

COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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

Francia D. Lakip

(Contact Person)

817-0934

(Company Telephone Number)

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Month Day
(Calendar Year)

A	A	F	S
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(Form Type)

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Month Day
(Annual Meeting)

Not Applicable

(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

Not Applicable

Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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PERFUMERIA ESPAÑOLA CORP.

Financial Statements
December 31, 2005 and 2004

and

Report of Independent Auditors

Report of Independent Auditors

The Stockholders and the Board of Directors
Perfumeria Española Corp.
Chemphil Building, 851 A. Arnaiz Avenue
Legaspi Village, Makati City

We have audited the financial statements of Perfumeria Española Corp. for the year ended December 31, 2005 and 2004, on which we have rendered the attached report dated April 10, 2006.

In compliance with SRC Rule 68, we are stating that the above Company has a total number of two stockholders owning more than one hundred (100) shares.

SYCIP GORRES VELAYO & CO.

Aldrin M. Cerrado
Partner
CPA Certificate No. 86735
SEC Accreditation No. 0113-A
Tax Identification No. 129-433-783
PTR No. 4180818, January 2, 2006, Makati City

April 10, 2006

The Stockholders and the Board of Directors
Perfumeria Española Corp.

We have audited the accompanying balance sheets of Perfumeria Española Corp. as of December 31, 2005 and 2004, and the related statements of income, changes in stockholders' equity and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Perfumeria Española Corp. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

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April 10, 2006

PERFUMERIA ESPAÑOLA CORP.
BALANCE SHEETS

	December 31	
	2005	2004 (As restated, Note 2)
ASSETS		
Current Assets		
Cash and cash equivalents (Note 4)	₱18,720,421	₱18,632,818
Receivables (Note 5)	17,587,102	16,135,024
Due from related parties (Note 9)	589,458	431,604
Inventories (Notes 6 and 9)	7,915,339	11,161,097
Other current assets (Note 9)	1,178,141	273,222
Total Current Assets	45,990,461	46,633,765
Noncurrent Assets		
Property and equipment - net (Note 7)	482,254	695,973
Deferred income tax assets - net (Note 15)	424,485	459,194
Total Noncurrent Assets	906,739	1,155,167
TOTAL ASSETS	₱46,897,200	₱47,788,932
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Note 8)	₱19,883,768	₱17,936,338
Income tax payable	269,161	496,289
Due to related parties (Note 9)	18,094	15,967
Total Current Liabilities	20,171,023	18,448,594
Stockholders' Equity		
Capital stock - ₱1 par value		
Authorized - 75,000,000 shares		
Issued - 18,750,000 shares	18,750,000	18,750,000
Additional paid-in capital	1,095,572	1,095,572
Retained earnings	6,880,605	9,494,766
Total Stockholders' Equity	26,726,177	29,340,338
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	₱46,897,200	₱47,788,932

See accompanying Notes to Financial Statements.

PERFUMERIA ESPAÑOLA CORP.
STATEMENTS OF INCOME

	Years Ended December 31	
	2005	2004 (As restated, Note 2)
NET SALES	₱63,679,334	₱57,095,595
COST OF SALES (Note 11)	38,643,409	32,892,079
GROSS PROFIT	25,035,925	24,203,516
General and administrative expenses (Note 13)	(10,838,582)	(7,600,936)
Selling expenses (Note 12)	(9,365,224)	(11,524,832)
Interest income (Notes 4 and 9)	1,444,601	1,335,000
Foreign exchange gain (loss) - net	428,179	(22,924)
Other income (charges) - net	957,596	671,746
INCOME BEFORE INCOME TAX	7,662,495	7,061,570
PROVISION FOR INCOME TAX (Note 15)		
Current	2,241,947	2,097,173
Deferred	34,709	21,862
	2,276,656	2,119,035
NET INCOME	₱5,385,839	₱4,942,535

See accompanying Notes to Financial Statements.

