱ 62,060**

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

Position	Name	Birthdate
Chairman of the Board	**Edgardo P. Reyes**	December 2, 1945
President	**Wilfrido P. Reyes**	January 21, 1947
VP & Treasurer	**Belen R. Castro**	April 9, 1948
Director	**Francisco M. Ortigas III**	October 5, 1945
Corporate Secretary	**Jaime M. Blanco, Jr.**	March 21, 1954
VP for Operations	**David R. Baladad**	September 13, 1956

EDGARDO P. REYES, 61 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 Vinyl 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 was a DIRECTOR of Premiere Development Bank before he became its CHAIRMAN in 2003. Mr. Reyes is the brother of Mr. Wilfrido P. Reyes and Ms. Belen R. Castro.

WILFRIDO P. REYES, 60 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; TREASURER/DIRECTOR of Premiere Development Bank and Surigao Development Corp.; SECRETARY/DIRECTOR of Surigao Marine Products, Inc.; VP/GENERAL MANAGER of Reyson Realty & Development Corp.; VP/TREASURER of Proleo Realty Inc. and 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, 58 years of age, Filipino, has been the VICE PRESIDENT & TREASURER 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 DIRECTOR/EXECUTIVE VICE CHAIRMAN of Premiere Development Bank before she became its PRESIDENT in 2002. She has also been a member of the Financial Executives Institute of the Phils. (FINEX) from 1993 to 2001. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

FRANCISCO M. ORTIGAS III, 61 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.

JAIME M. BLANCO, JR., 52 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, 50 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. Felipe U. Yap was elected Independent Director during the 2006 Annual Stockholders' Meeting. Mr. Felipe U. Yap resigned last December 29, 2006 in compliance with SEC Circular No. 16 Series of 2006 dated December 21, 2006 "disqualifying a securities broker-dealer from sitting as an independent director of listed companies".

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 Manager				
Aggregate compensation – CEO & all other officers and directors as a group unnamed	2007 2006 2005	988,200 981,700 1,187,729	247,050 246,050 245,912	N/A N/A 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, 2006 (owning more than 5% of any class of voting securities)

Title of Class	Name and Address of Owner and Relationship with Issuer	Amount and Nature of Ownership		Citizenship	Percent of Class
Common	EDGARDO P. REYES 1371 Caballero St., Dasmariñas Vill. City of Makati	231,853,123	Record and Beneficial	Filipino	25.5751%
Common	WILFRIDO P. REYES 1545 Mahogany St., Dasmariñas Vill. City of Makati	231,853,123	Record and Beneficial	Filipino	25.5751%
Common	BELEN R. CASTRO 4889 Pasay Road, Dasmariñas Vill. City of Makati	231,353,122	Record and Beneficial	Filipino	25.5199%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 12.5401% 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%
Total		695,459,368			76.7141%

Executive Officers

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership		Citizenship	Percent of Class
Common Shares	Edgardo P. Reyes	-------			-------
Common Shares	Wilfrido P. Reyes	-------			-------
Common Shares	Belen R. Castro	-------			-------
Common Shares	Jaime M. Blanco, Jr.	500,100	Record and Beneficial	Filipino	00.0552%
Common Shares	David R. Baladad	50,000	Record and Beneficial	Filipino	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	695,459,368	76.7141%
Common Shares	Executive Officers as a Group	550,100	00.0607%
Total		696,009,468	76.7748%

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 ₱18.484 million and ₱17.335 million for 2006 and 2005, 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, 2006 and 2005, 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 of Corporate Governance to measure the level of compliance by directors and top management.

The Company adopts the Self Rating for Corporate Governance 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 - April 24, 2007
(Further postponement of annual stockholders' meeting from 18 May 2007 to 01 June 2007)

Item 9. Other Events - March 22, 2007
(Postponement of annual stockholders' meeting from 18 April 2007 to 18 May 2007)

Item 9. Other Events - December 29, 2006
(Disposition/Subscription of Premiere Development Bank's shares)

Item 4. Registration, Removal or Election of
Registrant's Director or Officers December 29, 2006
(Resignation of Mr. Felipe U. Yap as Independent Director in accordance with SEC Memorandum Circular No. 16 Series of 2006 "disqualifying a securities broker-dealer from sitting as an independent director of listed companies").

Item 9. Other Events October 16, 2006
(Transfer of office address from 12/F Pacific Star Bldg., Sen. Gil Puyat cor. Makati Ave., Makati City to 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat cor. Makati Ave., Makati City)

Item 9. Other Events September 25, 2006
(Farm-in of Tap Oil Ltd into Service Contract No. 41)

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 APR 30 2007 2007.

By:

Edgardo P. Reyes
Principal Executive Officer

Date: April 30, 2007

Wilfrido P. Reyes
Principal Financial Officer

Date: April 30, 2007

Belen R. Castro
Treasurer

Date: April 30, 2007

David R. Baladad
Principal Operating Officer

Date: April 30, 2007

Imelda D. Olalia
Principal Accounting Officer

Date: April 30, 2007

Jaime M. Blanco, Jr.
Corporate Secretary

Date: April 30, 2007

SUBSCRIBED AND SWORN to before me this ______ day of APR 30 2007, 2007 affiant(s) exhibiting to me their Residence Certificate, as follows:

Name	Res. Cert. No.	Date of Issue	Place of Issue
Edgardo P. Reyes	17717932	Feb. 27, 2007	Makati City
Wilfrido P. Reyes	15129482	Jan. 16, 2007	Makati City
Belen R. Castro	10593171	Jan. 10, 2007	Manila
David R. Baladad	21392269	Mar. 26, 2007	Quezon City
Imelda D. Olalia	15104736	Jan. 05, 2007	Makati City
Jaime M. Blanco, Jr.	17698813	Feb. 15, 2007	Makati City

Doc. No. : 355;
Page No. : 72;
Book No. : I;
Series of 2007.

Makati City, Philippines
NOTARY PUBLIC
Roll No. 52033
MARIA CELSA CORINA L. KILAYKO

Corina Kilayko
MARIA CELSA CORINA L. KILAYKO
Commission No. M-243
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. 0268206 / 01.03.07 / Makati City
IBP No. 56870 /01.03.07 / Makati City
Roll No. 52033

TABLE OF CONTENTS

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

FINANCIAL STATEMENTS

SUPPLEMENTARY SCHEDULES

* 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, 2006 and 2005 and for the three years in the period ended December 31, 2006. 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
Chief Financial Officer

IMELDA D. OLALIA
Principal Accounting Officer

APR 30 2007

SUBSCRIBED AND SWORN to before me this ____ day of _________ 2007 affiants exhibiting to me their Residence Certificates, as follows:

Name	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgardo P. Reyes	17717932	Feb. 27, 2007	Makati City
Wilfrido P. Reyes	15129482	Jan. 16, 2007	Makati City
Imelda D. Olalia	15104736	Jan. 05, 2007	Makati City

Doc. No.: 553;
Page No.: 42;
Book No.: 1;
Series of 2007.

