SOUTH CHINA RESOURCES, INC.
3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City
Metro Manila, Philippines

May 9, 2008

Disclosure Department
4/F Philippine Stock Exchange, Inc.
PSE Centre, Exchange Road
Ortigas Center, Pasig City

Attention: **Atty. PETE M. MALABANAN**
Head, Disclosure Department

Gentlemen:

Please find herewith the Company's Definitive Information Statement (SEC Form 20-IS) as submitted to, cleared, and approved by the Securities and Exchange Commission. Also attached is a letter to the Commission, submitted today May 9, 2008, stating that the Company undertakes to provide its stockholders the 2008 First Quarter Report (SEC Form 17-Q) during the upcoming stockholders' meeting.

We hope you may find the above in order. Thank you.

Yours faithfully,

DAVID R. BALADAD
Corporate Information Officer/
VP – Operations

Telephone No. 892-2049 * Telefax No. 812-2383

SEC Number : ASO92-06441
File Number : ___________

SOUTH CHINA RESOURCES, INC.

(**Company's Full Name)**

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

(**Company's Address)**

(632) 812-2383 / 892-2049

(Telephone Number)

December 31

Fiscal Year Ending (Month & Day)

20 - IS

Form Type

20-IS/A-3

Amendment Designation (if applicable)

May 12, 2008

Period Ended Date

Not Applicable

(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 20-IS

INFORMATION STATEMENT PURSUANT TO SECTION 20
OF THE SECURITIES REGULATION CODE

1. Check the appropriate box:

   [ ] Preliminary Information Statement
   [√] Definitive Information Statement

2. Name of Registrant as specified in its charter: **SOUTH CHINA RESOURCES, INC.**
   (formerly known as South China Petroleum and Exploration, Inc.)

3. Province, country or their jurisdiction of incorporation or organization: **Not applicable**

4. SEC Identification Number: **ASO92-6441**

5. BIR Tax Identification Code: **001-945-016**

6. Address of Principal Office: **3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City** Postal Code: **1200**

7. Registrant's telephone number, including area code: **(632) 812-2383 / 892-2049**

8. Date, time and place of the meeting of security holders:

   30 May 2008 at 2:00 p.m.
   The East-West Room,
   Manila Golf & Country Club,
   Harvard Road, Forbes Park, Makati City

9. Approximate date on which the Information Statement is first to be sent or given to security holders: **9 May 2008**

10. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on numbers of shares and amount of debt is applicable only to corporate registrants):

Title of Each Class	Number of Shares of Common Stock Outstanding or Amount of Debt Outstanding
Common Shares	**906,559,568**

11. Are any or all registrant's securities listed on a Stock Exchange?
    Yes: √
    No: ____

    If yes, disclose the name of such Stock Exchange and the class of securities listed therein.

Name of Stock Exchange	Class of Securities Listed
Philippine Stock Exchange	**U**

SOUTH CHINA RESOURCES, INC.
3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City
Metro Manila, Philippines

NOTICE OF ANNUAL STOCKHOLDERS' MEETING

To all Stockholders:

Notice is hereby given that the 2008 Annual Meeting of the stockholders of SOUTH CHINA RESOURCES, INC. shall be held on 30 May 2008 at 2:00 P.M. at the East-West Room of Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City. The Agenda for said meeting is as follows:

1. Proof of notice and quorum;
2. Reading and approval of previous Minutes;
3. Report of Management;
4. Ratification of the acts of the Board of Directors and Officers;
5. Election of Directors;
6. Amendment of the By-Laws;
7. Appointment of Auditors;
8. Other Matters; and
9. Adjournment.

For the purpose of the meeting, only stockholders of record at the close of business on 12 May 2008 shall be entitled to notice of and to vote at the meeting. The Stock and Transfer Book of the Corporation shall be closed from 13 May to 29 May 2008.

If you cannot attend the meeting but would like to be represented thereat, you may appoint a proxy in writing and file the same, together with the appropriate Board resolution for corporate stockholders, with the Corporation on or before 22 May 2008. Said proxies shall be validated on 23 May 2008 at 10:00 a.m. at the Corporation's principal offices at 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Avenue corner Makati Avenue, Makati City. Please note, however, that Management is not asking you for a proxy and you are requested not to send Management a proxy.

On the day of the meeting, you or your proxy are hereby required to bring this Notice and any form of identification, e.g. driver's license, company ID, TIN card, etc., to facilitate registration.

May 9, 2008

JAIME M. BLANCO, JR.
Corporate Secretary

Item 1. Date, Time and Place of Meeting of Security Holders

The annual stockholders' meeting shall be held on Wednesday, 30 May 2008 at 2:00 p.m. at the East-West Room, Manila Golf & Country Club, Harvard Road, Forbes Park, Makati City.

The Company's Principal Office is at 3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Avenue corner Makati Avenue, Makati City.

May 9, 2008 is the approximate date on which the Information Statement is first to be sent or given to security holders.

A preliminary cut-off date, April 28, 2008, will be used in determining the list of security holders for the initial distribution of the Information Statement. Any additions in the list between April 29, 2008 and the record date, May 12, 2008, will duly be sent copies of the Information Statement.

WE ARE NOT ASKING YOU FOR A PROXY
AND YOU ARE REQUESTED NOT TO SEND US A PROXY.

Item 2. Dissenters' Right of Appraisal

There are no corporate matters or actions that will entitle dissenting stockholders to exercise their right of appraisal as provided in Title X of the Corporation Code.[1]

Item 3. Interest of a certain Persons in or Opposition to Matters to be Acted Upon

The Company is not aware of any person who has any substantial interest, direct or indirect, in any matter to be acted upon during the annual stockholders' meeting. The Company has not also been informed by any of its directors of his/her intention to oppose any action to be taken by the Company at the annual stockholders' meeting.

Item 4. Voting Securities and Principal Holders

Stockholders of record of the Corporation as of 12 May 2008 entitled to vote during the annual stockholder's meeting on 30 May 2008 is 906,559,568 common shares unclassified with a par of P1.00 each.

Pursuant to the Corporation Code, each share being held by every stockholder is entitled to one vote for as many persons as there are directors or he may cumulate said shares and give one candidate as many votes as the number of directors to be elected multiplied by the number of his shares shall equal, or he may distribute them on the same principle among as many candidates he shall see fit; provided, that the total number of votes cast by him shall not exceed the number of shares owned by him multiplied by the number of directors to be elected.

[1] The right of appraisal means the right of a dissenting stockholder to demand payment of the fair market value of his shares, in the instances provided under the Corporation Code. In such instances, the right may be exercised by any stockholder who shall have voted against the proposed action by making a written demand to the Corporation within 30 days after the date on which the vote was taken for payment of the fair market value of his shares. Failure to make the demand shall be deemed a waiver of such right.

