COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Ms. Imelda D. Olalia

(Contact Person)

812-2383

(Company Telephone Number)

1	2		3	1		1	7	A	R						
Month		*Day*				(Form Type)					*Month*		*Day*		
(Calendar Year)											(Annual Meeting)				

Not Applicable

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

Total Amount of Borrowings

582

Total No. of Stockholders

N/A

Domestic

N/A

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8
01 RDO-49 NORTH MAKATI 06
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SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
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www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

Report of Independent Auditors
On Supplementary Schedules

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

We have audited in accordance with auditing standards generally accepted in the Philippines, the financial statements of South China Resources, Inc. included in this Form 17-A and have issued our report thereon dated April 28, 2006. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Securities Regulation Code Rule 68 and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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

April 28, 2006

SGV & Co is a member practice of Ernst & Young Global

SGV & Co

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Report of Independent Auditors

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

We have audited the accompanying balance sheets of South China Resources, Inc. as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Premiere Development Bank (PDB) and Bell Telecommunications Philippines, Inc. (BellTel), the investments in which are reflected in the accompanying financial statements using the equity method of accounting. The investments in PDB and BellTel represent about 24.10% and 27.48% of total assets as of December 31, 2005 and 2004, respectively, and the equity in their net losses represents about 92.67% and 85.77% of net loss in 2005 and 2004, respectively. The financial statements of PDB and BellTel were audited by other auditors whose reports have been furnished to us, and our opinion insofar as it relates to the amounts included for PDB and BellTel, is based solely on the reports of the other auditors.

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

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

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Without qualifying our opinion, we draw attention to Note 1 to the financial statements which indicates that the full recovery of the deferred exploration costs incurred in connection with the Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. In addition, we also draw attention to Note 9 to the financial statements which indicates that the realizability of the carrying value of the Company's investment in the shares of stock of BellTel is dependent upon the future profitability and successful operations of BellTel.

SYCIP GORRES VELAYO & CO.

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

April 28, 2006

SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

	December 31	
	2005	2004 (As restated; see Note 3)
ASSETS		
Current Assets		
Cash	₱1,149,250	₱672,184
Investments in marketable equity securities (Note 7)	–	579,450
Accounts receivable - net (Note 4)	62,060	89,452
Prepayments and other current assets (Note 5)	325,149	281,999
Total Current Assets	1,536,459	1,623,085
Noncurrent Assets		
Available-for-sale (AFS) investments (Note 6)	8,745,155	–
Investments in shares of stock (Note 7)	–	1,352,753
Investments in marketable equity securities (Note 7)	–	3,729,375
Investment property (Note 8)	486,980,479	486,980,479
Investments in associates - net (Note 9)	185,682,478	218,852,343
Deferred exploration costs - net of allowance for impairment losses of ₱12,618,353 (Note 1)	87,208,046	82,990,472
Property and equipment - net (Note 10)	126,551	275,974
Refundable deposits and others	141,554	480,612
Total Noncurrent Assets	768,884,263	794,662,008
TOTAL ASSETS	₱770,420,722	₱796,285,093
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 11)	₱17,577,444	₱10,713,639
Noncurrent Liability		
Subscriptions payable (Note 9)	171,720,000	171,720,000
Total Liabilities	189,297,444	182,433,639
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 1,000,000,000 shares		
Issued - 586,639,569 shares	586,639,569	586,639,569
Subscribed - 319,920,000 shares (net of subscriptions receivable of ₱239,940,000)	79,980,000	79,980,000
Additional paid-in capital	72,272,140	72,272,140

(Forward)

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

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2005	2004 (As restated; see Note 3)
REVENUES		
Unrealized foreign exchange gains - net	**₱183,474**	₱–
Interest income	**7,372**	6,755
Dividend income	**700**	48,247
	191,546	55,002
EXPENSES		
Equity in net losses of associates (Note 9)	**33,408,085**	41,807,558
Salaries and wages	**1,236,559**	1,557,114
Travel and transportation	**460,781**	2,147,583
Rent and utilities (Note 15)	**345,445**	774,146
Taxes and licenses	**222,015**	120,262
Entertainment, amusement and recreation	**137,599**	219,520
Professional fees	**120,000**	536,803
Communication	**104,034**	358,175
Depreciation (Note 10)	**77,769**	174,938
Miscellaneous	**129,232**	1,101,882
	36,241,519	48,797,981
NET LOSS (Note 12)	**₱36,049,973**	₱48,742,979
Loss Per Share (Note 14)	**₱0.0398**	₱0.0538

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.

STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004

	Capital Stock		Additional	Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments	Share in Unrealized Losses on Marktable Equity Securities/AFS Investments	Deficit	
	Issued	Subscribed - net	Paid-in Capital	(Notes 6 and 7)	of an Associate	(Note 9)	Total
Balances at December 31, 2003, as previously reported	₱586,639,569	₱79,980,000	₱72,272,140	(₱1,331,262)	(₱1,916,810)	(₱72,367,936)	₱663,275,701
Effect of change in accounting policy for investments in associates (Note 3)	–	–	–	–	–	772,010	772,010
Share in effect of adoption of new accounting standards by associates (Note 3)	–	–	–	–	–	(1,786,394)	(1,786,394)
Share in prior period adjustment by an associate (Note 3)	–	–	–	–	–	(802,909)	(802,909)
Balances at December 31, 2003, as restated	586,639,569	79,980,000	72,272,140	(1,331,262)	(1,916,810)	(74,185,229)	661,458,408
Recovery of unrealized losses on marketable equity securities	–	–	–	1,136,025	–	–	1,136,025
Net loss for the year, as restated (Note 3)	–	–	–	–	–	(48,742,979)	(48,742,979)
Total income and expense for the year	–	–	–	1,136,025	–	(48,742,979)	(47,606,954)
Balances at December 31, 2004, as restated	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	(₱1,916,810)	(₱122,928,208)	₱613,851,454
Balances at December 31, 2004, as previously reported	₱586,639,569	₱79,980,000	₱72,272,140	(₱195,237)	(₱1,916,810)	(₱119,771,502)	₱617,008,160
Effect of change in accounting policy for investments in associates	–	–	–	–	–	189,606	189,606
Share in effect of adoption of new accounting standards by associates	–	–	–	–	–	(2,141,949)	(2,141,949)

(Forward)

	Capital Stock		Additional	Unrealized Gains (Losses) on Marketable Equity Securities/AFS Investments	Share in Unrealized Losses on Marktable Equity Securities/AFS Investments	Deficit	
	Issued	Subscribed - net	Paid-in Capital	(Notes 6 and 7)	of an Associate	(Note 9)	Total
Share in prior period adjustment by by an associate	₱–	₱–	₱–	₱–	₱-	(₱1,204,363)	(₱1,204,363)
Balances at December 31, 2004, as restated	586,639,569	79,980,000	72,272,140	(195,237)	(1,916,810)	(122,928,208)	613,851,454
Net loss for the year	–	–	–	–	–	(36,049,973)	(36,049,973)
Recovery of unrealized losses on AFS investments	–	–	–	3,083,577	–	–	3,083,577
Total income and expense for the year	–	–	–	3,083,577	–	(36,049,973)	(32,966,396)
Share in recovery of unrealized losses on AFS investments of associates	–	–	–		238,220	–	238,220
Balances at December 31, 2005	₱586,639,569	₱79,980,000	₱72,272,140	₱2,888,340	(₱1,678,590)	(₱158,978,181)	₱581,123,278

