

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

17-A/A-1

Amendment Designation (if applicable)

December 31, 2005

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

AMENDED 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, 2005
2. SEC Identification Number ASO92-06441 3. BIR Tax Identification No. 001-945-016
4. Exact name of issuer as specified in its charter SOUTH CHINA RESOURCES, INC.
5. **Not Applicable** 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
Incorporation or organization
7. 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City 1300
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 |
|----------------------|--|
| <u>Common Shares</u> | <u>906,559,568</u> |
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 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the issuer was required to file such reports);

Yes [☒] No [☐]

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

Yes [☒] No [☐]

13. Aggregate market value of the voting stock held by non-affiliates is **₱227,394,108.00** as of **January 8, 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	- 4.967%	May 10, 2006
2. GSEC-99 NE Palawan	- 50%	March 15, 2005
3. Cuyo Platform (former GSEC-96)	- 100%	Not Applicable
4. SWAN Block (NW Palawan, former GSEC-83)	- 5%	Not Applicable

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. Geophysical Survey and Exploration Contract No. 99 (GSEC-99) was extended by the DOE (Department of Energy) to March 15, 2005. On March 9, 2005, the South China-SPEX (Shell Philippines Exploration B. V.) consortium together with KUFPEC (Kuwait Foreign Petroleum Co. ksc) applied for conversion of the GSEC into a Service Contract (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. Negotiations for the SC were ongoing till yearend.

The DOE extended SC-41 for another year after the all- Filipino consortium decided to proceed forward with the exploration of the block by conducting a geological and geophysical review of the area and formulating a new geological concept to firm up the petroleum potential of the block. The group will also seek new farminees. South China's participating interest in the block is 4.967% as of year end.

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

The DOE declared a moratorium on applications for new exploration contract areas prior to its launching of PECR-2 (Philippine Energy Contracting Round No. 2) in August 31, 2005. Four areas were put up for bid and the blocks offered covered only the deepwater areas of northwestern and southwestern Palawan as well as offshore east and southeastern Palawan. The bid round ended last November 29, 2005. No new applications for exploration contracts have been accepted by the DOE outside PCR-2. To date, the DOE has yet to announce the winning bids and lift the application moratorium.

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 ₱10.075M 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 2005. Please refer to page 10 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).

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. 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 2006. The Company leases its office

space with Century Properties Management, Inc. (CPMI), located at the 12/F of Pacific Star Building, Sen. Gil Puyat Ave. cor. Makati Ave., Makati City. The term of the contract is five (5) years, to end on October 14, 2006, on a monthly rental of ₱45,684.78.

ITEM 3. Legal Proceedings

There are no material 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, January 8, 2007, the high price is 1.08 and low price is 1.06, 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 (2005 and 2004)

STOCK PRICES

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
2004	High	Low
First Quarter	0.2100	0.2066
Second Quarter	0.2466	0.2233
Third Quarter	0.2200	0.1950
Fourth Quarter	0.2566	0.2016

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, 2004 and 2005.

The number of shareholders of record as of December 31, 2005 was 582. Common shares issued and subscribed as of December 31, 2005 were 906,559,568.

TOP TWENTY STOCKHOLDERS

As of December 31, 2005

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)	92,841,874	10.2411%
5.	Teresita de la Cruz	10,521,000	1.1605%
6.	F. Yap Securities, Inc.	10,094,000	1.1134%
7.	Benjamin Chua	10,051,500	1.1088%
8.	PCD Nominee Corporation (Non-Filipino)	7,870,126	0.8681%
9.	Wilson Chua	5,877,500	0.6483%
10.	Kho Giok En	5,513,000	0.6081%
11.	The Philodrill Corporation	3,200,000	0.3530%
12.	R. Coyiuto Securities, Inc.	2,185,000	0.2410%
13.	Samuel Uy Chua	1,600,000	0.1765%
14.	New World Securities Co., Inc.	1,510,000	0.1666%
15.	EBC Securities Corp.	1,276,000	0.1408%
16.	Cynthia Yu	1,210,000	0.1335%
17.	David Go Securities Corporation	1,190,000	0.1313%
18.	Noel Raymundo Co	1,100,000	0.1213%
19.	Gilbert Liu	1,000,000	0.1103%
20.	Jose Mari R. Moraza	1,000,000	0.1103%
TOTAL		853,099,368	94.1030%

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 1, *First-time Adoption of Philippine Financial Reporting Standards* and restated values for CY 2004 Financial Statements.

The Company's current ratio as of December 31, 2005 was ₱0.087 for every peso liability – a decrease from last year's current ratio of ₱.151. The decrease was caused mainly by the 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. Current ratio for the year 2004 decreased by ₱0.596 compared to 2003 due to the same reason mentioned.

The Company's total assets which stood at ₱770 million in 2005, was lower than last year by about ₱26 million due to the decrease in investments in associates which resulted also to the decrease in total assets of ₱40 million in 2004 compared to 2003.

Cash and cash equivalents increased in 2005 compared to prior year by ₱.477 million due to the increase in advances from the Company's officers. For the year 2004, the increase is ₱0.507 million compared to 2003.

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" beginning January 1, 2005. As of December 31, 2005, the aggregate carrying amount is ₱8.745 million or an increase of ₱3.083 million due to the recovery of unrealized losses on AFS investments.

Investments in associates decreased by ₱33.169 million compared to last year due to share in net losses of associates and a decrease of ₱44.978 compared to 2003.

Accounts payable and accrued expenses for the period increased by ₱6.864 million compared to 2004 and an increase of ₱9.358 million in 2004 compared to 2003 due to advances from officers.

Increased in deferred exploration cost is due to remittance of share in NE Palawan and Sulu block project. The increase of ₱4.218 million for the year 2005 compared to 2004 includes 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 an increase of ₱3.124 million in 2004 compared to 2003.

Net loss for the year amounted to ₱36.050 million. The restatement due to the adoption of new accounting standards increased the deficit by P3.157 million as of December 31, 2004. The deficit as of December 31, 2005 amounted to P158.978 million. The Company has no earnings yet from commercial production. Therefore, there were no dividends declared for the period ended December 31, 2005.

The net loss incurred during 2005 is a decrease of ₱12.693 million compared to 2004 due to decrease in general and administrative expenses by ₱4.157 million (₱3.468 million were validated by the Department of Energy and capitalized to deferred exploration cost), and decrease in net losses of investee by ₱8.399 million. Compared to 2003, it was a decrease of ₱1.573 million due to recovery in the decline in market value of marketable securities and a decrease in net losses 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 arose from: a) decrease in investments in associates of 15.16% due to net loss of the investee company; b) increase in current liabilities of 0.64x due to advances from officers; c) increase in unrealized gain (losses) in marketable equity securities/AFS investments of 1,579.40% due to market recovery; and, d) increase in deficit of 29.33% 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 management. There is no foreseen increase in

funds for the next twelve months however should the needs arises, the management will satisfy such cash requirements.

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, 2005, 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.

General Basis

This is the first time that the company's financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards (PFRS). PFRS comprise standards named PFRS and Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Accounting Standards Council.

Prior to adoption of PFRS, the Company prepared its financial statements until December 31, 2004 in accordance with Statements of Financial Accounting Standards (SFAS) and Statements of financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the financial statements, with January 2004 as the date of transition. The company applied the accounting policies below to all the years presented except those relating to financial instruments. An explanation of how the transition to PFRS has affected the reported financial position, financial performance, and cash flows of the Company is indicated in Note 3 to the Financial Statements.

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

Summary of Significant Accounting Policies

Accounting policy for prepayments and other current assets – is immaterial to affect the determination of financial position, results of operation, changes in equity or changes in cash flows.

Assets subject to lien and restriction on sales of asset – the Company has no assets mortgaged, pledged or otherwise subject to lien that needs to be disclosed.

Accounting Policies Effective January 1, 2005, Accounting Policies for Financial Assets applied up to December 31, 2004 and Accounting Policies With No Significant Changes from Those Applied in 2004 (Please refer to Note 2 on the Notes to Financial Statements).

Effect of Transition to PFRS - Please refer to Note 3 on the Notes to Financial Statements

Accounting policy for Goodwill – Please refer to page 41 and page 47 of Financial Statements for Summary of Significant Accounting Policies on Negative Goodwill , and on the effect of the adoption of PAS 28- Investment in Associates and PFRS 3 Business Combination, respectively.

Financial Risk Management Objectives and Policies - Please refer to Note 16 on the Notes to Financial Statements

Subsequent events – On January 27, 2006, SC-60 (formerly GSEC 99) was awarded to the consortium of South China Resources, SPEX (Shell Philippines Exploration B. V.) and KUFPEC (Kuwait Foreign Petroleum Co. ksc). (Please refer to Note 1 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 9 (Investments) of the Notes to Financial Statements

2-4. Nature of relationship and related party transactions are disclosed in Note 9 (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 9 (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 – No commercial operation yet.

Balance Sheet

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.

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

Available for Sale (AFS) Investments - Please refer to Note 6 on the Notes to Financial Statements

Investment in Marketable Equity Securities - Please refer to Note 7 on the Notes to Financial Statements

Investment in Property – Please refer to Note 8 in 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 11 (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) of ₱171.72 million.

Subsidiaries – Relative to affiliates fully disclosed in Note 9 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 2005 and 2004 amounted to ₱297, 218.90 and ₱251, 802.98, respectively.

RESULTS AND PLANS OF OPERATIONS

SC-41 Block B Offshore Sulu Sea Sandakan Basin

SC-41 was awarded in September 1, 1998 with the conversion of GSEC-74 to an SC (Service Contract). Several wells have been drilled in the area with mixed results, two wells having significant oil and gas shows.

In 2003, the parties making up the consortium agreed to unitize the Block A and Block B areas giving South China interest over the whole block.

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 foreign partners of the block decided to drop from the SC. After the withdrawal of the foreign partners in SC-41, 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. The program includes a geological and geophysical review of the area and formulation of a new geological concept to firm up the petroleum potential of the block. The consortium will also seek new farminees. South China's participating interest in the block is 4.967% as of year end.

GSEC-99 Offshore Northeast Palawan

GSEC-99 (Geophysical Survey and Exploration Contract No. 99) was awarded last November 13, 2000. 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.