Item 5. Security Ownership of Certain Record and Beneficial Owners and Management as of April 30, 2008 (owning more than 5% of any class of voting securities)

Title of Class	Name and address of record owner and	Relationship with Issuer	Name of Beneficial ownership and relationship with record owner	Citizenship	No. of Shares Held	Percent
Common	EDGARDO P. REYES 1371 Caballero St., Dasmariñas Vill., Makati	Director	EDGARDO P. REYES, same person	Filipino	231,853,123	25.5751%
Common	WILFRIDO P. REYES 1545 Mahogany St., Dasmariñas Vill., Makati	Director	WILFRIDO P. REYES, same person	Filipino	231,853,123	25.5751%
Common	BELEN R. CASTRO 4889 Pasay Road, Dasmariñas Vill., Makati	Director	BELEN R. CASTRO, same person	Filipino	231,353,122	25.5199%
Common	PCD Nominee Corp. (Filipino) G/F MKSE Bldg., 6767 Ayala Ave., Makati	Stockholder	PCD Nominee Corp. (Filipino), depository agent	Filipino	125,541,434	13.8481%

There are no beneficial owners of more than 5% under the PCD Nominee Corporation (Filipino), which owns 13.8481% of the total shares of the Company.

Item 6. Security Ownership of Management
Directors

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

Executive Officers

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

Directors and Officers as a Group

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

Item 7. Directors and Executive Officers (Information for the last five years)

NAME	**POSITION**	**BIRTHDATE**
Edgardo P. Reyes	Chairman/CEO	December 2, 1945
Wilfrido P. Reyes	President	January 21, 1947
Belen R. Castro	VP & Treasurer	April 9, 1948
Francisco M. Ortigas III	Director	October 5, 1945
Manuel G. Arteficio	Director	January 13, 1945
Jaime M. Blanco, Jr.	Corporate Secretary	March 21, 1954
David R. Baladad	VP – Operations	September 13, 1956

EDGARDO P. REYES, 62 years of age, Filipino, has been the CHAIRMAN of the Board of Directors of the Company since 1992. He has also been the CHAIRMAN of Gonzalo Puyat and Sons, Inc., Puyat Steel Corp., Bell Telecommunication Philippines Inc., Purex Mineral Corp., and Philippine Flour Mills; PRESIDENT of International Pipe Industries Corp., Pipe Machinery Corp., Apo Pipe Industries Corp., Reyson Realty & Development Corp., Puyat Flooring Products Inc., Proleo Realty Inc., and BenePara Realty Inc.; SENIOR VICE PRESIDENT of PFM Agro-Industrial Development Corp. and Armorply Concrete Forming Systems Inc.; and, DIRECTOR of Surigao Development Corp., and Puyat Investment & Realty. He is a DIRECTOR of Premiere Development Bank. Mr. Reyes is the brother of Mr. Wilfrido P. Reyes and Ms. Belen R. Castro.

WILFRIDO P. REYES, 61 years of age, Filipino, has been the PRESIDENT of the Company since 1992. He has also been the CHAIRMAN of La Dulcinea Restaurant Inc. and Warrest Realty Inc.; CHAIRMAN/PRESIDENT of WPR Realty & Management Corp.; EXECUTIVE VICE PRESIDENT/DIRECTOR of Gonzalo Puyat & Sons Inc. and Purex Mineral Corp.; EVP/GENERAL MANAGER of Philippine Flour Mills and PFM-Agro Development Corp.; SVP/DIRECTOR of Puyat Steel Corporation; DIRECTOR of Premiere Development Bank; TREASURER/DIRECTOR of Surigao Development Corp.; SECRETARY/DIRECTOR of Surigao Marine Products, Inc.; VP/GENERAL MANAGER of Reyson Realty & Development Corp.; PRESIDENT of Proleo Realty Inc., VP/TREASURER of Bell Telecommunication Philippines Inc.; TREASURER/DIRECTOR of International Pipe Industries Corp. and Apo Pipe Industries Corp; and, DIRECTOR of Pipe Machinery Corp. Mr. Reyes is the brother of Mr. Edgardo P. Reyes and Ms. Belen R. Castro.

BELEN R. CASTRO, 59 years of age, Filipino, has been the VICE PRESIDENT, TREASURER & DIRECTOR of the Company since 1992 up to the present; DIRECTOR & VICE PRESIDENT of Gonzalo Puyat & Sons, Inc.; CORPORATE SECRETARY of Reyson Realty & Development Corp.; VICE PRESIDENT of Computer Data Vision, Inc.; and DIRECTOR of Bell Telecommunication Phils., Inc. Mrs. Castro was also the PRESIDENT of the Chamber of Thrift Banks (CTB), & the Development Bankers Association of the Philippines Foundation (DBAP) in 1993. She is still currently a DIRECTOR of CTB. She was the PRESIDENT of Premiere Development Bank since 1992 and is currently its CHAIRMAN since 2007. She is the sister of Mr. Edgardo P. Reyes and Mr. Wilfrido P. Reyes.

FRANCISCO M. ORTIGAS III, 62 years of age, Filipino, has been a DIRECTOR of the Company since 2005. He has also been PRESIDENT of Concrete Aggregate Corp. He is the PRESIDENT & CEO of Rotary Golfing Foundation of the Philippines from 1986 to present; CHAIRMAN OF THE BOARD of Philam Bond Fund, Inc., Philam Strategic Growth Fund, Inc., Philam Management Asset, Inc., Philam Fund, Inc., Bayer (Phils.), and Orica Explosives, Inc. He is GENERAL PARTNER/TREASURER of Ortigas & Company, Limited Partnership. He is also a CORPORATE NOMINEE/DIRECTOR of Francisco Ortigas Securities, Inc. He is also a DIRECTOR of Philippine Golf Foundation, Bell Telecommunication Phils., Inc. for the past five (5) years, Commonwealth Foods Corp., J. Romero & Associates, and Valle Verde Country Club.

MANUEL G. ARTEFICIO, 63 years of age, Filipino, has been a DIRECTOR of the Company since 2007. He has been PRESIDENT of San Miguel Mining Corp. from 1990 to present; Assissi Mining Corp., Bonaventures Mining Corp., Ignatius Mining Corp., all three from 1994 to present; he is also the PRESIDENT of Egerton Gold Phils., Inc. from 2006 to present.

JAIME M. BLANCO, JR., 53 years of age, Filipino, has been the CORPORATE SECRETARY of the Company since 1992. He is a Senior Partner of the Esguerra & Blanco Law Offices. Atty. Blanco obtained his Bachelor of Science in Business Administration from De La Salle College and Bachelor of Laws from the University of the Philippines. Atty. Blanco since 1980, and has since been engaged in the practice of law.