PERFUMERIA ESPAÑOLA CORP.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As restated, Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱7,662,495	₱7,061,570
Adjustments for:		
Loss from inventories written - off	2,216,046	34,253
Interest income	(1,444,601)	(1,335,000)
Depreciation and amortization (Note 7)	246,946	311,745
Unrealized foreign exchange loss (gain) - net	(191,572)	12,233
Provision for retirement benefits cost (Note 14)	89,735	75,417
Interest expense	–	3,193
Operating income before working capital changes	8,579,049	6,163,411
Decrease (increase) in:		
Receivables	(1,452,078)	1,773,334
Due from related parties	–	(4,939)
Inventories	1,029,712	(4,415,193)
Other current assets	(994,654)	50,044
Increase (decrease) in:		
Accounts payable and accrued expenses	2,139,002	2,739,876
Due to related parties	2,127	(20,031)
Net cash generated from operations	9,303,158	6,286,502
Income taxes paid, including creditable tax withheld	(2,469,075)	(2,197,407)
Interest received	1,430,201	1,146,217
Interest paid	–	(3,193)
Net cash flows from operating activities	8,264,284	5,232,119
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease (increase) in amounts due from related parties	(157,854)	4,490,542
Acquisition of property and equipment (Note 7)	(33,227)	(73,268)
Interest received	14,400	154,257
Net cash flows from (used in) investing activities	(176,681)	4,571,531
CASH FLOW FROM FINANCING ACTIVITY		
Dividends paid	(8,000,000)	(6,000,000)
NET INCREASE IN CASH AND CASH EQUIVLENTS	87,603	3,803,650
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	18,632,818	14,829,168
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	₱18,720,421	₱18,632,818

See accompanying Notes to Financial Statements.

PERFUMERIA ESPAÑOLA CORP.**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	Capital Stock	Additional Paid-in Capital	Retained Earnings	Total
BALANCES AT DECEMBER 31, 2003, AS PREVIOUSLY REPORTED	₱18,750,000	₱1,095,572	₱10,527,257	₱30,372,829
Effect of adopting PAS 19 (Note 2)	–	–	24,974	24,974
BALANCES AT DECEMBER 31, 2003, AS RESTATED	18,750,000	1,095,572	10,552,231	30,397,803
Cash dividends - ₱0.32 per share (Note 10)	–	–	(6,000,000)	(6,000,000)
Net income for the year	–	–	4,942,535	4,942,535
BALANCES AT DECEMBER 31, 2004, AS RESTATED	18,750,000	1,095,572	9,494,766	29,340,338
Cash dividends - ₱0.43 per share (Note 10)	–	–	(8,000,000)	(8,000,000)
Net income for the year	–	–	5,385,839	5,385,839
BALANCES AT DECEMBER 31, 2005	₱18,750,000	₱1,095,572	₱6,880,605	₱26,726,177

See accompanying Notes to Financial Statements.

PERFUMERIA ESPAÑOLA CORP.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Perfumeria Española Corp. (the Company) was incorporated in the Philippines. The Company is 51% owned by Perfumeria Gal of Spain (GAL), a company incorporated in Spain, and 49% owned by Chemical Industries of the Philippines (CIP), a company incorporated in the Philippines. The Company is engaged in the marketing and distribution of soap and beauty products through a local distributor.

The registered office address of the Company is Chemphil Building, 851 A. Arnaiz Avenue, Legaspi Village, Makati City.

The accompanying financial statements were authorized for issue by the Board of Directors (BOD) on April 10, 2006.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Financial Statement Preparation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS). These are the Company's first financial statements prepared in conformity with PFRS.

The Company prepared its financial statements until December 31, 2004 in conformity with Statements of Financial Accounting Standards (SFAS) and Statements of Financial Accounting Standards/International Accounting Standards (SFAS/IAS).

The Company applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing the financial statements, with January 1, 2004 as the date of transition. The transition to PFRS resulted in certain changes to the Company's accounting policies. The comparative figures for the 2004 financial statements were adjusted to reflect these changes in policies.

The financial statements of the Company have been prepared on the historical cost basis and are presented in Philippine peso, which is the Company's functional currency.

Adoption of New and Revised Accounting Standards

The Company adopted the following new and revised Philippine Accounting Standards (PAS) and PFRS, which became effective beginning January 1, 2005.

New Accounting Standards

- PAS 19, *Employee Benefits*, prescribes the accounting and disclosures by employers for employee benefits (including short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits). The revised accounting policy for retirement benefits cost is described in the succeeding sections.