On June 20, 2002, South China agreed to the farm-in of Shell Philippines Exploration B.V. (SPEX, the operator of the country's largest and only oil and gas field), assigning fifty percent (50%) participating interest to SPEX. The South China-SPEX consortium requested the DOE to extend the validity of its GSEC with the end view of converting the GSEC into a Service Contract and attracting other parties to join in the exploration of the block. The Department of Energy (DOE), extended the term of the GSEC-99 to March 15, 2005.

GSEC-99 was extended to March 15, 2005. On March 9, 2005, the South China-SPEX consortium together with KUFPEC (Kuwait Foreign Petroleum Co. ksc) applied for conversion of the GSEC into a Service Contract (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. Negotiations for the SC were ongoing till yearend.

Once the Service Contract is awarded, South China will be carried in the operations to be conducted in the block contingent to terms and conditions to be agreed upon in the SC.

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

South China still retains one of the biggest information libraries covering these areas. DOE's 1st Petroleum Competitive Bid Round PCR-1 resulted in only one (1) contract awarded. After the evaluation phase of the bid round, the DOE opened up the country for application.

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.

The DOE declared a moratorium on applications for new contract areas prior to its launching of PECR-2 (Philippine Energy Contracting Round No. 2) in August 31, 2005 wherein four areas were put up for bid. The bid round ended last November 29, 2005. No new applications for exploration contracts have been accepted by the DOE outside PECR-2. As of yearend, the DOE was still evaluating the submitted bids. It is expected that the DOE will lift the moratorium once it has awarded the new exploration contracts.

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.

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	\$15,000 for General & Administrative
SC-41 Sulu Sea	\$15,000 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%.

We strongly believe that BellTel represents outstanding opportunities in the rapidly growing telecommunication industry.

Premiere Development Bank (Premiere Bank) was established as Pasay City Development Bank in

1960. Its present name was acquired in 1979. Premiere Bank offers various deposit products such as savings and current accounts, time deposits and FCDU. It also offers cash management and E-banking products such as payroll services, mobile banking, ATM and Smart money cards. It also has a wide range of loans and credit facilities including Special Financing Programs. The bank also engages in international and domestic remittance services. Premiere Bank has 38 branches located in Metro Manila and the nearby provinces of Rizal, Laguna, Cavite, Batangas and Bulacan. Our investment in Premiere Development Bank is at 9.73%.

South China has been in 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 22-63) 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:	2005	2004
Cash on hand and in banks	1,149,250	672,184
Total:	₱1,149,250	₱672,184

Accounts receivable consist mainly of:	2005	2004
Accounts receivable – Officers and employees	2,032	43,147
- Others	826,936	813,213
Total	828,968	865,360
Less allowance for doubtful accounts	766,908	766,908
Total:	₱62,060	₱89,452

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

None

PART IV - CONTROL AND COMPENSATION INFORMATION

ITEM 9. Directors and Executive Officers of the Issuer

<u>Position</u>	<u>Name</u>	<u>Birthdate</u>
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	Felipe U. Yap	July 12, 1937
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, 60 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 Armormply 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, 59 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, 57 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.

FELIPE U. YAP, 68 years of age, Filipino, has been a DIRECTOR of the Company since 1994. He has also been the CHAIRMAN/CHIEF EXECUTIVE OFFICER of Lepanto Consolidated Mining Company, Lepanto Investment & Development Corp., Diamant Boart Philippines Inc., Diamond Drilling Corp. of the Philippines, Far Southeast Gold Resources Inc., and Shipside Inc.; CHAIRMAN of FLT Prime Insurance Corp. and Lepanto Ceramics Inc.; PRESIDENT of BA-Lepanto Condominium Corp.; and, DIRECTOR of Cyber Bay Corp., Manila Peninsula Hotel, Philippine Associated Smelting & Refining Corp., and Philippine Fire & Marine Insurance Corp. for the past five (5) years. He was a Director with Prime Orion Phils., Inc. (formerly Guoco Holdings (Phils.) Inc.) and Pepsi Cola Products Phils., Inc before he became CHAIRMAN to both companies in 2001. He is also the CHAIRMAN of Orion Land, Inc., Tutuban Properties, Inc., Orion Brands International, Inc., and Orion I Holdings Philippines, Inc. from 2002 up to the present; the current CHAIRMAN of Yapster e-Conglomerate and DIRECTOR of Zeus Holdings, Inc. from 2001 to the present and Orion Property Development, Inc., from 2002 to the present; and formerly the CHAIRMAN OF THE BOARD OF GOVERNORS of the Philippine Stock Exchange, Inc. from 2000 to 2002.

FRANCISCO M. ORTIGAS III, 60 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., 51 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, 49 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 2004 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Yap as the independent director to be elected during the 2005 Annual Stockholders' Meeting, upon the recommendation of stockholder Mr. Manuel Arteficio who is not related to the nominee. Mr. Yap is qualified to be nominated and elected as an Independent Director of the Company in accordance with the qualifications specified with SEC Circular No. 16 Series of 2002. He holds 300,000 shares of the Company. He is a graduate of BS Philosophy from the University of San Carlos Cebu. He has been engaged to the business of the Company since 1994. The Company adopted the guidelines on the nomination and election of independent directors based on the Company's Manual of Corporate Governance, and also in accordance with SEC Circular No. 16 Series of 2002.

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 bonus, 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				
Hermie T. Deaño Imelda D. Olalia Accounting Manager				
Aggregate compensation – CEO & all other officers and directors as a group unnamed	2006	1,437,480	244,000	N/A
	2005	1,187,729	245,912	N/A
	2004	1,188,000	198,000	N/A

Among the directors and officers of the company, only the four (4) stated above are being compensated.

Ms. Deaño resigned from the Company last July 31, 2005. Termination benefits paid amounted to ₱0.13 million.

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, 2005 (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 10.2411% 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	Filipino	25.5751%
Common Shares	Wilfrido P. Reyes	231,853,123	Filipino	25.5751%
Common Shares	Belen R. Castro	231,353,122	Filipino	25.5199%
Common Shares	Felipe U. Yap	300,000	Filipino	00.0331%
Common Shares	Francisco M. Ortigas III	400,000	Filipino	00.0441%
Total		695,759,368		76.7473%

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	695,759,368		76.7473%
Common Shares	Executive Officers as a Group	550,100		00.0607%
Total		696,309,468		76.8080%

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 11 and Note 13 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 ₱17.33 million and ₱10.43 million for 2005 and 2004, 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, 2005 and 2004, 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 - May 2, 2006
(Further postponement of annual stockholders' meeting from 24 May 2006 to 09 June 2006)


Item 9. Other Events - March 20, 2006
(Postponement of annual stockholders' meeting from 19 April 2006 to 24 May 2006)

Item 9. Other Events - January 27, 2006
(South China has been awarded and signed Service Contract No. 60 (SC-60) together with Shell Philippines Exploration B. V. and Kuwait Foreign Petroleum Exploration Company)

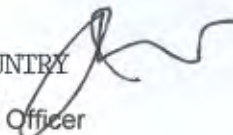
SIGNATURES

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 FEB 06 2007, 2007.

By:


Edgardo P. Reyes
Principal Executive Officer

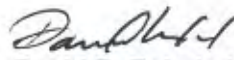
Date: Feb. 06, 2007


OUT OF THE COUNTRY
Wilfrido P. Reyes
Principal Financial Officer

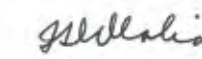
Date: Feb. 06, 2007


Belen R. Castro
Comptroller

Date: Feb. 06, 2007


David R. Baladad
Principal Operating Officer

Date: Feb. 06, 2007


Imelda D. Olalia
Principal Accounting Officer

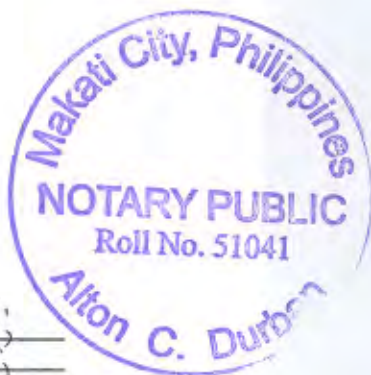
Date: Feb. 06, 2007


Jaime M. Blanco, Jr.
Corporate Secretary

Date: Feb. 06, 2007

SUBSCRIBED AND SWORN to before me this FEB 06 day of _____, 2007 affiant(s) exhibiting to me their residence Certificate, as follows:

Name	Res. Cert. No.	Date of Issue	Place of Issue
Edgardo P. Reyes	20537343	Feb. 06, 2006	Makati City
Wilfrido P. Reyes	24807817	Jan. 11, 2006	Makati City
Belen R. Castro	14326540	Jan. 14, 2006	Manila
David R. Baladad	12568906	Apr. 10, 2006	Quezon City
Imelda D. Olalia	24794710	Jan. 06, 2006	Makati City
Jaime M. Blanco, Jr.	20547115	Feb. 08, 2006	Makati City



Doc. No. : 196
 Page No. : 38
 Book No. : II
 Series of 2007. 1



 ALTON C. DURBAN
 Commission No. 412
 Notary Public – Makati City
 Until December 31, 2007
 Esguerra and Blanco Law Offices
 4th Floor S & L Building, De la Rosa corner
 Esteban Sts, Legaspi Village, Makati City 121
 PTR No. 4182728/01-03-06/Makati City
 IBP No. 665188/01-03-06/Quezon City
 Roll No. 51041

TABLE OF CONTENTS

	Page
Part I - BUSINESS AND GENERAL INFORMATION	
Item 1 Business	1
Item 2 Properties	2
Item 3 Legal Proceedings	3
Item 4 Submissions of Matters to a Vote of Security Holders	3
Part II – SECURITIES OF THE REGISTRANT	
Item 5 Market for Issuer’s Common Equity and Related Stockholder Matters	3
Part III – FINANCIAL INFORMATION	
Item 6 Management’s Discussion and Analysis or Plan of Operation	4
Item 7 Financial Statements	11
Item 8 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure	11
Part IV - CONTROL AND COMPENSATION INFORMATION	
Item 9 Directors and Executive Officers of the Issuer	11
Item 10 Executive Compensation	13
Item 11 Security Ownership of Certain Beneficial Owners and Management	14
Item 12 Certain Relationships and Related Transactions	15
Part V – CORPORATE GOVERNANCE	
Item 13 Corporate Governance	16
Part VI - EXHIBITS AND SCHEDULES	
Item 14 a. Exhibits	16
b. Reports on SEC Form 17-C	16
SIGNATURES	17
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES	20-63

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

	PAGE
FINANCIAL STATEMENTS	
Statement of Management's Responsibility for Financial Statements	21
Report of Independent Auditors on Supplementary Schedules	23
Report of Independent Auditors	24-25
Balance Sheets as of December 31, 2005 and 2004	26-27
Statements of Income	28
Statements of Changes in Stockholders' Equity	29-30
Statements of Cash Flow	31
Notes to Financial Statements	32-60
 SUPPLEMENTARY SCHEDULES	
Report of Independent Public Accountants on Supplementary Schedules	*
A. Marketable Securities - (Current Marketable Equity Securities and Other Short-Term Cash Investments)	*
B. Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders (Other than Related Parties)	61
C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments	62
D. Indebtedness of Unconsolidated Subsidiaries and Related Parties	*
E. Intangible Assets - Other Assets	*
F. Long-Term Debt	*
G. Indebtedness to Related Parties	*
H. Guarantees of Securities of Other Issuers	*
I. Capital Stock	*
 Aging of Accounts Receivable	 63

* 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

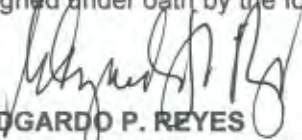
The management of South China Resources, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2005 and 2004 and for the three years in the period ended December 31, 2005. The financial statements have been prepared in conformity 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



BELEN R. CASTRO
Vice-President/Treasurer

SUBSCRIBED AND SWORN to before me this FEB 06 2007 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	20537343	Feb. 06, 2006	Makati City
Belen R. Castro	14326540	Jan. 14, 2006	Manila

Doc. No. : 195
Page No. : 37
Book No. : 11
Series of 2007.




