

COVER SHEET

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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

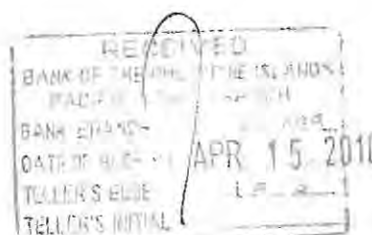
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INDEPENDENT AUDITORS' REPORT

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

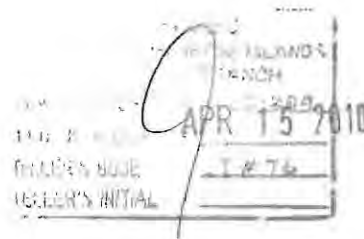
We have audited the accompanying financial statements of South China Resources, Inc., which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years 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

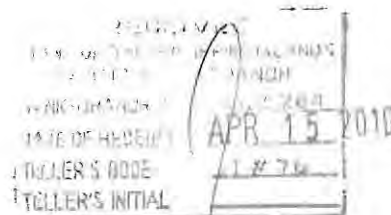
CPA Certificate No. 85588

SEC Accreditation No. 0327-AR-1

Tax Identification No. 103-093-301

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

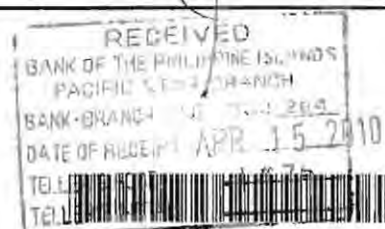
April 7, 2010



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	P587,739,569	P79,705,000	P72,272,140	P735,515	P—	(P277,570,185)	P462,882,039
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	P588,749,569	P79,452,500	P72,272,140	P2,571,002	P188,346	(P329,624,691)	P413,608,866
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	P588,879,569	P79,420,000	P72,272,140	P1,739,743	(P126,483)	(P216,767,980)	P525,416,989
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	P589,509,569	P79,262,500	P72,272,140	P1,989,643	(P58,457)	P824,628,092	P1,567,603,487

See accompanying Notes to Financial Statements.



SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

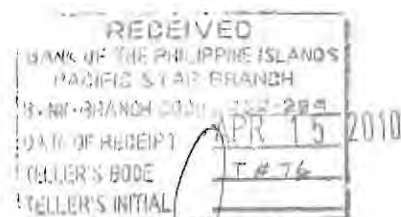
	Years Ended December 31		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before income tax	¥1,041,555,654	¥112,856,711	(¥52,054,506)
Adjustments for:			
Equity in net losses (income) of associates (Note 9)	40,035,540	(100,222,956)	43,187,664
Depreciation and amortization (Note 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

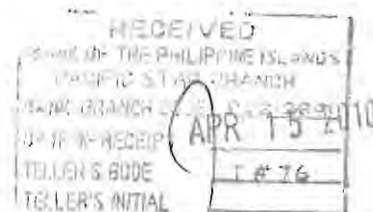
The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale (AFS) investments, which are carried at fair value. The financial statements are presented in Philippine pesos which is the Company's functional currency.

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.

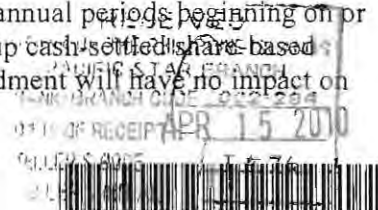
Effective in 2010

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.

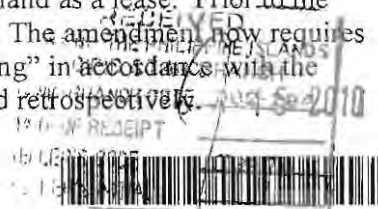
Philippine Interpretation IFRIC 17, Distributions of Non-Cash Assets to Owners

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.

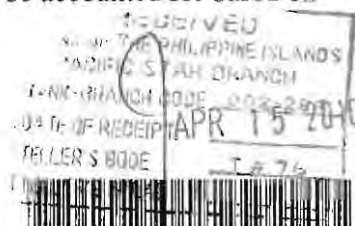


- PAS 36, *Impairment of Assets*: clarifies that the largest unit permitted for allocating goodwill, acquired in a business combination, is the operating segment as defined in PFRS 8 before aggregation for reporting purposes.
- PAS 38, *Intangible Assets*: clarifies that if an intangible asset acquired 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

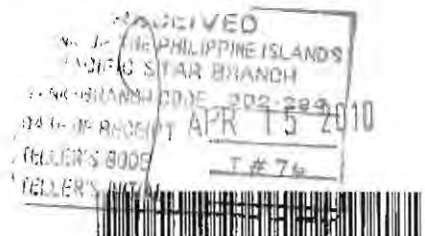
Cash includes cash on hand and with banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from date of placements and that are subject to an insignificant risk of change in value.

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.

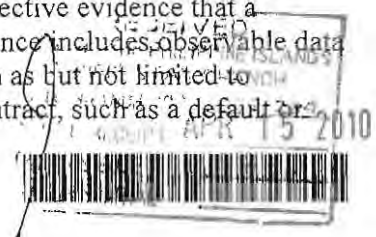
Day 1 Difference

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.