Makati City, Philippines
NOTARY PUBLIC
Roll No. 52033
MARIA CELSA CORINA L. KILAYKO

Corina Kilayko
Notary Public
MARIA CELSA CORINA L. KILAYKO
Commission No. M-243
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. 0268206 / 01.03.07 / Makati City
IBP No. 56870 /01.03.07 / Makati City
Roll No. 52033

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

COVER SHEET

AS092-06441

SEC Registration Number

SOUTH CHINA RESOURCES, INC.

(Company's Full Name)

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

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

Ms. Imelda D. Olalia

(Contact Person)

812-2383

(Company Telephone Number)

12 31

Month *Day*

(Calendar Year)

17AR

(Form Type)

Month *Day*

(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

535

Total No. of Stockholders

N/A

Domestic

N/A

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

BUREAU OF INTERNAL REVENUE RECEIVED MAR 3 0 2007 RR No. 8 - RDO 49

Remarks: Please use BLACK ink for scanning purposes.

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-FR-1

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, 2006 and 2005, and the statements of income, statements of changes in stockholders' equity and statements of cash flows for each of the three years in the period ended December 31, 2006, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Premiere Development Bank (PDB) and 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 16.85% and 23.77% of total assets as of December 31, 2006 and 2005, respectively, and the equity in their net losses represents about 107.77%, 92.70% and 85.77% of the net loss in 2006, 2005 and 2004, respectively. The financial statements of PDB and 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 other auditors, the financial statements present fairly, in all material respects, the financial position of South China Resources, Inc., as of December 31, 2006 and 2005, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2006 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila Jr.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-1
Tax Identification No. 109-247-891
PTR No. 0266523, January 2, 2007, Makati City

April 30, 2007

APR 3 0 2007

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INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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 in accordance with Philippines Standards on Auditing, the financial statements of South China Resources, Inc. included in this Form 17-A and have issued our report thereon dated April 30, 2007. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respect the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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April 30, 2007

SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

	December 31	
	2006	2005 (Restated)
ASSETS		
Current Assets		
Cash	**₱5,090,607**	₱1,149,200
Available-for-sale (AFS) investments - current (Note 6)	**42,000**	–
Accounts receivable - net (Note 4)	**66,664**	62,060
Prepayments and other current assets (Note 5)	**423,656**	325,149
Total Current Assets	**5,622,927**	1,536,409
Noncurrent Assets		
AFS investments - noncurrent (Note 6)	**5,746,328**	8,745,155
Investment property (Note 7)	**486,980,479**	486,980,479
Investments in associates - net (Note 8)	**124,795,088**	182,297,848
Deposit for future investment (Note 8)	**34,843,800**	–
Deferred exploration costs - net of allowance for impairment losses of ₱12,618,353 (Note 1)	**82,331,858**	87,208,046
Property and equipment - net (Note 9)	**189,875**	126,551
Refundable deposits and others	**141,554**	141,554
Total Noncurrent Assets	**735,028,982**	765,499,633
TOTAL ASSETS	**₱740,651,909**	₱767,036,042
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	**₱19,089,294**	₱17,577,444
Noncurrent Liabilities		
Subscriptions payable (Note 8)	**171,720,000**	171,720,000
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 587,739,569 shares in 2006 and 586,639,569 shares in 2005	**587,739,569**	586,639,569
Subscribed - 318,820,000 shares in 2006 and 319,920,000 shares in 2005 (net of subscriptions receivable of ₱239,115,000 in 2006 and ₱239,940,000 in 2005)	**79,705,000**	79,980,000
Additional paid-in capital	**72,272,140**	72,272,140

(Forward)

	December 31	
	2006	2005 (Restated)
Unrealized gains on AFS investments - net (Note 6)	**₱735,515**	₱2,888,340
Share in unrealized gains on AFS investments of an associate (Note 8)	**–**	238,220
Deficit	**(190,609,609)**	(164,279,671)
Total Stockholders' Equity	**549,842,615**	577,738,598
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**₱740,651,909**	₱767,036,042

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

	Years Ended December 31		
	2006	2005 (Restated)	2004
REVENUES			
Gain on sale of an associate (Note 8)	**₱5,955,504**	₱–	₱–
Gain on sale of AFS investment - net	**62,090**	–	–
Dividend income	**50,227**	700	48,247
Interest income	**20,440**	7,372	6,755
	6,088,261	8,072	55,002
EXPENSES			
Salaries and wages	**(2,159,065)**	(1,236,559)	(1,557,114)
Travel and transportation	**(1,026,113)**	(395,113)	(2,181,267)
Professional fees	**(821,071)**	(120,000)	(536,803)
Rent and utilities (Note 14)	**(606,564)**	(345,445)	(774,146)
Taxes and licenses	**(225,794)**	(222,015)	(120,262)
Communication	**(219,730)**	(104,034)	(358,175)
Depreciation (Note 9)	**(131,250)**	(77,769)	(174,938)
Entertainment, amusement and recreation	**(126,989)**	(137,599)	(219,520)
Office supplies	**(119,774)**	(74,089)	(95,756)
Repairs and maintenance	**(36,778)**	(16,930)	(59,336)
Training and seminars	**(18,072)**	(13,000)	(3,000)
Miscellaneous	**(388,975)**	(90,881)	(910,106)
	(5,880,175)	(2,833,434)	(6,990,423)
EQUITY IN NET LOSSES OF ASSOCIATES (Note 8)	**(28,376,245)**	(33,524,845)	(41,807,558)
UNREALIZED FOREIGN EXCHANGE GAINS - net	**1,791,273**	183,474	–
LOSS BEFORE INCOME TAX	**26,376,886**	36,166,733	48,742,979
PROVISION FOR INCOME TAX - deferred (Note 11)	**(46,948)**	–	–
NET LOSS	**₱26,329,938**	₱36,166,733	₱48,742,979
Basic/Diluted Loss Per Share (Note 13)	**₱0.0290**	₱0.0399	₱0.0538

See accompanying Notes to Financial Statements.

