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AS092-06441

SEC Registration Number

SOUTH CHINA RESOURCES, INC.

(Company's Full Name)

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

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

Ms. Imelda D. Olalia	812-2383
(Contact Person)	(Company Telephone Number)

12	31	17AR		
Month	Day	(Form Type)	Month	Day
(Calendar Year)			(Annual Meeting)	

Not Applicable

(Secondary License Type, If Applicable)

Corporate Finance Department	Not Applicable
Dept. Requiring this Doc.	Amended Articles Number/Section

Total Amount of Borrowings

463	Nil	Nil
Total No. of Stockholders	Domestic	Foreign

To be accomplished by SEC Personnel concerned

File Number _____ LCU

Document ID _____ Cashier

STAMPS

BUREAU OF INTERNAL REVENUE RECEIVED APR 25 2008

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SGV & Co

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of South China Resources, Inc., which comprise the balance sheets as of December 31, 2007 and 2006, and the statements of income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2007, and a summary of significant accounting policies and other explanatory notes. We did not audit the financial statements of Premiere Development Bank (PDB) and the 2006 and 2005 financial statements of Bell Telecommunications Philippines, Inc. (BellTel) the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The investments in PDB and BellTel represent about 5.26% and 4.87% of total assets as of December 31, 2007 and 2006, respectively, and the equity in the net losses represents about 0.70%, 102.56% and 96.29%, of the net loss in 2007, 2006 and 2005, respectively. The financial statements of PDB and the 2006 and 2005 financial statements of BellTel were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for PDB and BellTel is based solely on the reports of the other auditors.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, based on our audits and the reports of the other auditors, the financial statements present fairly, in all material respects, the financial position of South China Resources, Inc., as of December 31, 2007 and 2006, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2007 in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.
Partner
CPA Certificate No. 69099
SEC Accreditation No. 0111-AR-1
Tax Identification No. 109-247-891
PTR No. 0017573, January 3, 2008, Makati City

April 29, 2008

SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

	December 31	
	2007	2006 (As restated, see Note 18)
ASSETS		
Current Assets		
Cash	₱50,912,570	₱5,090,607
Accounts receivable - net (Note 4)	78,722	66,664
Available-for-sale (AFS) investments (Note 6)	–	42,000
Prepayments and other current assets (Note 5)	645,193	423,656
	51,636,485	5,622,927
Noncurrent asset classified as held for sale (Note 7)	486,980,479	–
Total Current Assets	538,616,964	5,622,927
Noncurrent Assets		
AFS investments - net of current portion (Note 6)	7,623,815	5,746,328
Investment property (Note 7)	–	486,980,479
Investments in and advances to associates (Note 8)	34,678,994	37,834,512
Deposit for future investment (Note 8)	–	34,843,800
Deferred exploration costs - net of allowance for impairment losses of ₱12,618,353 (Note 1)	77,606,250	82,331,858
Property and equipment - net (Note 9)	162,490	189,875
Refundable deposits	141,554	141,554
Total Noncurrent Assets	120,213,103	648,068,406
TOTAL ASSETS	₱658,830,067	₱653,691,333
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 10)	₱13,501,201	₱19,089,294
Deposit from contract to sell investment property (Note 7)	60,000,000	–
Total Current Liabilities	73,501,201	19,089,294
Noncurrent Liability		
Subscriptions payable (Note 8)	171,720,000	171,720,000
Equity		
Common stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 588,749,569 shares in 2007 and 587,739,569 shares in 2006	588,749,569	587,739,569
Subscribed - 317,810,000 shares in 2007 and 318,820,000 shares in 2006 (net of subscriptions receivable of ₱238,357,500 in 2007 and ₱239,115,000 in 2006)	79,452,500	79,705,000
Additional paid-in capital	72,272,140	72,272,140
Unrealized gains on AFS investments - net (Note 6)	2,571,002	735,515
Share in unrealized gains on AFS investments of an associate (Note 8)	188,346	
Deficit	(329,624,691)	(277,570,185)
Total Equity	413,608,866	462,882,039
TOTAL LIABILITIES AND EQUITY	₱658,830,067	₱653,691,333

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

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

See accompanying Notes to Financial Statements.

APR

SOUTH CHINA RESOURCES, INC.

STATEMENTS OF CHANGES IN EQUITY

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

	Common Stock		Additional	Unrealized Gains (losses) on AFS Investments	Share in Unrealized Gains on Investments of an Associate		
	Issued	Subscribed - net	Paid-in Capital	- net (Note 6)	(Note 8)	Deficit	Total
Balances at January 1, 2005	586,639,569	79,980,000	72,272,140	(195,237)	–	(128,112,938)	610,583,534
Recovery of unrealized losses on AFS investments	–	–	–	3,083,577	–	–	3,083,577
Share in recovery of unrealized losses on AFS investments of an associate	–	–	–	–	238,220	–	238,220
Total income recognized directly in equity	–	–	–	3,083,577	238,220	–	3,321,797
Net loss for the year as restated (Notes 8 and 18)	–	–	–	–	–	(71,322,319)	(71,322,319)
Total recognized income (expense) for the year	–	–	–	3,083,577	238,220	(71,322,319)	(68,000,522)
Balances at December 31, 2005, as restated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	₱238,220	(₱199,435,257)	₱542,583,012

(Forward)