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As restated; see Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	(₱36,049,973)	(₱48,742,979)
Adjustments for:		
Equity in net losses of associates (Note 9)	33,408,085	41,807,558
Depreciation (Note 10)	77,769	174,938
Derecognition of property and equipment	76,768	–
Dividend income	(700)	(48,247)
Interest income	(7,372)	(6,755)
Net unrealized foreign exchange losses (gains)	(183,474)	26,222
Operating loss before working capital changes	(2,678,897)	(6,789,263)
Decrease (increase) in:		
Accounts receivable	27,392	(69,543)
Prepayments and other current assets	(43,150)	(34,596)
Increase in accounts payable and accrued expenses	7,109,806	9,358,128
Cash generated from operations	4,415,151	2,464,726
Interest received	7,372	6,755
Dividend received	700	48,247
Net cash flows from operating activities	4,423,223	2,519,728
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease in refundable deposits and others	339,058	1,164,723
Acquisitions of property and equipment	(5,114)	(27,807)
Additions to deferred exploration costs	(4,217,574)	(3,123,839)
Net cash flows used in investing activities	(3,883,630)	(1,986,923)
NET INCREASE IN CASH	539,593	532,805
EFFECT OF EXCHANGE RATE CHANGES ON CASH	(62,527)	(26,222)
CASH AT BEGINNING OF YEAR	672,184	165,601
CASH AT END OF YEAR	₱1,149,250	₱672,184

See accompanying Notes to Financial Statements.

BUREAU OF INTERNAL REVENUE
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1. Corporate Information and Status of Operations

Corporate Information

South China Resources, Inc. (the Company) was registered with the Philippine Securities and Exchange Commission (SEC) on September 25, 1992 primarily to undertake oil and gas exploration, development and production. In light of the effects of the Asian economic crisis in 1997, the Company opted to refocus its core business objectives, diversifying into investments in banking and telecommunication. However, it will still continue its exploration in certain areas it considers the most promising in the country, mainly concentrating in the Sulu Sea.

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

Plan to Spin-off Oil and Gas Exploration Operations

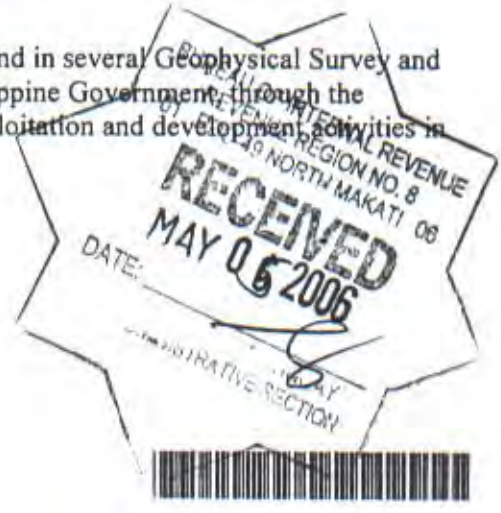
On September 11, 2003, the BOD approved the plan to spin-off the Company's oil and gas exploration operations to a wholly owned subsidiary, which can then be listed in a foreign stock exchange. The Company's stockholders ratified the plan during the special stockholders' meeting on October 22, 2003.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

Amendment of the Company's Articles of Incorporation

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

Status of Oil and Gas Exploration Operations

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



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

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

SC No. 41
In 2003, the contract area of SC 41 was unitized thereby dissolving the previous Blocks A and B subdivisions for the shallow and deep water areas, respectively, of the contract acreage. The Company's participating equity was consequently modified from 2.5% to 0.745% over the whole block.

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

The consortium has fully complied with the work program for the first seven-year exploration stage of the contract. However, during the consortium meeting held last January 10, 2005, Unocal informed the partners of its intent to drop out of the service contract. Unocal's appreciation of the last two wells drilled, which yielded generally negative results, prompted this decision. Sandakan Oil (OXY), BHP Billiton and TransAsia have also withdrawn, leaving a small all-Filipino consortium. After the withdrawal of the foreign partners in SC 41, the new consortium voted Basic Consolidated Resources as the operator of the block. The Filipino contingent of the consortium proceeded with the exploration of the block by conducting a geological and geophysical review of the area and formulated a new geological concept to firm up the petroleum potential of the block. In 2005, the new consortium has negotiated with the DOE for a reduction in the Service Contract Year 8 commitment well to a geological and geophysical program. The anniversary of the Service Contract is on May 10, 2005. The consortium, which is seeking new farminees, was granted an extension for exploration activities up to April 2006. The Company's participating interest in the block as of December 31, 2005 is 4.967%. As of April 28, 2006, negotiations with the DOE for the reduction of the consortium's commitment under the contract and the extension of the contract term is still ongoing.