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SOUTH CHINA RESOURCES, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

	Capital Stock		Additional	Unrealized Losses on Marketable Equity Securities/AFS Investments	Share in Unrealized Gains on Marketable Equity Securities/AFS Investments of an Associate		
	Issued	Subscribed - net	Paid-in Capital	- net (Note 6)	(Note 8)	Deficit	Total
Balances at January 1, 2004, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	(₱1,331,262)	(₱1,916,810)	(₱74,185,229)	₱661,458,408
Share in prior period adjustments of associates (Note 8)	–	–	–	–	1,916,810	(5,184,730)	(3,267,920)
Balances at January 1, 2004, as restated	586,639,569	79,980,000	72,272,140	(1,331,262)	–	(79,369,959)	658,190,488
Recovery of unrealized losses on marketable equity securities	–	–	–	1,136,025	–	–	1,136,025
Net loss for the year	–	–	–	–	–	(48,742,979)	(48,742,979)
Total recognized income (expense) for the year	–	–	–	1,136,025	–	(48,742,979)	(47,606,954)
Balances at December 31, 2004, as restated	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	₱–	(₱128,112,938)	₱610,583,534
Balances at January 1, 2005, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	(₱1,916,810)	(₱122,928,208)	₱613,851,454
Share in prior period adjustments of associates	–	–	–	–	1,916,810	(5,184,730)	(3,267,920)
Balances at January 1, 2005, as restated	586,639,569	79,980,000	72,272,140	(195,237)	–	(128,112,938)	610,583,534

(Forward)

	Capital Stock Issued	Capital Stock Subscribed - net	Additional Paid-in Capital	Unrealized Gains (Losses) on AFS Investments - net (Note 6)	Share in Unrealized Gains on AFS Investments of an Associate (Note 8)	Deficit	Total
Balances at January 1, 2005, as restated	₱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 stockholders' equity	–	–	–	3,083,577	238,220	–	3,321,797
Net loss for the year	–	–	–	–	–	(36,166,733)	(36,166,733)
Total recognized income (expense) for the year	–	–	–	3,083,577	238,220	(36,166,733)	(34,844,936)
Balances at December 31, 2005, as restated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	₱238,220	(₱164,279,671)	₱577,738,598
Balances at January 1, 2006, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	(₱1,678,590)	(₱158,978,181)	₱581,123,278
Share in prior period adjustments of associates (Note 8)	–	–	–	–	1,916,810	(5,301,490)	(3,384,680)
Balances at January 1, 2006, as restated	586,639,569	79,980,000	72,272,140	2,888,340	238,220	(164,279,671)	577,738,598

(Forward)

	Capital Stock		Additional	Unrealized Gains (Losses) on AFS Investments	Share in Unrealized Gains on AFS Investments of an Associate		
	Issued	Subscribed - net	Paid-in Capital	- net (Note 6)	(Note 8)	Deficit	Total
Balances at January 1, 2006, as restated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	₱238,220	(₱164,279,671)	₱577,738,598
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 stockholders' equity	–	–	–	(2,152,825)	(238,220)	–	(2,391,045)
Net loss for the year	–	–	–	–	–	(26,329,938)	(26,329,938)
Total recognized income (expense) for the year	–	–	–	(2,152,825)	(238,220)	(26,329,938)	(28,720,983)
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	₱587,739,569	₱79,705,000	₱72,272,140	₱735,515	₱–	(₱190,609,609)	₱549,842,615

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2006	2005 (Restated)	2004
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱26,376,886)**	(₱36,166,733)	(₱48,742,979)
Adjustments for:			
Equity in net losses of associates (Note 8)	**28,376,245**	33,524,845	41,807,558
Depreciation (Note 9)	**131,250**	77,769	174,938
Gain on sale of an associate (Note 8)	**(5,955,504)**	–	–
Net unrealized foreign exchange loss (gains)	**(1,791,273)**	(183,474)	26,222
Gain on sale of AFS investment	**(62,090)**	–	–
Dividend income	**(50,227)**	(700)	(48,247)
Interest income	**(20,440)**	(7,372)	(6,755)
Loss on derecognition of property and equipment	**–**	76,768	–
Operating loss before working capital changes	**(5,748,925)**	(2,678,897)	(6,789,263)
Decrease (increase) in:			
Accounts receivable	**(4,604)**	27,392	(69,543)
Prepayments and other current assets	**(98,507)**	(43,150)	(34,596)
Increase in accounts payable and accrued expenses	**3,525,176**	7,109,806	9,358,128
Net cash flows from (used in) operating activities	**(2,326,860)**	4,415,151	2,464,726
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in deferred exploration costs	**4,876,188**	(4,217,574)	(3,123,839)
Proceeds from sale of AFS investments	**1,313,040**	–	–
Dividend received	**50,227**	700	48,247
Interest received	**20,440**	7,372	6,755
Additions in:			
AFS investments	**(400,000)**	–	–
Property and equipment (Note 9)	**(194,574)**	(5,114)	(27,807)
Decrease in refundable deposits and others	**–**	339,058	1,164,723
Net cash flows from (used in) investing activities	**5,665,321**	(3,875,558)	(1,931,921)
CASH FLOWS FROM FINANCING ACTIVITIES			
Collection of subscriptions receivable	**825,000**	–	–
NET INCREASE IN CASH	**4,163,461**	539,593	532,805
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(222,054)**	(62,527)	(26,222)
CASH AT BEGINNING OF YEAR	**1,149,200**	672,134	165,551
CASH AT END OF YEAR	**₱5,090,607**	₱1,149,200	₱672,134

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, 2006 and 2005 and for each of the three years in the period ended December 31, 2006 were approved and authorized for issue by the Board of Directors (BOD) on April 30, 2007.

The Company has six employees as of December 31, 2006 and 2005.

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, 2006, 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.

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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:

	Percentage of Working Interest	
Contract Areas	**2006**	2005
Northeast Palawan (SC-60, former Geophysical Survey and Exploration Contract (GSEC) 99)	**15.00**	50.00
South Sulu Sea Block B (SC-41)	**1.09**	4.97

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, 2006.

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 is a precursor to an upcoming 3D seismic survey expected to cover a minimum of 450 sq kms. The 3D survey is expected to commence by first to second quarter of 2007 once a seismic vessel is available. The Company was carried in the acquisition and processing of the 2D seismic and will be carried in the 3D seismic and evaluation of the contract area (first sub-phase). 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. Tap Oil will undertake a 3D seismic program with the option to drill one well, all at its own expense. 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 will end on May 30, 2007. The Company is currently reviewing the bid round and evaluating the areas for possible participation in the bid. In light of this development, the Company continues to actively seek strategic partners for the joint exploration of Offshore Cuyo.