	Common Stock		Additional	Unrealized Gains (losses) on AFS Investments	Share in Unrealized Gains on Investments of an Associate		
	Issued	Subscribed - net	Paid-in Capital	- net (Note 6)	(Note 8)	Deficit	Total
Balances at January 1, 2006, as previously stated	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	(₱1,678,590)	(₱158,978,181)	₱581,123,278
Share in prior period adjustments of associates (Notes 8 and 18)	–	–	–	–	1,916,810	(40,457,076)	(38,540,266)
Balances at January 1, 2006, as restated	586,639,569	79,980,000	72,272,140	2,888,340	238,220	(199,435,257)	542,583,012
Unrealized valuation losses on AFS investments	–	–	–	(2,090,735)	–	–	(2,090,735)
Valuation gains taken to the statements of income on sale of AFS investments	–	–	–	(62,090)	–	–	(62,090)
Share in recovery of unrealized losses on AFS investments of an associates	–	–	–	–	162,498	–	162,498
Derecognition of share in unrealized gains on AFS investments of a disposed associate	–	–	–	–	(400,718)	–	(400,718)
Total income (loss) recognized directly in equity	–	–	–	(2,152,825)	(238,220)	–	(2,391,045)
Net loss for the year as restated	–	–	–	–	–	(78,134,928)	(78,134,928)
Total recognized income (expense) for the year	–	–	–	(2,152,825)	(238,220)	(78,134,928)	(80,525,973)
Collection of subscriptions receivable		825,000	–	–	–	–	825,000
Shares of stock issued from subscribed	1,100,000	(1,100,000)	–	–	–	–	–
Balances at December 31, 2006, as restated	₱587,739,569	₱79,705,000	₱72,272,140	₱735,515	₱–	(₱277,570,185)	₱462,882,039

(Forward)

	Common Stock		Additional	Unrealized Gains (losses) on AFS Investments	Share in Unrealized Gains on Investments of an Associate		
	Issued	Subscribed - net	Paid-in Capital	- net (Note 6)	(Note 8)	Deficit	Total
Balances at January 1, 2007, as previously stated	₱587,739,569	₱79,705,000	₱72,272,140	₱735,515	₱-	(₱225,765,195)	₱514,687,029
Share in prior adjustments of associate (Notes 8 and 18)	-	-	-	-	-	(51,804,990)	(51,804,990)
Balances at January 1, 2007, as restated	587,739,569	79,705,000	72,272,140	735,515	-	(277,570,185)	462,882,039
Unrealized valuation losses on AFS investments	-	-	-	1,835,487	-	-	1,835,487
Share in recovery of unrealized losses on AFS investments of an associates	-	-	-	-	188,346	-	188,346
Total income (loss) recognized directly in equity	-	-	-	1,835,487	188,346	-	2,023,833
Net loss for the year	-	-	-	-	-	(52,054,506)	(52,054,506)
Total recognized income (expense) for the year	-	-	-	1,835,487	188,346	(52,054,506)	(50,030,673)
Collection of subscriptions receivable	-	757,500	-	-	-	-	757,500
Shares of stock issued from subscribed	1,010,000	(1,010,000)	-	-	-	-	-
Balances at December 31, 2007	₱588,749,569	₱79,452,500	₱72,272,140	₱2,571,002	₱188,346	(₱329,624,691)	₱413,608,866

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2007	2006 (As restated, see Note 18)	2005 (As restated, see Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax	**(₱52,054,506)**	(₱78,181,876)	(₱71,322,319)
Adjustments for:			
Equity in net losses of associates (Notes 8 and 18)	**43,187,664**	80,181,235	68,680,431
Net unrealized foreign exchange losses (gains) - net	**3,159,271**	(1,791,273)	(183,474)
Depreciation and amortization (Note 9)	**54,376**	131,250	77,769
Dividend income	**(350)**	(50,227)	(700)
Interest income	**(44,888)**	(20,440)	(7,372)
Gain on sale of AFS investment	–	(62,090)	–
Gain on sale of an associate (Note 8)	–	(5,955,504)	–
Loss on derecognition of property and equipment	–	–	76,768
Operating loss before working capital changes	**(5,698,433)**	(5,748,925)	(2,678,897)
Decrease (increase) in:			
Accounts receivable	**(12,058)**	(4,604)	27,392
Prepayments and other current assets	**(221,537)**	(98,507)	(43,150)
Increase (decrease) in accounts payable and accrued expenses	**(7,847,420)**	3,525,176	7,109,806
Net cash flows from (used in) operating activities	**(13,779,448)**	(2,326,860)	4,415,151
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from deposit from contract to sell investment property (Note 7)	**60,000,000**	–	–
Decrease (increase) in deferred exploration costs	**4,725,608**	4,876,188	(4,217,574)
Interest received	**44,888**	20,440	7,372
Dividend received	**350**	50,227	700
Additions to:			
Property and equipment (Note 9)	**(26,991)**	(194,574)	(5,114)
AFS investments	–	(400,000)	–
Proceeds from sale of AFS investments	–	1,313,040	–
Decrease in refundable deposits and others	–	–	339,058
Net cash flows from (used in) investing activities	**64,743,855**	5,665,321	(3,875,558)
CASH FLOWS FROM FINANCING ACTIVITIES			
Collection of subscriptions receivable	**757,500**	825,000	–
Advances to associates	**(5,000,000)**	–	–
Net cash flows from (used in) financing activities	**(4,242,500)**	825,000	–
NET INCREASE IN CASH	**46,721,907**	4,163,461	539,593
EFFECT OF EXCHANGE RATE CHANGES ON CASH	**(899,944)**	(222,054)	(62,527)
CASH AT BEGINNING OF YEAR	**5,090,607**	1,149,200	672,134
CASH AT END OF YEAR	**₱50,912,570**	₱5,090,607	₱1,149,200

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

Corporate Information

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

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

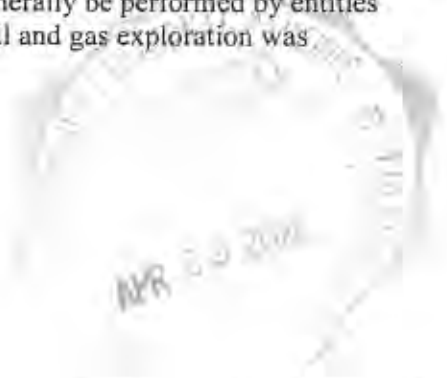
The Company has six employees as of December 31, 2007 and 2006.