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GSEC No. 99

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

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

On January 27, 2006, the Company and SPEX signed KUFPEC into the consortium and the consortium subsequently signed with the DOE Service Contract No. 60. SC-60 converted from GSEC-99 and covers an area of one million eight thousand hectares in Northeast Palawan. It is one of the promising sites identified by a study performed by the Norwegian Agency for Development Cooperation (NORAD) and the DOE.

During the seven year exploration period, the consortium is expected to spend a minimum of US$24 million or about ₱1.2 billion for the exploration of the contract area. The consortium shall conduct seismic and exploration work to find petroleum within the first seven years. SC-60 also includes a 25-year production term in the event of a commercial discovery. SPEX is now operator of the project. To accommodate the entry of KUFPEC, the Company reduced its participating interest in the block to 15%. The Company will be carried in the acquisition and processing of at least 1,000 kms. 2D seismic and 450 sq. kms. of 3D seismic and evaluation of the contract area (first sub-phase). Once a drilling decision has been made, the Company will also be carried in the drilling of one deepwater exploration well (second sub-phase).

Cuyo Platform (former GSEC No. 96)

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

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

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

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

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

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

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

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

The full recovery of the deferred exploration costs incurred in connection with the Company's participation in the acquisition, exploration and development of petroleum concessions is dependent upon the discovery of oil and gas in commercial quantities and the success of future development thereof. The Company has provided full valuation allowance on deferred exploration costs incurred for certain GSECs on which management believes the benefits are no longer realizable.

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2. **Basis of Preparation**

General Basis

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

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

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

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

Significant Accounting Judgments and Estimates

Judgments

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

Determining functional currency

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

Operating lease commitments - Company as lessee

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

Subscriptions payable

In applying PAS 32 and 39, the standards on financial instruments, the Company has made a judgment that the fair value of subscriptions payable is not reliably determinable in the absence of a reasonable estimate relating to the timing of its settlement, since the decision as to the call date lies with the investee company. The variation in the possible call dates is so significant that the usefulness of a single estimate of fair value may be negated. Accordingly, subscriptions payable amounting to ₱171.72 million is carried at its face amount in the balance sheets.

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Estimation Uncertainty

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

Impairment of receivables

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

Impairment of AFS investments

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

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

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

The Company assesses the impairment of the asset whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Company considers important which could trigger an impairment review include the following:

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

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

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

Summary of Significant Accounting Policies

Accounting Policies Effective January 1, 2005:

Financial Instruments

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

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

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

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

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

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

Derecognition of Financial Assets and Liabilities

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

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

Where the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay. Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the Company's continuing involvement is the amount of the transferred asset that the Company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the Company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities
A financial liability is removed from the Company's balance sheets when the obligation under the liability is discharged or cancelled or has expired.

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

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

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

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

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Investments in Associates
The Company's investments in associates are as follows:

Investees	Business	Percentage of Ownership 2005	2004
Bell Telecommunication Philippines, Inc. (BellTel)	Telecommunication	32.40	32.40
Premiere Development Bank (PDB)	Banking	9.73	9.73

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

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

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

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

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

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

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

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

Impairment of Investment in Associates
After application of the equity method, the Company determines whether it is necessary to recognize any additional impairment loss with respect to the Company's net investment in the associate. The Company also determines whether an additional impairment loss needs to be recognized with respect to the Company's interest in the associate that does not constitute part of the net investment.

The carrying amount of the investment is tested for impairment by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, whenever there are indicators that the investment may be impaired. In determining the value in use of the investment, the Company estimates:

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

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

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

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

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

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

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

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

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

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

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

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

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

Investment Property
Investment property, which consist of land (with an unfinished building), is carried at cost less any accumulated impairment in value.

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

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

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable.
An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statements of income in the year the asset is derecognized.

The assets' residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate, at each financial year-end. When each major inspection is performed, its cost is recognized in the carrying amount of the property and equipment as a replacement if the recognition criteria are satisfied.

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Impairment of Non-Financial Assets

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

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

Operating Leases

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

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statements of income net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

Foreign Currency Transactions

Transactions in foreign currencies are initially recognized using the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date. All differences are taken to profit or loss.

