

COVER SHEET

ASO 9206441

SEC Registration Number

South China Resources, Inc.

(Company's Full Name)

3rd Floor Low Rise Pacific Star Building, Sen. Gil Puyat Avenue coner Makati Avenue,

Makati City, Philippines, 1200

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

Jaime M. Blanco, Jr.

Contact Person

(02) 8922049

Company's Contact Number

12

Month

31

Day

Fiscal Year

17-A

FORM TYPE

05

Month

28

Day

Annual Meeting

N/A

Secondary License Type, If Applicable

Corporation Finance Dept.

Dept. Requiring this Doc.

Amended Articles Number/Section

433

Total No. Of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I. D.

Cashier

STAMPS

Remarks = Pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

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

1. For the fiscal year ended **December 31, 2009**
2. SEC Identification Number **ASO92-06441** 3. BIR Tax Identification No. **001-945-016**
4. Exact name of issuer as specified in its charter **SOUTH CHINA RESOURCES, INC.**
5. **Not Applicable** 6. (SEC Use Only)
Province, Country or other jurisdiction of Industry Classification Code:
Incorporation or organization
7. **3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City** **1200**
Address of principal office Postal Code
8. **(632) 812-2383 / 892-2049**
Issuer's telephone number, including area code
9. **12/F Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City**
Former name, former address and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA
- | Title of Each Class | Number of Shares of Common Stock
Outstanding and Amount of Debt Outstanding |
|----------------------|--|
| Common Shares | 906,559,568 |
11. Are any or all of these securities listed on a Stock Exchange?
- Yes [☒] No [☐]
- Name of Stock Exchange Class of Securities Listed
- Philippine Stock Exchange** **U**

12. Check whether the issuer:

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

Yes [☒] No [☐]

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

Yes [☒] No [☐]

13. Aggregate market value of the voting stock held by non-affiliates is **₱578,737,775.00** as of **April 7, 2010**.

PART I - BUSINESS AND GENERAL INFORMATION

ITEM 1. BUSINESS

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

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

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

Area	Interest	Expiry/Expected Expiry
1. SC-41 Sulu Sea	- 1.09%	May 10, 2010/2011
2. SC-60/GSEC-99 NE Palawan	- 15.00%	January 26, 2013
3. SC-71/Area 4 Offshore Cuyo	- 15.00%	April 1, 2016

South China continues to be a significant player in oil exploration in the country. The Company operates prudently by reducing upfront costs in frontier exploration. South China has proven that the exploration strategy and the technical concepts using data driven models are effective in opening up frontier areas like Northeast Palawan. On January 27, 2006, in joint agreement, the South China and SPEX (Shell Philippines Exploration B. V.) together with KUFPEC (Kuwait Foreign Petroleum Co. ksc) signed with the Department of Energy (DOE), Service Contract No. 60 (SC-60). 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. On July 8, 2008, the SC – 60 Joint Operations, in a letter to the Department of Energy (DOE), elected to enter the second sub-phase of SC – 60. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase. On October 08, 2009 the DOE extended the second sub-phase to February 10, 2011. South China retains 15% interest in the block.

The DOE, in their letter to block operator Tap (Philippines) Pty Ltd extended SC-41 for its 10th and final contract year to run to May 10, 2010 and may be extended to May 2011. On July 19, 2008 Tap Oil along with the joint operation partners spudded the Lumba-Lumba-1/1A well. The well was drilled by the semi-submersible rig, Transocean Legend, down to a total depth of 2174 meters, approximately 830 meters short of the programmed total depth. Tap Oil plugged and abandoned the well on August 20, 2008 after the well had encountered numerous down-hole problems and was unable to make further progress. The well encountered no reservoir quality rocks but elevated gas readings were observed. The SC-41 group still believes that the block has the potential to host commercial hydrocarbons despite the momentary set back as Lumba-Lumba-1/1A well only tested one of the several different independent prospects in the block. Tap on behalf of the SC-41 group completed the reprocessing and inversion studies based of the Alpine 3D survey of the area. This will enable the group to delineate prospects for further exploration and farm-out. South China has 1.090% participating interest in this block.

In the quest to continue exploration in areas where the company has an edge in terms of data and technical conceptualization, South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). On May 30, 2007, South China together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The DOE awarded Service Contract No. 71 to the group on April 1, 2009.

South China has 15% participating interest in this block. The Service Contract has term of seven (7) years compartmentalized into five (5) phases. The group has the option to proceed or withdraw at the end of each phase.

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

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

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

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

On December 18, 2009, the Company sold to Two Cassandra-CCI Conglomerates, Inc. the Company's Investment in 3,240,000 shares of the capital stock of Bell Telecommunication Philippines, Inc. at a selling price of ₱1,227,825,489.00.

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

The Company has no subsidiaries for the year ended 2009. Please refer to Note 9 of the Financial Statement for information on the business of its associates, Bell Telecommunication Philippines, Inc. (Bell Tel) and Premiere Development Bank (PDB).

The Company does not expect any significant changes in its number of employees. Presently, the Company has a total of seven (7) employees, all working full-time, one (1) Chairman, one (1) Vice-President for Operations, one (1) Vice-President for Finance, one (1) Accountant, one (1) Accounting Supervisor, one (1) Investor Relations Officer and one (1) Messenger. The Company has no Collective Bargaining Agreements (CBA).

Since the company has only seven (7) employees, it is not legally required to establish a formal retirement plan for its employees because under Republic Act No. 7641, a company is required to set up a retirement plan if it has ten (10) or more employees.

ITEM 2. PROPERTIES

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

On December 15, 2007, the Company together with all the other registered and beneficial owner of the property, entered into a Contract to Sell and Buy with a third party for the sale of the said property for an in consideration of the total amount of ₱1.2 billion., the Company's share of which is ₱600 million. In connection with the said Contract to Sell and Buy, a deposit amounting to ₱60 million was received by the company in December 2007. The Deed of Absolute Sales was executed on January 23, 2008.

The Company leases its office space with Bell Telecommunication Philippines, Inc. (BellTel) located at the 3/F Low Rise Pacific Star Building, Sen. Gil Puyat Ave. cor. Makati Ave., Makati City. The term of the contract is for a period of one (1) year, from September 1, 2009 to September 1, 2010 and renewable automatically, on a monthly rental of ₱42,996.28.

ITEM 3. LEGAL PROCEEDINGS

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

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

During the Annual Stockholders' Meeting on May 29, 2009, whereat stockholders representing 815,302,902 shares out of the 906,559,568 shares entitled to vote were present in person or by proxy, the stockholders present unanimously approved the amendment of the Company's By-Laws to incorporate the change of the Company's annual stockholders' meeting from the 3rd Wednesday of April to the last Friday of May. The amendment to the By-Laws was approved by the Commission on June 30, 2009.

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

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

PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

(1) Market Information

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

As of the trading date, April 13, 2009, the high and low price is 2.8, 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 (2009 and 2008).

Stock Prices

2009	High	Low
First Quarter	1.0500	0.8333
Second Quarter	1.5200	1.1400
Third Quarter	1.9733	1.7333
Fourth Quarter	2.1066	1.6866
2008	High	Low
First Quarter	1.8000	1.3400
Second Quarter	1.5266	1.3400
Third Quarter	1.4133	1.2733
Fourth Quarter	0.7166	0.6000

(2) Holders

The number of shareholders of record as of December 31, 2009 was 433. Common shares issued and subscribed as of December 31, 2009 were 906,559,568.

Top Twenty (20) Stockholders

As of December 31, 2009

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)	136,740,934	15.0835%
5.	PCD Nominee Corporation (Non-Filipino)	13,891,566	1.5323%
6.	Benjamin Chua	10,051,500	1.1088%
7.	Kho Giok En	5,513,000	0.6081%
8.	The Philodrill Corporation	3,200,000	0.3530%
9.	Ramesh Amarnani	2,000,000	0.2206%
10.	R. Coyiuto Securities, Inc.	1,925,000	0.2123%
11.	Gilbert Liu	1,000,000	0.1103%
12.	Jose Mari R. Moraza	1,000,000	0.1103%
13.	Michael Escaler	630,000	0.0695%
14.	Ma. Georgina V. Perez	610,000	0.0673%
15.	Remedios J. Manguiat	580,000	0.0640%
16.	Mandarin Securities Corp.	561,000	0.0619%
17.	Benito T. Dela Cruz	520,000	0.0574%
18.	Jaime M. Blanco, Jr.	500,100	0.0552%
19.	Loreto Cabanes	500,000	0.0552%
20.	Rojas Chua	500,000	0.0552%
TOTAL		874,782,468	96.4948%

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

(3) Dividends

The Company has no earnings yet from commercial production. The restriction that limits the Company to pay dividends on common equity is its inability to accumulate retained earnings. Therefore, there were no dividends declared for the two (2) most recent years ended December 31, 2009 and 2008.

(4) Recent Sale of Unregistered or Exempt Securities

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

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

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

CALENDAR YEAR ENDED DECEMBER 31, 2009 VS CY ENDED DECEMBER 31, 2008

2009 RESULTS OF OPERATIONS

Financial Highlights (in Philippine peso)

<u>PARTICULARS</u>	<u>12/31/2009</u>	<u>12/31/2008</u>	<u>% Change</u>
Revenues	1,181,824,627	133,880,831	782.74 %
Expenses	100,227,994	121,233,782	(17.33) %
Foreign Exchange Loss	(5,439)	(13,294)	59.09 %
Income / (Loss) from Operations	1,081,596,633	12,647,049	8452.17 %
Equity in Net Income / (Losses) of Associates	(40,035,540)	100,222,956	(139.95) %
Income Tax	(159,582)	-	-
Net Income / (Loss)	1,041,396,072	112,856,711	822.76 %

Total Revenues- 782.74% increase from PHP 133,880,831 to PHP 1,81,824,627

Total Revenues generated for 2009 reached PHP 1.181 billion consisting of the following : (a) Gain on sale of 32.40% (3,240,000 shares) ownership in BellTel to Two Cassandra-CCI Conglomerates, Inc. (TWCCI) for a total of PHP 1.171 billion gross of capital gains tax of PHP 90 million. (b) Interest income from amounts owed by a related party, Puyat Steel Corporation (PSC) amounting to PHP 7.979 million and (c) Interest income on deposits and short-term placements with BPI, Metrobank & Premiere Bank totalling PHP 1.941 million.

Total Expenses- 17.33% decrease from PHP 121.233 million to PHP 100.227 MM

There was a considerable decrease in Total Expenses incurred for 2009 amounting to PHP 100.227 million as compared to the PHP 121.233 million in 2008. Major expense items for 2009 were as follows: (a) taxes and licenses of PHP 91.290 million consisting mostly of the abovementioned PHP 90 million capital gains taxes related to the sale of 32.40% ownership of Belltel; (b) legal and professional fees of PHP 0.702 million; (c) travel and representation fees of PHP 1.374 million;(e) salaries and wages of PHP 2.707 million and (f) depreciation expenses of PHP 2.528 million.

Given the above, income from operations for 2009 was PHP1.053 billion which translates to an operating margin of 91.51% during the year. This was around 85X of income from operation of 2008.

Equity in net earnings of associates – 139.95% decline of PHP 40.035 million from income of PHP 100.222 million

Other income and losses recognized during the year were as follows: (a) the equity share in net loss of Bell Telecommunication Phils. Inc. (BellTel) amounting to PHP 40.35 million as well as (b) the equity share in net income of Premiere Bank amounting to PHP 0.314 million.

The PHP 40.35 million equity share in net loss of Belltel was computed as follows-- the 32.40% share of the Company on Belltel's net loss for 2009 amounting to PHP 124.538 million.

An amount of PHP 0.314 million share in equity in net earnings of Premiere Bank for 2009 representing the 4.81% share of the Company signifies a favourable increase as compared to share in net loss of 2008 amounting to PHP 1.048 million.

Net Income – A substantial increase at the rate of 822.76% amounting PHP 1.041 billion for 2009 as compared to 2008 of PHP 112 million

Net income of the Company for the year end 2008 rose up to PHP 1.041 billion, a remarkable increment over the preceding year of PHP 112.856 million.

The great leap in the net income of the company arose from the sale transaction of 32.40% ownership shares in Belltel and the corresponding decrease in expenses of the company producing the double effect all favourable to the results of the operation.

The Company has no earnings yet from commercial production pertaining to the oil exploration segment of the business hence there were no dividends declared for the period ended December 31, 2009.

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

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

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

2009 FINANCIAL POSITION
Financial Highlights
(in Philippine peso)

PARTICULARS	12/31/2009	12/31/2008	% Change
Current Assets	1,505,702,174	172,947,060	770.61 %
Noncurrent Assets	63,719,165	524,787,354	(87.86) %
TOTAL ASSETS	1,569,421,339	697,734,414	124.93 %
Current Liabilities	1,817,852	597,425	204.28 %
Noncurrent Liabilities	-	171,720,000	(100.00) %
Total Liabilities	1,817,852	172,317,425	(98.95) %
Equity	1,567,603,487	525,416,989	198.35 %
TOTAL LIABILITIES & EQUITY	1,569,421,339	697,734,414	124.93 %

The following circumstances reflect the Current asset 770.61% incremental change for the year:

The cash and cash equivalent of PHP 1.434 billion for 2009 climbed up to 14 times against the 2008 PHP 92.829 million due to the sale of 32.40% shareholdings of the Company from Belltel to TWCCI. The total amount of PHP 1.334 billion from the proceeds of the sale was invested in a short term placement earning considerable amount of interest.

The BOD through a board resolution dated January 23, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to ₱130 million for the acquisition of raw materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment of the Company of finished goods inventories and all receivables and proceeds of post-dated checks issued arising from the sale of the finished products. The funding facility is renewable on a yearly basis. Under this arrangement, the Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

A corresponding decrease in accounts receivable from PHP 78.985 million for 2008 to PHP 70.182 million for 2009 was due to the collection of accrued interest outstanding as of the beginning of the year and the partial payment of Puyat Steel Corp. of its advances from the company. Puyat Steel made a total of PHP 95 million advances with settlement of PHP 100 million during the year leaving PHP 70 million as outstanding advances as of the end of 2009.

The increase of 19% in prepayments and other current asset was due to increase in input taxes, medical benefits, insurance, dues and supplies inventories during the year

The decrease in non current assets from PHP 524.787 million to PHP 63.719 million (87.86%) is due to the following:

On December 18, 2009 a deed of sale was executed by and between South China Resources Inc. in favor of Two Cassandra-CCI Conglomerates, Inc. for the rights and interest of the former to 3,240,000 shares of stocks in Bell Telecommunication Philippines, Inc. for and in consideration of PHP 1,227,825,489.00.

The investment in associate account was decreased by PHP 324 million for the cost of the shares of BelTell and the corresponding share in net loss as previously discussed recognized up to the date of the consummation of the sale. Other factors affecting the decrease in non current asset is the share in net

income and other comprehensive income of Premiere Development Bank at 4.81% ownership. The aforementioned events constitute the 93.16% decrease from PHP 492.394 million to PHP 33.698 million in Investment in and Advances to Associates.