Plan to Spin-off Oil and Gas Exploration Operations

On September 11, 2003, the BOD approved the plan to spin-off the Company's oil and gas exploration operations to a wholly owned subsidiary, which can then be listed in a foreign stock exchange. The Company's stockholders ratified the plan during the special stockholders' meeting on October 22, 2003. As of December 31, 2007, the transfer of the Company's oil and gas exploration assets to the new entity has not yet commenced pending the determination of the proper valuation of such assets.

Amendment of the Company's Articles of Incorporation

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



Status of Oil and Gas Exploration Operations

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

Contract Areas	Percentage of Working Interest	
	2007	2006
Northeast Palawan (SC-60, former Geophysical Survey and Exploration Contract (GSEC) 99)	**15.00**	15.00
South Sulu Sea Block B (SC-41)	**1.09**	1.09

The above SCs provide for certain minimum work expenditure obligations and drilling of specified number of wells and are covered by Joint Operating Agreements (JOA), which set forth the participating interests, rights and obligations of the contractors. The minimum work expenditure obligations on these contracts is estimated to be about US$20,000 as of December 31, 2007.

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

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

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

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

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

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

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

Offshore Cuyo Platform (former GSEC-96), NW Palawan Block (former GSEC-83)
After a moratorium on applications for new exploration contract areas, DOE launched Philippine Energy Contracting Round No. 3 (PECR-3) on December 22, 2006. The bid round covers nine blocks scattered within the Philippine territory and ended on May 30, 2007.

On that same date, the Company together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The block has yet to be awarded to the group as no formal awards have been made by the DOE at this time. The Company was in this block previously with Murphy Oil of Louisiana.

Philodrill, operator of the Swan Block covering the former GSEC-83 area has yet to inform the Company the results of its negotiations with PNOC-EC (Philippine National Oil Company-Exploration Corporation) which now operates the service contracts (SC-57/58) covering the block.

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

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2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis except for available-for-sale investments, which are carried at fair value. The financial statements are presented in Philippine pesos which is the Company's functional currency. All values are in whole numbers, except when otherwise indicated.

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

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year except that the Company has adopted the following new and amended Philippine Accounting Standards (PAS) and Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) significant during the period. Adoption of these revised standards and interpretations did not have significant effect on the Company except for the additional disclosures on the financial statements

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

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

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

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

- PAS 1, *Amendment - Presentation of Financial Statements (Capital Disclosures)*
  This amendment requires the Company to make new disclosures to enable users of its financial statements to evaluate the Company's objectives, policies, and procedures for managing capital. These new disclosures are shown in Note 17.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2*
  This Interpretation requires PFRS 2 to be applied to any arrangements in which the entity can not identify specifically some or all of the goods received, in particular, where equity instruments are issued for consideration which appears to be less than fair value. As the Company does not have an employee share scheme, the Interpretation had no impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives*
  This Interpretation states that the date to assess the existence of an embedded derivative is the date that an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly affects the cash flows. As the Company has no embedded derivative requiring separation from the host contract, the Interpretation had no impact on the financial position or performance of the Company.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment*
  This Interpretation requires that an entity must not reverse an impairment loss recognized in a previous interim period in respect of goodwill or an investment in either an equity instrument or a financial asset carried at cost. As the Company had no impairment losses previously reversed, the Interpretation had no impact on the financial position or performance of the Company.

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

- Amendment to PAS 1, *Amendment on Statement of Comprehensive Income*
  In accordance with the amendment to PAS 1, the statement of changes in equity shall include only transactions with owners, while all non-owner changes will be presented in equity as a single line with details included in a separate statement. Owners are defined as holders of instruments classified as equity.

- PAS 23, *Borrowing Costs*
  A revised PAS 23, *Borrowing Costs*, was issued in March 2007, and becomes effective for financial years beginning on or after January 1, 2009. The standard has been revised to require capitalization of borrowing costs when such costs relate to a qualifying asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. In accordance with the transitional requirements in the Standard, the Company will adopt this as a prospective change. Accordingly, borrowing costs will be capitalized on qualifying assets with a commencement date after January 1, 2009. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such transactions currently exist.

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- PFRS 8, *Operating Segments*
  The Company will adopt PFRS 8, *Operating Segments*, effective January 1, 2009. PFRS 8 will replace PAS 14, *Segment Reporting*, and adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheet and statement of income and companies will need to provide explanations and reconciliations of the differences. As the Company operates only in one reportable segment, adoption of this standard will likely to have no significant impact on the current manner of reporting segment information in its separate financial statements.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Company and Treasury Share Transactions*
  Philippine Interpretation IFRIC 11 requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by an entity if the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or the shareholders of the entity provide the equity instruments needed. Philippine Interpretation IFRIC 11 also extends the way in which subsidiaries, in their separate financial statements, account for schemes when their employees receive rights to equity instrument of the parent. Philippine Interpretation IFRIC 11 is effective on March 1, 2007. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such transactions currently exist.