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Income Taxes

Current income tax

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

Deferred income tax

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

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

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

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

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

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

Contingencies

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

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

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

3. Effect of Transition to PFRS

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

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

Reconciliation of Stockholders' Equity (in thousands):

		At January 1, 2004 (date of transition)			At December 31, 2004 (end of last period presented under previous GAAP)		
	Note	Previous GAAP	Effect of Transition to PFRS	PFRS	Previous GAAP	Effect of Transition to PFRS	PFRS
ASSETS							
Current Assets		₱1,012	₱–	₱1,012	₱1,623	₱–	₱1,623
Noncurrent Assets							
Investments in shares of stock - net		1,353	–	1,353	1,353	–	1,353
Investments in marketable equity securities		2,593	–	2,593	3,729	–	3,729
Investment property		486,981	–	486,981	486,981	–	486,981
Investments in associates	a,b,c	262,477	(1,817)	260,660	222,009	(3,157)	218,852
Deferred exploration costs - net		79,867	–	79,867	82,990	–	82,990
Property and equipment - net		423	–	423	276	–	276
Refundable deposits and others		1,645	–	1,645	481	–	481
Total Noncurrent Assets		835,339	(1,817)	833,522	797,819	(3,157)	794,662
TOTAL ASSETS		₱836,351	(₱1,817)	₱834,534	₱799,442	(₱3,157)	₱796,285

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	Note	At January 1, 2004 (date of transition) Previous GAAP	Effect of Transition to PFRS	PFRS	At December 31, 2004 (end of last period presented under previous GAAP) Previous GAAP	Effect of Transition to PFRS	PFRS
LIABILITIES AND STOCKHOLDERS' EQUITY							
Liabilities		₱173,075	₱–	₱173,075	₱182,434	₱–	₱182,434
Stockholders' Equity							
Capital stock							
Issued		586,640	–	586,640	586,640	–	586,640
Subscribed - net		79,980	–	79,980	79,980	–	79,980
Additional paid-in capital		72,272	–	72,272	72,272	–	72,272
Unrealized losses on marketable equity securities		(1,331)	–	(1,331)	(195)	–	(195)
Share in unrealized losses on marketable equity securities of an associate		(1,917)	–	(1,917)	(1,917)	–	(1,917)
Deficit	a,b,c	(72,368)	(1,817)	(74,185)	(119,772)	(3,157)	(122,929)
Total Stockholders' Equity		663,276	(1,817)	661,459	617,008	(3,157)	613,851
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		₱836,351	(₱1,817)	₱834,534	₱799,442	(₱3,157)	₱796,285

Reconciliation of Net Loss for 2004 (in thousands):

	Note	Previous GAAP	Effect of Transition to PFRS	PFRS
Revenues		₱55	₱–	₱55
Expenses	a,b,c	47,459	1,339	48,798
Net loss		₱47,404	₱1,339	₱48,743
Loss per share		₱0.0523		₱0.0538

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

Adoption of new standards by the Company:

a. PAS 28, *Investment in Associates* and PFRS 3, *Business Combinations*, require that an investment in an associate should be accounted for using the equity method from the date on which it becomes an associate. These standards also provide that any excess of the investor's share of the net fair value of the associate's identifiable assets, liabilities and contingent liabilities over the cost of the investment (negative goodwill) is excluded from the carrying amount of the investment and is instead included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired. Accordingly, the Company credited the carrying amount of negative goodwill as of January 1, 2004 amounting to ₱0.77 million against the deficit and reversed the amortization of negative goodwill in 2004 amounting to ₱0.58 million.

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

Adoption of new standards by PDB:

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

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

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

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

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

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

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

(3) PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. The standard requires that assets that meet the criteria to be classified as held for sale are to be measured at the lower of carrying amount and fair value less costs to sell, and depreciation on such assets to cease. It also requires that such assets be presented separately on the face of the balance sheet. Accordingly, PDB reclassified certain of its noncurrent assets which were previously classified as ROPOA into noncurrent assets held for sale and valued such assets at the lower of their carrying amount and fair value less costs to sell.