The adoption of PAS 19 resulted to additional disclosures providing information about the trends in the assets and liabilities in the defined benefit plans and the assumptions underlying the components of the defined benefit cost. This change in accounting policy increased net income by ₱20,591 for the year ended December 31, 2004 and increased retained earnings as of December 31, 2004 and January 1, 2004 by ₱45,565 and ₱24,974, respectively.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates*, eliminates the capitalization of foreign exchange losses. PAS 21 further requires a company to determine its functional currency and measure its result and financial position in that currency. The Company has determined its functional currency to be the Philippine peso.
- PAS 32, *Financial Instruments: Disclosure and Presentation*, covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about a company's financial instruments, whether recognized or unrecognized in the financial statements. The standard also requires financial instruments to be classified as debt or equity in accordance with their substance and not their legal form.
- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the company's financial assets and financial liabilities. PAS 39 requires a financial asset or a financial liability to be recognized initially at cost including related transaction costs. Subsequent to initial recognition, a company should measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at amortized cost, except for liabilities designated as fair value through profit and loss and derivatives, which are subsequently measured at fair value. This standard also covers the accounting for derivative instruments.

The adoption of PAS 32 and PAS 39 has no effect on the Company's reported financial position, financial performance and cash flows. Additional disclosures required by the standards were included in the financial statements, where applicable.

Revised Accounting Standards

- PAS 1, *Presentation of Financial Statements*, (a) provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; (b) provides the base criteria for classifying liabilities as current or noncurrent; (c) prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and (d) specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying a company's accounting policies.

- PAS 2, *Inventories*, reduces the alternatives for measurement of inventories by disallowing the use of the last in, first out formula. Moreover, the revised accounting standard does not permit foreign exchange differences arising directly on the recent acquisition of inventories invoiced in a foreign currency to be included in the cost of purchase of inventories.
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, (a) removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors; (b) updates the previous hierarchy of guidance to which management refers and whose applicability it considers when selecting accounting policies in the absence of standards and interpretations that specifically apply; (c) defines material omissions or misstatements; and (d) describes how to apply the concept of materiality when applying accounting policies and correcting errors.
- PAS 10, *Events After the Balance Sheet Date*, provides a limited clarification of the accounting for dividends declared after the balance sheet date.
- PAS 16, *Property, Plant and Equipment*, provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.
- PAS 17, *Leases*, provides a limited clarification on the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of the lessors.
- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and disclosures for related parties. It also requires disclosure of the total compensation of key management personnel by benefit type.

Adoption of the revised accounting standards did not result to restatement of prior year's financial statements. Additional disclosures required by the revised standards were included in the financial statements, where applicable.

The reconciliation of the effects of these new and revised accounting standards as they apply on assets, liabilities and stockholders' equity and retained earnings as of January 1, 2004 and December 31, 2004 and net income for the year ended December 31, 2004 are set out below.

Reconciliation of Assets, Liabilities and, Stockholders' Equity

	At January 1, 2004 (Date of transition)			At December 31, 2004 (End of last period presented under previous GAAP)		
	Previous GAAP	Effect of Adoption of PAS 19	PFRS	Previous GAAP	Effect of Adoption of PAS 19	PFRS
Assets	₱46,226,306	₱24,974	₱46,251,280	₱47,743,367	₱45,565	₱47,788,932
Liabilities	15,853,477	-	15,853,477	18,448,594	-	18,448,594
Stockholders' Equity	30,372,829	24,974	30,397,803	29,294,773	45,565	29,340,338

Retained Earnings

	January 1, 2004	December 31, 2004
As previously reported	₱10,527,257	₱9,449,201
Effect of adoption of PAS 19	24,974	45,565
As restated	₱10,552,231	₱9,494,766

Net Income

	For the Year Ended December 31, 2004
As previously reported	₱4,921,944
Effect of adoption of PAS 19	20,591
As restated	₱4,942,535

Effect on Cash Flow Statement in 2004

There is no material difference between the cash flow statement prepared under PFRS and the cash flow statement under previous GAAP.