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

- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
  This Interpretation was issued in June 2007 and becomes effective for annual periods beginning on or after July 1, 2008. This Interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this Interpretation will have no impact on the Company's financial statements as no such programs currently exist.

- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction*
  This Interpretation was issued in July 2007 and becomes effective for annual periods beginning on or after January 1, 2008. This Interpretation provides guidance on how to assess the limit on the amount of surplus in a defined benefit scheme that can be recognized as an asset under PAS 19, *Employee Benefits*. The Company will evaluate the impact of this interpretation on the financial position of the Company as the Company's defined benefit plan is currently in an asset position.

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

Noncurrent Asset Classified as Held for Sale
A noncurrent asset is classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Noncurrent asset held for sale is measured at the lower of carrying amount and fair value less costs to sell. Depreciation of such asset ceases. Liabilities associated with this asset is presented separately in the balance sheet.

Property and Equipment
Property and equipment is stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of such property and equipment when that cost is incurred if the recognition criteria are met. Depreciation is calculated on a straight-line basis over the useful life of the assets of five (5) years, or the terms of the lease in case of leasehold improvements, whichever is shorter.

When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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

The property and equipment's residual values, useful lives and depreciation method are reviewed, and adjusted if appropriate, at each financial year-end.

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

Investment property is derecognized when either it has been disposed of or when the investment property is permanently withdrawn from use and no future economic benefits is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

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Deferred Exploration Costs

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

Impairment of Nonfinancial Assets

The Company assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's estimated recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its estimated recoverable amount, the asset is considered impaired and is written down to its estimated recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Investments in Associates

The Company's investments in associates are as follows:

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

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

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

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

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

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

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

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

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

- the present value of the estimated future cash flows expected to arise from dividends to be received from the investment and from its ultimate disposal

Financial Assets

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

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

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

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

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

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

Financial assets may be designated at initial recognition as at FVPL if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing the gains or losses on them on a different basis; or (ii) the assets are part of a group of financial assets which are managed and their performance evaluated on fair value basis, in accordance with a documented risk management strategy; or (iii) the financial asset contains an embedded derivative that would need to be separately recorded. As of December 31, 2007 and 2006, no financial assets have been designated as at FVPL.

HTM investments
HTM investments are non-derivative financial assets which carry fixed or determinable payments and fixed maturities and which the Company has the positive intention and ability to hold to maturity. After the initial measurement, HTM investments are measured at amortized cost. This cost is computed as the amount initially recognized less principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount, less allowance for impairment. This calculation includes all fees and points paid or received between the parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums and discounts. Gains and losses are recognized in the statement of income when the investments are derecognized or impaired, as well as through the amortization process. As of December 31, 2007 and 2006, the Company had no HTM investments.

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

Loans and receivables are classified as current assets when it is expected to be realized within twelve months after the balance sheet date or within the normal operating cycle, whichever is longer.

As of December 31, 2007 and 2006, the Company has designated as loans and receivable its cash and accounts receivable.

AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as AFS or are not classified in any of the three preceding categories. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in stockholders' equity under the 'Unrealized gains on AFS investments'. AFS financial assets are generally classified as noncurrent. However, when management expects that the investments are to be realized within twelve months after the balance sheet date, these are classified as current. When the investment is disposed of, the cumulative gains or loss previously recorded in stockholders' equity is recognized in the statement of income. Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate.

As of December 31, 2007 and 2006, the Company's AFS investments include listed and unlisted shares of stocks (see Note 6).

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

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

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Financial Liabilities
Financial liabilities consist of financial liabilities at FVPL and other financial liabilities. Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit and loss. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognized in the statement of income.

Where a contract contains one or more embedded derivatives, the entire hybrid contract may be designated as a financial liability at fair value through profit or loss, except where the embedded derivatives do not significantly modify the cash flows or it is clear that separation of the embedded derivative is prohibited.

Financial liabilities may be designated at initial recognition as at fair value through profit or loss if the following criteria are met: (i) the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the liabilities or recognizing gains or losses on them on a different basis; (ii) or the liabilities are part of a group of financial liabilities which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management strategy; (iii) or the financial liability contains an embedded derivative that would need to be separately recorded.

December 31, 2007 and 2006, the Company has no financial liabilities at FVPL.

Other Financial Liabilities
This classification includes advances from officers and accrued expenses.

Other financial liabilities are classified as current liabilities when it is expected to be settled within twelve months from the balance sheet date or the Company has an unconditional right to defer settlement for at least 12 months from the balance sheet date.

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

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

APR 2 9 2008

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

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

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

AFS financial assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in statement of income, is transferred from stockholders' equity to the statement of income. Reversals in respect of equity instruments classified as AFS are not recognized in statement of income. Reversals of impairment losses on debt instruments are reversed through the statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

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

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

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, and other sales taxes or duties. The following specific recognition criteria must also be met before revenue is recognized:

Interest income
Interest income is recognized as it accrues (using the effective interest method that is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset).

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

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

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

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

Company as a Lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in the statement of income on a straight-line basis over the lease term.

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

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

Contingent assets are not recognized but are disclosed in the notes to financial statements when an inflow of economic benefits is possible.