(4) PAS 19, *Employee Benefits*, results in the use of the projected unit credit method in measuring retirement benefit expense and a change in the manner of computing benefit expense relating to past service cost and actuarial gains or losses. It also requires the Company to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the parent company financial statements do not differ materially from the amounts that would be determined at the balance sheet date. Accordingly, a transitional asset was recognized retrospectively in PDB's balance sheet and adjustments were made to Surplus Free account as of January 1, 2005 and 2004.

PDB's adoption of new accounting standards as discussed above, resulted in an increase in the Company's deficit and a decrease in investment in associates as of January 1, 2004 of ₱0.35 million. Equity in net losses of associates increased and investment in associates decreased by ₱0.46 million in 2004.

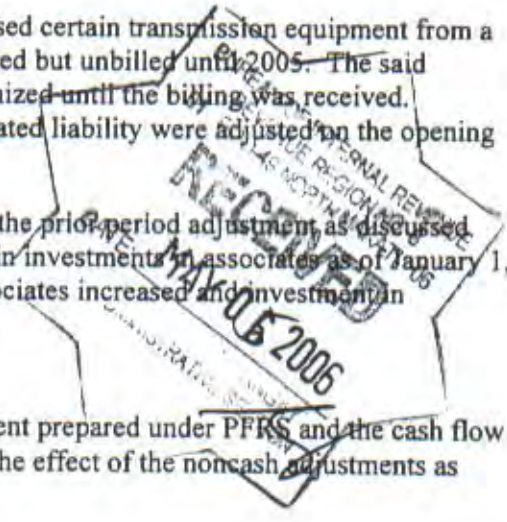
Adoption of new standards and correction of an error by BellTel:

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

(1) PAS 21, *Effect of Changes in Foreign Exchange Rates*, prohibits the capitalization of foreign exchange losses. Accordingly, BellTel adjusted the undepreciated capitalized foreign exchange losses as of January 1, 2004 and adjusted the same against the 2004 beginning deficit.

(2) Prior period Adjustment. In 2001, BellTel purchased certain transmission equipment from a foreign supplier. The said equipment were delivered but unbilled until 2005. The said equipment and the related liability were not recognized until the billing was received. Accordingly, the cost of the equipment and the related liability were adjusted on the opening balances as of January 1, 2004.

BellTel's adoption of a new standard and the effect of the prior period adjustment as discussed above resulted in an increase in deficit and a decrease in investments in associates as of January 1, 2004 of ₱2.24 million. The equity in net losses of associates increased and investment in associates decreased by ₱0.29 million in 2004.



Effect on the Cash Flow Statement for 2004

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

Other adopted PFRSs

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

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

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

- Amendments to PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures*, The revised disclosures from the amendments will be included in the Company's financial statements when the amendments are adopted in 2006.

- PFRS 6, *Exploration for and Evaluation of Mineral Resources*, effective January 1, 2006. Under the standard, companies are allowed to follow their existing accounting policy for exploration and evaluation assets. However, the standard also requires the exploration and evaluation assets to be classified as tangible (as property and equipment) or intangible assets according to their nature and treated as a separate class within the prescribed classification. PFRS 6 also provides for assessment for impairment of exploration and evaluation assets in accordance with PAS 36, *Impairment of Assets*, when facts and circumstances suggest that the carrying values exceed the recoverable amounts.

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

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

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

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

4. Accounts Receivable

	2005	2004
Officers and employees	₱2,032	₱43,147
Others	826,936	813,213
	828,968	856,360
Less allowance for doubtful accounts	766,908	766,908
	₱62,060	₱89,452

5. Prepayments and Other Current Assets

	2005	2004
Inventories	₱167,042	₱191,658
Input value added tax	142,787	68,849
Prepayments	15,320	21,492
	₱325,149	₱281,999

6. Available-for-Sale (AFS) Investments

AFS investments in 2005 consist of the following:

Shares - listed	₱7,410,840
Shares - unlisted	4,033,500
Less allowance for decline in market value	2,699,185
	1,334,315
	₱8,745,155

Available-for-sale invesments consist of investments in ordinary shares, and therefore have no fixed maturity date or coupon rate.