Available for Sale (AFS) Investments 0.29% decrease from PHP 6.792 million to PHP 6.772 million was due to the increase in market value of listed shares namely Petron & Aboitiz Equity ventures and the recognition of impairment loss on unlisted shares of Malarayat Golf and country club. There is no increase in the recognized allowance for impairment on unlisted shares of Southwest Resources Inc. due to possible increase in valuation for the next coming twelve months.

The decrease in property plant and equipment is solely for depreciation purposes.

Total Liabilities 98.95% decrease from PHP 172.317 million to PHP 1.817 million is due to the following:

Current Liabilities 204% increase from PHP 0.597 million to PHP 1.817 million due to the recognition of output taxes for the current period

As of 2009 the company has no more outstanding non current liabilities pertaining to the unpaid subscription payable in favor of Bell Telecommunication as it was already fully paid prior to the sale of the sharesto Two Cassandra.

Total change in the equity portion for increase of 198.35% from PHP 525.416 million to PHP 1.567 billion

Increase in the total amount of issued shares from PHP 588.879 million to PHP 589.509 million due to the full payment of subscribed shares amounting to PHP .630 million.

The increase in the valuation of available for sale investment was due to the increment in the market value of owned listed shares of Petron Corp and Aboitiz Equity Ventures at net increase of 0.229 million and 0.020 million respectively.

The outstanding growth in the net income of the company substantially contributed to the remarkable change in equity section. The 2008 retained deficit of PHP 261.767 million was eliminated for the year 2009 and retained earnings balances stood at a balance of PHP 824.628 million due to net income after tax of PHP 1.041 billion.

A board resolution was unanimously adopted on April 7, 2010 for the appropriation of retained earnings amounting to PHP 500 million for the corporation's investment in future business expansion.

2009 KEY PERFORMANCE INDICATORS

The following are the major financial ratios of the Company for the years ended December 31, 2009 and 2008:

<u>KEY FINANCIAL RATIOS</u>	<u>12/31/2009</u>	<u>12/31/2008</u>
Revenue Growth/ (Decline)	882.74 %	295947.72 %
Net Income Growth/ (Decline)	932.51 %	323.28 %
EBITDA	Php 1,084,125,440.00	Php 14,456,631.00
Return on Equity	66.45%	21.26%
Return on Assets	66.38%	16.01%
Current Ratio (in x)	828.29 x	289.49 x
Debt-to-equity ratio (in x)	0.0012 x	0.3280 x

For the year 2009, there was an improvement in net income growth rates as against the Company's 2008 levels as evidenced by the above figures. Profitability was also measured by ROE and ROA reaching 66.45% and 66.38% respectively with a noticeable difference from the previous period.

The Company posted a very high liquidity ratio of 828.29x in 2009 versus the 289.49 x in 2008. This was due to the astounding increase in cash and cash equivalents brought about by the investment to short term market placements of the whole net proceed of sale of shares in Belltel as previously discussed.

The company exhibits an outstanding leverage ratio for the year 2009 which means that it can finance its own operation without using outside financing source.

Earnings before interest taxes depreciation and amortization (EBITDA) for 2009 was at PHP 1.084 billion.

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

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

- **PROSPECTS FOR THE FUTURE**

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

(1) Prospects for Oil and Gas Exploration Investments

SC-41 Offshore Sulu Sea Sandakan Basin

SC-41 will run its tenth contract year to May 10, 2010 unless extended by the DOE. For Service Contract Year #10 (SCY 10), the operator, Tap Oil Ltd., completed the reprocessing of the Alpine 3D seismic data and consequent inversion studies for the re-interpretation and prospect modeling. This enables the group to delineate prospects for further exploration and farm-out. In the event a prospect is determined to be highly prospective then the SC-41 joint group will apply for an extension of SCY10 to May 10, 2011. South China has 1.090% paying participating interest in this block. If a well is committed by the group then South China will pay its pro-rata share of the well costs. Such wells range upwards in cost from \$40 million.

SC-60 (GSEC-99 Offshore NE Palawan)

The joint group of South China, Shell Philippines Exploration B.V. and Kuwait Foreign Petroleum Co. ksc. entered the second sub-phase of SC-60 in July 8, 2008. The objective is to continue and further the exploration of the block with a commitment to drill one well during the sub-phase. Cutting edge technologies were used to delineate the prospect. The first well will be called the Silangan-1 well and will be the first deep water drilled in the area. South China is carried for this first well and is expected to be drilled into the second quarter of 2010.

On October 08, 2009 the DOE extended the second sub-phase to February 10, 2011. After this period the Joint group may at its option continue with the work program and enter a third sub-phase and commit to drill another well until February 2012. A fourth sub-phase with a commitment to drill will continue the term of the SC until February 2013. If petroleum is discovered during any sub-phase, the joint group may opt for an appraisal program to determine its commerciality. Petroleum declared commercial will then be set for development and eventual production.

A positive outcome on the Silangan well drilling will result in an accelerated exploration program which should entail a new 3D seismic program and/or additional wells. South China will then be paying its pro-rata share of all exploration costs after the first well. South China retains 15% interest in the block.

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

South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). On May 30, 2007, South China together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The DOE awarded Service Contract No. 71 to the group on April 1, 2009. The Service Contract has term of seven (7) years compartmentalized into five (5) phases. The group has the option to proceed or withdraw at the end of each phase. The joint group embarked on a comprehensive seismic reprocessing of over 3000 line kms of 2D seismic data over the area for its initial 12-month phase of work. The second sub-phase will entail acquisition, processing and interpretation of a minimum 750 line kms of 2D seismic. South China has 15% participating interest and is carried on the first phase of the SC but will

be a paying partner on the second and succeeding phases.

(2) Prospects for Other Energy and Mineral Resources

The implementing rules and regulations for renewable energy resources were released in 2009. South China eagerly awaits the announcement for the feed-in tariffs for energy renewables, which is expected to be in the second quarter of 2010. The Company plans to secure investment opportunities, either on its own or through joint ventures, in various energy resources, covering the range of geothermal, hydropower and solar energies.

The Company's focus on conventional energy resources will still be maintained, as it explores entry into opportunities in other oil exploration areas as well as that in coal resources as it.

The global situation in recent years presents opportunities for the Company to seek entry into mineral exploration and exploitation sector. It recognizes that the demand added by China and India into the current global mineral resource market and into the foreseeable future will have a significant impact in the metals and non-metals market.

(3) Prospects for Bell Telecommunication Phils., Inc.

On December 18, 2009, the Company sold to Two Cassandra-CCI Conglomerates, Inc. the Company's Investment in 3,240,000 shares of the capital stock of Bell Telecommunication Philippines, Inc. at a selling price of ₱1,227,825,489.00.

(4) Prospects for Premiere Bank

For 2010, the Bank's major goals are as follows: (a) continue to aggressively expand its consumer loans and SME finance portfolio; (b) sustain the program started in 2008 to strengthen its distribution system through the renovation and strategic relocation of its branches; and (3) stepped –up customer acquisition programme via competitive products, quick turnaround times and structured sales activities for the Bank's frontliners.

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

• Key variable and other qualitative and quantitative factors:

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

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

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

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

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

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

For the period ended December 31, 2009, the Company is still in exploration stage, and therefore, no commercial production yet for the performance indicators analysis. It has no majority-owned subsidiaries.

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

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

Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale (AFS) investments, which are carried at fair value. The financial statements are presented in Philippine pesos which is the Company's functional currency.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2009, and amendment to existing standards that became effective on January 1, 2009.

- Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*, effective January 1, 2009

The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one (1) single statement, or in two (2) linked statements.

The Company has elected to present a single statement to present items of recognized income and expense in the statement of comprehensive income and to change the title of the balance sheet to statement of financial position.

- PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*, effective January 1, 2009

The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 15. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 15.

Adoption of the following new, revised and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS did not have any significant impact to the Company.

New and Revised Standards and Interpretations

- PAS 23, *Borrowing Costs (Revised)*
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Amendments to Standards and Interpretations

- PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1, *First-time Adoption of PFRS*, and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

Improvements to PFRS issued in 2008

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*
- PAS 23, *Borrowing Costs*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*
- PAS 41, *Agriculture*

Improvement to PFRS issued in 2009

PAS 18, *Revenue*: adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to 2009

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

Effective in 2010

Revised PFRS 3, Business Combinations (Revised) and PAS 27, Consolidated and Separate Financial Statements (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009.

PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration

and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Amendment to PFRS 2, Share-Based Payments - Group Cash-settled Share-based Payment Transactions

The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company as the Company has not entered into any such share-based payment transactions.

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

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect the Interpretation to have an impact on the financial statements as the Company has not made non-cash distributions to shareholders in the past.

Improvements to PFRS Effective 2010

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either “finance” or “operating” in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
 - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

Philippine Interpretation IFRIC 15, *Agreement for Construction of Real Estate*

This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.

Revenue Recognition

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

Interest Income

Interest income is recognized as it accrues using the effective interest rate.

Dividend income

Dividend income is recognized when the Company's right to receive the payment is established, which is upon declaration.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Operating expenses, such as personnel, utilities and telecommunication are generally recognized when the services is used or the expense arises while interest expenses, if applicable are accrued in the appropriate period. General and administrative expenses are expenses incurred in the direction and general administration of day-to-day operation of the Company and are generally recognized when the service is used or the expense arises.

Cash and Cash Equivalents

Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placements and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39, *Financial Instruments: Recognition and Measurement*, are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS investments. The Company's financial assets are of the nature of loans and receivables and AFS financial assets. As of December 31, 2009 and 2008, the Company has no outstanding financial assets at FVPL and HTM investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Company's financial liabilities are of the nature of other financial liabilities.

(a) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated at FVPL. This accounting policy relates to the Company's "Cash and cash equivalents" and "Accounts receivable" which arise primarily from interest and other types of receivables.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in "Interest income" account in the statement of comprehensive income.

The losses arising from impairment of receivables are recognized in the statement of comprehensive income.

The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets Carried at Amortized Cost).

(b) AFS investments

AFS investments are those non-derivative financial assets that are designated as AFS or are not classified as financial assets at FVPL, HTM investments and loans and receivables. After initial recognition, AFS investments are measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously included in equity are included in the statement of comprehensive income. Dividends on an available-for-sale equity instrument are recognized in the statement of comprehensive income when the entity's right to receive payment is established.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis; and option pricing models.

The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains on available-for-sale investments" in the equity section of the statement of financial position.

(c) Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in foreign exchange (losses) gains in the statement of comprehensive income.

This accounting policy applies primarily to the Company's "Accounts payable and accrued expenses", "Subscriptions payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derivative Financial Instruments

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
2. a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
3. the hybrid or combined instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. As of December 31, 2009 and 2008, the Company has no bifurcated embedded derivatives.

Day 1 Profit

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a Day 1 profit) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' profit amount.

Impairment of Financial Assets Carried at Amortized Cost

The Company assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) 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 asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. 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 the statement of comprehensive income.

The Company first assesses whether objective evidence of impairment exists individually for financial

assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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 estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

1. the rights to receive cash flows from the asset have expired;
2. 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
3. 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 or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the 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.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations.

Input VAT is presented as current asset and will be used to offset against the Company's current output VAT liabilities. Any excess which are being claimed as tax credits is presented as part of "Prepayments and other current assets" in the statement of financial position. Input VAT is stated at its estimated net realizable value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such equipment when the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, except for leasehold improvements which are amortized on a straight-line basis over the term of the lease or the estimated lives of the improvements, whichever is shorter, as follows:

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

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Impairment of Property and Equipment

Property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased.

The recovery is recorded in the statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Investments in Associates

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

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

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

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

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

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

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

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

Deferred Exploration Costs

Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the Company has withdrawn from the consortium, the related deferred exploration costs are provided with valuation allowance or written-off. An SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development.

Common Stock

The Company has issued common stocks that are classified as equity. Incremental costs directly attributable to the issue of new common stocks are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company's common stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Additional paid-in capital

Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the stockholders.

Retained Earnings (Deficit)

The amount included in retained earnings (deficit) includes profit (loss) attributable to the Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company's stockholders. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Retirement Benefit Costs

The Company provides for the estimated retirement costs required to be paid under Republic Act (RA) No. 7641 to qualifying employees. Under SFAS No. 24, *Retirement Benefits Costs*, the cost of defined retirement benefits, including those mandated under RA No. 7641, should be determined using an accrued benefit valuation method or a projected benefit valuation method.

Income Taxes

Current income tax

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

Deferred income tax

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses 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 income nor taxable income 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 income will be available against which the temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the Company's statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in Philippine peso using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and settlement date or reporting date are credited to or charged against current operations. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the dates of initial transactions.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

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

Operating Leases

Operating leases represent those leases which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Operating lease payments under an operating lease are recognized in the statement of comprehensive income on a straight-line basis over the lease term of the lessee.

Basic/Diluted Earnings Per Share

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted earnings per share is computed by dividing net income for the year (after deducting interest on convertible preferred shares) by the weighted average number of shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares.

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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Segment Reporting

The Company, which is operating in only one business segment, has an associate engaged in financial services. The Company and its associate have no geographical segments as they were incorporated and are operating within the Philippines. Financial information regarding the associate as of and for the years ended December 31, 2009 and 2008 are presented in Note 9.

Management monitors the operating results of its business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating income or loss in the financial statements.

Events After the Reporting Date

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

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

(1) Information on Independent Public Accountant

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

The Company's Principal Accountant is Sycip Gorres Velayo & Co. The engagement partner for the previous completed reporting year, 2009, is Mr. John Nai Peng C. Ong.

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

(2) External Audit Fees and Services

In compliance with SEC Memo Circular No. 14 Series of 2004, External Audit Fees, progress billing, for 2009 amounted to ₱392,000. External Audit Fees billed for 2008 amounted to ₱425,537.64. These pertain to the annual audit fees for the Company's Financial Statements and no other services were provided and billed for by the external auditors for the last two (2) fiscal years.

(C) Results and Plans of Operations

SC-41 Offshore Sulu Sea Sandakan Basin

SC-41 is on its tenth contract year which will last until May 10, 2010 unless extended. The SC-41 group still believes that the block has the potential to host commercial hydrocarbons despite the momentary set back as Lumba-Lumba-1 well only tested one of the several different independent prospects in the block. Operator, Tap Oil Ltd's program for Service Contract Year #10 (SCY 10) was completed with the reprocessing of the Alpine 3D seismic data along consequent inversion studies and re-interpretation and prospect modelling. In the event a prospect is determined to be drillable prior to May 10, 2010, then the SC-41 joint group will apply for an extension of SCY10 to May 10, 2011. South China has 1.090% participating interest in this block.