Despite of a contract application pending over the NW Palawan area by the Swan Block consortium (of which the Company is a co-venturer), the DOE awarded the area to the Philippine National Oil Company-Exploration Corporation (PNOC-EC). Philodrill, deemed operator of the Swan Block, has informed the Company that it is currently negotiating with PNOC-EC to jointly explore the Swan Block in conjunction with SC-57 and 58 Blocks.

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.

2. 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 compliance with Philippine Financial Reporting Standards (PFRS).

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous financial year except as follows:

The Company has adopted the following new and amendments to PFRS and Philippine 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 6, *Exploration for and Evaluation of Mineral Resources*
- Philippine Accounting Standards (PAS) 19, *Amendment - Employee Benefits*
- PAS 21, *Amendment - The Effects of Changes in Foreign Exchange Rates*
- PAS 39, *Amendments - Financial Instruments: Recognition and Measurement*
- Philippine Interpretation IFRIC 4, *Determining whether an Arrangement Contains a Lease*

The Company has also early adopted the following interpretations. Adoption of these interpretations did not have any effect on the financial position of the Company. These, however, require additional disclosures on the financial statements.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*

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

PFRS 6, *Exploration for and Evaluation of Mineral Resources*
The standard requires the exploration and evaluation assets to be classified as tangible (as property and equipment) or intangible assets according to their nature and treated as a separate class within the prescribed classification. However, companies are allowed to follow their existing accounting policy for exploration and evaluation assets. PFRS 6 also provides for assessment for impairment of exploration and evaluation assets in accordance with PAS 36, *Impairment of Assets*, when facts and circumstances suggest that the carrying values exceed the recoverable amounts. Exploration costs were classified as 'Deferred exploration costs' in the balance sheet. This standard has no significant impact to the financial statements.

PAS 19, *Employee Benefits*
Additional disclosures on the financial statements are made to provide information about trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change has no recognition nor has any measurement impact, as the Company has only six employees and has no pension plan.

PAS 21, *The Effects of Changes in Foreign Exchange Rates*
All exchange differences arising from a monetary item that forms part of a company's net investment in a foreign operation are recognized in a separate component of equity in the financial statements regardless of the currency in which the monetary item is denominated. This change has no significant impact on the financial statements.

PAS 39, *Financial Instruments: Recognition and Measurement*
Amendment for financial guarantee contracts (issued August 2005) - amended the scope of PAS 39 to require financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue*. This amendment did not have an effect on the financial statements.

Amendment for cash flow hedges of forecast intra-group transactions (issued April 2005) - amended PAS 39 to permit the foreign currency risk of a highly probable intra-group forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income. As the Company currently has no such transactions, the amendment did not have an effect on the financial statements.

Amendment for the fair value option (issued June 2005) - amendments to PAS 39 prescribe the conditions under which the fair value option on classification of financial instruments at fair value through profit or loss (FVPL) may be used. Since the Company has no financial instruments at FVPL, the amendment did not have an effect on the financial statements.

Philippine Interpretation IFRIC 4, *Determining whether an Arrangement Contains a Lease*
This interpretation provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. This change in accounting policy has no significant impact on the financial statements.

Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
This interpretation requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value. This interpretation has no impact on the financial position of the Company.

Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
This interpretation was issued in March 2006 and becomes effective for financial years beginning on or after June 1, 2006. This interpretation establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows. The Company assessed that adoption of this interpretation has no impact on the financial statements.

Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
The Company early adopted Philippine Interpretation IFRIC 10 as of January 1, 2006 which provides that the frequency of financial reporting does affect the amount of impairment charge to be recognized in the annual financial reporting with respect to goodwill and AFS equity investments. It prohibits the reversal of impairment losses on goodwill and AFS equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date. This interpretation has no significant impact to the financial statements of the Company.

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

PFRS 7, *Financial Instruments: Disclosures*
PFRS 7 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. PFRS 7 is applicable on January 1, 2007.

Complementary amendment to PAS 1, *Presentation of Financial Statements*
The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. This is effective on January 1, 2007.

The Company is currently assessing the impact of PFRS 7 and the amendment to PAS 1 and expects that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by PFRS 7 and the amendment to PAS 1.

PFRS 8, *Operating Segments*
PFRS 8 is 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. This standard is not applicable to the Company.

Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions*
This interpretation will be effective in annual periods beginning on or after March 1, 2007. This interpretation requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent. The Company currently does not have any stock option plan and therefore, does not expect this interpretation to have significant impact to its financial statements.

Philippine Interpretation IFRIC 12, *Service Concession Arrangements*
This interpretation will become effective on January 1, 2008. This interpretation which covers contractual arrangements arising from entities providing public services, is not relevant to the Company's current operations.

The Company will apply PFRS 7 and the amendments to PAS 1 in 2007, Philippine Interpretations IFRIC 11 and 12 in 2008 and PFRS 8 in 2009. Except for PFRS 7 and the amendments to PAS 1, the Company does not expect any significant changes in its accounting policies when it adopts the above standards, amendments and interpretations.

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

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 initially measured at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met and excludes the costs of day-to-day servicing of an investment property. Investment property, which consists of land (with an unfinished building), is carried at cost less any accumulated impairment in value.

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. 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 an 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 recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a 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:

		Percentage of Ownership	
Investees	Business	**2006**	2005
Bell Telecommunication Philippines, Inc. (BellTel)	Telecommunication	**32.40**	32.40
Premiere Development Bank (PDB)	Banking	–	9.73

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

The Company's investments in associates are accounted for under the equity method of accounting and are carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the associates, less any impairment in value. On acquisition of the investment, any difference between the cost of the investment and the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- goodwill relating to an associate is included in the carrying amount of the investment. However, amortisation of that goodwill is not permitted and is therefore not included in the determination of the investor's share of the associate's profits or losses.

- any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are also made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the investor's share of the associate's profits or losses after acquisition are made for impairment losses recognised by the associate, such as for goodwill or property, plant and equipment.

The Company's financial statements was prepared using uniform accounting policies for like transactions and events in similar circumstances. If an associate uses accounting policies other than those of the investor for like transactions and events in similar circumstances, adjustments are made to conform the associate's accounting policies to those of the Company in applying the equity method.