Listed shares consist of equity securities that are traded on the Philippine Stock Exchange. The fair values of these listed shares are based on their closing market price as of December 31, 2005. Unlisted shares without available market values are carried at cost.

The aggregate cost of these investments is ₱8.56 million as of January 1, 2005 and December 31, 2005. The fair values amounted to ₱9.92 million and ₱11.44 million as of January 1, 2005 and December 31, 2005, respectively. An unrealized gain of ₱2.89 million was recognized as a separate component of stockholders' equity as of December 31, 2005.

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

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

Marketable equity securities - current	₱579,450
Marketable equity securities - noncurrent	3,924,612
Less allowance for decline in market value	195,237
	3,729,375
Investments in shares of stock	4,051,938
Less allowance for impairment	2,699,185
	1,352,753
	₱5,661,578

Marketable equity securities consist of listed securities which are traded at the Philippine Stock Exchange. These are carried at the lower of aggregate cost or market value as of December 31, 2004. The aggregate market value of the securities is ₱4.93 million and aggregate cost is ₱4.5 million as of December 31, 2004. Allowance for impairment losses of noncurrent marketable equity securities amounted to ₱0.19 million as of December 31, 2004. Gross unrealized gain of ₱1.36 million was not recognized in 2004 and gross unrealized loss of ₱0.19 million was reflected as a separate component of stockholders' equity as of December 31, 2004.

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

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

8. Investment Property

Investment property represents a parcel of land (with an unfinished building) which was acquired in 1996. The Company owns fifty (50%) of the property. In 2002, the Company, together with its co-owners, commissioned a study to determine a development scheme for the best use of the property. A financial plan will then be established on the basis of the conclusion of the study. Initial reports indicate that the property can be a major commercial and residential development as it is situated near a Metro Rail Transit station.

The investment property's fair value, which has been determined based on valuations performed by Asian Appraisal Company, Inc., an independent company specializing in valuing this type of investment property, represents the amount at which the asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation, in accordance with International Valuation Standards. Based on the latest valuation made as of December 31, 2005, the fair value of the investment property amounting to ₱520.86 million exceeded its carrying value as of December 31, 2005. Accordingly, no impairment in value is recognized.

9. Investments in Associates

	2005	2004 (As restated, see Note 3)
Acquisition costs	₱358,843,750	₱358,843,750
Accumulated equity in net losses:		
Balance at beginning of year	(138,074,597)	(94,449,746)
Reversal of negative goodwill	–	772,010
Adjustment due to adoption of PFRS	–	(1,786,394)
Restatement of accounting error of BellTel	–	(802,909)
	(138,074,597)	(96,267,039)
Equity in net losses for the year	(33,408,085)	(41,807,558)
Balance at end of year	(171,482,682)	(138,074,597)
Share in unrealized losses on noncurrent marketable equity securities / AFS investments of an associate	(1,678,590)	(1,916,810)
	₱185,682,478	₱218,852,343

The summarized financial information of BellTel and PDB follows:

	2005	2004 (as restated, see Note 3)
BellTel:		
Current assets	₱72,533,111	₱69,978,875
Noncurrent assets	568,360,455	642,221,279
Current liabilities	117,775,640	123,977,920
Noncurrent liabilities	402,575,200	373,911,456
Net revenues	90,237,413	85,811,312
Loss from operations	(84,735,505)	(89,490,080)
Net loss	(98,628,052)	(128,254,391)
PDB:		
Financial assets	₱1,351,490,173	₱1,107,265,620
Nonfinancial assets	443,706,193	593,360,897
Deposit liabilities	1,284,821,581	1,117,455,782
Other liabilities	97,790,011	159,425,224
Net interest income	47,242,651	43,680,909
Income (loss) from operations	(19,649,706)	568,555
Net loss	(13,609,046)	(1,281,598)

Investment in Shares of Stock of BellTel

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

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

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

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

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

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

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

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

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

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

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

BellTel started commercial operations of its VSAT and data leased line services in October 2001. Except as otherwise indicated above, commercial operations of BellTel's other service offerings started in January 2002.