SC-60 (GSEC-99 Offshore NE Palawan)

SC-60 is one of the Company's as well as the country's most promising areas in terms of potential for large accumulations for petroleum. A rigorous study of the 3D seismic data was conducted and highlighted a number of leads, several of which have been elevated to prospect status. In July 8, 2008, South China, together with SPEX (Shell Philippines Exploration B.V.) and KUFPEC (Kuwait Foreign Petroleum Co. ksc) entered the second sub-phase of SC – 60. The objective is to continue and further the exploration of the block with a commitment to drill one well during this sub-phase.

Cutting edge technologies were used to delineate the prospect. The first well will be called the Silangan-1 well and will be the first deep water drilled in the area. South China is carried for this first well and is expected to be drilled into the second quarter of 2010.

The second sub-phase was extended by the DOE to February 10, 2011. This extension will allow the SC60 JV partners sufficient time to commence and complete the drilling of the exploration well due to delays attributed to mechanical difficulties on the drillship Frontier Phoenix. The well is expected to be drilled in the second quarter with possible spill to the third quarter of 2010.

The Joint group may at its option continue with the work program and enter a third sub-phase and commit to drill another well until February 2012. A fourth sub-phase with a commitment to drill will continue the term of the SC until February 2013. If petroleum is discovered during any sub-phase, the joint group may opt for an appraisal program to determine its commerciality. Petroleum declared commercial will then be set for development and eventual production.

A positive outcome on the Silangan well drilling will result in an accelerated exploration program which should entail a new 3D seismic program and/or additional wells. South China will then be paying its pro-rata share of all exploration costs after the first well. South China retains 15% interest in the block.

SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)

On May 30, 2007, South China together with UK company Pitkin Petroleum Ltd. submitted a bid for a block covering Offshore Mindoro- Cuyo. The bid was under the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3).

On April 1, 2009, South China, Pitkin Petroleum, and the Department of Energy signed Service Contract No. 71 (SC-71). SC-71 covers an area of 1.164 MM hectares in the Cuyo/Mindoro/East Palawan region. The operator is currently conducting geological and geophysical assessment of the block as well as copying and seismic reprocessing of over 3000 km of vintage data. South China has 15% participating interest and is carried on the first phase of the SC.

Entry into the second sub-phase will entail commitment to acquire at least 750 line km of 2D seismic. South China will be paying its pro-rata share for its 15% participating interest starting in the second sub-phase.

Other Energy and Mineral Resources

The implementing rules and regulations for renewable energy resources were released in 2009. South China eagerly awaits the announcement for the feed-in tariffs for energy renewables, which is expected to be in the second quarter of 2010. The Company plans to secure investment opportunities, either on its own or through joint ventures, in various energy resources, covering the range of geothermal, hydropower and solar energies.

The Company's focus on conventional energy resources will still be maintained, as it explores entry into opportunities in other oil exploration areas as well as that in coal resources as it.

The global situation in recent years presents opportunities for the Company to seek entry into mineral exploration and exploitation sector. It recognizes that the demand added by China and India into the current global mineral resource market and into the foreseeable future will have a significant impact in the metals and non-metals market.

The following are the estimated cash requirements for South China Operations in the next twelve months. The SC minimum cash requirements are based on work programs as submitted to the Department of Energy while the SC anticipated cash requirements are based on eventualities as expected by the JV groups. Anticipated cash requirements for Renewable Energy and Mineral Resources are dependent SC and tenement acquisition.

SC-60 NE Palawan	Minimum of \$0.5MM for Operator's License Administration & Company General and Administrative Anticipate \$2MM for 2D/3D seismic Anticipate \$7.5MM for Appraisal well
SC-41 Sulu Sea	Minimum of \$50,000 for Operator's License Administration and Company General & Administrative Anticipate \$450K for a well
Sc – 71 Offshore Cuyo	Minimum of \$20,000 for General & Administrative Anticipate \$120K for 2D Seismic
Renewable Energy	\$100K for Assessment Studies \$ 5MM for SC Work
Mineral Resources	\$ 200K for Assessment Studies \$ 5MM for Tenement Work

(D) Other Investments

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

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

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

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

The estimated recoverable amount of the investment in BellTel had been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the top management covering five-year period. As of December 31, 2009 and 2008, BellTel has projected profitable operations in the medium-term, indicating the realizability of the Company's investment in the associate.

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

On December 18, 2009, the Company sold its 3,240,000 shares of capital stock of Bell Telecommunications Philippines, Inc. to Two Cassandra-CCI Conglomerates, Inc. at a selling price of ₱1,227,825,489.00.

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

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

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

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

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

ITEM 7. FINANCIAL STATEMENTS

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

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

Cash and Cash Equivalents consist of:	<u>2009</u>	<u>2008</u>
Cash on Hand & in Bank	1,434,171,590	92,829,217
TOTAL	1,434,171,590	92,829,217

Accounts Receivable consists mainly of:	<u>2009</u>	<u>2008</u>
Amounts owed by related party	70,000,000	75,000,000
Officers and employees	94,492	35,298
Others	88,109	3,949,761
Less allowance for impairment	-	-
TOTAL	70,182,601	78,985,059

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

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

PART III - CONTROL AND COMPENSATION INFORMATION

ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER

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

<u>Position</u>	<u>Name</u>	<u>Birthdate</u>
NAME	POSITION	BIRTHDATE
Edgardo P. Reyes	Chairman/CEO	December 2, 1945
Wilfrido P. Reyes	President	January 21, 1947
Belen R. Castro	VP & Treasurer	April 9, 1948
Manuel G. Arteficio	Director	January 13, 1945
Francisco M. Bayot, Jr.	Director	January 29, 1954
Jaime M. Blanco, Jr.	Corporate Secretary	March 21, 1954
David R. Baladad	VP – Operations	September 13, 1956
Zosimo L. Padro, Jr.	VP – Finance	August 3, 1959

EDGARDO P. REYES, 64 years of age, Filipino, has been the CHAIRMAN of the Board of Directors of the Company since 1992. He has also been the CHAIRMAN of Gonzalo Puyat and Sons, Inc., Puyat Steel Corp., Bell Telecommunication Philippines Inc., Purex Mineral Corp., and Philippine Flour Mills; PRESIDENT of International Pipe Industries Corp., Pipe Machinery Corp., Apo Pipe Industries Corp., Reyson Realty & Development Corp., Puyat Flooring Products Inc., Proleo Realty Inc., and BenePara Realty Inc.; SENIOR VICE PRESIDENT of PFM Agro-Industrial Development Corp. and Armorply Concrete Forming Systems Inc.; and, DIRECTOR of Surigao Development Corp., and Puyat Investment & Realty for the past five (5) years. He is a DIRECTOR of Premiere Development Bank. Mr. Reyes is the brother of Mr. Wilfrido P. Reyes and Ms. Belen R. Castro.

WILFRIDO P. REYES, 63 years of age, Filipino, has been the PRESIDENT of the Company since 1992. He has also been the CHAIRMAN of La Dulcinea Restaurant Inc. and Warrest Realty Inc.; CHAIRMAN/PRESIDENT of WPR Realty & Management Corp.; EXECUTIVE VICE PRESIDENT/DIRECTOR of Gonzalo Puyat & Sons Inc. and Purex Mineral Corp.; EVP/GENERAL MANAGER of Philippine Flour Mills and PFM-Agro Development Corp.; SVP/DIRECTOR of Puyat Steel Corporation; DIRECTOR of Premiere Development Bank; TREASURER/DIRECTOR of Surigao Development Corp.; SECRETARY/DIRECTOR of Surigao Marine Products, Inc.; VP/GENERAL MANAGER of Reyson Realty & Development Corp.; PRESIDENT of Proleo Realty Inc., VP/TREASURER of Bell Telecommunication Philippines Inc.; TREASURER/DIRECTOR of International Pipe Industries Corp. and Apo Pipe Industries Corp; and, DIRECTOR of Pipe Machinery Corp. for the past five (5) years. Mr. Reyes is the brother of Mr. Edgardo P. Reyes and Ms. Belen R. Castro.

BELEN R. CASTRO, 62 years of age, Filipino, has been the VICE PRESIDENT, TREASURER & DIRECTOR of the Company since 1992 up to the present; DIRECTOR & ASST. TREASURER of Gonzalo Puyat & Sons, Inc.; CORPORATE SECRETARY of Reyson Realty & Development Corp.; and DIRECTOR of Bell Telecommunication Phils., Inc. for the past five (5) years. Mrs. Castro was also the PRESIDENT of the Chamber of Thrift Banks (CTB), & the Development Bankers Association of the Philippines Foundation (DBAP) in 1993. She is still a DIRECTOR of CTB. She was the PRESIDENT/CEO of Premiere Development Bank since 2002 before she became its CHAIRMAN last 2007 up to the present. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

MANUEL G. ARTEFICIO, 65 years of age, Filipino, has been an INDEPENDENT DIRECTOR of the Company since 2007. He has been PRESIDENT of San Manuel Mining Corp. from 1990 to present; Assissi Mining Corp., Bonaventures Mining Corp., Ignatius Mining Corp., all three from 1994 to present; he is also the PRESIDENT of Egerton Gold Phils., Inc. from 2006 to present.

FRANCISCO M. BAYOT, JR., 56 years of age, Filipino, has been an INDEPENDENT DIRECTOR of the

Company since 2008. He is the CHAIRMAN of Madrigal Business Park Association, Inc.; CEO/DIRECTOR of Solid Cement Corp. and Rizal Cement Co., Inc.; PRESIDENT/DIRECTOR of JM Investment Corp.; and DIRECTOR of Solidbank Corp., Alabang Commercial Corp., and Bell Telecommunication Phils., Inc.

JAIME M. BLANCO, JR., 56 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, 53 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.

ZOSIMO L. PADRO, JR., 50 years of age, Filipino, has been the VICE PRESIDENT FOR FINANCE of the Company since January 2010. He obtained his Bachelor of Science in Business Administration Major in Accounting from the University of Eastern Philippines and Bachelor of Laws from Jose Rizal College. Atty. Padro is also the Vice President for Finance of International Pipe Industries Corp. Atty. Padro since 1990, and during the last five (5) years, has been engaged in the practice of law. He is also a Certified Public Accountant.

Mr. Manuel G. Arteficio and Mr. Francisco M. Bayot, Jr. were elected Independent Directors during the 2009 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Arteficio and Mr. Bayot as independent directors to be elected during the 2010 Annual Stockholders' Meeting, upon the recommendation of stockholder Ms. Remedios Manguiat and Ms. Efigenia Ocol who are not related to the nominees. Both Mr. Arteficio and Mr. Bayot are qualified to be nominated and elected as Independent Directors of the Company in accordance with the qualifications specified with SEC Circular No. 16 Series of 2002 and SEC Circular No. 16 Series of 2006.

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

(2) Significant Employees

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

(3) Family Relationships

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

(4) Involvement in Certain Legal Proceedings

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

(a) bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;

(b) conviction by final judgment, including the nature of the offense, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;

(c) order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining barring, suspending or otherwise limiting his involvement in any type of business, securities commodities or banking activities; and

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

ITEM 10. EXECUTIVE COMPENSATION

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

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

There are no employment contracts arrangements for this year.

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

Name and Principal Position	Year	Salary (P)	Bonus (P)	Other Annual Compensation
Edgardo P. Reyes Chairman / CEO				
David R. Baladad VP-Operations				
Irene N. Atutubo Accounting Officer				
Aggregate compensation –	2010	1,385,000(est.)	350,000(est.)	N/A
CEO & all other officers and	2009	1,275,000	285,000.00	N/A
Directors as a group unnamed	2008	1,076,260	262,398.31	N/A

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

ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

(a) Security Ownership of Certain Record and Beneficial Owners and Management as of December 31, 2009 (owning more than 5% of any class of voting securities)

Title of Class	Name and address of record owner and	Relationship with Issuer	Name of Beneficial ownership and relationship with record owner	Citizenship	No. of Shares Held	Percent
Common	EDGARDO P. REYES 1371 Caballero St., Dasmariñas Vill., Makati	Director	EDGARDO P. REYES, same person	Filipino	231,853,123	25.5751%
Common	WILFRIDO P. REYES 1545 Mahogany St., Dasmariñas Vill., Makati	Director	WILFRIDO P. REYES, same person	Filipino	231,853,123	25.5751%
Common	BELEN R. CASTRO 4889 Pasay Road, Dasmariñas Vill., Makati	Director	BELEN R. CASTRO, same person	Filipino	231,353,122	25.5199%
Common	PCD Nominee Corp. (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati	Stockholder	PCD Nominee Corp. (Filipino), depository agent	Filipino	136,740,934	15.0835%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 15.0835% of the total shares of the Company.

(b) Security Ownership of Management Directors

Directors

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

Executive Officers

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

Directors and Officers as a Group

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

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

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

ITEM 12. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

(In reference to Note 12 of the 2009 Audited Financial Statements)

Amounts owed by Puyat Steel Corporation (PSC)

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

The BOD through Board Resolution dated January 24, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to ₱130 million for the acquisition of raw materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment to the Company of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished goods. The funding facility is renewable on a yearly basis. Under this arrangement, the Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

Total advances made by the Company to PSC amounted to ₱95 million and ₱125 million in 2009 and 2008, respectively. As of December 31, 2009 and 2008, the Company has an outstanding receivable to PSC amounting to ₱70 million and ₱75 million, respectively (see Note 5). Interest earned by the Company in relation to these advances amounted to ₱7.98 million and ₱9.68 million in 2009 and 2008, respectively.

Short-term employee benefits of key management personnel amounted to ₱1.93 million and ₱1.34 and P1.24 million in 2009, 2008 and 2007, respectively. As of December 31, 2009 and 2008, the Company has an outstanding receivable from its employees and officers amounting to ₱0.09 million and ₱0.04 million, respectively (see Note 5).

PART IV – CORPORATE GOVERNANCE

ITEM 13. CORPORATE GOVERNANCE

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

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

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

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

PART V - EXHIBITS AND SCHEDULES

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

(a) Exhibits – *None*

(b) Reports on SEC Form 17-C

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

January 28, 2010	-	Item 9. Other Events Delay in the drilling of SC-60 Silanganan- 1 well to the second quarter (Q2) of 2010 due to the delay in the arrival of the drillship Frontier Phoenix.
December 18, 2009	-	Item 9. Other Events Sale of 3,240,000 shares of capital stock of Bell Telecommunication Philippines, Inc. to Two Cassandra-CCI Conglomerates, Inc. at a selling price of ₱1,227,825,489
May 29, 2009	-	Item 4. Resignation, Removal or Election of Directors or Officers Item 9. Other Events <ul style="list-style-type: none">- Stockholders' approval of amendment to The Company's By-Laws to reflect the change of the Company's annual stockholders' meeting date from the third Wednesday of April to the last Friday of May

April 1, 2009

- Item 9. Other Events
South China has been awarded and signed Service Contract No. 71 (SC-71) together with Pitkin Petroleum Ltd.

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on April 14, 2010.