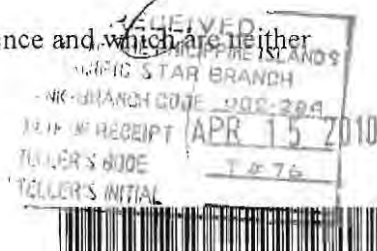
When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

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:

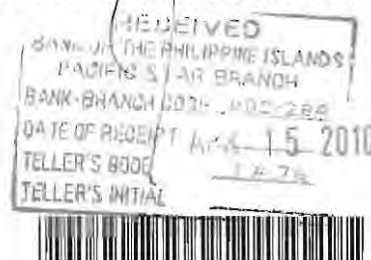
- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss;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

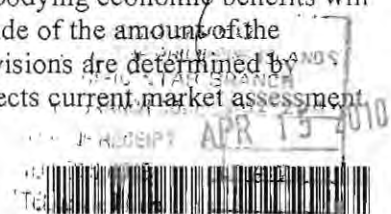
Basic/Diluted Earnings Per Share

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

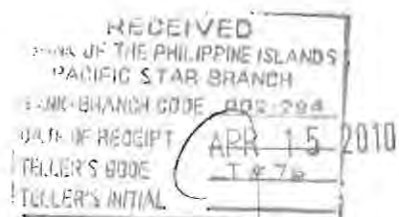
Based on the economic substance of the underlying circumstances relevant to the Company, the functional currency of the Company has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Company operates. It is the currency that mainly influences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

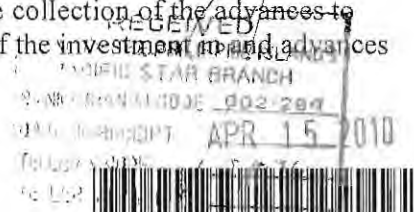
Estimating Impairment of Investments in and Advances to Associates and Property and Equipment

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

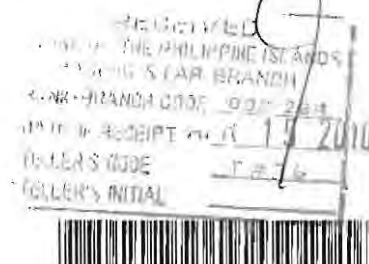
AFS investments represent investments in listed and not listed ordinary shares without fixed maturity date or coupon rate and measured at fair value.

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.

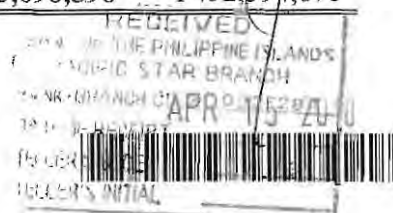
9. Investments in and Advances to Associates

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.

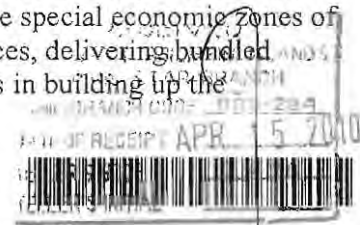
PDB operates within the Philippines and maintains 38 branches in Metro Manila and in the Provinces of Bulacan, Rizal, Laguna, Cavite and Batangas.

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.

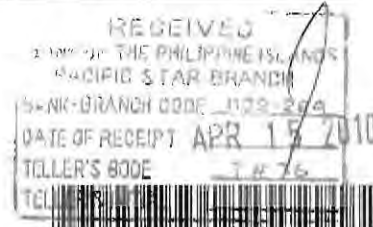
10. Property and Equipment

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

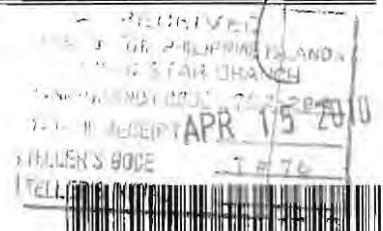
The classification of financial instruments as of December 31, 2009 and 2008 are as follows:

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).

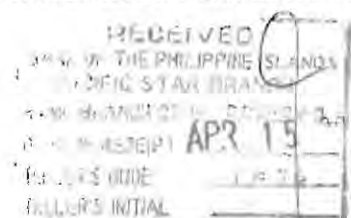
2009

	Level 1	Level 2	Level 3	Total
Financial Assets				
AFS investments:				
Listed	P6,143,100	P-	P-	P6,143,100
Unlisted	130,000	-	499,356	629,356
	P6,273,100	P-	P499,356	P6,772,456

2008

	Level 1	Level 2	Level 3	Total
Financial Assets				
AFS investments:				
Listed	P5,893,200	P-	P-	P5,893,200
Unlisted	400,000	-	499,356	899,356
	P6,293,200	P-	P499,356	P6,792,556

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.

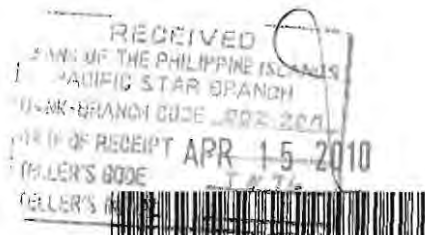
The Company has MCIT in 2009 amounting to ₱ 0.16 million which will expire in 2013.

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.