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

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

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

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

While the negotiations with the bank are ongoing, the bank continuously recognized interests and penalties accruing to BellTel corresponding to the outstanding loans amounting to ₱139.10 million and ₱127.10 million as of December 31, 2005 and 2004, respectively.

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

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

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

The realizability of the carrying value of the Company's investment in shares of stock of BellTel is dependent upon the future profitability and successful operations of BellTel. As of December 31, 2005, BellTel has projected profitable operations in the medium term, indicating the realizability of the Company's investment in the associate.

Investment in Shares of Stock of PDB

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

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

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

10. Property and Equipment

	Transportation Equipment	Office Furniture and Equipment	Leasehold Improvements	2005 Total	2004 Total
Cost:					
Balances at beginning of year	₱1,266,988	₱1,234,408	₱432,098	₱2,933,494	₱2,905,687
Additions	–	5,114	–	5,114	27,807
Derecognition	(506,988)	–	–	(506,988)	–
Balances at end of year	760,000	1,239,522	432,098	2,431,620	2,933,494
Accumulated depreciation:					
Balances at beginning of year	1,190,220	1,149,775	317,525	2,657,520	2,482,582
Depreciation for the year	–	34,840	42,929	77,769	174,938
Derecognition	(430,220)	–	–	(430,220)	–
Balances at end of year	760,000	1,184,615	360,454	2,305,069	2,657,520
Net book value	₱–	₱54,907	₱71,644	₱126,551	₱275,974

11. Accounts Payable and Accrued Expenses

	2005	2004
Advances from officers (see Note 13)	₱17,335,258	₱10,433,558
Accrued expenses	201,410	278,056
Nontrade payables	40,776	2,025
	₱17,577,444	₱10,713,639

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

12. Income Taxes

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

	2005	2004 (As restated, see Note 3)
Pretax loss at statutory tax rates	(₱11,716,241)	(₱15,597,753)
Additions to (reductions in) income taxes resulting from:		
Equity in net losses of associates	10,857,628	13,378,418
Expired NOLCO	2,398,660	2,463,348
Dividend income exempt from tax	(228)	(118,439)
Interest income subjected to final tax	(2,395)	(2,562)
Nonrecognition of deferred tax assets	(1,537,424)	226,412
	₱–	₱–

For the years ended December 31, 2005 and 2004, the Company has no income tax payable with regard to MCIT or the regular corporate income tax because of its gross income and net taxable loss positions for both years.

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

	2005	2004
Net operating loss carryover (NOLCO)	**₱15,180,040**	₱19,700,877
Allowance for probable losses on deferred exploration costs	**12,618,353**	12,618,353
Allowance for doubtful accounts	**766,908**	766,908
Accrued rent	**68,540**	68,540
Unrealized foreign exchange loss (gain)	**(183,474)**	26,222
	₱28,450,367	₱33,180,900

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

Year Incurred	Expiry Date	Amount
2005	2008	₱2,859,656
2004	2007	6,817,869
2003	2006	5,502,515
		₱15,180,040

Movement of the Company's NOLCO follows:

	2005	2004
Balance at beginning of year	**₱19,700,877**	₱20,580,969
Additions	**2,859,656**	6,817,869
Expirations	**(7,380,493)**	(7,697,961)
Balance at end of year	**₱15,180,040**	₱19,700,877

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

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

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

13. Related Party Disclosures

The Company, in the regular course of business, obtains non-interest bearing advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances have no definite repayment terms. Advances from officers amounted to ₱17.33 million and ₱10.43 million as of December 31, 2005 and 2004, respectively (see Note 11).

Short-term employee benefits of key management personnel amounted to ₱1.43 million and ₱1.39 million in 2005 and 2004, respectively. Termination benefits paid to key management personnel amounted to P0.13 million in 2005.

14. Loss Per Share

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

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

15. Operating Lease Commitment

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

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

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

16. Financial Risk Management Objectives and Policies

The principal financial instrument of the Company consists of cash. The main purpose of this financial instrument is to anticipate future funding requirements of the Company. The Company has various other financial assets and liabilities such as accounts receivable, accounts payable and AFS investments.

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

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

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

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

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

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