DAVID R. BALADAD, 51 years of age, Filipino, has been the VICE PRESIDENT FOR OPERATIONS of the Company since 1994. He obtained his Bachelor of Science in Geology in the University of the Philippines and he is also a licensed Geologist. Prior to joining the Company, Mr. Baladad was the Chief of the Oil and Gas Division of the former Office of Energy Affairs (now DOE) and a consultant to other local exploration companies. He has been directing the upstream activities of the Company since 1994.

Mr. Manuel G. Arteficio was elected Independent Director during the 2007 Annual Stockholders' Meeting. The Nomination Committee nominated Mr. Arteficio as the independent director to be elected during the 2008 Annual Stockholders' Meeting, upon the recommendation of stockholder Ms. Remedios Manguiat who is not related to the nominee. Mr. Arteficio is qualified to be nominated and elected as an Independent Director of the Company in accordance with the qualifications specified with SEC Circular No. 16 Series of 2002 and SEC Circular No. 16 Series of 2006. He holds 100,000 shares of the Company. He is a graduate of AB Economics from the Ateneo de Manila University. He is a candidate for Masters in Business Administration at the Ateneo de Manila Graduate School. He has been a stockholder of the Company since its inception.

Mr. Francisco M. Bayot, Jr. is another nominee for independent director to be elected during the 2008 Annual Stockholders' Meeting, recommended by stockholder Ms. Efigenia Ocol who is not related to the nominee. He has been screened by the Nomination Committee of the Company on May 8, 2008. Mr. Bayot is also qualified to be nominated and elected as an Independent Director of the Company in accordance with the qualifications specified in the circulars mentioned. Mr. Bayot holds 400,000 shares of the Company. Mr. Bayot was born on January 29, 1954, is a Filipino citizen, 54 years of age. He is a graduate of BS Business Administrative from Marquette University in Wisconsin. He also has an MBA in Finance from Fordham University in New York. He has been a stockholder of the Company since its inception. Mr. Bayot's business information for the last five (5) years includes the following: (a) Director of Solidbank Corp. and Alabang Commercial Corp., and Bell Telecommunication Phils., Inc., (b) CEO and Director of Solid Cement Corp. and Rizal Cement Co., Inc. (c) Chairman of Madrigal Business Park Association, Inc., and (d) President/Director of JM Investment Corp.

The Company adopted the guidelines on the nomination and election of independent directors based on the Company's Manual of Corporate Governance, and pursuant to SRC Rule 38, as amended, and also in accordance with SEC Circulars mentioned. The Nomination Committee of the Company includes Mr. Wilfrido P. Reyes as the Chairman, Mr. Francisco M. Ortigas III, and Mr. Manuel G. Arteficio as members, respectively.

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

As of this date hereof, all of the existing directors are also the nominees for directorship.

Mr. Edgardo P. Reyes, Chairman and CEO; Mr. Wilfrido P. Reyes, President; and Ms. Belen R. Castro, Vice President, Treasurer and Director of the Company are brothers and sister. All other Directors and Executive Officers are not related to each other.

Other than the ones disclosed, there are no other family relationships known to the registrant.

The Issuer is not aware of any legal proceedings of the nature required to be disclosed under Part I paragraph (C) of SRC Rule 12 (Annex C, as amended) with respect to its directors and executive officers.

There is no employee who is not an executive officer but who is expected to make a significant contribution to the business.

Item 8. Compensation of Directors and Executive Officers

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

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

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

Name and Principal Position	Year	Salary (P)	Bonus (P)	Other Annual Compensation
Edgardo P. Reyes Chairman / CEO				
David R. Baladad VP-Operations				
Imelda D. Olalia Accounting Officer				
Aggregate compensation – CEO & all other officers and Directors as a group unnamed	2008 2007 2006	992,520 (est.) 989,640 981,700	248,130 (est.) 247,770 246,050	N/A N/A N/A

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

Item 9. Certain Relationship and Related Transactions

The Company has not entered into any transaction during the last two years, or proposed transactions, to which the registrant was or is to be a party, in which any director, executive officer or security holder, or any of their immediate family members, of the Company had a direct or indirect material interest. Neither has the Company had any transaction with any promoter.

The Company's related party transactions represent receivables from officers and employees (Please refer to Note 4 on Notes to financial statements) as well as advances from officers (Please refer to Note 10 and Note 12 in the financial statements). Only balances were reflected on the notes since no services to or from these affiliates occurred during the calendar year except for the extension of the related advances.

The Company obtains non-interest bearing advances from its officers to defray its working capital requirements and settle obligations for oil and gas exploration expenditures. These advances have no definite repayment terms. These are denominated in US dollars and are payable in the same currency. Advances from officers amounted to ₱12.912 million and ₱18.434 million for 2007 and 2006, respectively.

On November 16, 1997 and December 6, 1999, the Board of Directors approved the subscription to 1.2 million shares and 2.04 million shares, respectively, from unissued capital stock of BellTel at a par value of P100 per share. Payments were made upon subscription equivalent to 25% of the subscriptions made. Subsequently, payment amounting to P71.28 million was made pursuant to a cash call made by BellTel in 2000. The balance of P171.72 million will be paid subject to further cash calls thereafter.

In applying PAS 32 and 39, the standards on financial instruments, the Company has made a judgment that the fair value of subscriptions payable is not reliably determinable in the absence of a reasonable estimate relating to the timing of its settlement, since the decision as to the call date lies with the investee company. The variation in the possible call dates is so significant that the usefulness of a single estimate of fair value may be negated. The Company has been granted by BellTel the option to settle the subscriptions payable within one year from the date a call for payment is made. As of December 31, 2007 and 2006, no call has yet been received from

BellTel for such subscriptions. Accordingly, the obligation is presented under noncurrent liabilities in the balance sheets.

Item 10. Information on Independent Public Accountant and other Related Matters

(A) Information on Independent Public Accountant

In compliance with SRC Rule 68 Paragraph 3(b)(iv) the engagement partner from Sycip Gorres Velayo & Co. is Mr. Ladislao Z. Avila, Jr. The Corporation recommends the appointment of Sycip Gorres Velayo & Co. as the Principal Accountant of the Corporation. Sycip Gorres Velayo & Co. is the incumbent Public Accountant of the Company. Mr. Avila will be present during the annual meeting and will be given an opportunity to make a statement, if they desire to do so. They are also expected to respond to questions, if needed.

(B) External Audit Fees

In compliance with SEC Memo Circular No. 14 Series of 2004, the External Audit Fees billed for 2007 and 2006 amounted to ₱338,800.00 and ₱279,400.00, respectively. These pertain to the annual audit fees for the Company's Financial Statements and no other services were provided and billed for by the external auditors for the last two (2) fiscal years.