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. For example, an item for which settlement is neither planned nor likely to occur in the foreseeable future is, in substance, an extension of the entity's investment in that associate. Such items may include preferred shares and long-term receivables or loans but do not include trade receivables, trade payables or any long-term receivables for which adequate collateral exists, such as secured loans. Losses recognized under the equity method in excess of the investor's investment in ordinary shares are applied to the other components of the investor's interest in an associate in the reverse order of their seniority (i.e., priority in liquidation).

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.

Impairment of Investment in Associates

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 Company also determines whether an additional impairment loss needs to be recognized with respect to the Company's interest in the associate that does not constitute part of the net investment.

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; or

- the recoverable amount of an investment in an associate is assessed for each associate, unless the associate does not generate cash inflows from continuing use that are largely independent of those from other assets of the Company.

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

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

All regular way purchases and sales of financial assets are recognized on the trade date, which is the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

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

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

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

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As of December 31, 2006 and 2005, 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, 2006 and 2005, the Company had no HTM investments.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables include 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 in 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, 2006 and 2005, the Company's AFS investments include listed and unlisted shares of stocks.

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.

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

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

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

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

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

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in statement of income, is transferred from stockholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not

recognized in statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

<u>Derecognition of Financial Assets and Liabilities</u>

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).

For arrangements entered into prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of IFRIC Interpretation 4.

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.

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. It is the currency that mainly influences the sale of service and the costs of providing services.

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.

Impairment of receivables
The Company maintains allowance for impairment at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by the Company 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 doubtful accounts would increase the Company's recorded expenses and decrease current assets. As of December 31, 2006 and 2005, the Company has an allowance for doubtful accounts amounting to ₱766,908. Accounts receivable amounted to ₱833,572 and ₱828,968 as of December 31, 2006 and 2005, respectively (see Note 4).

Impairment of property and equipment
Internal and external sources of information are reviewed at each balance sheet date to identify indications that the property and equipment 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 asset is estimated. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The Company assesses the impairment of assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results; and
- significant negative industry or economic trends.

As of December 31, 2006 and 2005, the Company has no accumulated impairment losses on its property and equipment.

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, 2006 and 2005, the Company recognized allowance for decline in market value of AFS investments amounting to ₱2,699,185 (see Note 6).

Impairment of investments carried at equity method
Investments carried at equity method 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 future cash flows expected to be generated from the investments, the Company is required to make estimates and assumptions. As of December 31, 2006 and 2005, no impairment of investments in associates was recognized in the financial statements.

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 oil and gas exploration and development 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 believes the benefits are no longer realizable. As of December 31, 2006 and 2005, 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 anagement 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. As of December 31, 2006 and 2005, the Company recognized deferred income tax assets to the extent of the deferred income tax liability amounting to ₱46,948. No deferred income tax assets have been recognized on temporary differences amounting to ₱26,592,154 and ₱28,450,367 as of December 31, 2006 and 2005, respectively (see Note 11).

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.

Estimated useful lives of property and equipment items
The estimated useful lives used as basis for depreciating the Company's property and equipment items were determined on the basis of management's assessment of the period within which the benefits of these asset items are expected to be realized taking into account actual historical information on the use of such assets as well as industry standards and averages applicable to the Company's assets. As of December 31, 2006 and 2005, the carrying amount of property and equipment amounted to ₱189,875 and ₱126,551, respectively. In 2006, 2005 and 2004 depreciation expense recognized amounted to ₱131,250 and ₱77,769, and ₱174,938 respectively (see Note 9).

4. Accounts Receivable - net

	2006	2005
Officers and employees	**₱5,561**	₱2,032
Others	**828,011**	826,936
	833,572	828,968
Less allowance for doubtful accounts	**766,908**	766,908
	₱66,664	₱62,060

5. Prepayments and Other Current Assets

	2006	2005
Input value added tax	**₱296,458**	₱142,787
Supplies	**96,740**	167,042
Prepayments	**30,458**	15,320
	₱423,656	₱325,149

6. AFS Investments

AFS investments consist of the following:

	2006	2005
Current		
Shares - listed	₱42,000	₱–
Noncurrent		
Shares - listed	4,412,013	7,410,840
Shares - unlisted (net of allowance for decline in market value of ₱2,699,185)	1,334,315	1,334,315
	5,746,328	8,745,155
	₱5,788,328	₱8,745,155

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, 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 ₱0.7 million and ₱2.9 million as of December 31, 2006 and 2005, respectively. Net realized gains on sale of AFS investments recognized in the statement of income amounted to ₱62,090 in 2006.

7. Investment Property

Investment property represents a parcel of land (with an unfinished building) which was acquired in 1996. The Company owns 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. A financial plan will then be established on the basis of the conclusion of the study. 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 investment property's fair value, which has been determined based on valuations performed by Asian Appraisal Company, Inc., an independent company specializing in valuing this type of investment property, 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. Based on the latest valuation, 50% share in the fair value of the investment property amounting to ₱602.3 million exceeded its carrying value as of December 31, 2006. Accordingly, no impairment in value is recognized.

8. Investments in Associates

	2006	2005 (Restated)
Acquisition costs:		
Balance at beginning of year	**₱358,843,800**	₱358,843,800
Disposal during the year	**(34,843,800)**	–
Balance at end of year	**324,000,000**	358,843,800
Accumulated equity in net losses:		
Balance at beginning of year	**(176,784,172)**	(143,259,327)
Equity in net losses for the year	**(28,376,245)**	(33,524,845)
Disposal during the year	**5,955,505**	–
Balance at end of year	**(199,204,912)**	(176,784,172)
Share in unrealized gains on AFS investments of an associate:		
Balance at beginning of year	**238,220**	–
Share in fair value gains on AFS investments of of an associate	**162,498**	238,220
Disposal during the year	**(400,718)**	–
Balance at end of year	**–**	238,220
	₱124,795,088	₱182,297,848

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

	2006	2005
BellTel:		
Current assets	**₱79,038,056**	₱72,533,111
Noncurrent assets	**770,381,927**	568,360,455
Current liabilities	**526,686,977**	515,114,218
Noncurrent liabilities	**82,598,273**	11,863,450
Net revenues	**98,892,969**	90,237,413
Loss from operations	**(90,721,872)**	(86,188,500)
Net loss	**(85,714,920)**	(100,045,720)
PDB:		
Financial assets	**₱2,027,439,088**	₱1,351,490,133
Nonfinancial assets	**423,174,679**	443,706,233
Deposit liabilities	**1,516,155,290**	1,284,821,581
Other liabilities	**127,798,617**	115,230,011
Net interest income	**46,672,565**	44,762,887
Income (loss) from operations	**(13,926,509)**	(20,849,706)
Net loss	**(23,319,185)**	(14,809,046)

Investment in Shares of Stock of 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.