Accounting Standards Effective Subsequent to 2005

The Accounting Standards Council has also approved the following standard and amendments which will be adopted by the Company subsequent to December 31, 2005:

- PFRS 7, *Financial Instruments - Disclosures*, which applies to all risks arising from all financial instruments, except those instruments exempted under PFRS 7 - effective January 1, 2007.
- PAS 19, *Amendments to PAS 19 Employee Benefits* - effective January 1, 2006.
- PAS 39, *Amendments to Financial Instruments: Recognition and Measurement* - effective January 1, 2006.

Management believes that the adoption of the above standard or amendment will not have a significant financial impact on the financial statements. The required additional disclosures will be included in the financial statements when the standard and amendment are adopted on their effectivity dates.

Cash and Cash Equivalents

Cash includes cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of less than one year from dates of placement and that are subject to an insignificant risk of changes in value.

Receivables

Trade receivables are recognized and carried at original invoice amount less any allowance for doubtful accounts. An allowance for doubtful accounts is maintained at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. A review of the age and status of receivables, designed to identify accounts to be provided with allowance, is performed regularly.

Other receivables are stated at face value after allowance for any uncollectible accounts.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost of finished goods consists of direct materials and manufacturers' toll fee. Cost raw materials is their purchase price, determined using the moving average method.

Net realizable value of finished goods is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Net realizable value of raw materials is the current replacement cost.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation and amortization and any impairment in value.

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

Depreciation is calculated on a straight-line basis over the estimated useful lives as follows:

Machinery and equipment	3 years
Office furniture, fixtures and equipment	3 years
Transportation equipment	5 years
Leasehold improvements	2 years

The useful lives, depreciation and amortization method and estimated residual values are reviewed periodically to ensure that these are consistent with the expected pattern of economic benefits from items of property and equipment.

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, the assets are written down to their recoverable amounts. An asset's recoverable amount is the greater of net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present values using a pre-tax discount rate that reflect current market assessments of the time value of money and the risks specific to the asset. Any impairment loss is recognized in the statements of income.

An assessment is made at each balance sheet 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 the statements of income.

Financial Assets

Financial assets in the scope of PAS 39 are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets, as appropriate. When financial assets are recognized initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. 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, i.e. 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 fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives 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 statements of income.

Held-to-maturity investments

Nonderivative financial assets with fixed or determinable payments and fixed maturity are classified as held-to-maturity when the Company has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between the initially recognized amount and the maturity amount. This calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums and discounts. For investments carried at amortized cost, gains and losses are recognized in the statements of income when the investments are derecognized or impaired, as well as through the amortization process.

Loans and receivables

Loans and receivables are nonderivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the statements of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Available-for-sale financial assets

Available-for-sale financial assets are those nonderivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition available-for-sale financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statements of income.

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 is substantially the same; discounted cash flow analysis and option pricing models.

Derecognition of Financial Assets and Liabilities

Financial Assets

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

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

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

Financial Liabilities

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expires.

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 statements of income.

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 credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statements of income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. 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 statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost

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

Available-for-Sale Financial Assets

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

Revenue

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

Sales

Sales revenue is recognized when the significant risks and rewards of ownership of the goods have passed to the buyer and the amount of revenue can be measured reliably.

Interest

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

Retirement Benefits Cost

Retirement benefits cost is actuarially computed using the projected unit credit method. This method reflects services rendered by employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. Pension cost includes current service cost, interest cost, expected return on any plan assets, actuarial gains and losses, past service cost and the effect of any curtailment or settlement. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the defined benefit plan at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the defined benefit plan.

The net pension liability recognized by the Company in respect of the defined benefit pension plan is the aggregate of the present value of the defined benefit obligation and unrecognized actuarial gains and losses reduced by the unrecognized past service cost and the fair value of plan assets out of which the obligations are to be settled directly.

The net pension asset recognized by the Company in respect of the defined benefit pension plan is the lower of: (a) the present value of the defined benefit obligation at the balance sheet date less the fair value of the plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs that shall be recognized in later periods or (b) the total of any net cumulative unrecognized actuarial losses and past service cost and the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using risk-free interest

rates of government bonds that have terms to maturity approximating to the terms of the related pension liability.

On the initial adoption of PAS 19, the effect of change in accounting policy includes all actuarial gains and losses that arose in earlier periods that fall inside the 10% corridor limit. In subsequent periods, portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeded the greater of the 10% of the present value of defined benefit obligation or 10% of the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working lives of the employees participating in the plans.