Item 11. Action with Respect to Reports

The minutes of the 2006 stockholders' meeting and the report of Management for the fiscal year ended December 31, 2006 were submitted for the approval of the stockholders, and the acts and transactions of the Board of Directors and Officers were submitted for ratification by the stockholders.

The minutes of the 2006 stockholders' meeting recorded by the Corporate Secretary called for the certification that printed notices for the annual meeting were sent to all stockholders of record; the reading of the Minutes of the 2006 annual stockholders' meeting was approved and ratified; (1) the report of Management on the operations of the Corporation for the fiscal year ended December 31, 2006, (2) the Audited Financial Statements were approved; (3) the auditing firm Sycip, Gorres, Velayo & Company was appointed as the Corporation's external auditor for the year 2007; and (4) all acts and transactions entered into by the Board of Directors and Officers during the fiscal year 2006 were ratified.

The minutes of the 2007 stockholders' meeting and the report of Management for the fiscal year ended December 31, 2007 will be submitted for the approval of the stockholders and the acts and transactions of the Board of Directors and Officers as contained in the printed annual report and the audited financial statement embodied therein will be submitted for ratification by the stockholders.

Item 12. Amendments of Charter, By-Laws and other documents

In compliance with the provisions of SRC Rule 38, the Company will amend its By-Laws to incorporate the procedures for the nomination and election of independent director/s. The proposed amendment/s to the By-Laws will be presented for approval to the stockholders.

Item 13. Voting Procedures

The approval of the minutes of the last stockholders meeting and the report of management, ratification of the acts and transactions of the Board of Directors, election of Directors, amendment of By-Laws, and the appointment of Independent Public Accountant, will require approval of a majority of all the stockholders present or represented during the annual meeting. The vote required for the election of Directors shall be through cumulative voting. The votes will be counted by *viva voce* facilitated by the Corporate Secretary unless a request by a security holder is made that the election of directors be by ballot.

THE COMPANY UNDERTAKES TO PROVIDE WITHOUT CHARGE A COPY OF ITS ANNUAL REPORT ON SEC FORM 17-A UPON WRITTEN REQUEST ADDRESSED TO: ATTY. JAIME M. BLANCO, JR., CORPORATE SECRETARY, SOUTH CHINA RESOURCES, INC., 3/F LOW RISE PACIFIC STAR BLDG., SEN. GIL PUYAT AVE. CORNER MAKATI AVE., MAKATI CITY

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on May 9, 2008.

By:

JAIME M. BLANCO, Jr.
Corporate Secretary

Item 14. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None

Item 15. Management's Discussion and Analysis or Plan of Operation

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

The ever increasing demand for hydrocarbon fuels as well as the unending price increase in crude has put a lot of pressure on exploration companies to seek out more oil. In the forefront of this activity in the country, South China continues to be a significant player involved in the most strategic of petroleum plays.

South China has one of the most promising areas in the country in terms of petroleum potential. Our joint agreement with SPEX (Shell Philippines Exploration B.V.) and KUFPEC (Kuwait Foreign Petroleum Co. ksc) to enter into Service Contract No. 60 last January 27, 2006 has paved the way for further exploration in an area where the potential for large hydrocarbon accumulations is deemed to exist. A 1000 line km 2D seismic program was then immediately undertaken after the contract signing. A significant 500 sq-km 3D program was shot without any untoward incident in mid-2007 focusing on areas high graded by the previous 2D survey. The 3D seismic data is currently undergoing scrutiny and preliminary evaluation looks promising. In order to accommodate the extra time needed to complete the 3D program, the Department of Energy extended the first sub-phase of the SC to July 10, 2008 where a drilling decision has to be reached. South China retains 15% interest in the block.

The entry of Tap Oil Ltd as operator of SC-41 last January 2007 was further augmented with the entry of UK based company Salamander Energy in mid-2007. The operator completed the 750 sq-km 3D seismic survey in July 2007. The 3D program is currently running through as data processing commenced immediately after acquisition and fast track interpretation is currently being undertaken. SC-41 is on Contract Year 9 which has been extended to May 10, 2008. It is anticipated a drilling decision will be reached by this time. South China retains 1.090% interest.

In the quest to continue exploration in areas where the company has an edge in terms of data and technical conceptualization, South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). On May 30, 2007, South China together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. It will be recalled that South China was in this block previously with Murphy Oil of Louisiana.

Bell Telecommunication Philippines, Inc. (BellTel) incorporated in 1993 and granted by the Congress of the Philippines with a franchise to install, operate and maintain telecommunications systems throughout the Philippines. It is authorized to provide a full range of services of multiple leading edge access technologies such as fixed wireless, fiber optics, DSL and satellite, allowing the company's network to provide the entire range of voice, data, video and convergent services to various industries, corporate clients, educational institutions, government agencies and high-end residential markets nationwide.

BellTel began its commercial operations in January 2002 and successfully rolled out in the greater Metro Manila area where the two major central business districts (Makati and Ortigas) are located as well as the provinces of Cavite and Laguna which host some of the country's most matured special economic zones and industrial parks. The special economic zones receive majority of direct foreign investments into the Philippines and generate 80% of the country's total exports. BellTel instituted a Quality Management System which distinguishes it from other service providers as it remains the only local telco to obtain a company wide ISO 9001-2000 Certification.

Bell Telecommunications Philippines, Inc. (BellTel) is a full-service telco which pioneered the deployment of broadband wireless access technologies. It also delivered the first triple play service over cable. BellTel rolled out fiber-to-the-curb in the Makati CBD and entered into strategic alliances with owners of underutilized telecom infrastructures such as Hybrid Fiber Coax and Fiber Optic Cable networks thus giving it multiplicity of cost-effective last mile options for rapid service deployment. BellTel operates its own international gateway facility and a domestic C-band satellite hub providing connectivity for customers in remote sites not yet covered by its wireless network. BellTel's MPLS ready digital backbone supports multiple services and protocols thus enabling provision of services to customers using legacy networks and migration of customer networks towards IP. BellTel is interconnected with all major telecommunications carriers. BellTel was recently authorized by the National Telecommunications Commission to provide mobile services.

Its present network covers a land area of about 1,600 square kilometers and a population of 15 Million people comprising the Greater Metro Manila area where the 2 major central business districts are located as well as the provinces of Cavite and Laguna which host some of the country's most mature special economic zones. Special economic zones receive majority of foreign direct investments into the Philippines and generate 80% of the country's total exports. This area was chosen to validate the initial business model since it is the most competitive area where all major telcos have existing facilities and are providing services.