By:


Edgardo P. Reyes
Principal Executive Officer


Date: April 14, 2010


Wilfrido P. Reyes
Principal Financial Officer


Date: April 14, 2010


Belen R. Castro
Comptroller

Date: April 14, 2010


David R. Baladad
Principal Operating Officer

Date: April 14, 2010


Zosimo L. Padro, Jr.
Principal Accounting Officer

Date: April 14, 2010


Jaime M. Blanco, Jr.
Corporate Secretary

Date: April 14, 2010

MAKATI CITY

SUBSCRIBED AND SWORN to before me this APR 14 2010 day of _____, 2010 affiant(s) exhibiting to me their residence Certificate, as follows:

Name	Com. Cert. No.	Date of Issue	Place of Issue
Edgardo P. Reyes	28629402	Feb. 15, 2010	Makati City
Wilfrido P. Reyes	12224391	Jan. 13, 2010	Makati City
Belen R. Castro	03004267	Jan. 12, 2009	Manila
David R. Baladad	27705180	Mar. 26, 2010	Quezon City
Zosimo L. Padro, Jr.	02703106	Feb. 08, 2010	Makati City
Jaime M. Blanco, Jr.	28593444	Jan. 20, 2010	Makati City

Doc. No. : 394
Page No. : 8
Book No. : XI
Series of 2010.

ATTY. GERVASIO J. ORTIZ JR.
NOTARY PUBLIC FOR MAKATI CITY
UNTIL DECEMBER 31, 2010
PTR NO. 20/5548 JAN. 04, 2010 MAKATI CITY
IBP NO. 656155-LIFETIME MEMBER
ADPT. M-84/2010 ROLL NO. 44081

TABLE OF CONTENTS

	Page
 Part I - BUSINESS AND GENERAL INFORMATION	
Item 1 Business.....	1
Item 2 Properties.....	3
Item 3 Legal Proceedings.....	3
Item 4 Submissions of Matters to a Vote of Security Holders.....	3
 Part II – OPERATIONAL AND FINANCIAL INFORMATION	
Item 5 Market for Issuer's Common Equity and Related Stockholder Matters.....	4
Item 6 Management's Discussion and Analysis or Plan of Operation	6
Item 7 Financial Statements	33
Item 8 Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.....	33
 Part III - CONTROL AND COMPENSATION INFORMATION	
Item 9 Directors and Executive Officers of the Issuer	34
Item 10 Executive Compensation.....	36
Item 11 Security Ownership of Certain Beneficial Owners and Management.....	37
Item 12 Certain Relationships and Related Transactions	39
 Part IV – CORPORATE GOVERNANCE	
Item 13 Corporate Governance	40
 Part V - EXHIBITS AND SCHEDULES	
Item 14 a. Exhibits.....	40
b. Reports on SEC Form 17-C.....	40
SIGNATURES.....	42
INDEX TO FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES	45

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	46
Report of Independent Auditors	49
Balance Sheets as of December 31, 2008 and 2007	51
Statements of Income	52
Statements of Changes in Stockholders' Equity	53
Statements of Cash Flow	56
Notes to Financial Statements	57-87
 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)	88
C. Non-Current Marketable Equity Securities, Other Long-Term Investments in Stocks, and Other Investments	90
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	 89

* 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

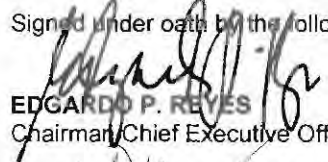
The management of South China Resources, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2009 and 2008 and for the three years in the period ended December 31, 2009. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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


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

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

Signed under oath by the following:


EDGARDO P. REYES
Chairman/Chief Executive Officer


WILFRIDO P. REYES
President/Chief Financial Officer


BELEN R. CASTRO
Vice President/Treasurer

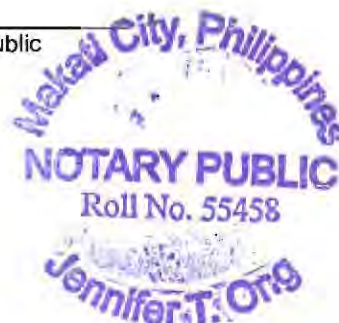
SUBSCRIBED AND SWORN to before me this 7th day of April 2010 affiants exhibiting to me their Residence Certificates, as follows:

Name	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgardo P. Reyes	28629402	Feb. 15, 2010	Makati City
Wilfrido P. Reyes	12224391	Jan. 13, 2010	Makati City
Belen R. Castro	03004267	Jan. 12, 2009	Manila

Doc. No.: 209 ;
Page No.: 46 ;
Book No.: I ;
Series of 2010.


JENNIFER T. ONG
Commission No. M-459
Notary Public - Makati City
Until December 31, 2010
Esguerra & Blanco Law Offices
4th & 5th Floors, S&L Building, Dela Rosa corner
Esteban Sts., Legaspi Village 1223, Makati City
PTR No. 1567866; 1/05/09; Makati City
IBP No. 772896; 1/09/09; Quezon City
Telephone No. 892-2049 Telefax No. 812-2383
Roll No. 55458

Notary Public

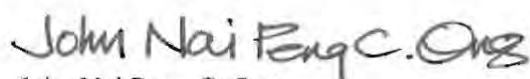


INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES

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

We have audited in accordance with Philippines Standards on Auditing the financial statements of South China Resources, Inc. included in this Form 17-A and have issued our report thereon dated April 7, 2010. 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 52.1-5 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 states 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.



John Nai Peng C. Ong

Partner

CPA Certificate No. 85588

SEC Accreditation No. 0327-AR-1

Tax Identification No. 103-093-301

PTR No. 2087559, January 4, 2010, Makati City

April 7, 2010



COVER SHEET

A S 0 9 2 - 0 6 4 4 1

SEC Registration Number

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

(Company's Full Name)

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

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

Ms. Ronna De Leon

(Contact Person)

(02) 812-2383

(Company Telephone Number)

1 2

Month Day
(Calendar Year)

3 1

A A F S

(Form Type)

0 4

Month Day
(Annual Meeting)

1 5

Not Applicable

(Secondary License Type, If Applicable)

Corporate Finance Department

Dept. Requiring this Doc.

Article II, Section I

Amended Articles Number/Section

Total Amount of Borrowings

NA

Domestic

NA

Foreign

433

Total No. of Stockholders

To be accomplished by SEC Personnel concerned

File Number

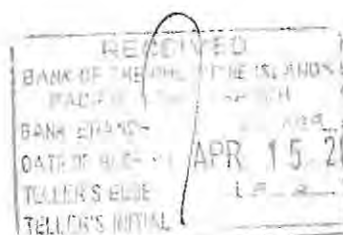
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INDEPENDENT AUDITORS' REPORT

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

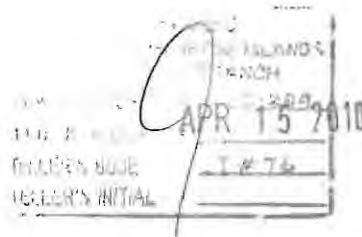
We have audited the accompanying financial statements of South China Resources, Inc., which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2009, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Premiere Development Bank (PDB), the investment in which is reflected in the accompanying financial statements using the equity method of accounting. The investment in PDB represents about 2.15% and 4.81% of total assets as of December 31, 2009 and 2008, respectively, and the equity in the net income/(losses) represents about 0.03%, 0.95% and 0.70%, of the net income/(loss) in 2009, 2008 and 2007, respectively. The financial statements of PDB were audited by other auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for PDB is based solely on the report of the other auditor.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits and the report of the other auditor. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.



An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, based on our audits and the report of the other auditor, the financial statements present fairly, in all material respects, the financial position of South China Resources, Inc. as of December 31, 2009 and 2008, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2009 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

John Nai Peng C. Ong

John Nai Peng C. Ong

Partner

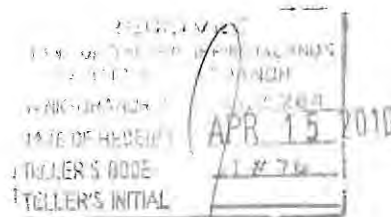
CPA Certificate No. 85588

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PTR No. 2087559, January 4, 2010, Makati City

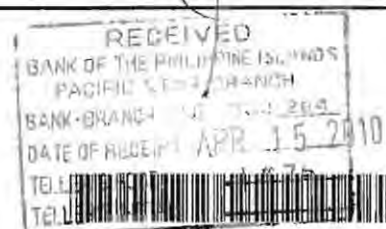
April 7, 2010



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2009	2008
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱1,434,171,590	₱92,829,217
Accounts receivable (Notes 5 and 12)	70,182,601	78,985,059
Prepayments and other current assets (Note 6)	1,347,983	1,132,784
Total Current Assets	1,505,702,174	172,947,060
Noncurrent Assets		
Investments in and advances to associates (Note 9)	33,698,598	492,394,871
Available-for-sale investments (Note 7)	6,772,456	6,792,556
Deferred exploration costs [net of allowance for impairment losses of ₱75,464,430 as of December 31, 2009 and 2008 (Note 1)]	14,961,956	14,891,080
Property and equipment - net (Note 10)	8,286,155	10,708,847
Total Noncurrent Assets	63,719,165	524,787,354
TOTAL ASSETS	₱1,569,421,339	₱697,734,414
LIABILITIES AND EQUITY		
Current Liability		
Accounts payable and accrued expenses (Note 11)	₱1,817,852	₱597,425
Noncurrent Liability		
Subscriptions payable (Note 9)	—	171,720,000
Equity		
Common stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 589,509,569 shares in 2009 and 588,879,569 shares in 2008	589,509,569	588,879,569
Subscribed - 317,050,000 shares in 2009 and 317,680,000 shares in 2008 (net of subscriptions receivable of ₱237,787,500 in 2009 and ₱238,260,000 in 2008)	79,262,500	79,420,000
Additional paid-in capital	72,272,140	72,272,140
Unrealized valuation gains on available-for-sale investments (Note 7)	1,989,643	1,739,743
Share in unrealized valuation gains (losses) on available-for-sale investments of an associate	(58,457)	(126,483)
Retained earnings (deficit)	824,628,092	(216,767,980)
Total Equity	1,567,603,487	525,416,989
TOTAL LIABILITIES AND EQUITY	₱1,569,421,339	₱697,734,414

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2009	2008	2007
REVENUES			
Gain on sale of investment in an associate (Note 9)	₱1,171,904,480	₱—	₱—
Interest income (Notes 4 and 12)	9,920,148	20,861,310	44,888
Gain on sale of investment property (Note 8)	—	113,019,521	—
Dividend income	—	—	350
	1,181,824,628	133,880,831	45,238
COSTS AND EXPENSES			
Taxes and licenses (Notes 8 and 9)	91,290,570	45,270,389	220,559
Personnel costs	2,707,333	2,448,603	2,326,394
Depreciation and amortization (Note 10)	2,528,807	1,809,582	54,376
Travel and representation	1,374,965	5,022,273	1,140,995
Professional fees	702,944	2,486,775	610,300
Rent and utilities (Note 14)	588,646	580,261	572,868
Impairment in value of available-for-sale investments (Note 7)	270,000	—	—
Telecommunications and postage	207,441	220,296	189,002
Supplies	107,044	120,893	102,634
Training and seminars	84,796	17,300	18,500
Repairs and maintenance	21,833	81,594	88,141
Provision for impairment on deferred exploration costs (Note 1)	—	62,846,077	—
Others	343,616	329,739	429,040
	100,227,995	121,233,782	5,752,809
EQUITY IN NET INCOME (LOSSES) OF ASSOCIATES (Note 9)	(40,035,540)	100,222,956	(43,187,664)
FOREIGN EXCHANGE LOSSES - Net	(5,439)	(13,294)	(3,159,271)
INCOME (LOSS) BEFORE INCOME TAX	1,041,555,654	112,856,711	(52,054,506)
PROVISION FOR INCOME TAX (Note 16)	159,582	—	—
NET INCOME (LOSS)	1,041,396,072	112,856,711	(52,054,506)
OTHER COMPREHENSIVE INCOME	317,926	(1,146,088)	2,023,833
TOTAL COMPREHENSIVE INCOME (LOSS)	₱1,041,713,998	₱111,710,623	(₱50,030,673)
Basic/Diluted Income (Loss) Per Share (Note 13)	₱1.1485	₱0.1245	(₱0.0574)

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2009, 2008 AND 2007

	Common Stock		Additional	Unrealized	Share in Unrealized	Retained	Total
	Issued	Subscribed - net	Paid-in Capital	Gains on Available-for-Sale Investments (Note 7)	Valuation Gains on AFS Investments of an Associate (Note 9)	Earnings (Deficit)	
Balances at January 1, 2007	₱587,739,569	₱79,705,000	₱72,272,140	₱735,515	₱—	(₱277,570,185)	₱462,882,039
Net loss	—	—	—	—	—	(52,054,506)	(52,054,506)
Other comprehensive income	—	—	—	1,835,487	188,346	—	2,023,833
Total comprehensive income (loss)	—	—	—	1,835,487	188,346	(52,054,506)	(50,030,673)
Collection of subscriptions receivable	—	757,500	—	—	—	—	757,500
Shares of stock issued from subscribed	1,010,000	(1,010,000)	—	—	—	—	—
Balances at December 31, 2007	₱588,749,569	₱79,452,500	₱72,272,140	₱2,571,002	₱188,346	(₱329,624,691)	₱413,608,866
Net income	—	—	—	—	—	112,856,711	112,856,711
Other comprehensive income (loss)	—	—	—	(831,259)	(314,829)	—	(1,146,088)
Total comprehensive income (loss)	—	—	—	(831,259)	(314,829)	112,856,711	111,710,623
Collection of subscriptions receivable	—	97,500	—	—	—	—	97,500
Shares of stock issued from subscribed	130,000	(130,000)	—	—	—	—	—
Balances at December 31, 2008	₱588,879,569	₱79,420,000	₱72,272,140	₱1,739,743	(₱126,483)	(₱216,767,980)	₱525,416,989
Net income	—	—	—	—	—	1,041,396,072	1,041,396,072
Other comprehensive income	—	—	—	249,900	68,026	—	317,926
Total comprehensive income	—	—	—	249,900	68,026	1,041,396,072	1,041,713,998
Collection of subscriptions receivable	—	472,500	—	—	—	—	472,500
Shares of stock issued from subscribed	630,000	(630,000)	—	—	—	—	—
Balances at December 31, 2009	₱589,509,569	₱79,262,500	₱72,272,140	₱1,989,643	(₱58,457)	₱824,628,092	₱1,567,603,487

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

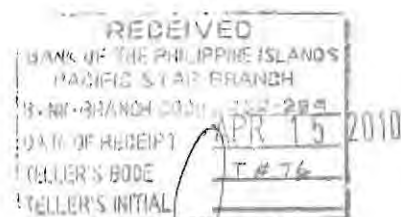
	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	¥1,041,555,654	¥112,856,711	(¥52,054,506)
Adjustments for:			
Equity in net losses (income) of associates (Note 9)	40,035,540	(100,222,956)	43,187,664
Depreciation and amortization (Note 10)	2,528,807	1,809,582	54,376
Impairment in value of available-for-sale investments (Note 7)	270,000	—	—
Net foreign exchange losses	5,439	13,294	3,159,271
Gain on sale of investment in an associate (Note 9)	(1,171,904,479)	—	—
Interest income (Note 12)	(9,920,148)	(20,861,310)	(44,888)
Provision for impairment on deferred exploration costs	—	62,846,077	—
Gain on sale of investment property	—	(113,019,521)	—
Dividend income	—	—	(350)
Operating loss before working capital changes	(97,429,187)	(56,578,123)	(5,698,433)
Decrease (increase) in:			
Accounts receivable	4,930,083	(75,033,962)	(12,058)
Prepayments and other current assets	(215,199)	(483,091)	(221,537)
Increase (decrease) in accounts payable and accrued expenses	1,060,845	(12,903,776)	(7,847,420)
Net cash flows used in operating activities	(91,653,458)	(144,998,952)	(13,779,448)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from the sale of investment in an associate	1,227,825,489	—	—
Net changes in advances to associates	362,807,749	(357,807,750)	(5,000,000)
Interest received	13,792,523	16,988,935	44,888
Payment of subscriptions payable (Note 9)	(171,720,000)	—	—
Additions to property and equipment (Note 10)	(106,115)	(12,355,939)	(26,991)
Decrease (increase) in deferred exploration costs	(70,876)	(130,907)	4,725,608
Net proceeds from the sale of investment property (Note 8)	—	540,000,000	—
Decrease in refundable deposits and others	—	137,054	—
Proceeds from deposit from contract to sell investment property (Note 8)	—	—	60,000,000
Dividend received	—	—	350
Net cash flows from investing activities	1,432,528,770	186,831,393	59,743,855

(Forward)



	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM FINANCING ACTIVITIES			
Collection of subscriptions receivable	₱472,500	₱97,500	₱757,500
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(5,439)	(13,294)	(899,944)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,341,342,373	41,916,647	45,821,963
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	92,829,217	50,912,570	5,090,607
CASH AND CASH EQUIVALENTS AT END OF YEAR (Notes 4 and 15)	₱1,434,171,590	₱92,829,217	₱50,912,570

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Corporate Information

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

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

The Company has seven and six employees in 2009 and 2008, respectively.