Operating Leases

Lease payments under an operating lease are recognized as an expense in the statements of income on a straight-line basis over the lease term.

Income Taxes

Current Income Tax

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

Deferred Income Tax

Deferred income tax is provided using the 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. Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled based on the tax rates that have been enacted or substantively enacted at the balance sheet date.

Foreign Currency Transactions

The functional and presentation currency of the Company is the Philippine peso. Transactions denominated in foreign currencies are recorded in Philippine peso based on the exchange rates prevailing at the transaction dates. Foreign currency-denominated monetary assets and liabilities are translated to Philippine peso at exchange rates prevailing at the balance sheet dates. Foreign exchange differentials between rate at transaction date, and rate at settlement date or balance sheet date of foreign currency-denominated monetary assets or liabilities are credited to or charged against current operations.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Subsequent Events

Post year-end events up to the date of the approval of the BOD that provide additional information about the Company's position at 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 the financial statements when material.

3. Significant Accounting Judgments and Accounting Estimates

Judgment

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

Retirement Benefits

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14 and include among others, discount rates, expected returns on plan asset and salary increase rates. Actual results that differ from the Company's assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Company believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations.

The Company's net pension assets amounted to ₱56,296 and ₱43,215 as of December 31, 2005 and 2004, respectively.

Operating Lease as Lessee

The Company has entered into property leases, where it has determined that the risks and rewards related to those properties are retained by the lessors. As such, these lease agreements are accounted for as operating lease.

Estimation Uncertainty

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

Recognition of deferred income tax assets

The Company reviews the carrying amounts at each balance sheet date and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The Company's deferred income tax assets amounted to ₱424,485 and ₱459,194 as of December 31, 2005 and 2004, respectively.

Impairment of assets

The Company determines whether its long-lived assets are impaired, at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the assets belong. Estimating the value-in-use requires the Company to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

Estimation of allowance for doubtful accounts

Allowance for doubtful accounts is provided for accounts that are specifically identified to be doubtful as to collection. The level of allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts.

The Company's receivables amounted to ₱17,587,102 and ₱16,135,024 as of December 31, 2005 and 2004, respectively.

Estimated useful lives of property and equipment

The Company estimates the useful lives of its property and equipment based on the period over which the assets are expected to be available for use. The Company reviews annually the estimated useful lives of property and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information. It is possible that future results of operation could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property and equipment would increase depreciation expense and decrease noncurrent assets.

The carrying value of the property and equipment amounted to ₱482,254 and ₱695,973 as of December 31, 2005 and 2004, respectively.

4. Cash and Cash Equivalents

	2005	2004
Cash on hand and in banks	₱1,713,382	₱732,918
Short-term cash investments	17,007,039	17,899,900
	₱18,720,421	₱18,632,818

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

5. Receivables

	2005	2004
Trade	₱17,188,509	₱15,992,613
Others	398,593	142,411
	₱17,587,102	₱16,135,024

6. Inventories

	2005	2004
Raw materials:		
On hand (at net realizable value)	₱3,634,055	₱3,058,199
In-transit (at cost)	2,777,795	5,717,359
Finished goods - at cost	1,503,489	2,385,539
	₱7,915,339	₱11,161,097

7. Property and Equipment

	Machinery And Equipment	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	2005 Total
Cost					
Beginning balances	₱427,818	₱541,998	₱886,182	₱2,123	₱1,858,121
Additions	20,000	13,227	-	-	33,227
Ending balances	447,818	555,225	886,182	2,123	1,891,348
Accumulated Depreciation					
Beginning balances	379,012	440,308	340,706	2,122	1,162,148
Depreciation	27,626	42,084	177,236	-	246,946
Ending balances	406,638	482,392	517,942	2,122	1,409,094
Net Book Value	₱41,180	₱72,833	₱368,240	₱1	₱482,254

	Machinery and Equipment	Office Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	2004 Total
Cost					
Beginning balances	₱410,091	₱486,457	₱886,182	₱2,123	₱1,784,853
Additions	17,727	55,541	-	-	73,268
Ending balances	427,818	541,998	886,182	2,123	1,858,121
Accumulated Depreciation					
Beginning balances	284,086	401,752	162,443	2,122	850,403
Depreciation	94,926	38,556	178,263	-	311,745
Ending balances	379,012	440,308	340,706	2,122	1,162,148
Net Book Value	₱48,806	101,690	545,476	₱2	₱695,973