BellTel's product offering was tailored to the target market. A combination of services ranging from voice, internet, leased lines, wide area networks and VSAT was offered. The markets targeted were large domestic and multinational corporations, institutions – educational, financial and government as well as SMEs and high-end residential customers. The business model was successfully validated with the capture of a client base of approximately a thousand customers representing the various segments.

With the evolution of broadband wireless technologies using OFMDA non-line-of-sight systems, BellTel can expand its customer base more rapidly in the consumer segment since the 802.16e standard will not require a truck rollout. Currently, this segment is served via HFC cable facilities.

It is now ready to replicate its success in the 17 most important markets which would give it a nationwide presence. The common attributes of these 17 areas are: centers of commerce and education and sites of special economic zones. Business Process Outsourcing (BPO) centers are also expanding in these areas because the educational institutions provide a continuing source of manpower.

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

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

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

On September 30, 2007, the Company subscribed to 348,438 new shares of Premiere Development Bank at the subscription price of P34.844 million and a new equity share of 4.94%.

The Company's Board of Directors approved the sale of its investment in the property situated in Makati City known as Pilipinas Plaza Building on September 13, 2007. The sale was consummated in January 23, 2008 for a gross selling price of P600Million.

The Company is in a favorable situation wherein its current cash position allows it to review other businesses wherein it may invest, including opportunities in mining, renewable energies and acquisition of petroleum areas either by farm-in or direct investment.

Item 16. Financial Position and Results of Operations

- **2007 vs. 2006**

The Company's current ratio as of December 31, 2007 was ₱7.328 for every peso liability – an increase of ₱7.033 from last year's current ratio of ₱0.295. The increase was caused mainly by the payment of deposit from Alphaland for the sale of Pilipinas Plaza Building which was consummated on January 23, 2008, reclassification of investment in properties to noncurrrent asset classified as held for sale, partial collection of subscriptions receivable, and additions to prepayments consisting of annual dues and input tax.

The Company's total assets which stood at ₱658.830 million in 2007 were higher than last year by net amount of ₱5.139 million mainly due to the deposit from Alphaland and decrease in investments in associates.

Cash and cash equivalents increased in 2007 compared to prior year by ₱45.822 million due to payment of deposit from Alphaland and partial collection of subscriptions receivable.

Available-for-sale (AFS) investments increased by ₱1.835 million as compared to 2006 due to recovery unrealized losses on market value of AFS investment.

The Company's investment in properties account decreased by ₱486.980 million as a result of its reclassification to noncurrent asset classified as held for sale, which is in accordance with PFRS 5 *Noncurrent Assets Held for Sale*.

Investments in associates decreased by ₱3.156 million compared to last year due to share in net losses of associates.

The deposit for future investment of ₱34.844 million in Premiere Bank was converted to investment in associates on September 30, 2007 for 5% equity. As of December 31, 2007, the Company's equity was 4.94% as of December 31, 2007.

Deferred exploration cost decreased by ₱4.726 million compared to 2006 due to payment of a partner's farm-in share in exploration project.

Current Liabilities consisting of Deposit from Alphaland and Accounts payable and accrued expenses for the period increased by a net amount of ₱54.412 million compared to 2006 due to deposit made and partial payment of advances from officers.

Subscriptions receivable in 2007 decreased by ₱0.758 million compared to 2006 due to the payment of the 75% balance by some stockholders.

Issued shares increased by ₱1.010 million due to the issuance stock certificates to fully paid shares of some stockholders thereby decreasing the subscribed shares by the same amount.

Net loss for the year amounted to ₱52.054 million which resulted to a restated deficit of ₱329.625 million as of December 31, 2007. The Company has no earnings yet from its commercial production. Therefore, there were no dividends declared for the period ended December 31, 2007.

The net loss incurred in 2007 decreased by of ₱26.080 million compared to 2006 due to decrease in the net losses of investee companies.

- **2006 vs. 2005**

Current ratio for the year 2006 was ₱0.295, an increase of ₱0.207 as compared to 2005 due to additional advances from officers, payment of a partner's farm-in share in exploration projects, partial collection of subscriptions receivable, additions to prepayments consisting of annual dues and input tax, and reclassification of some Noncurrent Assets - Available for Sale (AFS) investments to Current Assets amounting to ₱0.042 million. Such reclassification was made because of the Company's intention to hold them only for a year. On

November 8, 2006, part of the reclassified AFS having a fair market value of ₱0.934 million as of September 30, 2006, were subsequently sold.

The Company's total assets of ₱653.691 million were lower than ₱78.189 million as compared to 2005 due to the decrease in investments in associates and deferred exploration costs.

Cash and cash equivalents increased by ₱3.941 million compared to 2005 due to payment of partner's farm-in share in exploration, additional advances from officers and partial collection of subscriptions receivable.

AFS investments for 2006 amounted to ₱5.788 million, wherein current and noncurrent portion amounted to ₱0.042 million and ₱5.746 million, respectively. The total recovery of unrealized losses on market value of AFS investment increased by ₱1.835 million in 2005. Upon adoption of the standards in 2005, the total recovery of unrealized losses on market value of AFS investments amounted to ₱1.962 million.

The financial statements for 2006 have been restated to reflect the recognition of share in the prior period adjustments of an associate. This correction decreased the Company's investment in associates by ₱35.156 million and ₱51.805 million as of January 1, 2006 and December 31, 2006, respectively.

On December 29, 2006, the Company sold its investment in PDB for a total consideration of ₱34.844 million, resulting in a gain of ₱5.956 million. The sale was to give way to the new foreign investor pending its application for the increase in capital stock. On the same date, the Company's BOD approved the resolution to deposit the same amount to PDB as future subscription to its shares.

Investments in associates for 2006 the decrease was ₱109.308 due to share in net losses of associates and acquisition of capital stock investments by Premiere Bank.

Deferred exploration cost decreased by ₱4.876 million in 2006 compared to 2005 due to payment of a partner's farm-in share in exploration project.

Accounts payable and accrued expenses for the period increased by ₱1.512 million in 2006 compared to 2005 due to the advances from officers.

Subscriptions receivable in 2006 decreased by ₱0.825 million compared to 2005due to the payment of the 75% balance by some stockholders.

Issued shares increased by ₱1.100 million due to the issuance stock certificates to fully paid shares of some stockholders thereby decreasing the subscribed shares by the same amount.

The financial statements for 2006 have been restated to reflect the recognition of share in the prior period adjustments of an associate. This correction increased the Company's deficit by ₱35.156 million and ₱51.805 million as of January 1, 2006 and December 31, 2006, respectively.

The net loss incurred for 2006, the net increase was ₱6.813 million compared to 2005 due to gain on sale of an associate, unrealized foreign exchange gain, general and administrative expenses and decrease in net loss of associates.