ALTON C. DURBAN
Notary Public No. 412
Notary Public - Makati City
Until December 31, 2007
Esguerra and Blanco Law Offices
4th Floor S & L Building, De la Roca corner
Esteban Sts, Legaspi Village, Makati City 122
PTR No. 4122723/01-03-06/Makati City
IBP No. 665182/01-03-06/Quezon City
Roll No. 51041

COVER SHEET

AS092-06441

SEC Registration Number

SOUTH CHINA RESOURCES, INC.

(Company's Full Name)

12 / 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

Month

31

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

N/A

Domestic

N/A

Foreign

582

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

Document ID

LCU

Cashier

STAMPS

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8
01 RDO-49 NORTH MAKATI 08

RECEIVED

MAY 08 2006

Remarks: Please use BLACK ink for scanning purposes.

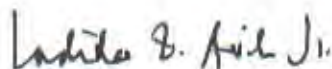


**Report of Independent Auditors
On Supplementary Schedules**

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the financial statements of South China Resources, Inc. included in this Form 17-A and have issued our report thereon dated April 28, 2006. 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 respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-A
Tax Identification No. 109-247-891
PTR No. 4180807, January 2, 2006, Makati City

April 28, 2006



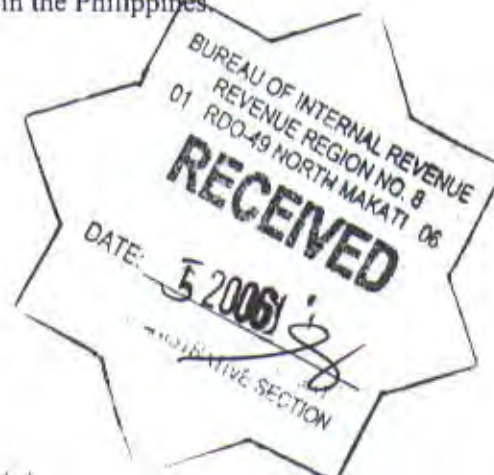
Report of Independent Auditors

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

We have audited the accompanying balance sheets of South China Resources, Inc. as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. 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 24.10% and 27.48% of total assets as of December 31, 2005 and 2004, respectively, and the equity in their net losses represents about 92.67% and 85.77% of net loss in 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.

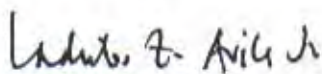
We conducted our audits in accordance with auditing standards generally accepted in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the financial position of South China Resources, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.



Without qualifying our opinion, we draw attention to Note 1 to the financial statements which indicates that 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. In addition, we also draw attention to Note 9 to the financial statements which indicates that the realizability of the carrying value of the Company's investment in the shares of stock of BellTel is dependent upon the future profitability and successful operations of BellTel.

SYCIP GORRES VELAYO & CO.



Ladislao Z. Avila, Jr.

Partner

CPA Certificate No. 69099

SEC Accreditation No. 0111-A

Tax Identification No. 109-247-891

PTR No. 4180807, January 2, 2006, Makati City

April 28, 2006



SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

	December 31	
		2004
		(As restated; see Note 3)
	2005	
ASSETS		
Current Assets		
Cash	P1,149,250	P672,184
Investments in marketable equity securities (Note 7)	—	579,450
Accounts receivable - net (Note 4)	62,060	89,452
Prepayments and other current assets (Note 5)	325,149	281,999
Total Current Assets	1,536,459	1,623,085
Noncurrent Assets		
Available-for-sale (AFS) investments (Note 6)	8,745,155	—
Investments in shares of stock (Note 7)	—	1,352,753
Investments in marketable equity securities (Note 7)	—	3,729,375
Investment property (Note 8)	486,980,479	486,980,479
Investments in associates - net (Note 9)	185,682,478	218,852,343
Deferred exploration costs - net of allowance for impairment losses of P12,618,353 (Note 1)	87,208,046	82,990,472
Property and equipment - net (Note 10)	126,551	275,974
Refundable deposits and others	141,554	480,612
Total Noncurrent Assets	768,884,263	794,662,008
TOTAL ASSETS	P770,420,722	P796,285,093

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable and accrued expenses (Note 11)	P17,577,444	P10,713,639
Noncurrent Liability		
Subscriptions payable (Note 9)	171,720,000	171,720,000
Total Liabilities	189,297,444	182,433,639

Stockholders' Equity

Capital stock - P1 par value	
Authorized - 1,000,000,000 shares	
Issued - 586,639,569 shares	
Subscribed - 319,920,000 shares (net of subscriptions receivable of P239,940,000)	
Additional paid-in capital	

(Forward)



	December 31	
	2005	2004 (As restated; see Note 3)
Unrealized gains (losses) on marketable equity securities/ AFS investments (Notes 6 and 7)	₱2,888,340	(₱195,237)
Share in unrealized losses on marketable equity securities/ AFS investments of an associate	(1,678,590)	(1,916,810)
Deficit	(158,978,181)	(122,928,208)
Total Stockholders' Equity	581,123,278	613,851,454
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱770,420,722	₱796,285,093

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
		2004
		(As restated; see Note 3)
	2005	
REVENUES		
Unrealized foreign exchange gains - net	P183,474	P-
Interest income	7,372	6,755
Dividend income	700	48,247
	191,546	55,002
EXPENSES		
Equity in net losses of associates (Note 9)	33,408,085	41,807,558
Salaries and wages	1,236,559	1,557,114
Travel and transportation	460,781	2,147,583
Rent and utilities (Note 15)	345,445	774,146
Taxes and licenses	222,015	120,262
Entertainment, amusement and recreation	137,599	219,520
Professional fees	120,000	536,803
Communication	104,034	358,175
Depreciation (Note 10)	77,769	174,938
Miscellaneous	129,232	1,101,882
	36,241,519	48,797,981
NET LOSS (Note 12)	P36,049,973	P48,742,979
Loss Per Share (Note 14)	P0.0398	P0.0538

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Capital Stock Issued	Subscribed - net	Additional Paid-in Capital	Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments (Notes 6 and 7)	Share in Unrealized Losses on Marketable Equity Securities/AFS Investments of an Associate	Deficit (Note 9)	Total
Balances at December 31, 2003, as previously reported	P586,639,569	P79,980,000	P72,272,140	(P1,331,262)	(P1,916,810)	(P72,367,936)	P663,275,701
Effect of change in accounting policy for investments in associates (Note 3)	-	-	-	-	-	772,010	772,010
Share in effect of adoption of new accounting standards by associates (Note 3)	-	-	-	-	-	(1,786,394)	(1,786,394)
Share in prior period adjustment by an associate (Note 3)	-	-	-	-	-	(802,909)	(802,909)
Balances at December 31, 2003, as restated	586,639,569	79,980,000	72,272,140	(1,331,262)	(1,916,810)	(74,185,229)	661,458,408
Recovery of unrealized losses on marketable equity securities	-	-	-	1,136,025	-	-	1,136,025
Net loss for the year, as restated (Note 3)	-	-	-	-	-	(48,742,979)	(48,742,979)
Total income and expense for the year	-	-	-	1,136,025	-	(48,742,979)	(47,606,954)
Balances at December 31, 2004, as restated	P586,639,569	P79,980,000	P72,272,140	(P195,237)	(P1,916,810)	(P122,928,208)	P613,851,454
Balances at December 31, 2004, as previously reported	P586,639,569	P79,980,000	P72,272,140	(P195,237)	(P1,916,810)	(P119,771,502)	P617,008,160
Effect of change in accounting policy for investments in associates	-	-	-	-	-	189,606	189,606
Share in effect of adoption of new accounting standards by associates	-	-	-	-	-	(2,141,949)	(2,141,949)



Share in prior period adjustment by by an associate	Capital Stock		Additional Paid-in Capital		Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments (Notes 6 and 7)		Share in Unrealized Losses on Marketable Equity Securities/AFS Investments of an Associate		Deficit (Note 9)		Total
	Issued	Subscribed - net	P-	P-	P-	P-	P-	P-	P-	P-	
Balances at December 31, 2004, as restated	586,639,569	79,980,000		72,272,140	(195,237)	(1,916,810)	(122,928,208)		(P1,204,363)	(P1,204,363)	(P1,204,363)
Net loss for the year	-	-	-	-	-	-	(36,049,973)				(36,049,973)
Recovery of unrealized losses on AFS investments	-	-	-	-	3,083,577	-	-				3,083,577
Total income and expense for the year	-	-	-	-	3,083,577	-	(36,049,973)				(32,966,396)
Share in recovery of unrealized losses on AFS investments of associates	-	-	-	-	-	238,220	-				238,220
Balances at December 31, 2005	P586,639,569	P79,980,000		P72,272,140	P2,888,340	(P1,678,590)	(P158,978,181)				P581,123,278

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As restated; see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(P36,049,973)	(P48,742,979)
Adjustments for:		
Equity in net losses of associates (Note 9)	33,408,085	41,807,558
Depreciation (Note 10)	77,769	174,938
Derecognition of property and equipment	76,768	-
Dividend income	(700)	(48,247)
Interest income	(7,372)	(6,755)
Net unrealized foreign exchange losses (gains)	(183,474)	26,222
Operating loss before working capital changes	(2,678,897)	(6,789,263)
Decrease (increase) in:		
Accounts receivable	27,392	(69,543)
Prepayments and other current assets	(43,150)	(34,596)
Increase in accounts payable and accrued expenses	7,109,806	9,358,128
Cash generated from operations	4,415,151	2,464,726
Interest received	7,372	6,755
Dividend received	700	48,247
Net cash flows from operating activities	4,423,223	2,519,728
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in refundable deposits and others	339,058	1,164,723
Acquisitions of property and equipment	(5,114)	(27,807)
Additions to deferred exploration costs	(4,217,574)	(3,123,839)
Net cash flows used in investing activities	(3,883,630)	(1,986,923)
NET INCREASE IN CASH	539,593	532,805
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(62,527)	(26,222)
CASH AT BEGINNING OF YEAR	672,184	165,601
CASH AT END OF YEAR	P1,149,250	P672,184

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 financial statements of the Company as of and for the years ended December 31, 2005 and 2004 were approved and authorized for issue by the Board of Directors (BOD) on April 28, 2006.