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

APR 2 9 2020

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

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

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

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

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

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

APR 2 9 2006

3. Significant Accounting Judgments and Estimates

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations, which have most significant effect on the amounts recognized in the financial statements:

Determining functional currency

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

Operating lease commitments - Company as lessee

The Company has entered into a commercial lease on its administrative office location. The Company has determined that it does not acquire all the significant risk and rewards of ownership of these properties which are leased on operating leases.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Allowance for impairment on receivables

The Company maintains allowances for impairment on receivables at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Company's relationship with debtors, their payment behavior and known market factors. The Company reviews the age and status of the receivables, and identifies accounts that are to be provided with allowance on a continuous basis. The amount and timing of recorded expenses for any period would differ if the Company made different judgment or utilized different estimates. An increase in the Company's allowance for impairment losses would increase the Company's recorded expenses and decrease current assets.

The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company assesses impairment into two areas: individually assessed allowances and collectively assessed allowances.

The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department and non-moving account receivables.

For collective assessment, allowances are assessed for receivables that are not individually significant and for individually significant receivables where there is no objective evidence of individual impairment. Impairment losses are estimated by taking into consideration the age of the receivables, past collection experience and other factors that may affect collectibility.

APR 2 9 2008

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

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

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

Impairment of investments in and advances to associates
Investments in and advances to associates are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In determining the present value of estimated net future cash inflows expected to be generated from the investments, the Company is required to make certain estimates and assumptions. As of December 31, 2007 and 2006, no impairment of investments in and advances to associates were recognized on their carrying amounts of ₱34,678,994 and ₱37,834,512, respectively.

Impairment of deferred exploration costs
The full recovery of the deferred exploration costs incurred in connection with the Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. When the SC/GSEC is permanently abandoned or the entity has withdrawn from the consortium, the related deferred exploration costs are written-off. SCs and GSECs are considered permanently abandoned if the SCs and GSECs have expired and/or there are no definite plans for further exploration and development. The Company has provided full valuation allowance on deferred exploration costs incurred for certain GSECs on which management has no definite plans for further exploration and development. As of December 31, 2007 and 2006, the Company recognized allowance for impairment losses on deferred exploration costs amounting to ₱12,618,353.

Recognition of deferred income tax assets
Deferred income tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies. Conversely, the Company recognizes deferred income tax liabilities from taxable temporary differences. No deferred income tax assets have been recognized on temporary differences and unused NOLCO amounting to ₱28.82 million and ₱26.59 million as of December 31, 2007 and 2006, respectively (see Note 11).

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Impairment of AFS investments
The Company follows the guidance of PAS 39 in determining whether an investment is other-than-temporarily impaired. This determination requires significant judgment. In making this judgment, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the investments. As of December 31, 2007 and 2006, the Company recognized allowance for decline in market value of AFS investments amounting to ₱2,699,185 (see Note 6).

4. Accounts Receivable

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

5. Prepayments and Other Current Assets

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

6. AFS Investments

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

AFS investments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

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Listed shares consist of equity securities that are traded on the Philippine Stock Exchange. The fair values of these listed shares are based on their closing market price as of December 31, 2007 and 2006. Unlisted shares without available market values are carried at cost, less any impairment in value.

The Company recognized unrealized gains on increase in market value of its AFS investments amounting to ₱1.8 million and ₱2.0 million as of December 31, 2007 and 2006, respectively.

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

The Company's investment property represents parcels of land (with an unfinished building) which was acquired in 1996. The Company is the registered and beneficial owner of fifty percent (50%) of the property. In 2002, the Company, together with its co-owners, commissioned a study to determine a development scheme for the best use of the property. Initial reports indicate that the property can be a major commercial and residential development as it is situated near a Metro Rail Transit station.

The Company's share in the investment property's fair value as of December 31, 2006 was ₱602.3 million, exceeding its carrying value as of said date. The fair value was determined based on valuations performed by Asian Appraisal Company, Inc., an independent company specializing in valuing this type of investment property, and represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's-length transaction at the date of valuation, in accordance with International Valuation Standards.

On September 13, 2007, the BOD approved the sale of the investment property. On December 15, 2007, the Company, together will all the other registered and beneficial owners of the property, entered into a Contract to Sell and Buy with a third party for the sale of the said property for and in consideration of the total amount of ₱1.2 billion, the Company's share of which is ₱600 million. In connection with the said Contract to Sell and Buy, a deposit amounting to ₱60 million was received by the Company in December 2007. The related Deed of Absolute Sale was executed on January 23, 2008. As a result of these events and circumstances, the Company classified the investment property as a noncurrent asset classified as held for sale as of December 31, 2007, in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*.

8. Investments in and Advances to Associates

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

(Forward)

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	2007	2006
Share in unrealized gains on AFS investments of an associate:		
Balance at beginning of year	₱–	₱238,220
Share in fair value gains on AFS investments of of an associate	188,346	162,498
Disposal during the year	–	(400,718)
Balance at end of year	188,346	–
Investments in associates	29,678,994	37,834,512
Advances to associates	5,000,000	–
	₱34,678,994	₱37,834,512

The Company's investment in BellTel has been reduced to zero and accordingly, the Company has discontinued recognizing further equity in net losses of BellTel for 2007 in the amount of ₱23.91 million. As of December 31, 2007, the unrecognized equity in net losses of BellTel amounted to ₱23.91 million.