On October 28, 1997, the National Telecommunications Commission (NTC) granted a Provisional Authority (PA) to BellTel to install, operate and maintain the following:

- International Gateway Facility;
- Inter-Exchange Facility;
- Very Small Aperture Terminal (VSAT) System nationwide;
- Telephone systems in certain areas in Luzon;
- Wireless local loop telephone systems in the cities of Muntinlupa, Las Piñas, Pasig, Mandaluyong, Makati, Pasay, and the Municipalities of Parañaque, Pateros, Taguig, Marikina, San Juan; and
- Local exchange carrier (LEC) in all economic zones to be identified under Republic Act 7916.

The PA, which was accepted by BellTel on November 4, 1997, is valid for a period of 18 months up to April 27, 1999 subject to BellTel's compliance with various terms and conditions.

As provided for in the terms and conditions of the PA, BellTel has to commence the work contemplated for its LEC service and operate LEC service within six months up to May 3, 1998 and twelve months up to October 30, 1998, respectively, after date of filing of acceptance of the PA.

On July 22, 2002, the NTC granted BellTel's motion for extension of its PA for another three years up to December 22, 2006, subject to BellTel's compliance with various terms and conditions.

In compliance with the terms of the PA in 1997, BellTel executed the required escrow agreement with a local bank and posted a performance bond. The escrow agreement covered the aggregate amount of ₱350 million, equivalent to 20% of the required investment for the first two years of BellTel's LEC network project. The performance bond, on the other hand, covered the amount of ₱175 million, equivalent to 10% of the required investment for the first two years of the implementation of the network project. In 1998, BellTel had to withdraw the amount from the aforesaid escrow and placed it in trust with the stockholders for the purpose of defraying the cost of the telecommunications equipment purchases.

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 started commercial operations of its VSAT and data leased line services in October 2001. Except as otherwise indicated above, commercial operations of BellTel's other service offerings started in January 2002. BellTel successfully rolled out in the greater Metro Manila area where the two major central business districts (Makati and Ortigas) are loacated 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 telecommunication BellTel to obtain a company wide ISO 9001-2000 Certification.

On various dates in 2001, BellTel obtained loans from a local bank totaling ₱278.8 million. The proceeds from these loans were used to partially finance the acquisition of machinery and equipment for its start-up operations. Security for the loan includes first chattel mortgage on the machinery and equipment acquired out of the proceeds of the loan and various real estate properties and continuing suretyship of certain stockholders of BellTel. The loan is payable in seven (7) years, inclusive of the two (2) years grace period, in twenty (20) equal quarterly installments commencing on the 3rd year from the initial draw down date up to June 10, 2007.

In 2003, BellTel entered into negotiations with the bank for the repayment of the loans through dacion of properties of its stockholders. In March 2005, BellTel has submitted to the bank a proposed Deed of Settlement with the following provisions:

The value of the property to be subject to dacion shall equal to 90% of the appraised value of the property as agreed by BellTel and the bank.

- The value of the property to be subject to dacion shall equal to 90% of the appraised value of the property as agreed by BellTel and the bank.
- Any remaining balance of the outstanding loans not covered through dacion shall be settled by BellTel's stockholders.
- Interest accruing to the outstanding loan shall be up to October 31, 2003 only, which corresponds to the period BellTel had initiated negotiations with the bank.

However, during the latter part of 2005, management and the bank explored other possible options for BellTel that will benefit both parties. Consequently, management has negotiated for the conversion of the said loan by issuance pf common shares of stocks of BellTel to the bank. Further, an omnibus agreement shall be executed between BellTel and the bank to cover the obligation to buyback the shares upon the bank's exercise of put option to sell at a certain strike price within one (1) year under certain parameters and mortgage by BellTel of its real estate and/or chattels to fully secure the buyback obligation.

On March 28, 2007, BellTel and the lender agreed on the following proposed terms of settlement involving outstanding loans:

a. The cut-off date for the determination of obligations subject of proposed settlement/ resolution plan shall be May 31, 2006.
b. Unpaid and past due interest as of May 31, 2006 shall be recomputed at a mutually acceptable variable interest rate, that is lower than the 13.43% per annum fixed interest rate indicated in the outstanding promissory notes of BellTel. Based on the bank confirmation, total outstanding interest as of December 31, 2006 amounted to ₱102,702,390. This amount is lower than the interest accrued in the financial statements as of December 31, 2006. The excess however will not be reversed until final settlement is made.
c. Waiver of default/ penalty charges as of May 31, 2006. Total penalty charges accrued by the lender amounts to ₱278,894,450 and ₱127,088,530 as of December 31, 2006 and 2005, respectively.

d. After considering items a, b, and c above, the estimated net obligation and basic structure of the proposed settlement/ resolution plan shall be:

	In millions
Estimated net obligation to be settled	**₱387.504**
Settlement via dacion en pago	**274.356**
Debt-to-equity conversion	**113.148**
	₱387.504

- BellTel shall deliver to the lender by way of dacion en pago certain real estate properties of a major stockholder to partially settle ₱ 274.4 million out of the ₱387.5 million estimated net loan obligations to be settled.

- The balance of ₱113.1 million out of the ₱387.5 million estimated net loan obligations to be settled shall be converted by the lender into common shares of BellTel, subject to the following conditions:

  - Conversion price is subject to further negotiation and is initially estimated at ₱33.29 net asset value per share based on unaudited financial statements as of December 31, 2006.
  - Buy-back by BellTel of the shares that shall be issued to the lender by way of debt-to-equity conversion, within a period not exceeding three (3) years from date of issuance of the shares.
  - The obligation of BellTel to buy-back the shares shall be secured by a mortgage on certain real properties owned by a major stockholder.
  - If BellTel fails to buy-back the shares on or before the buy-back date, the lender shall, at its sole option:

    i. Foreclose the mortgage and apply the proceeds of the sale to the purchase by BellTel of its own shares from the lender; or
    ii. Sell the shares to third parties. Should the amount realized from the sale of the foreclosed assets or the shares be insufficient to cover the lender's claim, it shall have the right of action to recover the deficiency from BellTel.

Management believes that the debt restructuring as mentioned above is highly probable.

As of December 31, 2006 and 2005, long-term loans of BellTel amounted to ₱278.8 million with an accrued interest of ₱113.2 million.

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 capacities 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 enchance 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.

BellTel has recorded certain prior period adjustments arising from settlement of additional interconnection and leased circuit charges from prior years amounting to ₱5.2 million.