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

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

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

The material changes for this year in comparison with the prior year-end based on line items in the Comparative Balance Sheets as of December 31, 2007 and 2006 are as follows: a) increase in cash and cash equivalents increase of 9.00% due to deposits received from Alphaland and partial collection of subscriptions receivable; b) increase in accounts receivable of 18.09% due to advances subject for liquidation; c) increase in prepayments and other current assets of 52.29% due to additions to payments of annual dues and input tax; d) increase in available for sale of 32.67% due to increase in market value of investments; e) decrease in investments in associates of 8.34% due to the net loss of the investee company; f) 100% decrease in deposit for future investment due to its conversion to investment in associates; g) decrease in deferred exploration costs of 5.74% due to payment of a partner's farm-in share in exploration project; h) decrease in property and equipment of 14.42% due to depreciation of office equipment; i) decrease in accounts payable and accrued expenses by 29.27% due to partial payment of advances from officers; j) 100% increase in deposit from Alphaland due to deposit received; k) increase in unrealized gains on AFS investments of 249.55% due to recovery in market value; and l) increase in deficit of 18.75% due to net loss for the period and the equity share in the net loss of investees.

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

The Company's cash requirement is provided by the stockholders and officers. There is no foreseen increase in funds for the next twelve months however should the need arise, the stockholders and officers are committed in keeping the company operational by providing the needed funds until the company is able to liquefy the advances received. Such advances are carried in the books as liabilities.

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

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

For the period ended December 31, 2007, the Company is still in exploration stage, and therefore, no commercial production yet for the performance indicators analysis. It has no majority-owned subsidiaries.

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

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

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

Summary of Significant Accounting Policies

- Basis of Preparation

The financial statements have been prepared on a historical cost basis, except for AFS investments that have been measured at fair value. The financial statements are presented in Philippine peso, which is the company's functional and presentation currency.

- Statement of Compliance

The financial statements of the company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS).

- Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except that the Company has adopted the following new and amended PFRS and International Financial Reporting Interpretations Committee (IFRIC) interpretations during the year. Adoption of these revised standards and interpretations did not have any effect on the Company except for the additional disclosures on the financial statements.

- PFRS 7, *Financial Instruments: Disclosures*

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

Please refer to Notes 2 on pages 4 to 5 on the Notes to Financial Statements, for the principal effects of these changes, if any.

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

- Amendment to PAS, *Amendment –Amendment on Statement of Comprehensive Income*
- PAS 23, *Borrowing Costs*
- PFRS 8, *Operating Segments*
- Philippine Interpretation IFRIC 11, PRFS 2, *Operating Segments, effective January 1, 2009*
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements, effective on January 1, 2008*
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*
- Philippine Interpretation IFRIC 14, PAS 19, *The Limit on a Defined Benefit Asset, Minimum Funding Requirement and their Interaction, effective on or after January 1, 2008*

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

Financial Risk Management Objectives and Policies - Please refer to Note 15 pages 25 to 29 on the Notes to Financial Statements

Material related party transactions which affect the financial statements

A. Related party disclosure
   1. Nature of relationship – please refer to Note 8 (Investments) of the Notes to Financial Statements

   2-4. Nature of relationship and related party transactions are disclosed in Note 8 (Investments) of the Notes to Financial Statements.

B. Understanding of relationship and names of related parties
   The names of the Company's affiliates were disclosed in Note 2 (Basis of Preparation) and in Note 8 (Investments) of the Notes to Financial Statements

C. Reporting Corporation and one or more corporations
   Please refer to Note 1 (Corporate Information and Status of Operations) of the Notes to Financial Statements

Uncertainties about Going Concern

The financial statements were prepared on the assumption that South China Resources, Inc. is a going concern and will continue in operation for the foreseeable future. The Company's management has neither the intention nor the need to liquidate or curtail materially the scale of its operations. As of the date of the financial statements, no material uncertainties that could cast significant doubt upon the Company's ability to continue as a going concern have come to the attention of the management. Hence, no disclosure regarding such uncertainties and the Company's ability to continue as a going concern were made since the concept of going concern is a basic assumption that underlies the preparation of the financial statement and the related supplemental notes.

Defaults – none to be disclosed

Revenue Recognition

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

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

Dividend income – is recognized when the shareholders' right to receive the payment is established.
As of December 31, 2007, the Company has no commercial operation yet.

Balance Sheet

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

Noncurrent Asset Classified as Held for Sale – a noncurrent asset is classified as held foe sale if the carrying amount will be recovered principally through a sale transaction rather than through continuing use. Noncurrent asset held for sale is measured at the lower of carrying amount and fair value less cost to sell. Depreciation of such asset ceases. Liabilities associated with this asset is presented separately in the balance sheet. *Please refer also to Note 7 on the Notes to Financial Statements for details*.

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 terms of the lease in case of leasehold improvements, whichever is shorter. *Please refer to Note 9 on the Notes to Financial Statements for breakdown.*

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

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

Deferred Exploration Costs – are accounted for using the full cost method determined on the basis of each SC area. Under this method, all exploration costs relating to each SC are deferred pending determination of whether the contract are contains oil and gas reserves in commercial quantities. When the SC is permanently abandoned or the Company has withdrawn from the consortium, the related deferred exploration costs are provided with valuation allowance or written off. SC is considered permanently abandoned if the SC has expired and/or there are no definite plans for further exploration and/or development. *Please refer to Note 1 on the Notes to Financial Statements for details*.

Trade and other receivables – The accounts receivable represent non-trade receivables mainly from the Company's affiliate for the share in office renovation cost. Provision for allowance for doubtful assets was provided for accounts not collectible within one year. *Please refer to Note 4 on the Notes to Financial Statements for breakdown*.

AFS Financial Assets – are those non-derivative financial assets that are designated as available-for-sale or are not classified as Financial Assets at FVPL, HTM investments or Loans and Receivables. After initial recognition, AFS financial assets are measured at fair value with unrealized gains or losses being recognized directly in stockholders' equity in the 'Unrealized gains on AFS investments'. When the investment is disposed of, the cumulative gains or loss previously recorded in stockholders' equity is recognized in the statement of income.

Interest earned or paid on the investments is reported as interest income or expense using the effective interest rate. *Please refer to Note 6 on the Notes to Financial Statements for breakdown*.

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

Trade and other payables – total accounts payable and accrued expenses are all current liabilities.

The total amount of accrued expenses is disclosed in Note 10 (Accounts Payable and Accrued Expenses) of the Notes to Financial Statements.

Subscription payable – this is composed of unpaid subscribed capital stock of Bell Telecommunication Philippines, Inc. (Bell Tel) amounting to ₱171.72 million.

Subsidiaries – Relative to affiliates fully disclosed in Note 8 of Notes to Financial Statements.