Plan to Spin-off Oil and Gas Exploration Operations

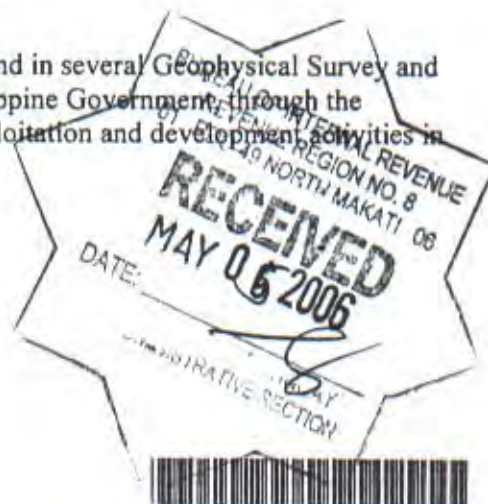
On September 11, 2003, the BOD approved the plan to spin-off the Company's oil and gas exploration operations to a wholly owned subsidiary, which can then be listed in a foreign stock exchange. The Company's stockholders ratified the plan during the special stockholders' meeting on October 22, 2003. As of December 31, 2005, the transfer of the Company's oil and gas exploration assets to the new entity has not yet commenced pending the determination of the proper valuation of such assets.

Amendment of the Company's Articles of Incorporation

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

Status of Oil and Gas Exploration Operations

The Company is a participant in a Service Contract (SC) and in several Geophysical Survey and Exploration Contracts (GSECs) entered into with the Philippine Government through the Department of Energy (DOE), to conduct exploration, exploitation and development activities in the following contract areas:



Contract Areas	Percentage of Working Interest	
	2005	2004
South Sulu Sea Block B (SC-41)	4.967	0.745
North East Palawan (GSEC 99)	50.0	50.0
Cuyo Platform (former GSEC 96)	100.0	100.0
SWAN Block (North West Palawan, former GSEC 83)	5.0	5.0

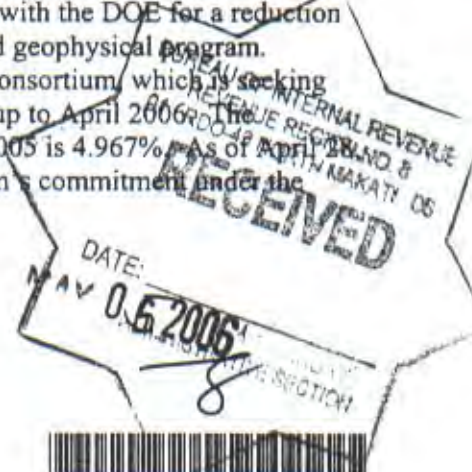
The above SC and GSECs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements (JOA), which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts is estimated to be about US\$25,000 as of December 31, 2005.

SC No. 41

In 2003, the contract area of SC 41 was unitized thereby dissolving the previous Blocks A and B subdivisions for the shallow and deep water areas, respectively, of the contract acreage. The Company's participating equity was consequently modified from 2.5% to 0.745% over the whole block.

In February 2004, the consortium, led by Unocal as operator, entered into SC years 6 and 7, committing to drill two back to back wells to fulfill its work obligations to the DOE. On June 20, 2004, the drill ship SEDCO-601 arrived on location and spudded Zebra-1. The well was drilled to a depth of 6,070 feet with only minor gas shows reported. After moving the ship to the next location, Rhino-1 was spudded on June 29, 2004. This well was drilled to a total depth of 8,070 feet. The well likewise yielded only minor gas shows. Both wells were plugged and abandoned as dry wells.

The consortium has fully complied with the work program for the first seven-year exploration stage of the contract. However, during the consortium meeting held last January 10, 2005, Unocal informed the partners of its intent to drop out of the service contract. Unocal's appreciation of the last two wells drilled, which yielded generally negative results, prompted this decision. Sandakan Oil (OXY), BHP Billiton and TransAsia have also withdrawn, leaving a small all-Filipino consortium. After the withdrawal of the foreign partners in SC 41, the new consortium voted Basic Consolidated Resources as the operator of the block. The Filipino contingent of the consortium proceeded with the exploration of the block by conducting a geological and geophysical review of the area and formulated a new geological concept to firm up the petroleum potential of the block. In 2005, the new consortium has negotiated with the DOE for a reduction in the Service Contract Year 8 commitment well to a geological and geophysical program. The anniversary of the Service Contract is on May 10, 2005. The consortium, which is seeking new farminees, was granted an extension for exploration activities up to April 2006. The Company's participating interest in the block as of December 31, 2005 is 4.967%. As of April 2006, negotiations with the DOE for the reduction of the consortium's commitment under the contract and the extension of the contract term is still ongoing.



GSEC No. 99

On November 13, 2000, GSEC-99 covering Offshore North East Palawan was exclusively awarded to the Company. The Company accomplished the optical scanning, processing and review of vintage seismic data. It engaged COMEXCO, Inc. for further technical studies, consultancy and farm-out services. In June 2002, the Company agreed to the farm-in of Shell Philippines Exploration B.V. (SPEX), assigning fifty percent (50%) participating interest to SPEX. The consortium shot a total of 2,010 line kilometers of new 2D seismic in the same year. Processing, interpretation, synthesis of data into an extensive geological and geophysical study along with resource risk assessment was accomplished in 2004.

The Department of Energy (DOE) extended the term of the GSEC-99 to March 15, 2005. On March 9, 2005, the Company, SPEX, and the Kuwait Foreign Petroleum Exploration Company (KUFPEC) filed with the DOE an application to convert GSEC-99 into a Service Contract (SC). KUFPEC is a wholly owned subsidiary of the national oil company Kuwait Petroleum Company.

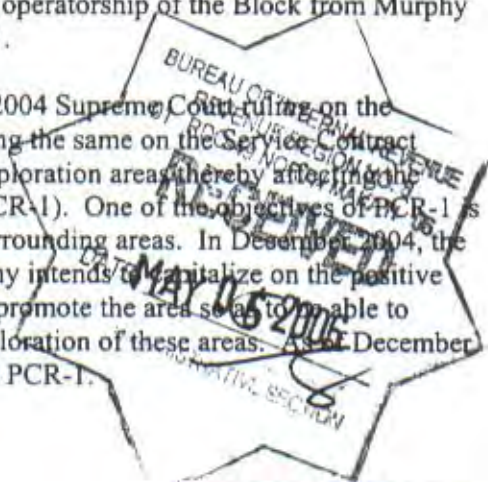
On January 27, 2006, the Company and SPEX signed KUFPEC into the consortium and the consortium subsequently signed with the DOE Service Contract No. 60. SC-60 converted from GSEC-99 and covers an area of one million eight thousand hectares in Northeast Palawan. It is one of the promising sites identified by a study performed by the Norwegian Agency for Development Cooperation (NORAD) 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. SC-60 also includes a 25-year production term in the event of a commercial discovery. SPEX is now operator of the project. To accommodate the entry of KUFPEC, the Company reduced its participating interest in the block to 15%. The Company will be carried in the acquisition and processing of at least 1,000 kms. 2D seismic and 450 sq. kms. of 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).

Cuyo Platform (former GSEC No. 96)

On March 6, 1998, GSEC No. 96 was awarded to the consortium led by Murphy Philippines Oil Co. Ltd. (Murphy), a subsidiary of Murphy Oil, Louisiana, USA. The consortium acquired 2,000 line kilometers of new seismic, reprocessed 1,200 line kilometers of vintage seismic, acquired 2,500 line kilometers of aero gravity and aero magnetic data and conducted geochemical and geological modeling of the area. The Company assumed operatorship of the Block from Murphy in March 2000. The GSEC expired on December 6, 2001.

New exploration was severely hampered by the January 2004 Supreme Court ruling on the unconstitutionality of the Philippine Mining Law, implying the same on the Service Contract scheme. This has dampened interest for the pursuit of exploration areas thereby affecting the DOE's First Philippine Petroleum Contracting Round (PCR-1). One of the objectives of PCR-1 is to determine the exploration value of the Palawan and surrounding areas. In December 2004, the Supreme Court reversed its previous ruling. The Company intends to capitalize on the positive development and use its extensive information library to promote the area so as to be able to partner up with new players and continue on with the exploration of these areas. As of December 31, 2005, only one (1) new SC has been awarded through PCR-1.



The DOE declared a moratorium on applications for new contract areas prior to its launching of PCR-2 (Philippine Energy Contracting Round No. 2) in August 31, 2005 wherein four areas were put up for bid. The bid round ended on November 29, 2005. To date, the DOE has yet to announce and award the winning bids and lift the application moratorium.

In light of this development, the Company continues to actively seek strategic partners for the joint exploration of Offshore Cuyo in preparation for the lifting of the moratorium.