8. Accounts Payable and Accrued Expenses

	2005	2004
Trade (Note 9)	₱13,806,476	₱12,606,014
Accrued advertising and promotions	2,254,007	2,545,710
Accrued royalties (Note 9)	1,498,447	1,292,621
Other accrued expenses	2,324,838	1,491,993
	₱19,883,768	₱17,936,338

9. Related Party Transactions

The Company, in the normal course of business, has entered into the following significant transactions with its related parties:

- a. License agreement with GAL for the use of the latter's trademark and for the manufacture of the latter's products for a royalty fee of 3% of net sales as defined in the agreement. This agreement is effective until May 31, 2008. Royalty fees charged to operations amounted to ₱1,731,783 and ₱1,520,732 in 2005 and 2004, respectively. Outstanding liability, included in "Accounts payable and accrued expenses" account in the balance sheets, amounted to ₱1,498,447 and ₱1,292,621 as of December 31, 2005 and 2004, respectively.
- b. Purchases of raw materials from GAL with terms similar to third parties. Total purchases amounted to ₱11,394,780 in 2005 and ₱12,829,689 in 2004. Outstanding liability, included in the "Accounts payable and accrued expenses" account in the balance sheets, amounted to ₱3,851,537 and ₱5,936,715 as of December 31, 2005 and 2004, respectively.
- c. Rental agreement with CIP for the Company's office space for one year renewable at the option of both parties. Rent expense charged to operations amounted to ₱266,295 in 2005 and ₱291,041 in 2004.

Service agreement with CIP for the Company's management support activities from January 2000 until June 2003. The agreement was renewed for another year expiring in December 2004 and subsequently renewed starting January 2005 for an indefinite period. Deposit amounting to ₱720,000 was paid by the Company to CIP to avail of the 12% discount on early payment. The shared services fee is calculated based on the terms of agreement but not to exceed ₱145,000 a month, excluding value-added tax. Share in common services charged to operations amounted to ₱1,611,989 in 2005 and ₱1,608,280 in 2004.

- d. Extension of interest-bearing cash advances to CIP and LMG Chemicals Corp. (LMG) at prevailing interest rates ranging from 8.25% to 9.75% in 2004. Interest income earned amounted to ₱154,257 in 2004. There were no interest-bearing advances in 2005.
- e. Compensation of key management personnel consists of short-term employee benefits amounting to ₱2,016,719 in 2005 and ₱2,003,028 in 2004.

The outstanding balances of related party accounts in the balance sheets consist of the following:

	Sale of Products	
	2005	2004
Due from related parties:		
CIP	₱571,659	₱398,867
LMG	5,689	10,620
CAWC, Inc.	12,110	20,255
Kemwater Philippines Corp.	-	1,862
	₱589,458	₱431,604
Accounts payable and accrued expenses – GAL	₱5,349,984	₱7,229,336
Due to related parties - Vision Insurance Consultants, Inc. (VIC)	₱18,094	₱15,967

Outstanding payable to VIC pertains to insurance premiums.

10. Declaration of Dividends

On May 12, 2004, the BOD approved the declaration of ₱6,000,000 cash dividends to stockholders of record as of April 30, 2004. These dividends are fully paid as of December 31, 2004.

On November 9, 2005, the BOD approved the declaration of ₱8,000,000 cash dividends to stockholders of record as of October 31, 2005. These dividends are fully paid as of December 31, 2005.

11. Cost of Sales

	2005	2004
Raw materials cost (Note 9)	₱18,481,026	₱13,897,354
Toll manufacturing cost (Note 18)	20,162,383	18,994,725
	₱38,643,409	₱32,892,079

12. Selling Expenses

	2004	2003
Promotions and distribution (Note 18)	₱4,836,096	₱6,378,801
Advertising	4,529,128	5,146,031
	₱9,365,224	₱11,524,832