On June 30, 2009, the SEC approved the amendment of Article I, Section II of the Company's by-laws to change the annual stockholder's meeting from third Wednesday of April to last Friday of May.

The financial statements of the Company as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009 were approved and authorized for issue by the Board of Directors (BOD) on April 7, 2010.

Segment Reporting

The Company, which is operating in only one business segment, has an associate engaged in financial services. The Company and its associate have no geographical segments as they were incorporated and are operating within the Philippines. Financial information regarding the associate as of and for the years ended December 31, 2009 and 2008 are presented in Note 9.

Management monitors the operating results of its business unit separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating income or loss in the financial statements.



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, 2009, the transfer of the Company's oil and gas exploration assets to the new entity has not commenced pending the determination of the proper valuation of such assets.

Renewable Energy Contract with Department of Energy

On November 11, 2009, the BOD approved the Company's plan to enter into a Renewable Energy Contract with the Department of Energy (DOE) covering the areas of Mt. Labo, Camarines Norte, Mainit, Surigao del Norte and Maibarara, Laguna/Batangas. As of December 31, 2009, no formal renewable energy contract was agreed and concurred by the Company and the DOE.

Status of Oil and Gas Exploration Operations

The Company is a participant in Service Contracts (SC) entered into with the Philippine Government, through the DOE, to conduct exploration, exploitation and development activities in the following contract areas:

Contract Areas	Percentage of Working Interest	
	2009	2008
SC-41 Offshore Sulu Sea Sandakan Basin	1.09	1.09
Northeast Palawan [SC-60, former Geophysical Survey and Exploration Contract (GSEC) 99]	15.00	15.00
SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)	15.00	-

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements (JOA), which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts are estimated to be about US\$10.14 million and US\$0.10 million as of December 31, 2009 and December 31, 2008, respectively.

The Company has three (3) existing service contracts namely, SC-60, SC-41 and SC-71:

- **SC-41 Offshore Sulu Sea Sandakan Basin**
SC-41 is on its tenth contract year which will last until May 10, 2010 unless extended. The SC-41 group still believes that the block has the potential to host commercial hydrocarbons despite the momentary set back as Lumba-Lumba-1 well only tested one of the several different independent prospects in the block. Operator, Tap Oil Ltd.'s program for Service Contract Year #10 (SCY 10), was completed with the reprocessing of the Alpine 3D seismic data along consequent inversion studies and re-interpretation and prospect modelling. In the event a prospect is determined to be drillable prior to May 10, 2010, then the SC-41 joint group will apply for an extension of SCY10 to May 10, 2011. The Company has 1.090% participating interest in this block.
- **SC-60 (GSEC-99 Offshore NE Palawan)**
SC-60 is one of the Company's, as well as the country's most promising areas in terms of potential for large accumulations for petroleum. A rigorous study of the 3D seismic data was conducted and highlighted a number of leads, several of which have been elevated to prospect status. In July 8, 2008, the Company, together with Shell Philippines Exploration B.V. and Kuwait Foreign Petroleum Co. entered the second sub-phase of SC-60. The objective is to continue and further the exploration of the block with a commitment to drill one well during this sub-phase. This sub-phase was extended by the DOE to February 10, 2011.



The extension of the Second Sub-Phase will allow the SC-60 JV partners sufficient time to commence and complete the drilling of the exploration well due to delays attributed to mechanical difficulties on the drillship Frontier Phoenix. The well is expected to be drilled in the second quarter with possible spill to the third quarter of 2010.

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

- SC-71 (formerly Area 4 Offshore Mindoro-Cuyo)
On May 30, 2007, the Company together with UK company Pitkin Petroleum Ltd. submitted a bid for a block covering Offshore Mindoro-Cuyo. The bid was under the DOE's Philippine Energy Contracting Round No. 3.

On April 1, 2009, the Company, Pitkin Petroleum, and the DOE signed SC-71. SC-71 covers an area of 1.164 MM hectares in the Cuyo/Mindoro/East Palawan region. The operator is currently conducting geological and geophysical assessment of the block as well as copying and seismic reprocessing of over 3000 km of vintage data. The Company has 15% participating interest and is carried on the first phase of the SC.

The Company provided allowance for impairment losses on deferred exploration costs amounting to ₱75.46 million for the following SCs and GSECs for the year ended December 31, 2009 and 2008:

- GSEC 65 – West Culion;
- GSECs 68 and 71 – North Calamian;
- GSEC 79 – Murphy Oil and Ragay Gulf;
- GSEC 82 – Cagayan Basin; and
- GSEC 90 – Lingayen Gulf.

2. Summary of Significant Accounting Policies

Basis of Preparation

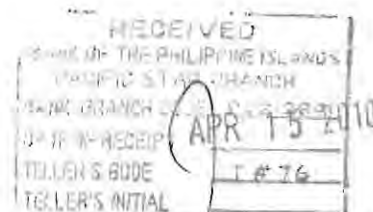
The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale (AFS) investments, which are carried at fair value. The financial statements are presented in Philippine pesos which is the Company's functional currency.

Statement of Compliance

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

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following Philippine Interpretations from the International Financial Reporting Interpretations Committee (IFRIC) which became effective on January 1, 2009, and amendment to existing standards that became effective on January 1, 2009.



- Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*, effective January 1, 2009
The standard separates owner and non-owner changes in equity. The statement of changes in equity will include only details of transactions with owners, with non-owner changes in equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income: it presents all items of recognized income and expense, either in one (1) single statement, or in two (2) linked statements.

The Company has elected to present a single statement to present items of recognized income and expense in the statement of comprehensive income and to change the title of the balance sheet to statement of financial position.

- PFRS 7 Amendments - *Improving Disclosures about Financial Instruments*, effective January 1, 2009
The amendments to PFRS 7, *Financial Instruments: Disclosures*, require additional disclosures about fair value measurement and liquidity risk. Fair value measurements related to items recorded at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments recognized at fair value. In addition, a reconciliation between the beginning and ending balance for level 3 fair value measurements is now required, as well as significant transfers between levels in the fair value hierarchy. The amendments also clarify the requirements for liquidity risk disclosures with respect to derivative transactions and financial assets used for liquidity management. The fair value measurement disclosures are presented in Note 15. The liquidity risk disclosures are not significantly impacted by the amendments and are presented in Note 15.

Adoption of the following new, revised and amended PFRS and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and improvements to PFRS did not have any significant impact to the Company.

New and Revised Standards and Interpretations

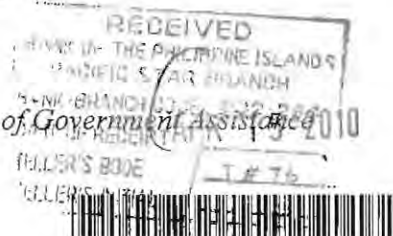
- PAS 23, *Borrowing Costs (Revised)*
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 16, *Hedges of a Net Investment in a Foreign Operation*
- Philippine Interpretation IFRIC 18, *Transfers of Assets from Customers*

Amendments to Standards and Interpretations

- PAS 32, *Financial Instruments: Presentation*, and PAS 1, *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation*
- PFRS 1, *First-time Adoption of PFRS*, and PAS 27, *Consolidated and Separate Financial Statements - Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*
- PFRS 2, *Share-based Payment - Vesting Conditions and Cancellations*
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*, and PAS 39, *Financial Instruments: Recognition and Measurement - Embedded Derivatives*

Improvements to PFRS issued in 2008

- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*
- PAS 1, *Presentation of Financial Statements*
- PAS 16, *Property, Plant and Equipment*
- PAS 19, *Employee Benefits*
- PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance*



- PAS 23, *Borrowing Costs*
- PAS 28, *Investments in Associates*
- PAS 29, *Financial Reporting in Hyperinflationary Economies*
- PAS 31, *Interests in Joint Ventures*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PAS 39, *Financial Instruments: Recognition and Measurement*
- PAS 40, *Investment Property*
- PAS 41, *Agriculture*

Improvement to PFRS issued in 2009

PAS 18, *Revenue*: adds guidance (which accompanies the standard) to determine whether an entity is acting as a principal or as an agent. The features to consider are whether the entity:

- Has primary responsibility for providing the goods or service
- Has inventory risk
- Has discretion in establishing prices
- Bears the credit risk

New Accounting Standards, Interpretations and Amendments to Existing Standards Effective Subsequent to 2009

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

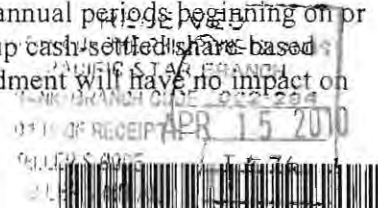
Effective in 2010

Revised PFRS 3, Business Combinations (Revised) and PAS 27, Consolidated and Separate Financial Statements (Amended)

The revised standards are effective for annual periods beginning on or after July 1, 2009. PFRS 3 (Revised) introduces significant changes in the accounting for business combinations occurring after this date. Changes affect the valuation of non-controlling interest, the accounting for transaction costs, the initial recognition and subsequent measurement of a contingent consideration and business combinations achieved in stages. These changes will impact the amount of goodwill recognized, the reported results in the period that an acquisition occurs and future reported results. PAS 27 (Amended) requires that a change in the ownership interest of a subsidiary (without loss of control) is accounted for as a transaction with owners in their capacity as owners. Therefore, such transactions will no longer give rise to goodwill, nor will it give rise to a gain or loss. Furthermore, the amended standard changes the accounting for losses incurred by the subsidiary as well as the loss of control of a subsidiary. The changes by PFRS 3 (Revised) and PAS 27 (Amended) will affect future acquisitions or loss of control of subsidiaries and transactions with non-controlling interests. PFRS 3 (Revised) will be applied prospectively while PAS 27 (Amended) will be applied retrospectively with a few exceptions.

Amendment to PFRS 2, Share-Based Payments - Group Cash-settled Share-based Payment Transactions

The amendments to PFRS 2, *Share-based Payments*, effective for annual periods beginning on or after January 1, 2010, clarify the scope and the accounting for group cash-settled share-based payment transactions. The Company has concluded that the amendment will have no impact on



the financial position or performance of the Company as the Company has not entered into any such share-based payment transactions.

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

The amendment to PAS 39, *Financial Instruments: Recognition and Measurement*, effective for annual periods beginning on or after July 1, 2009, clarifies that an entity is permitted to designate a portion of the fair value changes or cash flow variability of a financial instrument as a hedged item. This also covers the designation of inflation as a hedged risk or portion in particular situations. The Company has concluded that the amendment will have no impact on the financial position or performance of the Company, as the Company has not entered into any such hedges.

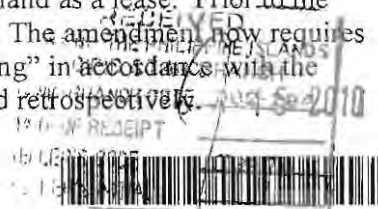
Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners

This Interpretation is effective for annual periods beginning on or after July 1, 2009 with early application permitted. It provides guidance on how to account for non-cash distributions to owners. The interpretation clarifies when to recognize a liability, how to measure it and the associated assets, and when to derecognize the asset and liability. The Company does not expect the Interpretation to have an impact on the financial statements as the Company has not made non-cash distributions to shareholders in the past.

Improvements to PFRS Effective 2010

The omnibus amendments to PFRS issued in 2009 were issued primarily with a view to removing inconsistencies and clarifying wording. The amendments are effective for annual periods financial years January 1, 2010 except otherwise stated. The Company has not yet adopted the following amendments and anticipates that these changes will have no material effect on the financial statements.

- PFRS 2, *Share-based Payment*: clarifies that the contribution of a business on formation of a joint venture and combinations under common control are not within the scope of PFRS 2 even though they are out of scope of PFRS 3, *Business Combinations* (Revised). The amendment is effective for financial years on or after July 1, 2009.
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*: clarifies that the disclosures required in respect of non-current assets and disposal groups classified as held for sale or discontinued operations are only those set out in PFRS 5. The disclosure requirements of other PFRS only apply if specifically required for such non-current assets or discontinued operations.
- PFRS 8, *Operating Segment Information*: clarifies that segment assets and liabilities need only be reported when those assets and liabilities are included in measures that are used by the chief operating decision maker.
- PAS 1, *Presentation of Financial Statements*: clarifies that the terms of a liability that could result, at anytime, in its settlement by the issuance of equity instruments at the option of the counterparty do not affect its classification.
- PAS 7, *Statement of Cash Flows*: explicitly states that only expenditure that results in a recognized asset can be classified as a cash flow from investing activities.
- PAS 17, *Leases*: removes the specific guidance on classifying land as a lease. Prior to the amendment, leases of land were classified as operating leases. The amendment now requires that leases of land are classified as either "finance" or "operating" in accordance with the general principles of PAS 17. The amendments will be applied retrospectively.