SWAN Block (former GSEC 83)

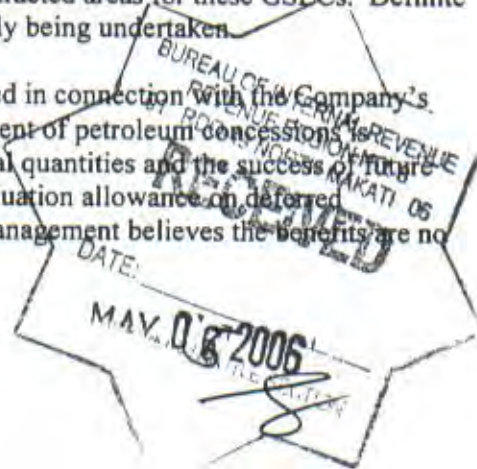
On October 23, 1995, the members of the consortium of GSEC Nos. 65, 67 and 71 agreed to consolidate their respective contracts into one GSEC, otherwise known as GSEC No. 83. The consolidated GSEC provides for the designation of the contract areas as Blocks A (GSEC No. 65), B (GSEC No. 67) and C (GSEC No. 71), and amended the minimum work expenditure obligations of the contractors under the relinquished GSECs. GSEC No. 83 expired in June 1998. The consortium, which is led by The Philodrill Corporation (Philodrill) as operator, pursued another GSEC application. The operator, upon its request to the DOE, was allowed in 1999 to downgrade the GSEC application into a Non-exclusive Geographical Permit (NGP) that would grant the consortium a non-exclusive right to survey the surrounding premises covered by the contract area. Consequently, the participating interest of the Company in the consortium was reduced from 15.5% to 5%. The NGP ran until March 15, 2001. In April 2001, a GSEC application has been submitted by the operator to the DOE, together with the full payment of all application and processing fees. As of December 31, 2005, the consortium's application for a new GSEC was still held in abeyance by the DOE following its declaration of a moratorium on applications for new contracts.

The consortium agreed to continue exploring the area and has stepped up its efforts in promoting the area to prospective partners. Several potential farminees have looked at the block, however, none have yet made a firm offer on the acreage.

Farm-out efforts for the block were likewise affected by the January 2004 Supreme Court ruling on the unconstitutionality of the Philippine Mining Law which directly affected the upstream petroleum exploration industry. With the reversal of this ruling in the Supreme Court's December 2004 decision, it is expected that there will be renewed interest in the block that could facilitate a farm-out from third parties.

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.

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. 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.



2. Basis of Preparation

General Basis

The Company's financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). PFRS comprise standards named PFRS and Philippine Accounting Standards (PAS) and Interpretations issued by the Philippine Accounting Standards Council. These are the Company's first financial statements prepared in compliance with PFRS.

Prior to adoption of PFRS, the Company prepared its financial statements until December 31, 2004 in accordance with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the financial statements, with January 1, 2004 as the date of transition. The Company applied the accounting policies set forth below to all the years presented except those relating to financial instruments. An explanation of how the transition to PFRS has affected the reported financial position, financial performance, and cash flows of the Company is provided in Note 3.

The Company's financial statements are presented in Philippine pesos, which is the Company's functional and presentation currency under PFRS.

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 has the most significant effect on the amounts recognized in the financial statements:

Determining functional currency

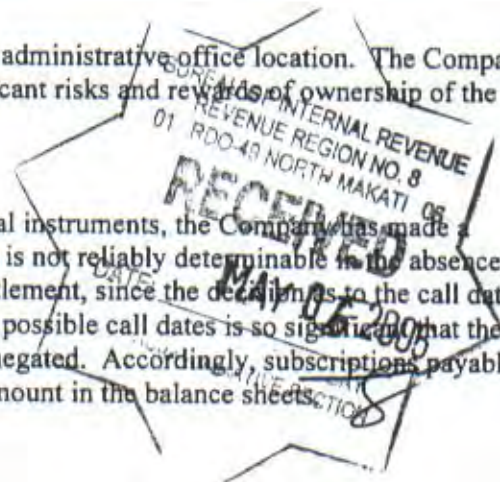
Based on the economic substance of underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. The Philippine peso is the currency of the primary economic environment in which the Company operates.

Operating lease commitments - Company as lessee

The Company has entered into property leases of its administrative office location. The Company has determined that it does not acquire all the significant risks and rewards of ownership of the property leased on an operating lease.

Subscriptions payable

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. Accordingly, subscriptions payable amounting to ₱171.72 million is carried at its face amount in the balance sheets.



Estimation Uncertainty

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 within the next financial year are discussed below.

Impairment of receivables

The Company maintains allowance for doubtful accounts at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of the factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with the other parties, the payment behavior and other known market factors. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance whether individually or collectively. 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 will increase the Company's recorded expenses and decrease current assets. As of December 31, 2005 and 2004, the Company has an allowance for doubtful accounts amounting to ₱0.77 million on accounts receivable of ₱0.83 million and ₱0.86 million, respectively (see Note 4).

Impairment of AFS investments

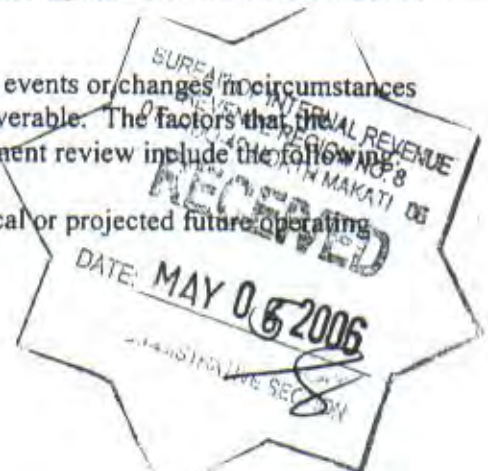
The Company follows the guidance of PAS 39 in determining whether an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. As of December 31, 2005, the Company has not recognized an impairment loss on its AFS investments. The carrying amount of AFS investments as of December 31, 2005 is ₱8.75 million (see Note 6).

Impairment of investment property, investments in associates, property and equipment, and deferred exploration costs

Internal and external sources of information are reviewed at each balance sheet date to identify indications that investment property, investments in associates, property and equipment, and deferred exploration costs may be impaired or an impairment loss previously recognized no longer exist or may have 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 the asset 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.



No impairment loss has been recognized by the Company for its investment property, investments in associates and property and equipment in 2005 and 2004. The carrying value of investment property as of December 31, 2005 and 2004 is ₱486.98 million (see Note 8). Investments in associates has a carrying amount of ₱185.68 million and ₱218.85 million as of December 31, 2005 and 2004, respectively (see Note 9). Property and equipment has a carrying amount of ₱0.13 million and ₱0.28 million as of December 31, 2005 and 2004, respectively (see Note 10).

The Company has provided an allowance for impairment losses on its deferred exploration costs amounting to ₱12.62 million as of December 31, 2005 and 2004. The net carrying value of deferred exploration costs amounted to ₱87.21 million and ₱82.99 million as of December 31, 2005 and 2004, respectively.

Summary of Significant Accounting Policies

Accounting Policies Effective January 1, 2005:

Financial Instruments

Financial assets and liabilities

Financial assets and financial liabilities are recognized initially at cost, which is the fair value at inception. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at fair value through profit and loss.

The Company recognizes a financial asset or a financial liability in the balance sheets when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and disposals or retirements, as applicable, are done using settlement date accounting.

Financial assets are further classified into the following categories: financial asset at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The Company determines the classification at initial recognition and re-evaluates this designation at every reporting date. As of December 31, 2005, the Company has the following categories of financial assets:

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Company provides money, goods or services directly to a debtor with no intention of trading the receivables. Loans and receivables are carried at cost or amortized cost in the balance sheet. Amortization is determined using the effective interest rate method. The same treatment is made under the previous year.

Available-for-sale (AFS)

Available-for-sale financial assets are financial assets that are either designated in this category or not classified in any of the other categories after initial recognition. Available-for-sale assets are carried at fair value with gains or losses recognized as a separate component of stockholders' equity until the instruments are removed from balance sheets or until the investments are determined to be impaired at which time the cumulative gains or losses previously reported in stockholders' equity is transferred to the statements of income. Previously, available for sale assets are stated at the lower of aggregate cost or market value determined at the balance sheet date.



The fair value of instruments that are actively traded in organized financial markets are determined by reference to quoted market prices at the close of business on the balance sheet date. For financial instruments where there is no active market, fair value is determined using market acceptable valuation techniques such as discounted cash flow analysis and option pricing models.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized or removed from the Company's balance sheets 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.

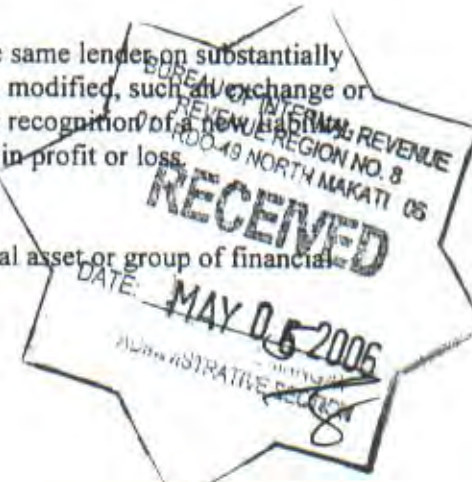
Financial liabilities

A financial liability is removed from the Company's balance sheets 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 write-off of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognized in profit or loss.

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

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

Assets carried at cost

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

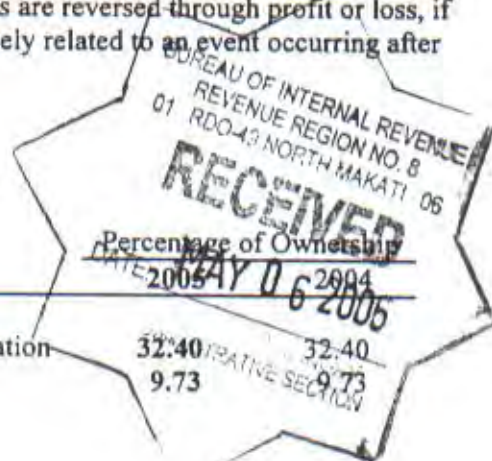
Available-for-sale financial assets

If an available-for-sale 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 profit or loss, is transferred from equity to the statements of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through profit or loss, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in profit or loss.

Investments in Associates

The Company's investments in associates are as follows:

Investees	Business
Bell Telecommunication Philippines, Inc. (BellTel)	Telecommunication
Premiere Development Bank (PDB)	Banking



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 sheets 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.

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.