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

	2007	2006
BellTel:		
Current assets	₱74,847,543	₱79,038,056
Noncurrent assets	698,109,788	770,381,927
Current liabilities	956,303,380	795,933,568
Noncurrent liabilities	86,568,391	81,748,523
Net revenues	126,307,003	95,879,409
Loss from operations	(64,530,392)	(93,683,282)
Net loss	(232,407,591)	(245,606,865)
PDB:		
Financial assets	₱2,194,024,961	₱2,027,439,088
Nonfinancial assets	385,894,913	430,129,870
Deposit liabilities	1,677,772,594	1,516,155,290
Other liabilities	94,268,750	127,798,617
Net interest income	117,403,262	46,672,565
Loss from operations	(19,806,844)	(13,926,509)
Net loss	(13,733,175)	(23,319,185)

Investment in BellTel

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

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

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

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

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

BellTel is currently in discussions with several potential strategic and equity investors for sale of 10% to 30% of its authorized capital stock of 20 million shares with par value of P100 per share. With the additional equity infusion, BellTel will be able to expand its network by increasing the equipped capabilities of its existing base stations where huge customer demands remain unmet and establishing nationwide coverage. For this planned expansion, BellTel will be using the latest broadband wireless access systems which are compliant with WIMAX standards in order to attain optimum reliability and spectral efficiency, improved capabilities and increased capacities. BellTel will likewise embark on a very aggressive and large scale advertising and marketing program to further enchance BellTel's corporate image and build brand awareness of its products. BellTel's product offering and careful selection of its target markets contributed to the successful capture of close to 1,000 corporate accounts which include some of the largest domestic and multinational corporations, educational, financial and government institutions, as well as 25% of all industrial locators in the special economic zones of Cavite and Laguna. It recently launched residential and SOHO services, delivering bundled broadband internet, voice and video, which will be major contributors in building up the subscriber base.

The Company has subscriptions payable to BellTel amounting to ₱171.7 million which the Company is allowed to settle within a period of one year from the date of call. As of December 31, 2007 and 2006, the Company has not yet received a call on such subscriptions and, accordingly, the obligation is presented under noncurrent liabilities in the balance sheet.

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The estimated recoverable amount of the investment in BellTel had been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the top management covering five-year period. As of December 31, 2007 and 2006, BellTel has projected profitable operations in the medium term, indicating the realizability of the Company's investment in the associate.

Investment in PDB

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

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

On December 29, 2006, the Company sold its investment in PDB for a total consideration of ₱34.8 million, resulting in a gain of ₱6.0 million. The sale of the investment was to give way to the new foreign investor of PDB pending its application with the SEC for the increase in its capital stock. On the same date, the Company's BOD approved the resolution to deposit the same amount with PDB as future investment to its shares.

On September 30, 2007, the Company subscribed to 348,438 new shares at the subscription price of ₱34.8 million through application of the deposit. As of December 31, 2007, the Company's new equity share is 4.94%. However, the Company continues to account for its investment in PDB under the equity method since the Company continues to exercise significant influence over the operating and financial policies of PDB through their common BOD and Officers.

9. Property and Equipment

December 31, 2007

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,434,096	₱432,098	₱760,000	**₱2,626,194**
Additions	26,991	–	–	**26,991**
Balances at end of year	1,461,087	432,098	760,000	**2,653,185**
Accumulated depreciation:				
Balances at beginning of year	1,244,221	432,098	760,000	**2,436,319**
Depreciation for the year	54,376	–	–	**54,376**
Balances at end of year	1,298,597	432,098	760,000	**2,490,695**
Net book value	₱162,490	₱–	₱–	**₱162,490**

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December 31, 2006

	Office Furniture and Equipment	Leasehold Improvements	Transportation Equipment	Total
Cost:				
Balances at beginning of year	₱1,239,522	₱432,098	₱760,000	₱2,431,620
Additions	194,574	–	–	194,574
Balances at end of year	1,434,096	432,098	760,000	2,626,194
Accumulated depreciation:				
Balances at beginning of year	1,184,615	360,454	760,000	2,305,069
Depreciation for the year	59,606	71,644	–	131,250
Balances at end of year	1,244,221	432,098	760,000	2,436,319
Net book value	₱189,875	₱–	₱–	₱189,875

10. Accounts Payable and Accrued Expenses

	2007	2006
Advances from officers (see Note 12)	**₱12,912,367**	₱18,483,640
Accrued expenses	**549,021**	582,574
Nontrade payables	**39,813**	23,080
	₱13,501,201	₱19,089,294

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

11. Income Taxes

For the years ended December 31, 2007, 2006 and 2005, the Company has no provision for income tax because of its gross loss and net taxable loss positions for both years.

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

	2007	2006	2005
Income before tax at statutory tax rate	**(₱18,219,077)**	(₱27,363,657)	(₱23,179,754)
Additions to (reductions in) income taxes resulting from:			
Equity in net losses of associates	**15,115,682**	28,063,433	22,321,141
Expired NOLCO	**2,386,254**	1,925,880	2,398,660
Unrecognized deferred income tax asset	**732,974**	–	–

(Forward)

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	2007	2006	2005
Dividend income exempt from tax	**(122)**	(17,579)	(228)
Interest income subjected to final tax	**(15,711)**	(7,154)	(2,395)
Nonrecognition of deferred income tax assets	–	(586,159)	(1,537,424)
Nondeductible expenses	–	44,446	–
Gain on sale of an associate not subject to income tax	–	(2,084,426)	–
Gain on sale of AFS investments not subject to income tax	–	(21,732)	–
	₱–	(₱46,948)	₱–

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

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

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

	2007	2006
NOLCO	**₱14,718,771**	₱15,315,777
Allowance for impairment losses on deferred exploration costs	**12,434,879**	10,509,469
Unrealized foreign exchange loss	**899,944**	–
Allowance for doubtful accounts	**766,908**	766,908
	₱28,820,502	₱26,592,154

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

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

Movement of the Company's NOLCO follows:

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

Republic Act (RA) No. 9337

On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as RA No. 9337 or the E-VAT Act (The Act) of 2005. The E-VAT law took effect on November 1, 2005 following the approval on October 19, 2005 of Revenue Regulations 16-2005 which provided for the implementation of the rules and regulations of the new E-VAT law. The Act, among others, introduced the following changes:

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

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

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

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

e. Input VAT credit in every quarter shall not exceed 70% of the output VAT excluding input VAT as of October 31, 2005. RA 9361 was enacted into law effective December 23, 2006, amending Section 110 (B) of the 1997 NIRC and abolishing the limitation on the amounts of VAT credits that can be claimed.