Income Statement

Finance Cost – Not applicable. No interest-bearing loans.

Other Income – Interest income on securities – not applicable

Other Expenses – classified as miscellaneous and is immaterial to be shown in detail.

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

Retained Earnings – the Company has no appropriated earnings.

Item 17. PLANS OF OPERATIONS

SC-41 Offshore Sulu Sea Sandakan Basin

The entry of Tap Oil Ltd as operator of SC-41 last January 2007 was further augmented with the entry of UK based company Salamander Energy in mid-2007. Salamander acquired 35% participating interest in the block from Tap Oil. Tap completed the Alpine 3D seismic survey in July 2007, covering an area of 750 square kilometers.

The 3D program is currently running through as data processing commenced immediately after acquisition and fast track interpretation is currently being undertaken. The 3D seismic program has been geared towards enhancing the prospectivity of SC-41. SC-41 is on Contract Year 9 which has been extended to May 10, 2008. It is anticipated a drilling decision will be reached by this time. South China retains 1.090% interest in the block and is carried for all activities up to the completion of an exploration well.

SC-60 (GSEC-99 Offshore NE Palawan)

SC-60 is one of the Company's as well as the country's most promising areas in terms of potential for large accumulations for petroleum. Our joint agreement with SPEX (Shell Philippines Exploration B.V.) and KUFPEC (Kuwait Foreign Petroleum Co. ksc) to enter into Service Contract No. 60 last January 27, 2006 has paved the way for further exploration covering an area of one million eight hundred thousand hectares where large hydrocarbon accumulations is deemed to exist. In the seven year exploration period of SC-60, the group shall conduct seismic and exploration work, including drilling at an expected minimum cost of $24MM. The seven year period is divided into several sub-phases wherein the group must exercise its option to move to the succeeding phase or terminate the contract. The SC also includes a 25 year production term in the event of commercial discovery and operations.

A 1000 line km 2D seismic program was then immediately undertaken after the contract signing. A significant 500 sq-km 3D program was shot without any untoward incident in mid-2007 focusing on areas high graded by the previous 2D survey. The 3D seismic data is currently undergoing scrutiny and preliminary evaluation looks promising. In order to accommodate the extra time needed to complete the 3D program, the Department of Energy extended the first sub-phase of the SC to July 10, 2008 where a drilling decision has to be reached. South China retains 15% interest in the block and will be carried for all activities including the drilling of one deep water exploration well.

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

In the quest to continue exploration in areas where the company has an edge in terms of data and technical conceptualization, South China participated in the Department of Energy's Philippine Energy Contracting Round No. 3 (PECR-3). PECR-3 commenced on December 22, 2006. On May 30, 2007, the last day of the bid round, South China together with operator UK company Pitkin Petroleum Ltd. submitted a bid for Area-4, a block that covers the offshore Mindoro-Cuyo with an area of 1.164 million hectares. The block has yet to be awarded to the group as no formal awards have been made by the DOE at this time. It will be recalled that South China was in this block previously with Murphy Oil of Louisiana.

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

Item 18. BUSINESS

The Company was incorporated and registered with the SEC on September 25, 1992 primarily to undertake oil and gas exploration, development and production. In the light of the effects of the Asian Crisis, South China opted to refocus its core business objectives, diversifying into investments in banking and telecommunication.

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

South China, however, still continues its exploration in areas it considers the best in the country, mainly concentrating its efforts in the Sulu Sea/East Palawan Area and the current participating interest of the Company are as follows:

1. SC-41 Block B Sulu Sea	- 1.090%
2. SC-60 NE Palawan	- 15%

The Company is also still interested in acquiring exploration acreages in its former NGP and GSEC areas in the Cuyo Platform and NW Palawan.

South China investments in shares of Stock in Bell Telecommunication Phils., Inc. is at 32.40%.

On September 30, 2007, the Company subscribed to 348,438 new shares of Premiere Development Bank at the subscription price of P34.844 million and a new equity share of 4.94%.

On January 23, 2008, the Company has sold to Alphaland Corporation its investment in property situated in Makati City for a gross selling price of ₱600.00 million.

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

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

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

In order to minimize risk in the exploration of an area, local exploration companies usually form consortiums or partnerships with other companies specially when undertaking full exploration operations. The Company has incurred about ₱4.538M in the last three years for its exploration activities. Environmental considerations are taken into account only when there is a drilling activity as required by the DOE, to which costs for environmental studies and compliance thereto are built-in in the drilling costs.

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

The Company has no subsidiaries for the year ended 2007.

Presently, the Company has a total of six (6) employees, all working full-time.

Item 19. Market for Registrant's Common Equity and Related Stockholder Matters

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

As of the trading date, April 28, 2008, the high price and low price is 1.40, respectively. Furthermore, the following are the high and low sales prices for each quarter within the last years (2008, 2007 and 2006):

STOCK PRICES

2008	High	Low
First Quarter	1.8000	1.3400
2007	**High**	**Low**
First Quarter	1.2200	1.0266
Second Quarter	1.4600	1.2500
Third Quarter	1.4800	1.2600
Fourth Quarter	1.7400	1.4000
2006	**High**	**Low**
First Quarter	0.8833	0.6366
Second Quarter	1.0933	0.7466
Third Quarter	1.0833	0.8366
Fourth Quarter	1.0533	0.9066

The number of shareholders of record as of April 30, 2008 was 456. Common shares issued and subscribed as of April 30, 2008 were 906,559,568.

Item 20. TOP TWENTY STOCKHOLDERS
As of April 30, 2008

No.	NAME OF STOCKHOLDERS	NUMBER OF SHARES HELD	% OWNED
1.	Edgardo P. Reyes	231,853,123	25.5751%
2.	Wilfrido P. Reyes	231,853,123	25.5751%
3.	Belen R. Castro	231,353,122	25.5199%
4.	PCD Nominee Corporation (Filipino)	125,541,434	13.8481%
5.	Benjamin Chua	10,051,500	1.1087%
6.	PCD Nominee Corporation (Non-Filipino)	9,992,566	1.1023%
7.	Wilson Chua	5,877,500	0.6483%
8.	Kho Giok En	5,513,000	0.6081%
9.	Samuel Uy Chua	4,000,000	0.4412%
10.	The Philodrill Corporation	3,200,000	0.3530%
11.	F. Yap Securities, Inc.	2,855,000	0.3149%
12.	R. Coyiuto Securities, Inc.	2,025,000	0.2234%
13.	EBC Securities Corp.	1,276,000	0.1407%
14.	Gilbert Liu	1,000,000	0.1103%
15.	Jose Mari R. Moraza	1,000,000	0.1103%
16.	Quintin Uy	1,000,000	0.1103%
17.	Michael Escaler	630,000	0.0695%
18.	Ma. Georgina V. Perez	610,000	0.0673%
19.	Remedios J. Manguiat	580,000	0.0640%
20.	Mandarin Securities Corp.	561,000	0.0619%
	TOTAL	**870,772,368**	**96.0524%**

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

The Company has no earnings yet from its commercial production. Therefore, there were no dividends declared for the two (2) most recent years ended December 31, 2006 and 2007.