Accounting Policies for Financial Assets Applied up to December 31, 2004:

Investments in Marketable Equity Securities

Investments in marketable equity securities classified as current are stated at the lower of the aggregate cost or aggregate market value, determined at the balance sheet date. The amount by which aggregate cost exceeds market value is accounted for as a valuation allowance and changes in the valuation allowance are included in income. Realized gains and losses from the sale or disposal of current marketable equity securities are included in income.

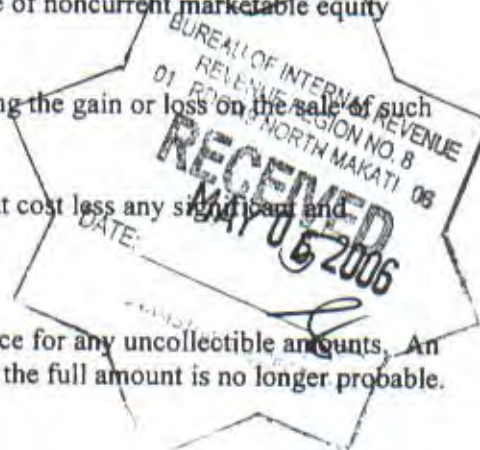
Investments in marketable equity securities classified as noncurrent are stated at the lower of the aggregate cost or market value, determined at the balance sheet date. The amount by which aggregate cost exceeds aggregate market value is accounted for as a valuation allowance. Accumulated changes in the valuation allowance are included in a separate account under stockholders' equity. Realized gains or losses from the sale of noncurrent marketable equity securities are recognized in income.

The cost of marketable equity securities used for determining the gain or loss on the sale of such securities is computed using the average method.

Other long-term investments in shares of stock are carried at cost less any significant and apparently permanent decline in value.

Accounts Receivable

Accounts receivable are stated at face value less an allowance for any uncollectible amounts. An allowance for doubtful accounts is made when collection at the full amount is no longer probable.



Accounting Policies With No Significant Changes from Those Applied in 2004:

Income

Income is recognized to the extent that it is probable that the economic benefits will flow to the Company and the income can be measured reliably. The following specific recognition criteria must also be met before income is recognized:

Dividends

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

Interest

Interest income is recognized as the interest accrues taking into account the effective yield on the asset.

Investment Property

Investment property, which consist 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/GSEC area. Under this method, all exploration costs relating to each SC/GSEC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC/GSEC 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/GSECs are considered permanently abandoned if the SC/GSECs have expired and/or there are no definite plans for further exploration and/or development.

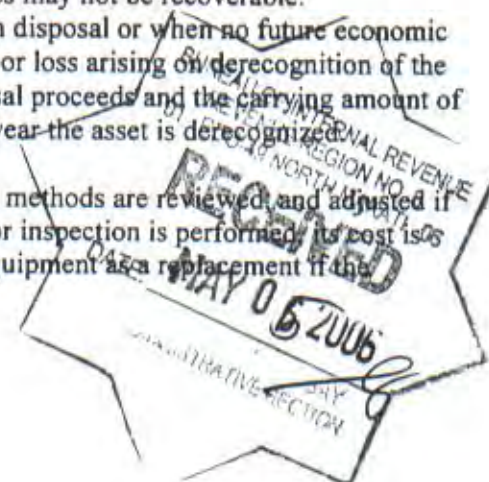
Property and Equipment

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.

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.

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

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each financial year-end. 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.



Impairment of Non-Financial 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 statements 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.

Operating Leases

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 an expense in the statements of income on a straight-line basis over the lease term.

Provisions

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. The expense relating to any provision is presented in the statements 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 a borrowing cost.

Foreign Currency Transactions

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.



Income Taxes

Current income tax

Current 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) 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:

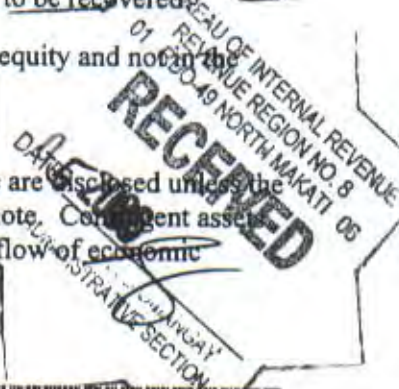
- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; 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 or 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 future taxable profit will allow the deferred income tax asset to be recovered.

Income tax relating to items recognized directly in equity is recognized in equity and not in the statements of income.

Contingencies

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



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.

Loss Per Share

Loss per share is determined by dividing net loss for the year by the weighted average number of issued and subscribed shares of stock during the year.

3. Effect of Transition to PFRS

As stated in Note 2, these are the Company's first financial statements prepared in accordance with PFRS. The Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing these financial statements, with January 1, 2004 as the date of transition.

The transition to PFRSs resulted in certain changes to the Company's previous accounting policies (referred to in the following tables and explanations as "previous GAAP"). The comparative figures for the 2004 financial statements were adjusted to reflect the changes in policies except those relating to financial instruments. The Company availed of the exemption under PFRS 1 and applied PAS 32 and PAS 39, the standards on financial instruments, from January 1, 2005. The reconciliation of stockholders' equity and net loss, showing the effect of transition to PFRS as of January 1, 2004 and December 31, 2004 and for the year ended December 31, 2004, respectively, are shown below.

Reconciliation of Stockholders' Equity (in thousands):

Note	At January 1, 2004 (date of transition)			At December 31, 2004 (end of last period presented under previous GAAP)		
	Previous GAAP	Effect of Transition to PFRS	PFRS	Previous GAAP	Effect of Transition to PFRS	PFRS
ASSETS						
Current Assets	P1,012	P-	P1,012	P1,623	P-	P1,623
Noncurrent Assets						
Investments in shares of stock - net	1,353	-	1,353	1,353	-	1,353
Investments in marketable equity securities	2,593	-	2,593	3,729	-	3,729
Investment property	486,981	-	486,981	486,981	-	486,981
Investments in associates	262,477	(1,817)	260,660	222,009	-	218,852
Deferred exploration costs - net	79,867	-	79,867	82,990	-	82,990
Property and equipment - net	423	-	423	276	-	276
Refundable deposits and others	1,645	-	1,645	481	-	481
Total Noncurrent Assets	835,339	(1,817)	833,522	797,819	(3,157)	794,662
TOTAL ASSETS	P836,351	(P1,817)	P834,534	P1,799,442	(P3,157)	P796,285

(Forward)



		At January 1, 2004 (date of transition)			At December 31, 2004 (end of last period presented under previous GAAP)		
	Note	Previous GAAP	Effect of Transition to PFRS	PFRS	Previous GAAP	Effect of Transition to PFRS	PFRS
LIABILITIES AND STOCKHOLDERS' EQUITY							
Liabilities		P173,075	P-	P173,075	P182,434	P-	P182,434
Stockholders' Equity							
Capital stock							
Issued		586,640	-	586,640	586,640	-	586,640
Subscribed - net		79,980	-	79,980	79,980	-	79,980
Additional paid-in capital		72,272	-	72,272	72,272	-	72,272
Unrealized losses on marketable equity securities		(1,331)	-	(1,331)	(195)	-	(195)
Share in unrealized losses on marketable equity securities of an associate		(1,917)	-	(1,917)	(1,917)	-	(1,917)
Deficit	a,b,c	(72,368)	(1,817)	(74,185)	(119,772)	(3,157)	(122,929)
Total Stockholders' Equity		663,276	(1,817)	661,459	617,008	(3,157)	613,851
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		P836,351	(P1,817)	P834,534	P799,442	(P3,157)	P796,285

Reconciliation of Net Loss for 2004 (in thousands):

	Note	Previous GAAP	Effect of Transition to PFRS	PFRS
Revenues		P55	P-	P55
Expenses	a,b,c	47,459	1,339	48,798
Net loss		P47,404	P1,339	P48,743
Loss per share		P0.0523		P0.0538

The following notes provide further discussion on the changes resulting from the transition to PFRS.

Adoption of new standards by the Company:

- PAS 28, *Investment in Associates* and PFRS 3, *Business Combinations*, require that an investment in an associate should be accounted for using the equity method from the date on which it becomes an associate. These standards also provide that 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 (negative goodwill) 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. Accordingly, the Company credited the carrying amount of negative goodwill as of January 1, 2004 amounting to P0.77 million against the deficit and reversed the amortization of negative goodwill in 2004 amounting to P0.58 million.



Under previous GAAP, the Company's negative goodwill was deducted from the carrying amount of the investments and was amortized on a straight-line basis over 20 years. The annual amortization was considered in determining the Company's share in its associate's profits or losses.

Adoption of new standards by PDB:

b. The effect of PDB's adoption of PFRS are discussed as follows:

- (1) PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the Company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are to be measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently to be measured at fair value. The standard also requires for financial assets to be further classified into the following categories: financial asset at fair value through profit or loss, loans and receivables, held-to-maturity, and available-for-sale financial assets. The Company shall determine the classification at initial recognition and re-evaluate this designation at every reporting date.

Accordingly, PDB made the following reclassification of its financial instruments as follows:

- Assets classified as "Investment in Bonds and Other Debt Instruments" under previous GAAP are now classified under "Held-to-Maturity Securities";
- Assets foreclosed by the PDB from borrowers were reclassified from "Real and Other Properties Owned or Acquired (ROPOA)" as presented under previous GAAP to "Investment Properties" and "Noncurrent Assets Held for Sale";
- Accrued interest receivables, accounts receivable, and other receivables presented in "Other Resources" under previous GAAP now forms part of "Loans and Receivables".

As a result of the reclassifications described above, PDB used the effective interest method in calculating the amortized cost of its held-to-maturity investments and loans and receivables and in allocating the related interest income over the relevant period covered. Amortization for these instruments were previously accounted for on a straight-line basis.

- (2) PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and the related disclosure requirements. This standard permits the Company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. The cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses.

Certain of PDB's noncurrent assets, which were previously classified as ROPOA and measured at the lower of the outstanding loan balance and bid price, are now classified as investment properties and carried at cost, as prescribed by the BSP for all banks.



- (3) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. The standard requires that assets that meet the criteria to be classified as held for sale are to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease. It also requires that such assets be presented separately on the face of the balance sheet. Accordingly, PDB reclassified certain of its noncurrent assets which were previously classified as ROPOA into noncurrent assets held for sale and valued such assets at the lower of their carrying amount and fair value less costs to sell.
- (4) PAS 19, *Employee Benefits*, results in the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains or losses. It also requires the Company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the parent company financial statements do not differ materially from the amounts that would be determined at the balance sheet date. Accordingly, a transitional asset was recognized retrospectively in PDB's balance sheet and adjustments were made to Surplus Free account as of January 1, 2005 and 2004.