12. Related Party Disclosures

The Company, in the regular course of business, obtains advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances are due and demandable anytime. The peso amounts of these advances are ₱12.91 million and ₱18.48 million as of December 31, 2007 and 2006, respectively (see Note 10).

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

13. Basic/Diluted Loss Per Share

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

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

14. Operating Lease Commitment

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

15. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash and AFS investments. The main purpose of this financial instrument is to anticipate future funding requirements of the Company. The Company has various other financial assets and liabilities such as accounts receivable and accounts payable and accrued expenses which arise directly from its operations.

The main risks arising from the financial instruments of the Company are credit risk involving possible exposure to counter-party default on its cash and receivables; foreign currency exchange risk in terms of foreign exchange fluctuations that may significantly affect its foreign currency denominated savings account deposits in a local bank and advances from officers; equity price risk on its AFS investments; and liquidity risk in terms of meeting fund requirements for its oil and gas exploration projects. The Company's BOD reviews and approves the policies for managing each of these risk and they are summarized below:

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

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

The Company has no significant concentration of credit risk with any single counterparty or group of counterparties having similar characteristics. Since the Company trades only with recognized counterparties, there is no requirement for collateral.

With respect to credit risk arising from the other financial assets, which comprise cash and receivables, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments. The risk is mitigated by the short-term and/or liquid nature of its cash investments mainly in bank deposits and placements, which are placed with financial institutions of high credit standing. There are no significant accounts exposed in concentration risk.

The Company's exposure to credit risk from receivables is considered minimal since the carrying amounts are not material relative to the financial statements.

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

	Neither past due nor impaired		Past due		
	High Grade	Standard Grade	but not impaired	Individually impaired	**Total**
Cash	₱50,912,570	₱–	₱–	₱–	**₱50,912,570**
Accounts receivable	21,243	57,479	–	766,908	**845,630**
AFS investments	7,623,815	–	–	2,699,185	**10,323,000**
	₱58,557,628	₱57,479	₱–	₱3,466,093	**₱62,081,200**

High grade receivables pertain to receivables from employees and third parties with good payment history. These receivables are considered to be of good quality and expected to be collectible without incurring any credit losses. Receivables that slide beyond the credit terms are classified under standard grade.

The Company's financial assets that are impaired as of December 31, 2007 and the movement of the allowance used to record the impairment are as follows:

	Accounts receivable	AFS investments	**Total**
Nominal amounts	₱845,630	₱3,733,500	**₱4,579,130**
Less allowance for impairment losses	766,908	2,699,185	**3,466,093**
At December 31, 2007	₱78,722	₱1,034,315	**₱1,113,037**

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

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Impairment assessment
The main considerations for impairment assessment include whether any payments are overdue or if there are any known difficulties in the cash flows of the counterparties. The Company determines allowance for each significant receivable on an individual basis. Among the items that the Company considers in assessing impairment is the inability to collect from the counterparty based on the contractual terms of the receivables. Receivables included in the specific assessment are the accounts that have been endorsed to the legal department, nonmoving account receivables, and defaulted accounts.

As of December 31, 2007, 2006 and 2005, no impairment losses on the financial assets were recognized in the statement of income.

Market risks
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices.

The Company's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and equity prices. There has been no change in the Company's exposure to market risks or the manner in which it manages and measures the risk.

a. Foreign currency risk
Foreign currency is the likelihood that the fair value or future cash flows of the Company's financial instruments will fluctuate because of changes in foreign currencies.

The Company holds cash denominated in US dollar for working capital purposes which amounted to $56,385 (₱2,334,399) and $87,927 (₱4,375,432) as of December 31, 2007 and 2006, respectively.

In the normal course of business, the Company enters into transactions denominated in US dollar. As a result, the Company is subject to transaction and translation exposures resulting from currency exchange rate fluctuations. The Company regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related these foreign currency denominated assets and liabilities.

Information on the Company's foreign currency denominated monetary assets and liabilities and their Philippine peso equivalent are as follows:

	2007		2006	
	US Dollar	**Peso Equivalent**	US Dollar	Peso Equivalent
Cash	**$56,385**	**₱2,334,399**	$87,927	₱4,375,432
Advances from officers	**(312,780)**	**(12,912,367)**	(376,563)	(18,483,640)
	($265,395)	**(₱10,577,968)**	($288,636)	(₱14,108,208)

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The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate based on past US dollar exchange rates and macroeconomic forecast for 2008, with all other variables held constant, of the Company's 2007 income before income tax. The sensitivity analysis includes only outstanding foreign currency-denominated monetary items and adjusts their translation at the period end for the following % change in foreign currency rates:

	Effect on income before income tax
US dollar	
Strengthened by 16%	₱1,699,456
Weakened by 16%	(1,699,456)

There is no impact on the Company's equity other than those already affecting the statement of income.