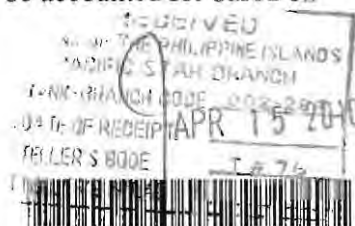


- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired in a business combination is identifiable only with another intangible asset, the acquirer may recognize the group of intangible assets as a single asset provided the individual assets have similar useful lives. Also clarifies that the valuation techniques presented for determining the fair value of intangible assets acquired in a business combination that are not traded in active markets are only examples and are not restrictive on the methods that can be used.
- PAS 39, *Financial Instruments: Recognition and Measurement*: clarifies the following:
 - that a prepayment option is considered closely related to the host contract when the exercise price of a prepayment option reimburses the lender up to the approximate present value of lost interest for the remaining term of the host contract;
 - that the scope exemption for contracts between an acquirer and a vendor in a business combination to buy or sell an acquiree at a future date applies only to binding forward contracts, and not derivative contracts where further actions by either party are still to be taken; and
 - that gains or losses on cash flow hedges of a forecast transaction that subsequently results in the recognition of a financial instrument or on cash flow hedges of recognized financial instruments should be reclassified in the period that the hedged forecast cash flows affect profit or loss.
- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*: clarifies that it does not apply to possible reassessment at the date of acquisition, to embedded derivatives in contracts acquired in a business combination between entities or businesses under common control or the formation of joint venture.
- Philippine Interpretation IFRIC 16, *Hedge of a Net Investment in a Foreign Operation*: states that, in a hedge of a net investment in a foreign operation, qualifying hedging instruments may be held by any entity or entities within the group, including the foreign operation itself, as long as the designation, documentation and effectiveness requirements of PAS 39 that relate to a net investment hedge are satisfied.

Effective in 2012

Philippine Interpretation IFRIC 15, Agreement for Construction of Real Estate

This Interpretation, effective for annual periods beginning on or after January 1, 2012, covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. The Interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract to be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials and where the risks and reward of ownership are transferred to the buyer on a continuous basis will also be accounted for based on stage of completion.



Revenue Recognition

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

Interest Income

Interest income is recognized as it accrues using the effective interest rate.

Dividend income

Dividend income is recognized when the Company's right to receive the payment is established, which is upon declaration.

Expenses

Expenses are decreases in economic benefits during the accounting period in the form of outflows or depletions of assets or incurrences of liabilities that result in decreases in equity, other than those relating to distributions to equity participants. Operating expenses, such as personnel, utilities and telecommunication are generally recognized when the services is used or the expense arises while interest expenses, if applicable are accrued in the appropriate period. General and administrative expenses are expenses incurred in the direction and general administration of day-to-day operation of the Company and are generally recognized when the service is used or the expense arises.

Cash and Cash Equivalents

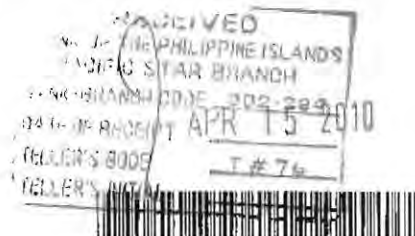
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placements and that are subject to an insignificant risk of change in value.

Financial Instruments

Financial instruments are recognized in the statement of financial position when the Company becomes a party to the contractual provisions of the instrument. The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognized on the settlement date. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

Financial instruments are recognized initially at fair value of the consideration given (in the case of an asset) or received (in the case of a liability). Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. Financial assets under PAS 39, *Financial Instruments: Recognition and Measurement*, are classified as either financial assets at FVPL, loans and receivables, held-to-maturity (HTM) investments or AFS investments. The Company's financial assets are of the nature of loans and receivables and AFS financial assets. As of December 31, 2009 and 2008, the Company has no outstanding financial assets at FVPL and HTM investments. Also under PAS 39, financial liabilities are classified as FVPL or other financial liabilities. The Company's financial liabilities are of the nature of other financial liabilities.



(a) Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS investments or designated at FVPL. This accounting policy relates to the Company's "Cash and cash equivalents" and "Accounts receivable" which arise primarily from interest and other types of receivables.

Loans and receivables are recognized initially at fair value, which normally pertains to the billable amount. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization, if any, is included in "Interest income" account in the statement of comprehensive income. The losses arising from impairment of receivables are recognized in the statement of comprehensive income.

The level of allowance for impairment losses is evaluated by management on the basis of factors that affect the collectibility of accounts (see accounting policy on Impairment of Financial Assets Carried at Amortized Cost).

(b) AFS investments

AFS investments are those non-derivative financial assets that are designated as AFS or are not classified as financial assets at FVPL, HTM investments and loans and receivables. After initial recognition, AFS investments are measured at fair value with gains or losses recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously included in equity are included in the statement of comprehensive income. Dividends on an available-for-sale equity instrument are recognized in the statement of comprehensive income when the entity's right to receive payment is established.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the reporting date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis; and option pricing models.

The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains on available-for-sale investments" in the equity section of the statement of financial position.

(c) Other financial liabilities

Issued financial instruments or their components, which are not designated at FVPL are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued



financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Any effects of restatement of foreign currency-denominated liabilities are recognized in foreign exchange (losses) gains in the statement of comprehensive income.

This accounting policy applies primarily to the Company's "Accounts payable and accrued expenses", "Subscriptions payable" and other obligations that meet the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

Derivative Financial Instruments

Derivative instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value.

Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative. An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:

1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
2. a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
3. the hybrid or combined instrument is not recognized at FVPL.

The Company assesses whether embedded derivatives are required to be separated from host contracts when the Company first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required. As of December 31, 2009 and 2008, the Company has no bifurcated embedded derivatives.

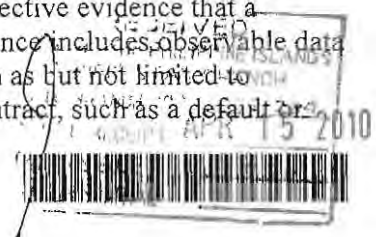
Day 1 Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (Day 1 Difference) in the statement of comprehensive income. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statement of comprehensive income when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the 'Day 1' Difference amount.

Impairment of Financial Assets

(a) Assets carried at amortized cost

The Company assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default on



delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) 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 asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. 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 the statement of comprehensive income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

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 estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(b) 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 cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(c) AFS financial assets

For AFS investments, the Company assesses at each reporting date whether there is objective evidence that an investment or group of investments is impaired.

In case of equity investments classified as AFS, this would include a significant or prolonged decline in the fair value of the investments below its cost. The Company evaluates factors, including normal volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The carrying values of AFS investments as of December 31, 2008 and 2007 are disclosed in Note 7 to the financial statements. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the statement of comprehensive income is removed from equity and recognized in the financial statements. Impairment losses on equity investments are not reversed through the statement of comprehensive income. Increases in fair value after impairment are recognized directly in equity.



In the case of debt instruments classified as AFS, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss and is recorded as part of interest income in the statement of comprehensive income. If, in subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

1. the rights to receive cash flows from the asset have expired;
2. 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
3. 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 or has entered into a pass-through arrangement and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the 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.

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.



Input Value-Added Tax (VAT)

Input VAT represents VAT imposed on the Company by its suppliers for the acquisition of goods and services as required by Philippine taxation laws and regulations. Input VAT is presented as current asset and will be used to offset against the Company's current output VAT liabilities. Any excess which are being claimed as tax credits is presented as part of "Prepayments and other current assets" in the statement of financial position. Input VAT is stated at its estimated net realizable value.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and any impairment losses.

The initial cost of property and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such equipment when the recognition criteria are met. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged to income in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets, except for leasehold improvements which are amortized on a straight-line basis over the term of the lease or the estimated lives of the improvements, whichever is shorter, as follows:

Category	Number of Years
Transportation equipment	5
Office furniture and equipment	5
Leasehold improvements	5

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

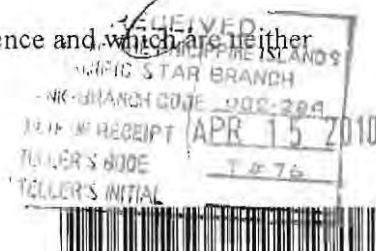
When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased.

The recovery is recorded in the statement of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation) had no impairment loss been recognized for that asset in prior years.

Investments in Associates

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



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

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

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

If the Company's share of losses of an associate equals or exceeds its interest in the associate, the Company discontinues recognizing its share of further losses. The interest in an associate is the carrying amount of the investment in the associate under the equity method together with any long-term interests that, in substance, form part of the investor's net investment in the associate. After the Company's interest is reduced to zero, additional losses are provided for, and a liability is recognized, only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognizing its share of those profits only after its share of the profits equals the share of losses not recognized.

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

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

Deferred Exploration Costs

Deferred exploration costs are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract area contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the Company has withdrawn from the consortium, the related deferred exploration costs are provided with valuation allowance or written-off. An SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development.



Impairment of Property and Equipment and Other Nonfinancial Assets

Property and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. 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 non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of comprehensive income.

Common Stock

The Company has issued common stocks that are classified as equity. Incremental costs directly attributable to the issue of new common stocks are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company's common stock (treasury shares), the consideration paid, including any directly attributable incremental costs (net of applicable taxes) is deducted from equity attributable to the company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction costs and the related tax effects, is included in equity attributable to the Company's equity holders.

Additional paid-in capital

Amount of contribution in excess of par value is accounted for as an additional paid-in capital. Additional paid-in capital also arises from additional capital contribution from the stockholders.

Retained Earnings (Deficit)

The amount included in retained earnings (deficit) includes profit (loss) attributable to the Company's stockholders and reduced by dividends. Dividends are recognized as a liability and deducted from equity when they are approved by the Company's stockholders. Interim dividends are deducted from equity when they are paid. Dividends for the year that are approved after the reporting date are dealt with as an event after the reporting date. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

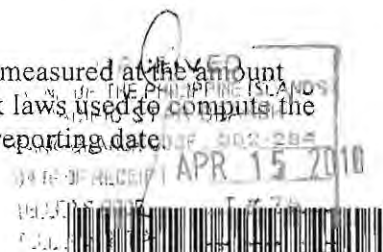
Retirement Benefit Costs

The Company provides for the estimated retirement costs required to be paid under Republic Act (RA) No. 7641 to qualifying employees. Under SFAS No. 24, *Retirement Benefits Costs*, the cost of defined retirement benefits, including those mandated under RA No. 7641, should be determined using an accrued benefit valuation method or a projected benefit valuation method.

Income Taxes

Current income tax

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



Deferred income tax

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

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

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that taxable income will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized except:

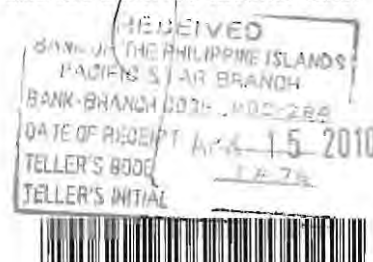
- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss;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

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income tax relating to items recognized directly in equity is recognized in equity and not in the Company's statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.



Foreign Currency Transactions

Transactions in foreign currencies are initially recorded in Philippine peso using the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency using the rate of exchange prevailing at the reporting date. Foreign exchange differences between rate at transaction date and settlement date or reporting date are credited to or charged against current operations. Nonmonetary items that are measured in terms of historical cost in foreign currency are translated using the exchange rate at the dates of initial transactions.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- (a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
- (b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- (c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
- (d) there is a substantial change to the asset.

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

Operating Leases

Operating leases represent those leases which substantially all the risks and rewards of ownership of the leased assets remain with the lessors. Operating lease payments under an operating lease are recognized in the statement of comprehensive income on a straight-line basis over the lease term of the lessee.

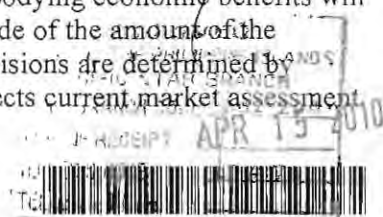
Basic/Diluted Earnings Per Share

Basic earnings per share is computed by dividing net income for the year by the weighted average number of common shares issued and outstanding during the year after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted earnings per share is computed by dividing net income for the year (after deducting interest on convertible preferred shares) by the weighted average number of shares issued and outstanding during the year plus the weighted average number of common shares that would be issued on the conversion of all dilutive potential common shares into common shares.

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. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment



of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Contingencies

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

Events After the Reporting Date

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

3. Significant Accounting Judgments and Estimates

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

Judgment

Determining Functional Currency

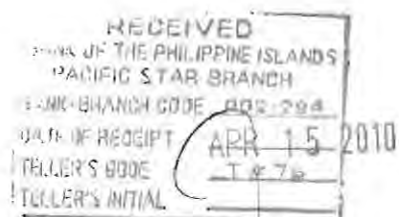
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences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

Determining Significant Influence in an Associate

The Company considers its investment in PDB as investment in an associate. The Company concluded that it has significant influence over the operating and financial policies of PDB due to the following:

- representation on the BOD;
- participation in policy-making processes, including participation in decisions about dividends and other distributions; and
- interchange of managerial personnel.

The Company has no control over PDB since it does not own directly or indirectly more than 50% of the its voting rights.



Operating Leases - The Company as Lessee

The Company has entered into various lease agreements as a lessee. The Company has determined that the lessor retains all significant risks and rewards of ownership of these properties and has classified the leases as operating leases due to the following:

- the ownership of the asset does not transfer to the Company at the end of the lease term;
- the Company has no portion to purchase the asset at a price which is expected to be sufficiently lower than the fair value at the date the option becomes exercisable such that, at the inception of the lease, it is reasonably certain that the option will be exercised; and
- the lease term is not for the major part of the economic life of the asset even if the title is not transferred.

Estimates

Estimating Impairment of Investments in and Advances to Associates and Property and Equipment

Investments in and advances to associates and property and equipment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount 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;
- significant changes in the manner of use of the acquired assets of the associates or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less cost to sell and value in use. The fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction while the value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs. For impairment loss on specific assets, the recoverable amount represents the fair value less cost to sell. In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimated and assumptions that can materially affect the financial statements.

These assets are reviewed for impairment whenever events or changes in circumstances indicated that the carrying amount may not be recoverable. An impairment loss would be recognized whenever evidence exists that the carrying value is not recoverable. For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. As of December 31, 2009 and 2008, no impairment loss was recognized by the Company in relation to the Company's investments in and advances to associates and property and equipment. In 2009, the Company sold its 32.40% ownership in Bell Telecommunication Philippines, Inc. (BellTel). Total proceeds from the sale include collection of the advances to BellTel amounting to ₱368.87 million. The carrying amounts of the investment in and advances



to associates amounted to ₱33.70 million and ₱492.39 million as of December 31, 2009 and 2008, respectively (see Note 9). As of December 31, 2009 and 2008, the net book values of property and equipment amounted to ₱8.29 million and ₱10.71 million, respectively (see Note 10).