There had been no sale of unregistered securities by the Company in the last three (3) years.

Item 21. CORPORATE GOVERNANCE

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

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

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

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

SOUTH CHINA RESOURCES, INC.
3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City
Metro Manila, Philippines

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of South China Resources, Inc. is responsible for all information and representations contained in the financial statements for the years ended December 31, 2007 and 2006 and for the three years in the period ended December 31, 2007. The financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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

Signed under oath by the following:

EDGARDO P. REYES
Chairman/Chief Executive Officer

WILFRIDO P. REYES
President/Chief Financial Officer

BELEN R. CASTRO
Vice President/Treasurer

SUBSCRIBED AND SWORN to before me this 29th day of April 2008 affiants exhibiting to me their Residence Certificates, as follows:

Name	RES. CERT. NO.	DATE OF ISSUE	PLACE OF ISSUE
Edgardo P. Reyes	19300854	Feb. 04, 2008	Makati City
Wilfrido P. Reyes	19486486	Jan. 17, 2008	Makati City
Belen R. Castro	07562724	Jan. 14, 2008	Manila

ANNA FRANCESCA M. LIMBO
Commission No. M-58 Notary Public
Notary Public - Makati City
Until December 31, 2008
Esguerra & Blanco Law Offices
4/F S & L Building, Dela Rosa cor. Esteban Sts.
Legaspi Village, Makati City 1229
PTR No. 0988777/01-07-08/Makati City
Lifetime IBP No. 06664/Q.C. Chapter
Roll No. 54325
Telephone No. 892-2049 * Telefax No. 812-2383

Makati City, Philippines
NOTARY PUBLIC
Roll No. 54325
Ann Francesca M. Limbo

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COVER SHEET

AS092-06441

SEC Registration Number

SOUTH CHINA RESOURCES, INC.

(Company's Full Name)

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

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

Ms. Imelda D. Olalia
(Contact Person)

812-2383
(Company Telephone Number)

12 31
Month *Day*
(Calendar Year)

17AR
(Form Type)

Month *Day*
(Annual Meeting)

Not Applicable
(Secondary License Type, If Applicable)

Corporate Finance Department
Dept. Requiring this Doc.

Not Applicable
Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign
463	Nil	Nil

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

STAMPS

BUREAU OF INTERNAL REVENUE RECEIVED APR 2_ 2008

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

INDEPENDENT AUDITORS' REPORT

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

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

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

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

SYCIP GORRES VELAYO & CO.

Ladislao Z. Avila, Jr.

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

April 29, 2008

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SOUTH CHINA RESOURCES, INC.
BALANCE SHEETS

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

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF INCOME

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

See accompanying Notes to Financial Statements.

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SOUTH CHINA RESOURCES, INC.

STATEMENTS OF CHANGES IN EQUITY

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

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

(Forward)

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

(Forward)

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

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
STATEMENTS OF CASH FLOWS

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

See accompanying Notes to Financial Statements.

SOUTH CHINA RESOURCES, INC.
NOTES TO FINANCIAL STATEMENTS

1. Corporate Information and Status of Operations

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

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

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

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

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

Status of Oil and Gas Exploration Operations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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2. Summary of Significant Accounting Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- the rights to receive cash flows from the asset have expired;

- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

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

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

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

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

Leases

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

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

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

Company as a Lessee

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

Provisions and Contingencies

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

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

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

Income Taxes

Current income tax

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

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

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

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

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

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

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

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

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

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3. Significant Accounting Judgments and Estimates

Judgments

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

Determining functional currency

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

Operating lease commitments - Company as lessee

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

Estimates

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

Allowance for impairment on receivables

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

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

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

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

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

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

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

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

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

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

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

4. Accounts Receivable

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

5. Prepayments and Other Current Assets

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

6. AFS Investments

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

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

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

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

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

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

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

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

8. Investments in and Advances to Associates

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

(Forward)

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

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

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

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

Investment in BellTel

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

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

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

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

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

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

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

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

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

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

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

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

9. Property and Equipment

December 31, 2007

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

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December 31, 2006

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

10. Accounts Payable and Accrued Expenses

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

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

11. Income Taxes

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

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

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

(Forward)

2008

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

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

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

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

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

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

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

Movement of the Company's NOLCO follows:

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

Republic Act (RA) No. 9337

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

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

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

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

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

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

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12. Related Party Disclosures

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

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

13. Basic/Diluted Loss Per Share

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

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

14. Operating Lease Commitment

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

15. Financial Risk Management Objectives and Policies

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

b. Equity price risk

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

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

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

AFS investments:

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

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

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

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

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

16. Financial Instruments

Categories of Financial Instruments

As of December 31, 2007

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

As of December 31, 2006

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

(Forward)

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

As of December 31, 2007

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

As of December 31, 2006

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

Fair Values of Financial Instruments

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

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

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

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

17. Capital Management

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

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

18. Prior Period Adjustment

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

BUREAU OF INTERNAL REVENUE
RECEIVED
02 MA. FE L. ROQUE 08
COLLECTION SECTION
APR 29 2008
RDO 049 NORTH MAKATI

SOUTH CHINA RESOURCES, INC.
3/F Low Rise Pacific Star Bldg., Sen. Gil Puyat Ave. cor. Makati Ave., Makati City
Metro Manila, Philippines

S.E.C.
MAY 0 9 2008 21
CENTRAL RECEIVING AND RECORDS DIVISION
BY

08 May 2008 7:00 A.M.

Hon. Justina F. Callangan
Corporate Finance Department
Securities & Exchange Commission
SEC Bldg., EDSA, Greenhills
Mandaluyong City

Dear Hon. Callangan

This is with regard to the Company's 2008 Definitive Information Statement (SEC Form 20-IS) set to be distributed on 09 May 2008. Inasmuch as the Company's First Quarter Interim Financial Statement Report (SEC Form 17-Q) cannot be completed until 15 May 2008 due to the unavailability of the Interim Financial Statements of the investee company, in which the Company's investment is accounted for using the equity method, the Company hereby undertakes to submit to the Commission the said report on or before 15 May 2008 and will furnish the stockholders a copy of the same during our Annual Stockholders' Meeting, to be held on 30 May 2008.

We thank the Commission for its understanding and favorable consideration on this matter.

Truly yours,

DAVID R. BALADAD
VP- Operations