PDB's adoption of new accounting standards as discussed above, resulted in an increase in the Company's deficit and a decrease in investment in associates as of January 1, 2004 of P0.35 million. Equity in net losses of associates increased and investment in associates decreased by P0.46 million in 2004.

Adoption of new standards and correction of an error by BellTel:

c. The effect of BellTel's adoption of new accounting standards and a correction of a prior period error are discussed as follows:

- (1) PAS 21, *Effect of Changes in Foreign Exchange Rates*, prohibits the capitalization of foreign exchange losses. Accordingly, BellTel adjusted the undepreciated capitalized foreign exchange losses as of January 1, 2004 and adjusted the same against the 2004 beginning deficit.
- (2) Prior period Adjustment. In 2001, BellTel purchased certain transmission equipment from a foreign supplier. The said equipment were delivered but unbilled until 2005. The said equipment and the related liability were not recognized until the billing was received. Accordingly, the cost of the equipment and the related liability were adjusted on the opening balances as of January 1, 2004.

BellTel's adoption of a new standard and the effect of the prior period adjustment as discussed above resulted in an increase in deficit and a decrease in investments in associates as of January 1, 2004 of P2.24 million. The equity in net losses of associates increased and investment in associates decreased by P0.29 million in 2004.

Effect on the Cash Flow Statement for 2004

There are no differences between the cash flow statement prepared under PFRS and the cash flow statement presented under previous GAAP except for the effect of the noncash adjustments as discussed above.



Other adopted PFRSs

The Company has also adopted the following new and revised standards during the year and comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on stockholders' equity as of January 1 and December 31, 2004.

- PAS 1, *Presentation of Financial Statements*;
- PAS 2, *Inventories*;
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- PAS 10, *Events after the Balance Sheet Date*;
- PAS 17, *Leases*;
- PAS 24, *Related Party Disclosures*;
- PFRS 2, *Shared-based Payment*; and
- PFRS 3, *Business Combinations*

The Company did not early adopt the following standards and amendments that have been approved but are not yet effective:

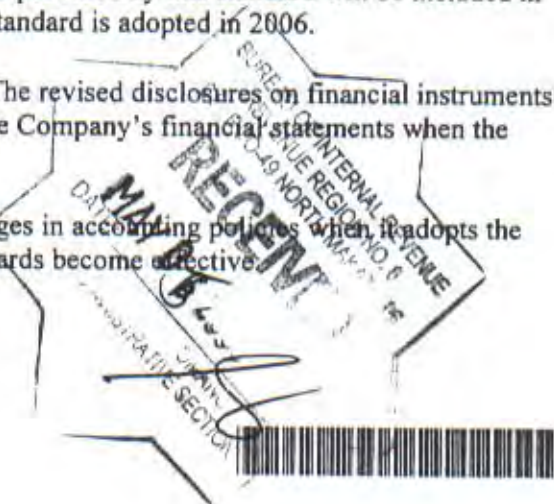
- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, The revised disclosures from the amendments will be included in the Company's financial statements when the amendments are adopted in 2006.
- PFRS 6, *Exploration for and Evaluation of Mineral Resources*, effective January 1, 2006. Under the standard, companies are allowed to follow their existing accounting policy for exploration and evaluation assets. However, the standard also 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. 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.

The Company currently presents its exploration and evaluation assets under the "Deferred Exploration Costs" account in the balance sheets. However, upon adoption of the new standard, it is likely that this account will be reclassified into tangible (as property and equipment) and/or intangible assets according to the nature of the costs and treated in accordance with applicable standards.

The revised disclosures on financial instruments provided by this standard will be included in the Company's financial statements when the standard is adopted in 2006.

- PFRS 7, *Financial Instruments - Disclosures*, The revised disclosures on financial instruments provided by this standard will be included in the Company's financial statements when the standard is adopted in 2007.

The Company does not expect any significant changes in accounting policies when it adopts the above standards and amendments when these standards become effective.



4. Accounts Receivable

	2005	2004
Officers and employees	P2,032	P43,147
Others	826,936	813,213
	828,968	856,360
Less allowance for doubtful accounts	766,908	766,908
	P62,060	P89,452

5. Prepayments and Other Current Assets

	2005	2004
Inventories	P167,042	P191,658
Input value added tax	142,787	68,849
Prepayments	15,320	21,492
	P325,149	P281,999

6. Available-for-Sale (AFS) Investments

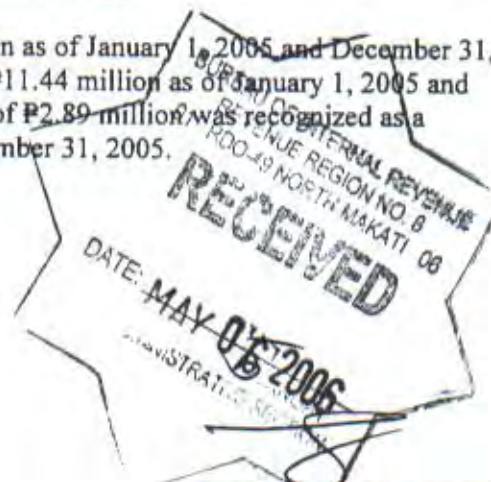
AFS investments in 2005 consist of the following:

Shares - listed	P7,410,840
Shares - unlisted	4,033,500
Less allowance for decline in market value	2,699,185
	1,334,315
	P8,745,155

Available-for-sale 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, 2005. Unlisted shares without available market values are carried at cost.

The aggregate cost of these investments is P8.56 million as of January 1, 2005 and December 31, 2005. The fair values amounted to P9.92 million and P11.44 million as of January 1, 2005 and December 31, 2005, respectively. An unrealized gain of P2.89 million was recognized as a separate component of stockholders' equity as of December 31, 2005.



7. Investments in Marketable Equity Securities/Investments in Shares of Stock

Investments in marketable equity securities and shares of stock in 2004 consist of the following:

Marketable equity securities - current	P579,450
Marketable equity securities - noncurrent	3,924,612
Less allowance for decline in market value	195,237
	3,729,375
Investments in shares of stock	4,051,938
Less allowance for impairment	2,699,185
	1,352,753
	P5,661,578

Marketable equity securities consist of listed securities which are traded at the Philippine Stock Exchange. These are carried at the lower of aggregate cost or market value as of December 31, 2004. The aggregate market value of the securities is P4.93 million and aggregate cost is P4.5 million as of December 31, 2004. Allowance for impairment losses of noncurrent marketable equity securities amounted to P0.19 million as of December 31, 2004. Gross unrealized gain of P1.36 million was not recognized in 2004 and gross unrealized loss of P0.19 million was reflected as a separate component of stockholders' equity as of December 31, 2004.

Investments in shares of stock represent unlisted and unquoted equity securities which are carried at cost less an allowance for impairment in value.

Upon the Company's adoption of PAS 39, *Financial Instruments - Recognition and Measurement*, the classification of these investments was changed to "Available-for-sale" beginning January 1, 2005.

8. Investment Property

Investment property represents a parcel of land (with an unfinished building) which was acquired in 1996. The Company owns fifty (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 made as of December 31, 2005, the fair value of the investment property amounting to P520.86 million exceeded its carrying value as of December 31, 2005. Accordingly, no impairment in value is recognized.



9. Investments in Associates

	2004	(As restated, see Note 3)
	2004	
Acquisition costs	P358,843,750	P358,843,750
Accumulated equity in net losses:		
Balance at beginning of year	(138,074,597)	(94,449,746)
Reversal of negative goodwill	-	772,010
Adjustment due to adoption of PFRS	-	(1,786,394)
Restatement of accounting error of BellTel	-	(802,909)
	(138,074,597)	(96,267,039)
Equity in net losses for the year	(33,408,085)	(41,807,558)
Balance at end of year	(171,482,682)	(138,074,597)
Share in unrealized losses on noncurrent marketable equity securities / AFS investments of an associate	(1,678,590)	(1,916,810)
	P185,682,478	P218,852,343

The summarized financial information of BellTel and PDB follows:

	2005	2004 (as restated, see Note 3)
BellTel:		
Current assets	P72,533,111	P69,978,875
Noncurrent assets	568,360,455	642,221,279
Current liabilities	117,775,640	123,977,920
Noncurrent liabilities	402,575,200	373,911,456
Net revenues	90,237,413	85,811,312
Loss from operations	(84,735,505)	(89,490,080)
Net loss	(98,628,052)	(128,254,391)
PDB:		
Financial assets	P1,351,490,173	P1,107,265,620
Nonfinancial assets	443,706,193	593,360,897
Deposit liabilities	284,821,581	1,117,455,782
Other liabilities	97,790,011	159,425,224
Net interest income	47,342,651	43,680,909
Income (loss) from operations	(19,649,706)	548,555
Net loss	(13,609,046)	(1,281,598)

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 P350 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 P175 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.

On various dates in 2001, BellTel obtained loans from a local bank totaling P278.8 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.
- 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.

During 2005, BellTel's management and the bank explored other possible options that will benefit both parties. Consequently, BellTel's management has negotiated for the conversion of the loans by issuance of common shares of stock 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 the shares 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.

While the negotiations with the bank are ongoing, the bank continuously recognized interests and penalties accruing to BellTel corresponding to the outstanding loans amounting to P139.10 million and P127.10 million as of December 31, 2005 and 2004, respectively.



On the other hand, BellTel's management is optimistic that the restructuring will be eventually executed between BellTel and the bank. Accordingly, BellTel has recognized only the interest portion of the loans amounting to ₱113.2 million and ₱95.0 million as of December 31, 2005 and 2004, respectively.

Certain stockholders of BellTel executed an undertaking to bear the unrecognized penalties and interest of ₱153.00 million (2004 - ₱66.40 million), as mentioned above, in the event the bank will not accept BellTel's proposal to waive collection of the interest and penalties.

The Company has subscriptions payable to BellTel amounting to ₱171.72 million which the Company is allowed to settle within a period of one year from the date of call. As of December 31, 2005 and 2004, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheets.