Estimating Useful Lives of Property and Equipment

The Company estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. As of December 31, 2009 and 2008, the net book values of property and equipment amounted to ₱8.29 million and ₱10.71 million, respectively (see Note 10).

Impairment of Deferred Exploration Costs

The full recovery of the deferred exploration costs incurred in connection with the Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. When the SC/GSEC is permanently abandoned or the entity has withdrawn from the consortium, the related deferred exploration costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development. The Company has provided full valuation allowance on deferred exploration costs incurred for certain GSECs on which management has no definite plans for further exploration and development. As of December 31, 2009 and 2008, the Company recognized allowance for impairment losses on deferred exploration costs amounting to ₱75.46 million (see Note 1). Net deferred exploration costs amounted to ₱14.96 million and ₱14.89 million as of December 31, 2009 and 2008, respectively.

Impairment of AFS Investments

The Company treats AFS investments as impaired when there has been significant or prolonged decline in the fair value below its cost or where other objective evidence of impairment exists. The determination of what is 'significant' or when is 'prolonged' requires judgment. The Company treats 'significant' generally as 20% or more of the cost of AFS and 'prolonged' if greater than 6 months. In addition, the Company evaluates other factors, including normal and/or unusual volatility in share price for quoted equities and the future cash flows and the discount factors for unquoted equities. The Company also considers the ability of the investee company to provide dividends.

As of December 31, 2009 and 2008, the Company's allowance for decline in market value of unlisted AFS investments amounted to ₱2.83 million (see Note 7). In 2009, the Company recognized impairment loss amounting to ₱0.27 million due to the significant decline in value of its AFS investments.

The carrying amounts of AFS investments amounted to ₱6.77 million and ₱6.79 million as of December 31, 2009 and 2008, respectively (see Note 7). The change in the fair value of the AFS investments is recorded as "Unrealized valuation gains on available-for-sale investments" account in the equity section of the statements of financial position. As of December 31, 2009 and 2008, the unrealized valuation gains on AFS investments amounted to ₱1.99 million and ₱1.74 million, respectively.



Allowance for Impairment Losses of Accounts Receivable

The Company reviews the balance of accounts receivable at each reporting date to assess whether an allowance for impairment losses should be recorded in the statement of comprehensive income. In particular, judgment by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Company also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the Company's assessment of the accounts since their inception. These Company's assessments take into consideration factors such as any deterioration in country risk, industry and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

There are no allowance for impairment of accounts receivable as of December 31, 2009 and 2008. Accounts receivable amounted to ₱70.18 million and ₱78.99 million as of December 31, 2009 and 2008, respectively (see Note 5).

Realizability of Deferred Income Tax Assets

Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred income tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Company recognizes deferred income tax liabilities from taxable temporary differences. No deferred income tax assets have been recognized on temporary differences and unused NOLCO amounting to ₱224.22 million and ₱137.71 million as of December 31, 2009 and 2008, respectively (see Note 16).

4. Cash and Cash Equivalents

	2009	2008
Cash on hand and in banks	₱64,578,692	₱67,829,217
Short-term investments (see Notes 9 and 12)	1,369,592,898	25,000,000
	₱1,434,171,590	₱92,829,217

Cash in banks earns interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months depending on the immediate cash requirements of the Company and earn interest at the respective short-term investment rates.

5. Accounts Receivable

	2009	2008
Amounts owed by a related party (see Note 12)	₱70,000,000	₱75,000,000
Officers and employees (see Note 12)	94,492	35,298
Others	88,109	3,997,611
	₱70,182,601	₱78,983,059



6. Prepayments and Other Current Assets

	2009	2008
Input VAT	₱1,089,600	₱883,825
Supplies	185,877	157,163
Prepaid expenses and others	72,506	91,796
	₱1,347,983	₱1,132,784

7. Available-for-Sale Investments

	2009	2008
Shares - listed		
Petron Corporation	₱6,081,750	₱5,852,250
Aboitiz Equity Ventures, Inc.	54,000	33,600
Philippine Long Distance Telephone Company	7,350	7,350
	6,143,100	5,893,200
Shares - unlisted		
Southwest Resources, Inc.	3,333,500	3,333,500
Mt. Malarayat Golf and Country Club	130,000	400,000
	3,463,500	3,733,500
Less allowance for impairment on AFS investments	2,834,144	2,834,144
	629,356	899,356
	₱6,772,456	₱6,792,556

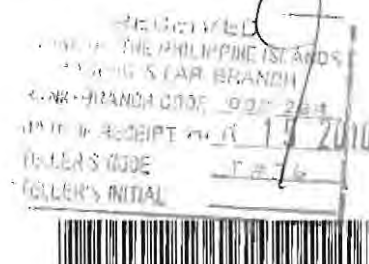
AFS investments represent investments in listed and not listed ordinary shares without fixed maturity date or coupon rate and measured at fair value.

Listed shares consist of equity securities that are traded in the Philippine Stock Exchange. The fair values of listed shares are determined at their closing market price as of reporting date. The fair value changes of the investments are recorded as "Unrealized valuation gains on available-for-sale investments" account, a separate component of the "Equity" section in the statement of financial position.

Movements in the carrying value of listed AFS investments are as follows:

	2009	2008
Balances at beginning of year	₱5,893,200	₱6,859,500
Fair value adjustments	249,900	(966,300)
Balances at end of year	₱6,143,100	₱5,893,200

Unlisted shares without available market values are carried at cost less any impairment losses. In 2009, the Company recognized impairment loss on Mt. Malarayat Golf and Country Club shares amounting to ₱0.27 million in the statement of comprehensive income due to its significant decline in value. Allowance for impairment in value of not listed shares amounted to ₱2.83 million as of December 31, 2009 and 2008.



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

On September 13, 2007, the BOD approved the sale of investment property consisting of parcels of land (with an unfinished building) that was acquired in 1996. The Company was the registered and beneficial owner of fifty percent (50%) of the property. On December 15, 2007, the Company, together with all the other registered and beneficial owners of the property, entered into a Contract to Sell and Buy with Alphaland Corporation for the sale of the said investment property for and in consideration of the total amount of ₱1,200.00 million, the Company's share of which amounted to ₱600.00 million. In connection with the said Contract to Sell and Buy, a deposit amounting to ₱60.00 million was received by the Company in December 2007. The related Deed of Absolute Sale was executed on January 23, 2008. As a result of these events and circumstances, the Company classified the investment property as a noncurrent asset classified as held for sale as of December 31, 2007, in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*. The sale of investment property in 2008 resulted in a gain of ₱113.02 million in 2008, net of related capital gains tax and documentary stamp taxes.

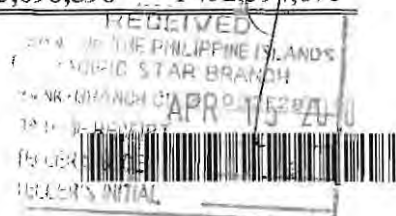
9. Investments in and Advances to Associates

The Company's investments in associates are as follows:

Investees	Business	Percentage of Ownership	
		2009	2008
Premiere Development Bank (PDB)	Banking	4.81	4.81
Bell Telecommunication Philippines, Inc. (BTPI)	Telecommunication	nil	32.40

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

	2009	2008
Acquisition costs:		
Balance at beginning of year	₱358,843,800	₱358,843,800
Disposal during the year	(324,000,000)	-
Balance at end of year	34,843,800	358,843,800
Accumulated equity in net income (losses):		
Balance at beginning of year	(229,130,196)	(329,353,152)
Equity in net income (losses) for the year	(40,035,540)	100,222,956
Disposal during the year	268,078,991	-
Balance at end of year	(1,086,745)	(229,130,196)
Share in unrealized gains (losses) on AFS investments of an associate:		
Balance at beginning of year	(126,483)	188,346
Share in fair value losses on AFS investments of an associate for the year	68,026	(314,829)
Balance at end of year	(58,457)	(126,483)
Investments in associates	33,698,598	129,587,121
Advances to associates	-	362,807,750
	₱33,698,598	₱492,394,871



The summarized financial information of PDB as of and for the years ended December 31, 2009 and 2008 and BellTel as of and for the year ended December 31, 2008 are as follows:

PDB	2009	2008
Total assets	₱3,942,763,488	₱3,075,228,396
Total liabilities	3,131,606,925	2,276,473,708
Net income (loss)	6,548,411	(21,779,833)
BellTel		
Total assets	₱-	₱691,093,506
Total liabilities	-	565,408,002
Net income	-	386,355,203

PDB

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

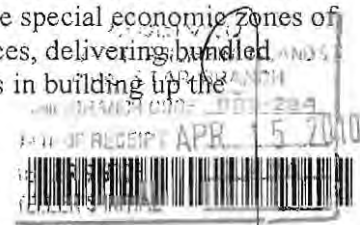
PDB operates within the Philippines and maintains 38 branches in Metro Manila and in the Provinces of Bulacan, Rizal, Laguna, Cavite and Batangas.

On September 30, 2008, the Company subscribed to 348,438 new shares at the subscription price of ₱34.8 million through application of the deposit. As of December 31, 2009 and 2008, the Company's equity share in PDB is 4.81%. However, the Company continues to account for its investment in PDB under the equity method since the Company continues to exercise significant influence over the operating and financial policies of PDB through their common BOD and Officers.

BellTel

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

BellTel, which targets the business and high-end residential markets, provides high-speed internet access, voice and data services to leading educational institutions, corporate clients and government institutions, through its multiple access technologies, namely, fixed wireless, cable, digital subscriber line (DSL), and satellite. BellTel's product offering and careful selection of its target markets contributed to the successful capture of close to 1,000 corporate accounts which include some of the largest domestic and multinational corporations, educational, financial and government institutions, as well as 25% of all industrial locators in the special economic zones of Cavite and Laguna. It recently launched residential and SOHO services, delivering bundled broadband internet, voice and video, which will be major contributors in building up the subscriber base.



On December 18, 2009, a Deed of Sale has been entered by the Company and Two Cassandra-CCI Conglomerates, Inc. (TWCCI) for the sale of the 32.40% (3,240,000 shares) ownership of the Company in BellTel for a total consideration of ₱1.23 billion. Incidental to the sale of shares, the Company settled its outstanding subscription payable amounting to ₱171.72 million. Also, on the same date, the Company collected its advances to BellTel amounting to ₱368.87 million as of the date of sale. Capital gains tax paid by the Company in relation to the sale of the shares amounted to ₱90.38 million.

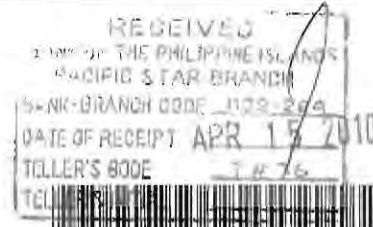
10. Property and Equipment

2009

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,556,062	₱432,098	₱13,020,964	₱15,009,124
Additions	106,115	—	—	106,115
Balances at end of year	1,662,177	432,098	13,020,964	₱15,115,239
Accumulated depreciation and amortization:				
Balances at beginning of year	1,359,027	432,098	2,509,152	4,300,277
Depreciation and amortization for the year	76,614	—	2,452,193	2,528,807
Balances at end of year	1,435,641	432,098	4,961,345	6,829,084
Net book value	₱226,536	₱—	₱8,059,619	₱8,286,155

2008

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



11. Accounts Payable and Accrued Expenses

	2009	2008
Accounts payable	₱1,134,591	₱165,765
Accrued expenses and other liabilities	683,261	431,660
	₱1,817,852	₱597,425

12. Related Party Disclosures

a. Amounts owed by Puyat Steel Corporation (PSC)

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

The BOD through board resolution dated January 24, 2008 authorized the Company to enter into a related party agreement with PSC to invest an amount of up to ₱130 million for the acquisition of raw materials to be processed into finished steel products. The funding facility extended to PSC is secured by way of assignment to the Company of finished goods inventories and all receivables and proceeds of postdated checks issued arising from the sale of the finished goods. The funding facility is renewable on a yearly basis. Under this arrangement, the Company receives a guaranteed return on investment (ROI) of at least 8% per annum.

Total advances made by the Company to PSC amounted to ₱95 million and ₱125 million in 2009 and 2008, respectively. As of December 31, 2009 and 2008, the Company has an outstanding receivable from PSC amounting to ₱70 million and ₱75 million, respectively (see Note 5). Interest earned by the Company in relation to these advances amounted to ₱7.98 million and ₱9.68 million in 2009 and 2008, respectively.

b. Cash in Bank and Short-term Investment in PDB

The Company has cash deposit and short-term investments with PDB as follows:

	2009	2008
Cash deposit	₱2,217,314	₱7,996,053
Short-term investments	30,000,000	-
	₱32,217,314	₱7,996,053

Interest earned by the Company in relation to cash deposit and short-term investment amounted to ₱0.20 million, ₱0.09 million and ₱0.01 million in 2009, 2008 and 2007, respectively.



c. Key Management Compensation

Short-term employee benefits of key management personnel amounted to ₱1.55 million, ₱1.34 million and ₱1.24 million in 2009, 2008, and 2007, respectively. As of December 31, 2009 and 2008, the Company has an outstanding receivable from its employees and officers amounting to ₱0.09 million and ₱0.04 million, respectively (see Note 5).

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

	2009	2008	2007
Net income/(loss)	₱1,041,396,072	₱112,856,711	(₱52,054,506)
Weighted average number of shares	906,758,736	906,559,569	906,559,569
Income/(loss) per share	₱1.1485	₱0.1245	(₱0.0574)

There are no dilutive potential common shares as of December 31, 2009, 2008 and 2007.

14. **Operating Lease Commitment**

On September 1, 2006, the Company entered into a sublease contract with BellTel for the lease of office space located at 3rd floor, Pacific Star Building, Makati City. The contract is for a term of one year renewable for another one year at the lessee's discretion. The contract was renewed by the Company in 2007, 2008, and 2009, no amendments were made on the contract since 2006. The total monthly rental payments amounted to about ₱0.04 million. The related rent expense recognized by the Company for each of the three years ended December 31, 2009, 2008 and 2007 amounted to ₱0.44 million.

15. **Financial Instruments**

Financial Risk Management Objectives and Policies

The main purpose of the Company's financial instruments is to finance its operations. The Company has various financial assets and liabilities such as cash and cash equivalents, accounts receivable, AFS investments and accounts payable and accrued expenses which arise directly from its operations.

The BOD has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and manage the Company's exposure to financial risks, to set appropriate transaction limits and controls, and to monitor and assess risks and compliance to internal control policies. Risk management policies and structure are reviewed regularly to reflect changes in market conditions and the Company's activities.

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

The Company has minimal foreign-currency denominated financial instrument which pertains to cash and cash equivalents denominated in US Dollar amounting to \$5,417 and \$6,403 or ₱251,101 and ₱304,056 as of December 31, 2009 and 2008, respectively. As such, the management



assessed that the Company is not exposed to currency risk due to immaterial amount of foreign currency denominated cash in banks and its expects no significant impact on the financial statements due to fluctuations on foreign exchange rates.