The Company has subscriptions payable to BellTel amounting to ₱171.7 million which the Company is allowed to settle within a period of one year from the date of call. As of December 31, 2006 and 2005, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheet.

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

Investment in Shares of Stock of 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 18, 2001, the BOD of PDB cancelled the subscriptions to its common stock upon ascertaining from its subscribers that they will not be able to settle their subscriptions to PDB. Such cancellation was recommended by the Bangko Sentral ng Pilipinas (BSP) and was unanimously approved by PDB's stockholders in the annual stockholders' meeting held on February 28, 2002. Accordingly, the Company cancelled its unpaid subscription to the shares of stock of PDB in 2001, which in effect, decreased the Company's investment by ₱90.2 million and ownership interest from 24.51% to 9.73%. Consequently, the Company reversed the proportionate accumulated equity in net earnings and unrealized losses on the decline in market value of noncurrent marketable equity securities of PDB totalling ₱10.2 million and ₱3.0 million, respectively. However, the Company continues to account for its investment in shares of stock of PDB under the equity method since the Company continue to exercise significant influence over the operating and financial policies of PDB through their common BOD and Officers.

PDB reclassified preferred shares from capital funds to liability which resulted in the reduction of 'Surplus free' by ₱7.4 million and ₱6.3 million as of December 31, 2005 and 2004, respectively, to reflect the cumulative interest/dividends on the preferred share as of those dates which are now presented as part of 'Preferred shares payable' in the statement of condition. The balances of surplus free have been rested from the amounts previously reported to charge to capital funds the prolonged decline in market value of AFS securities of ₱19.7 million. The adjustment resulted in the decrease in fair value losses in AFS securities as of December 31, 2006 and 2005 by the same amount to PBB.

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.

9. Property and Equipment

December 31, 2006

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,239,522	₱432,098	₱760,000	**₱2,431,620**
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	₱189,875	₱–	₱–	**₱189,875**

December 31, 2005

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,234,408	₱432,098	₱1,266,988	₱2,933,494
Additions	5,114	–	–	5,114
Derecognition	–	–	(506,988)	(506,988)
Balances at end of year	1,239,522	432,098	760,000	2,431,620
Accumulated depreciation:				
Balances at beginning of year	1,149,775	317,525	1,190,220	2,657,520
Depreciation for the year	34,840	42,929	–	77,769
Derecognition	–	–	(430,220)	(430,220)
Balances at end of year	1,184,615	360,454	760,000	2,305,069
Net book value	₱54,907	₱71,644	₱–	₱126,551

10. Accounts Payable and Accrued Expenses

	2006	2005
Advances from officers (see Note 12)	**₱18,483,640**	₱17,335,258
Accrued expenses	**582,574**	201,410
Nontrade payables	**23,080**	40,776
	₱19,089,294	₱17,577,444

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, 2006, 2005 and 2004, 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:

	2006	2005 (Restated)	2004
Pretax loss at statutory tax rates	**(₱9,231,910)**	(₱11,754,188)	(₱15,597,753)
Additions to (reductions in) income taxes resulting from:			
Equity in net losses of associates	**9,931,686**	10,895,575	13,378,418
Expired NOLCO	**1,925,880**	2,398,660	2,463,348
Recognition of deferred income income tax assets	**46,948**	–	–
Nondeductible expenses	**44,446**	–	–
Gain on sale of an associate not subject to income tax	**(2,084,426)**	–	–
Nonrecognition of deferred income tax assets	**(633,107)**	(1,537,424)	(226,412)
Gain on sale of AFS investments not subject to income tax	**(21,732)**	–	–
Dividend income exempt from tax	**(17,579)**	(228)	(15,439)
Interest income subjected to final tax	**(7,154)**	(2,395)	(2,162)
	(₱46,948)	₱–	₱–

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

	2006	2005
Deferred income tax assets recognized directly in the statements of income:		
Allowance for probable losses on deferred exploration costs	**₱673,896**	₱59,629
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)**	(59,629)
	₱–	₱–

No deferred income tax assets have been recognized on the following temporary differences 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.

	2006	2005
NOLCO	**₱15,315,777**	₱15,180,040
Allowance for probable losses on deferred exploration costs	**10,509,469**	12,434,879
Allowance for doubtful accounts	**766,908**	766,908
Accrued rent	**–**	68,540
	₱26,592,154	₱28,450,367

As of December 31, 2006, the Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry Date	Amount
2006	2009	₱5,638,252
2005	2008	2,859,656
2004	2007	6,817,869
		₱15,315,777

Movement of the Company's NOLCO follows:

	2006	2005
Balance at beginning of year	**₱15,180,040**	₱19,700,877
Additions	**5,638,252**	2,859,656
Expirations	**(5,502,515)**	(7,380,493)
Balance at end of year	**₱15,315,777**	₱15,180,040

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 (T he Act) of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations 16-2005 which provided for the implementation of the rules and regulations of the new E-VAT law. The Act, among others, introduced the following changes:

a. Regular corporate income tax rate for domestic corporations, and resident and non-resident foreign corporations is increased from 32% to 35% for the next three years effective on November 1, 2005, and will be reduced to 30% starting January 1, 2009 and thereafter;

b. Grant of authority to the Philippine President to increase the VAT rate from 10% to 12% effective January 1, 2006, subject to compliance with certain economic conditions;

c. Input VAT on capital goods should be spread evenly over the useful life or sixty months, whichever is shorter, if the acquisition cost, excluding the VAT component thereof, exceeds one million pesos; and

d. Input VAT credit in every quarter shall not exceed 70% of the output VAT excluding input VAT as of October 31, 2005. In November 2006, this provision was repealed.

On January 31, 2006, Revenue Memorandum Circular No. 7-2006 was issued increasing the VAT rate from 10% to 12% effective February 1, 2006.

12. Related Party Disclosures

The Company, in the regular course of business, 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. Advances from officers amounted to \$376,563 and \$316,563 as of December 31, 2006 and 2005, respectively. The peso amounts of these advances are ₱18.48 million and ₱17.33 million as of December 31, 2006 and 2005, respectively (see Note 10).

Short-term employee benefits of key management personnel amounted to ₱1.2 million and ₱1.4 million in 2006 and 2005, respectively.

13. Basic/Diluted Loss Per Share

	2006	2005 (Restated)	2004
Net loss	**₱26,329,938**	₱36,166,733	₱48,742,979
Weighted average number of shares	**906,559,569**	906,559,569	906,559,569
Loss per share	**₱0.0290**	₱0.0399	₱0.0538

There are no dilutive potential common shares as of December 31, 2006, 2005 and 2004.