The Company recognized ₱3,159,271 foreign exchange losses for the year ended December 31, 2007 and ₱1,791,273 and ₱183,474 foreign exchange gain for the years ended December 31, 2006 and 2005, respectively, arising from the translation of these foreign-currency-denominated financial instruments.

b. Equity price risk

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

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

The following table demonstrates the sensitivity to a reasonably possible change in the equity price based on past price performance and macroeconomic forecast for 2008, with all other variables held constant, of the Company's income before income tax and equity:

AFS investments:

Change in PSE stock market index (%)	Effect on income before income tax
+10%	₱658,950
-10%	(₱658,950)

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

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Liquidity Risk
Liquidity risk is the likelihood that the Company will encounter difficulty in meeting financial obligations due to shortage of funds.

The Company invests its fund primarily on oil and gas exploration projects. The Company's major stockholders provide sufficient funding for working capital and oil and gas exploration requirements while no revenue is generated yet from the Company's operations.

The Company's financial liability pertains to accounts payable and accrued expenses which are demandable anytime. As of December 31, 2007 and 2006, the Company's accounts payable and accrued expenses amounted to ₱13,501,201 and ₱19,089,294, respectively.

16. Financial Instruments

Categories of Financial Instruments

As of December 31, 2007

	Financial assets			
	Loans and receivables	AFS	Nonfinancial assets	**Total**
ASSETS				
Cash	₱50,912,570	₱–	₱–	**₱50,912,570**
Accounts receivables				
Officers and employees	10,939	–	–	**10,939**
Others	67,783	–	–	**67,783**
Prepayments and other current assets	–	–	645,193	**645,193**
AFS investments	–	7,623,815	–	**7,623,815**
Noncurrent asset classified as held for sale	–	–	486,980,479	**486,980,479**
Investments in and advances to associates	–	–	34,678,994	**34,678,994**
Deferred exploration cost	–	–	77,606,250	**77,606,250**
Property and equipment	–	–	162,490	**162,490**
Refundable deposits	–		141,554	**141,554**
TOTAL	₱50,991,292	₱7,623,815	₱600,073,406	**₱658,830,067**

As of December 31, 2006

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

(Forward)

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	Financial assets			
	Loans and receivables	AFS	Nonfinancial assets	Total
Prepayments and other current assets	₱–	₱–	₱423,656	₱423,656
AFS investments	–	5,788,328	–	5,788,328
Investment properties	–	–	486,980,479	486,980,479
Investments in and advances to associates	–	–	37,834,512	37,834,512
Deposit for future investments	–	–	34,843,800	34,843,800
Deferred exploration costs	–	–	82,331,858	82,331,858
Property and equipment	–	–	189,875	189,875
Refundable deposits and others			141,554	141,554
TOTAL	₱5,157,271	₱5,788,328	₱642,745,734	₱653,691,333

As of December 31, 2007

	Other financial liabilities	Non-financial liabilities	**Total**
LIABILITIES			
Accounts payable and accrued expenses			
Advances from officers	12,912,367	–	**12,912,367**
Accrued expenses	549,021	–	**549,021**
Nontrade payables	–	39,813	**39,813**
Deposit from contract to sell investment property	₱–	₱60,000,000	**₱60,000,000**
Subscriptions payable	–	171,720,000	**171,720,000**
TOTAL	₱13,461,388	₱231,759,813	**₱245,221,201**

As of December 31, 2006

	Other financial liabilities	Non-financial liabilities	Total
LIABILITIES			
Accounts payable and accrued expenses			
Advances from officers	₱18,483,640	–	18,483,640
Accrued expenses	582,574	–	582,574
Nontrade payables	–	23,080	23,080
Subscriptions payable	–	171,720,000	171,720,000
TOTAL	₱19,066,214	₱171,743,080	₱190,809,294

Fair Values of Financial Instruments

The fair value of a financial instrument is the amount at which the instrument could be exchanged or set between knowledgeable and willing parties in an arm's-length transaction, other than in a forced or liquidation sale.

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The Company has determined that the carrying amounts of cash, accounts receivables, accounts payable and accrued expenses, based on their notional amounts, reasonably approximate their fair values because these are short-term in nature. AFS investments are stated at their fair values based on quoted prices.

Fair values and carrying amount comparison of financial instruments as of December 31 are as follows:

	2007		2006	
	Carrying Amount	**Fair Values**	Carrying Amount	Fair Values
Financial assets:				
Cash	**₱50,912,570**	**₱50,912,570**	₱5,090,607	₱5,090,607
Accounts receivables				
Officers and employees	**10,939**	**10,939**	5,561	5,561
Others	**67,783**	**67,782**	61,103	61,103
AFS investments	**7,623,815**	**7,623,815**	5,788,328	5,788,328
Financial liabilities:				
Accounts payable and accrued expenses				
Advances from officers	**12,912,367**	**12,912,367**	18,483,640	18,483,640
Accrued expenses	**549,021**	**549,021**	582,574	582,574

17. Capital Management

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

The Company manages its capital which pertains to its equity, and makes adjustment to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Company may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2007 and 2006. The Company is not exposed to externally imposed capital requirements.

18. Prior Period Adjustment

The financial statements for 2006 and 2005 have been restated to reflect the recognition of additional share in the prior period adjustments of an associate. This correction increased the Company's deficit by ₱35 million as of January 1, 2006. Net loss increased by ₱51.8 million and ₱35 million in 2006 and 2005, respectively.

BUREAU OF INTERNAL REVENUE
RECEIVED
AMENDED RETURN
02 MA. FE L. ROQUE 08
COLLECTION SECTION
APR 29 2008
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