Credit risk

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

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

The Company's concentration of credit risk pertains to its receivable from PSC.

The credit quality of financial assets is being managed by the Company using internal credit ratings. The table below shows the credit quality by class of financial asset based on the Company's rating system as of December 31, 2009 and 2008:

2009

	Neither Past Due Nor Impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	₱1,434,171,590	₱-	₱-	₱-	₱1,434,171,590
Accounts receivable					
Amounts owed by a related party	-	70,000,000	-	-	70,000,000
Officers and employees	-	94,492	-	-	94,492
Others	-	-	88,109	-	88,109
	₱1,434,171,590	₱70,094,492	₱88,109	₱-	₱1,504,354,191

2008

	Neither Past Due Nor Impaired		Past Due But Not Impaired	Impaired	Total
	High Grade	Standard Grade			
Cash and cash equivalents	₱92,829,217	₱-	₱-	₱-	₱92,829,217
Accounts receivable					
Amounts owed by a related party	-	75,000,000	-	-	75,000,000
Officers and employees	-	35,298	-	-	35,298
Others	-	3,872,375	77,386	-	3,949,761
	₱92,829,217	₱78,907,673	₱77,386	₱-	₱171,814,276

Cash and cash equivalents are considered high grade as the Company trades only with top banks in the Philippines. Standard grade receivables are for accounts receivables from related party, employees, third parties and accounts which would require some reminder follow-ups to obtain settlement from the counterparties.



The table below shows the aging analysis of past due but not impaired receivables per class that the Company held as of December 31, 2009 and 2008. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

2009

	Neither past due nor impaired	Past due but not impaired				Total
		Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Cash and cash equivalents	₱1,434,171,590	₱-	₱-	₱-	₱-	₱1,434,171,590
Accounts receivable						
Amounts owed by a related party	70,000,000	-	-	-	-	70,000,000
Officers and employees	94,492	-	-	-	-	94,492
Others	-	-	-	10,723	77,386	88,109
	₱1,504,266,082	₱-	₱-	₱10,723	₱77,386	₱1,504,354,191

2008

	Neither past due nor impaired	Past due but not impaired				Total
		Less than 30 days	31 to 60 days	61 to 90 days	More than 91 days	
Cash and cash equivalents	₱92,829,217	₱-	₱-	₱-	₱-	₱92,829,217
Accounts receivable						
Amounts owed by a related party	75,000,000	-	-	-	-	75,000,000
Officers and employees	35,298	-	-	-	-	35,298
Others	3,872,375	-	-	9,604	67,782	3,949,761
	₱171,736,890	₱-	₱-	₱9,604	₱67,782	₱171,814,276

Liquidity Risk

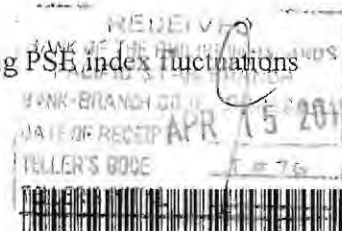
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk by maintaining a balance between continuity of funding and flexibility. Treasury controls and procedures are in place to ensure that sufficient cash is maintained to cover daily operational and working capital requirements. Management closely monitors the Company's future and contingent obligations and sets up required cash reserves as necessary in accordance with internal policies.

The Company's financial liability pertains to accounts payable and accrued expenses which is on a 30 to 60 days term. As of December 31, 2009 and 2008, the Company's accounts payable and accrued expenses amounted to ₱1.82 million and ₱0.60 million, respectively. The Company's cash and cash equivalents is available to pay its financial liabilities when it matures.

Equity Price Risk

Equity price risk is the likelihood that the fair values of equities decrease as a result of changes in the levels of the equity indices and the values of individual stocks. The equity price risk exposure arises from the Company's AFS investment in equity securities. For investments in Philippine equities, majority of funds are invested in equities listed in the PSE.

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



The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2009, with all other variables held constant, of the Company's income before income tax and equity:

Effect on income before income tax	Change in PSE stock market index	
	+10%	-10%
2009	P614,310	(P614,310)
2008	589,320	(589,320)
2007	658,950	(658,950)

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

Categories of Financial Instruments

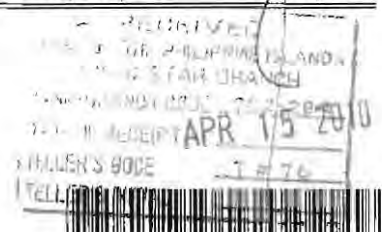
The classification of financial instruments as of December 31, 2009 and 2008 are as follows:

Financial Assets	2009	2008
Loans and Receivables:		
Cash and cash equivalents	P1,434,171,590	P92,829,217
Accounts receivable	70,182,601	78,985,059
AFS:		
AFS investments	6,772,456	6,792,556
	P1,511,126,647	P178,606,832
Financial Liability	2009	2008
Other Financial Liability:		
Accounts payable and accrued expenses	P1,817,852	P597,425

Fair Values of Financial Instruments

Set out below is a comparison by category of carrying amounts and fair values of all of the Company's financial instruments that are carried in the financial statements.

	Carrying Amount		Fair Value	
	2009	2008	2009	2008
Financial Assets:				
Loans and Receivables:				
Cash and cash equivalents	P1,434,171,590	P92,829,217	P1,434,171,590	P92,829,217
Accounts receivable	70,182,601	78,985,059	70,182,601	78,985,059
AFS:				
AFS investments	6,772,456	6,792,556	6,772,456	6,792,556
	P1,511,126,647	P178,606,832	P1,511,126,647	P178,606,832
Financial Liability:				
Other financial liabilities:				
Accounts payable and accrued expenses	P1,817,852	P597,425	P1,817,852	P597,425



The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate such value:

Cash and cash equivalents and Accounts receivable

The carrying amounts of cash and cash equivalents and accounts receivable approximate their fair values due to the short-term maturities of these financial instruments.

AFS investments

Fair value of AFS investments is based on the quoted market bid prices at the close of business as of the reporting date.

Accounts payable and accrued expenses

Similarly, the carrying amounts of accounts payable and accrued expenses which is subject to normal trade terms approximate its fair value.

Fair Value Hierarchy

The following table shows the Company's financial instruments carried at fair value, analyzed between those whose fair value is based on:

- quoted prices in active markets for identical assets or liabilities (level 1);
- those involving inputs other than quoted prices included in level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices) (level 2); and
- those with inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

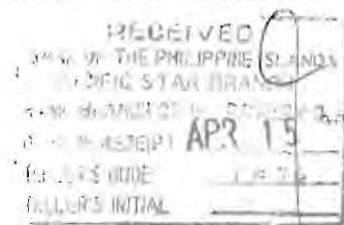
2009

	Level 1	Level 2	Level 3	Total
Financial Assets				
AFS investments:				
Listed	₱6,143,100	₱—	₱—	₱6,143,100
Unlisted	130,000	—	499,356	629,356
	₱6,273,100	₱—	₱499,356	₱6,772,456

2008

	Level 1	Level 2	Level 3	Total
Financial Assets				
AFS investments:				
Listed	₱5,893,200	₱—	₱—	₱5,893,200
Unlisted	400,000	—	499,356	899,356
	₱6,293,200	₱—	₱499,356	₱6,792,556

As of December 31, 2009 and 2008, there were no transfers between Level 1 and Level 3 fair value measurements.



Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize stockholder value.

The Company manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2009 and 2008.

The following table pertains to the account balance the company considers as its core economic capital.

	2009	2008
Capital stock	₱589,509,569	₱588,879,569
Additional paid-in capital	72,272,140	72,272,140
Subscribed capital stock-net	79,262,500	79,420,000
Retained earnings (deficit)	824,628,092	(216,767,980)
	₱1,565,672,301	₱523,803,729

16. Income Taxes

The Company's current provision for income tax in 2009 represents MCIT. There were no provision for income tax in 2008 and 2007 because of the Company's gross loss and net taxable loss positions.

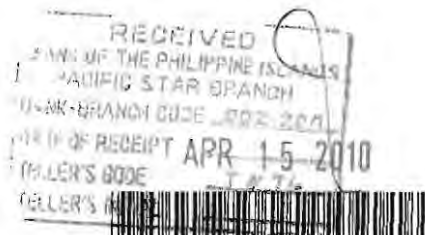
The Company has MCIT in 2009 amounting to ₱ 0.16 million which will expire in 2013.

As of December 31, 2009, the Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry Date	Amount
2009	2012	₱91,992,203
2008	2011	50,376,625
2007	2010	6,220,863
		₱148,589,691

Movement of the Company's NOLCO follows:

	2009	2008
Balance at beginning of year	₱62,235,740	₱14,718,771
Additions	91,992,203	50,376,625
Expirations	(5,638,252)	(2,859,656)
Balance at end of year	₱148,589,691	₱62,235,740



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

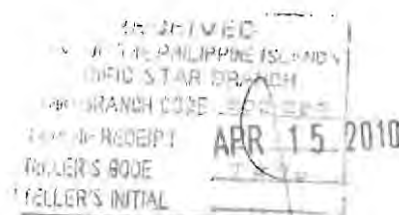
	2009	2008	2007
Income (loss) before tax at statutory tax rates	₱312,466,697	₱39,499,849	(₱18,219,077)
Additions to (reductions in) income taxes resulting from:			
Change in unrecognized deferred income tax asset	39,765,548	3,971,166	18,234,910
Provision for decline in value of AFS	81,000	-	-
Gain on sale of investment in an associate	(351,571,344)	-	-
Interest income subjected to final tax	(582,319)	(3,914,183)	(15,711)
Gain on sale of an investment property	-	(39,556,832)	-
Dividend income exempt from tax	-	-	(122)
Income tax at effective rates	₱159,582	₱-	₱-

There are deductible temporary differences for which no deferred income tax assets were recognized since the Company expects that these deferred income tax assets will not be realized in the future. These deductible temporary differences are as follows:

	2009	2008
NOLCO	₱148,589,691	₱62,235,740
Allowance for impairment losses on deferred exploration costs	75,464,430	75,464,430
Unrealized foreign exchange loss	5,439	13,294
MCIT	159,582	-
	₱224,219,142	₱137,713,464

Republic Act (RA) No. 9337

RA No. 9337, which became effective on November 1, 2005, amended various provisions in the 1997 National Internal Revenue Code. The reforms introduced by RA No. 9337 included the increase in the corporate income tax rate from 32% to 35% beginning November 1, 2005, with a reduction thereof to 30% beginning January 1, 2009. RA No. 9337 also provided for the increase in unallowable interest rate from 38% to 42% beginning November 1, 2005, with a reduction thereof to 33% beginning January 1, 2009.



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

Name and Designation of Debtor	Balance at beginning of Period - 1/1/09	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period 12/31/2009
Employees							
Reynaldo P. Carreon		30,000.00	(30,000.00)				-
Michelle Cañizares	14,775.54	197,830.00	(129,915.21)				82,690.33
David R. Baladad	10,522.26	26,510.00	(25,230.24)				11,802.02
Ronald E. Comon	10,000.00	13,390.00	(23,390.00)				-
Irene N. Atutubo		15,250.33	(15,250.33)				-
	35,297.80	282,980.33	(223,785.78)				94,492.35
Others							
	78,949,761.02	10,722.84	(8,872,375.30)				70,088,108.56
Total	78,985,058.82	293,703.17	(9,096,161.08)				70,182,600.91

South China Resources, Inc. Aging of Accounts Receivable As of December 31, 2009								
	CURRENT					PAST DUE		Past due accounts & Items in Litigation
	Total	1 Month	2-3 Mos.	4-6 Mos.	7 Mos. To 1 Year	1-2 Years	3-5 Years	5 Years - Above
Accounts Receivable								
1) Amounts owed by a related party - PSC	70,000,000.00	45,000,000.00		25,000,000.00				
2) Officers and employees	94,492.35							
3) Others	88,108.56		10,722.84		9,603.63	10,303.63	57,478.46	NONE
Subtotal	70,182,600.91		10,722.84		9,603.63	10,303.63	57,478.46	
Less: Allowance for impairment losses on receivables	-	-	-	-	-	-	-	-
A/R - net	70,182,600.91		10,722.84		9,603.63	10,303.63	57,478.46	NONE
Net Receivables	70,182,600.91	-	10,722.84	-	9,603.63	10,303.63	57,478.46	-
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) Amounts owed by a related party	Receivable from third party PUYAT STEEL CORP. (Principal & Interest)	monthly payment of interest & quarterly payment of principal
2) Officers and employees	Advances to employees for emergency purpose on a 1 year term payable monthly	monthly
3) Others	Receivable from third party; amount payable by South China Petroleum Int'l.	Pending settlement yet collectible
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

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

Name of issuing entity and description of investment	Number of shares or principal amount of bonds/notes	Restated Amount in Pesos Balance Beg 1/1/2009	Equity in net earnings (losses) of investees for the period	Share in unrealized loss on noncurrent marketable equity securities/AFS investment of an associate	Share in prior period adjustment of an associate	Advances to an associate	Sale of Investment & Payment of Advances	Amount in Pesos Balance End 12/31/2009
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INVESTMENT IN ASSOCIATES AND OTHERS

Stocks:

Bell Tel-32.40%

Investment	3,240,000	96,271,527.77	(40,350,518.56)				(55,921,009.21)	-
Advances		362,807,750.00				6,062,208.00	(368,869,958.00)	-

PDB - 4.81%	348,438	33,315,593.57	314,978.56	68,026.00				33,698,598.13
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**TOTAL- INVESTMENT IN AND
AND ADVANCES TO ASSOCIATES**

492,394,871.34	(40,035,540.00)	68,026.00		6,062,208.00	(424,790,967.21)	33,698,598.13
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	Number of Shares	Amount in Pesos Balance Beg 1/1/2009		Unrealized gain/ (losses) on marketable equity/securities		Amount in Pesos Balance End 12/31/2009
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INVESTMENT IN SHARES OF STOCKS-AVAILABLE FOR SALE

NONCURRENT

LISTED (TRADED SHARES)

PETRON	1,147,500	5,852,250.00		229,500.00		6,081,750.00
ABOTIZ EQUITY VENTURES	6,000	33,600.00		20,400.00		54,000.00
PLDT						
Preferred U shares	350	3,675.00				3,675.00
Preferred Y Shares	350	3,675.00				3,675.00
		7,350.00				7,350.00
Sub-total Listed Shares		5,893,200.00		249,900.00		6,143,100.00

UNLISTED SHARES

MT. MALARAYAT		400,000.00		(270,000.00)		130,000.00
SOUTHWEST RESOURCES		3,333,500.00				3,333,500.00
Allowances for decline in value		(2,834,144.32)				(2,834,144.32)
		499,355.68		(270,000.00)		499,355.68
Sub-total Unlisted Shares		899,355.68		(270,000.00)		629,355.68

TOTAL AVAILABLE FOR SALE

6,792,555.68	(20,100.00)	6,772,455.68
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