14. Operating Lease Commitment

The Company leases its office premises under an operating lease agreement. Lease expense under this operating lease amounted to ₱0.49 million, ₱0.34 million and ₱0.56 million in 2006, 2005 and 2004, respectively.

15. Financial Risk Management Objectives and Policies

The principal financial instrument of the Company consists 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 counterparty credit risk, foreign currency risk, interest rate risk and liquidity risk. The Company's management reviews and approves policies for managing each of these risks. The Company also monitors the market price risk arising from its financial instruments. The magnitudes of these risks are discussed below.

Counterparty Credit Risk
The objective is to reduce the risk of loss through default by counterparties. The risk is managed by spreading financial transactions, including bank deposits, across an approved list of high quality banks. The Company trades only with recognized creditworthy third parties. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures and credit positions are monitored on a regular basis. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debt is not significant.

Foreign Currency Risk
The Company has transactional foreign currency exposure on its deferred exploration costs and accounts payable and accrued expenses. Transactions in currencies other than the Company's functional currency arise from advances from officers and obligations for exploration expenditures. The Company does not engage in foreign currency forward contracts.

Interest Rate Risk
The Company is exposed to interest rate risk on its cash in bank only. The Company's exposure to this risk is minimal.

Liquidity Risk
The Company invests its funds primarily in 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.

Fair Value of Financial Instruments
The Company has determined that the carrying amounts of cash, accounts receivable, accounts payable and accrued expenses and subscriptions payable, based on their notional amounts, reasonably approximate their fair values because these instruments have short-term maturities.

AFS investments are carried at fair values based primarily on quoted market prices of the equity securities.

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 -1/1/06	Additions	Amounts Collected	Amounts written off	Current	Not Currrent	Balance at end of period 12/31/2006
Employees							
R. Carreon	2,032.00	90,050.00	(91,443.00)				639.00
M. Cañizares		10,000.00	(10,000.00)				-
D. Baladad		10,120.00	(5,903.10)				4,216.90
I. Olalia		705.00					705.00
	2,032.00	110,875.00	(107,346.10)				5,560.90
Others	60,028.02	19,740.00	(18,664.56)				61,103.46
Total	62,060.02	130,615.00	(126,010.66)				66,664.36

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 1/1/2006	Prior Period Adjustments of Investees	Payment made to to complete one share of investment	Equity in earnings (losses) of Investees for the period	Share in unrealized loss on noncurrent marketable equity securities/AFS investment of an associate	Acquisition of Capital Stock by Premiere Development Bank	Gain on Acquisition of Capital Stock by Premiere Development Bank	Share in Fair Value Gains on AFS Investments	Amount in Pesos Balance End 12/31/2006
INVESTMENTS IN ASSOCIATES AND OTHERS										
Stocks:										
Bell Tel-32.40%	3,240,000	152,585,480.17	(1,687,768.27)		(26,102,623.90)					124,795,088.00
PDB-9.73%	348,438	34,775,587.66	(3,613,722.00)	50.00	(2,273,620.54)		(34,843,800.00)	5,955,504.88		-
Share in Unrealized loss on noncurrent marketable equity securites/AFS investment of an associate		(1,678,589.55)				1,916,810.00	-	-400717.97	162,497.52	-
		33,096,998.11	(3,613,722.00)	50.00	(2,273,620.54)	1,916,810.00	(34,843,800.00)	5,554,786.91	162,497.52	-
TOTAL - INVESTMENTS IN ASSOCIATES		**185,682,478.28**	**(5,301,490.27)**	**50.00**	**(28,376,244.44)**	**1,916,810.00**	**(34,843,800.00)**	**5,554,786.91**	**162,497.52**	**124,795,088.00**

	Number of Shares	Amount in Pesos Balance Beg 1/1/2006		Adjustment in Market Value of AFS	Proceeds on Sale of AFS	Gain / (loss) on Sale of AFS	Unrealized gain/ (losses) on marketable equity/securities/	Purchase of new share	Amount in Pesos Balance End 12/31/2006
INVESTMENT IN SHARES OF STOCKS - AVAILABLE FOR SALE									
CURRENT									
Listed									
San Miguel A	14,366	933,790.00			(933,790.00)	382,840.00	(382,840.00)		-
Aboitiz	6,000	28,800.00					13,200.00		42,000.00
TOTAL CURRENT AFS		**962,590.00**			**(933,790.00)**	**382,840.00**	**(369,640.00)**		**42,000.00**
NONCURRENT									
Listed									
Petron	1,147,500	5,358,987.00					(459,000.00)		4,899,987.00
Allowance for decline in value		(195,237.00)							(195,237.00)
		5,163,750.00					(459,000.00)		4,704,750.00
PLDT (Preferred Shares)	700	1,284,500.00		(1,277,150.00)			(87.50)		7,262.50
Sub-total Listed Shares		**6,448,250.00**		**(1,277,150.00)**			**(459,087.50)**		**4,712,012.50**
Unlisted									
Sta. Lucia Realty	1	700,000.00			(379,250.00)	(320,750.00)			-
Mt. Malarayat Golf Share	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			(379,250.00)	(320,750.00)		400,000.00	634,314.94
Sub-total Unlisted Shares		**1,334,314.94**							**1,034,314.94**
TOTAL NONCURRENT AFS		**7,782,564.94**		**(1,277,150.00)**	**(379,250.00)**	**(320,750.00)**	**(459,087.50)**	**400,000.00**	**5,746,327.44**
TOTAL - AVAILABLE FOR SALE		**8,745,154.94**		**(1,277,150.00) ***	**(1,313,040.00)**	**62,090.00**	**(828,727.50)**	**400,000.00**	**5,788,327.44**

***** *Previously valued at the price of Common Shares but should be Preferred ones*

South China Resources, Inc.
Aging of Accounts Receivable
As of December 31, 2006

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	5,561.00	1,344.00			4,217.00				
3) A/R Others	828,011.00		11,790.00	7,950.00	3,625.00	7,548.00	30,190.00	766,908.00	
Subtotal	833,572.00	1,344.00	11,790.00	7,950.00	3,625.00	7,548.00	30,190.00	766,908.00	
Less: Allow. For Doubtful Acct.	(766,908.00)							(766,908.00)	
Net Non-Trade receivable	66,664.00	1,344.00	11,790.00	7,950.00	3,625.00	7,548.00	30,190.00	-	
Net Receivables (a+b)	66,664.00								

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