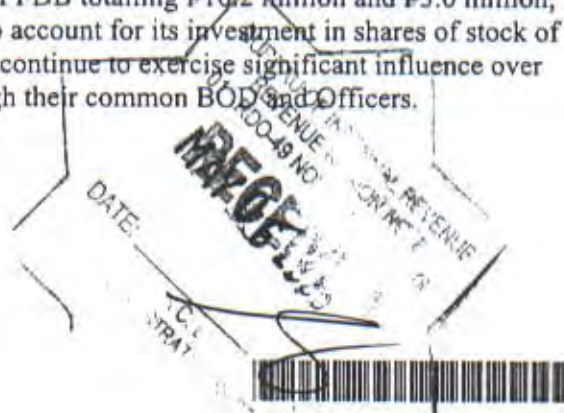
The realizability of the carrying value of the Company's investment in shares of stock of BellTel is dependent upon the future profitability and successful operations of BellTel. As of December 31, 2005, BellTel has projected profitable operations in the medium term, indicating the realizability of the 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 continues to exercise significant influence over the operating and financial policies of PDB through their common BOD and Officers.



10. Property and Equipment

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	2005 Total	2004 Total
Cost:					
Balances at beginning of year	P1,266,988	P1,234,408	P432,098	P2,933,494	P2,905,687
Additions	-	5,114	-	5,114	27,807
Derecognition	(506,988)	-	-	(506,988)	-
Balances at end of year	760,000	1,239,522	432,098	2,431,620	2,933,494
Accumulated depreciation:					
Balances at beginning of year	1,190,220	1,149,775	317,525	2,657,520	2,482,582
Depreciation for the year	-	34,840	42,929	77,769	174,938
Derecognition	(430,220)	-	-	(430,220)	-
Balances at end of year	760,000	1,184,615	360,454	2,305,069	2,657,520
Net book value	P-	P54,907	P71,644	P126,551	P275,974

11. Accounts Payable and Accrued Expenses

	2005	2004
Advances from officers (see Note 13)	P17,335,258	P10,433,558
Accrued expenses	201,410	278,056
Nontrade payables	40,776	2,025
	P17,577,444	P10,713,639

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.

12. Income Taxes

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

	2005	2004 (As restated, see Note 3)
Pretax loss at statutory tax rates	(P11,716,241)	(P15,597,753)
Additions to (reductions in) income taxes resulting from:		
Equity in net losses of associates	10,857,628	13,378,418
Expired NOLCO	2,398,660	2,463,348
Dividend income exempt from tax	(228)	(18,439)
Interest income subjected to final tax	12,395	(2,862)
Nonrecognition of deferred tax assets	(1,557,424)	(226,412)

For the years ended December 31, 2005 and 2004, the Company has no income tax payable with regard to MCIT or the regular corporate income tax because of its gross loss and not taxable loss positions for both years.



The Company has temporary differences for which no deferred income tax asset was recognized as it is not probable that sufficient taxable profit will be available against which the benefit of the deferred income tax asset can be utilized. The temporary differences are as follows:

	2005	2004
Net operating loss carryover (NOLCO)	P15,180,040	P19,700,877
Allowance for probable losses on deferred exploration costs	12,618,353	12,618,353
Allowance for doubtful accounts	766,908	766,908
Accrued rent	68,540	68,540
Unrealized foreign exchange loss (gain)	(183,474)	26,222
	P28,450,367	P33,180,900

As of December 31, 2005, the Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry Date	Amount
2005	2008	P2,859,656
2004	2007	6,817,869
2003	2006	5,502,515
		P15,180,040

Movement of the Company's NOLCO follows:

	2005	2004
Balance at beginning of year	P19,700,877	P20,580,969
Additions	2,859,656	6,817,869
Expirations	(7,380,493)	(7,697,961)
Balance at end of year	P15,180,040	P19,700,877

Republic Act (RA) No. 9337

RA No. 9337 was recently enacted into law effective on November 1, 2005 amending various provisions in the existing 1997 National Internal Revenue Code. Among the reforms introduced by the said RA are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Grant of authority to the Philippine President to increase the 10% value added tax (VAT) rate to 12%, effective January 1, 2006, subject to compliance with certain economic conditions;
- ~~Revised invoicing and reporting requirements for VAT;~~
- Expanded scope of transactions subject to VAT; and,
- Provided thresholds and limitations on the amounts of VAT credits that can be claimed.

On January 31, 2006, Revenue Memorandum Circular No. 8-2006 was issued increasing the VAT rate from 10% to 12% effective February 1, 2006.



13. 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 ₱17.33 million and ₱10.43 million as of December 31, 2005 and 2004, respectively (see Note 11).

Short-term employee benefits of key management personnel amounted to ₱1.43 million and ₱1.39 million in 2005 and 2004, respectively. Termination benefits paid to key management personnel amounted to ₱0.13 million in 2005.

14. Loss Per Share

	2005	2004 (As restated, see Note 3)
Net loss	₱36,049,973	₱48,742,979
Weighted average number of shares	906,559,569	906,559,569
Loss per share	₱0.0398	₱0.0538

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

15. Operating Lease Commitment

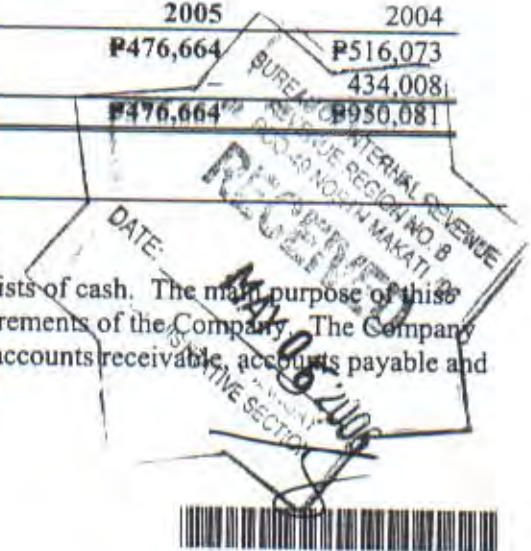
The Company leases its office premises under an operating lease agreement. Lease expense under this operating lease amounted to ₱0.34 million and ₱0.56 million in 2005 and 2004, respectively. The agreement has an escalation clause ranging from 5% to 8% annually starting on the third year. The lease is for a period of five (5) years starting October 2001 up to October 2006, unless sooner terminated by both parties (the lessor and lessee).

Future minimum rentals payable are as follows as of December 31:

	2005	2004
Within one year	₱476,664	₱516,073
After one year but not more than five years	₱476,664	434,008
	₱476,664	₱950,081

16. Financial Risk Management Objectives and Policies

The principal financial instrument of the Company consists of cash. 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, accounts payable and AFS investments.



The main risks arising from the financial instruments of the Company are credit risk, foreign currency 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.

Credit Risk

The Company has accounts receivable amounting to ₱828,968, of which ₱766,908 were provided with an allowance. Receivables are regularly evaluated for collectibility. To manage credit risk, the Company transacts only with recognized third parties.

Foreign Currency Risk

The Company has transactional foreign currency exposure. 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.

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 yet generated from the Company's operations.

Fair Value of Financial Instruments

The Company has determined that the carrying amounts of cash, accounts receivable and accounts payable and accrued expenses, 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 -1/1/05	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period 12/31/05
Employees							
H. Deaño	38,582.38	80,000.00	(118,582.38)				-
D. Baladad	4,565.00		(4,565.00)				-
E. Quintero		30,000.00	(30,000.00)				-
R. Carreon		19,572.00	(17,540.00)				2,032.00
	43,147.38	129,572.00	(170,687.38)				2,032.00
Others	46,304.56	13,723.46					60,028.02
Total	89,451.94	143,295.46	(170,687.38)				62,060.02

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 1/1/2005	Equity in earnings (losses) of Investees for the period	Share in unrealized loss on noncurrent marketable equity securities/AFS investment of an associate	Reclassification of Investments upon adoption of PAS 39	Distribution of earnings by Investees	Number of shares or principal amount of bonds/notes	Amount in Pesos Balance End 12/31/2005
INVESTMENTS IN ASSOCIATES AND OTHERS								
<u>Stocks:</u>								
Bell Tel-32.40%	3,240,000	184,540,969.02	(31,955,488.85)					152,585,480.17
PDB-9.73%	348,438	36,228,183.83	(1,452,596.17)					34,775,587.66
Share in Unrealized loss on noncurrent marketable equity securities/AFS investment of an associate		(1,916,809.55)		238,220.00				(1,678,589.55)
		34,311,374.28	(1,452,596.17)	238,220.00				33,096,998.11
TOTAL - INVESTMENTS IN ASSOCIATES		218,852,343.30	(33,408,085.02)	238,220.00				185,682,478.28
<u>Investment in Shares of Stock</u>								
PLDT	700	18,437.62		(18,437.62)				-
Sta. Lucia Realty	1	700,000.00		(700,000.00)				-
Southwest Resources	3,333,500	3,333,500.00		(3,333,500.00)				-
Allowance for decline in value		(2,699,185.06)		2,699,185.06				-
		634,314.94		(634,314.94)				
		1,352,752.56		(1,352,752.56)				-
<u>AVAILABLE FOR SALE</u>								
<u>Marketable Securities</u>								
Current								
San Miguel A	14,366	550,950.00				382,840.00		933,790.00
Aboitiz	6,000	28,500.00				300.00		28,800.00
		579,450.00				383,140.00		962,590.00
Noncurrent								
Petron	1,147,500	3,924,612.00				1,434,375.00		5,358,987.00
Allowance for decline in value		(195,237.00)						(195,237.00)
		3,729,375.00				1,434,375.00		5,163,750.00
<u>Others:</u>								
PLDT	700			18,437.62		1,266,062.00		1,284,499.62
Sta. Lucia Realty	1			700,000.00				700,000.00
Southwest Resources	3,333,500			3,333,500.00				3,333,500.00
Allowance for decline in value				(2,699,185.06)				(2,699,185.06)
				634,314.94		-	-	634,314.94
				1,352,752.56		1,266,062.00		2,618,814.56
TOTAL - AVAILABLE FOR SALE		5,661,577.56		1,352,752.56		3,083,577.00		8,745,154.56

Aging of Accounts Receivable

South China Resources, Inc. Aging of Accounts Receivable As of December 31, 2005									
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	2,032.00	2,032.00							
3) A/R Others	826,936.44			6,175.00	7,548.46		813,212.98		
Subtotal	828,968.44	2,032.00		6,175.00	7,548.46		813,212.98		
Less: Allow. For Doubtful Acct.	(766,908.42)						(766,908.42)		
Net Non-Trade receivable	62,060.02	2,032.00		6,175.00	7,548.46		46,304.56		
Net Receivables (a+b)	62,060.02								
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