13. General and Administrative Expenses

	2005	2004 (As restated, Note 2)
Salaries and wages	₱2,383,322	₱2,382,058
Loss from inventories write-off	2,216,046	-
Royalty fees (Note 9)	1,731,783	1,520,732
Share in common services (Note 9)	1,611,989	1,608,280
Professional and other service fees	453,531	394,211
Taxes and licenses	396,877	344,364
Rent (Note 9)	266,295	291,041
Depreciation and amortization (Note 7)	246,946	311,745
Communication, light and water	191,058	151,463
Employee benefits (Note 14)	144,256	141,581
Travel	72,038	51,330
Others	1,124,441	404,131
	₱10,838,582	₱7,600,936

14. Retirement Benefits Cost

The Company, together with its affiliated companies, is a participant in a multi-employer funded and non-contributory defined benefit pension plan covering substantially all its regular employees. The benefits are based on the years of service and latest monthly compensation of the employees.

Net retirement benefits cost for the years are as follows:

	2005	2004 (As restated, Note 2)
Current service cost	₱66,573	₱56,421
Interest cost	96,600	75,629
Expected return on plan assets	(81,422)	(62,708)
Net actuarial gain	4,077	2,168
Net transition obligation recognized in the year	3,907	3,907
Net retirement benefits cost for the year	₱89,735	₱75,417

Net pension assets recognized by the Company are as follows:

	2005	2004 (As restated, Note 2)
Present value of pension liabilities	₱968,170	₱804,997
Fair value of plan assets	862,756	678,518
Unfunded present value of pension liabilities	105,414	126,479
Unrecognized net actuarial gain	(161,710)	(157,973)
Unrecognized net obligation	-	(11,721)
Net pension assets	₱56,296	₱43,215

Changes in the present value of the pension liabilities are as follows:

	2005	2004 (As restated, Note 2)
Balances at beginning of year	₱804,997	₱630,244
Current service cost	66,573	56,421
Interest cost	96,600	75,629
Actuarial loss for the year	-	42,703
Balances at end of year	₱968,170	₱804,997

Changes in the fair value of plan assets are as follows:

	2005	2004 (As restated, Note 2)
Balances at beginning of year	₱678,518	₱522,566
Expected return on plan assets	81,422	62,708
Actual contributions	102,816	104,313
Benefits paid	-	(11,069)
Balances at end of year	₱862,756	₱678,518

The principal actuarial assumptions used to determine net pension costs were an annual salary increase of 6% and investment yield of 12%. Discount rates used were 12% for both years.

An actuarial valuation is made at least every three years. The Company's contribution to the retirement plan consists of a payment covering the current service cost for the year plus a payment toward funding the actuarial accrued liability.

15. Income Taxes

- a. The components of the Company's net deferred tax assets are as follows:

	2005	2004 (As restated, Note 2)
Tax effects of:		
Allowance for inventory obsolescence	₱460,200	₱420,754
Unamortized past service costs	51,039	48,355
Net pension asset	(19,704)	(13,829)
Unrealized foreign exchange loss	(67,050)	3,914
	₱424,485	₱459,194

- b. A reconciliation of provision for income tax computed at the applicable statutory income tax rate to provision for income tax as shown in the statements of income follows:

	2005	2004 (As restated, Note 2)
Income tax computed at statutory income tax rate	₱2,490,311	₱2,259,703
Adjustments to income tax resulting from:		
Effect of change in income tax rate	(34,880)	-
Interest income subjected to final tax	(178,775)	(141,689)
Nondeductible interest expense	-	1,021
Provision for income tax	₱2,276,656	₱2,119,035

- c. The components of the Company's current income tax are as follows:

	2005	2004 (As restated, Note 2)
Regular corporate income tax	₱1,955,907	₱1,861,024
Final tax on interest income	286,040	236,149
	₱2,241,947	₱2,097,173

- d. On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as Republic Act (RA) No. 9337 or the E-VAT 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 provides for the implementation of the rules and regulations of the new E-VAT law. Among the relevant provisions of the new E-VAT law are:

- i. Change in corporate income tax rate from 32% to 35% for the next three years effective on November 1, 2005, and 30% starting on January 1, 2009 and thereafter;
- ii. A 70% cap on the input VAT that can be claimed against output VAT;

- iii. Increase in the VAT rate imposed on goods and services from 10% to 12% effective January 1, 2006 provided that the VAT collection as a percentage of Gross Domestic Product (GDP) of the previous year exceeds 2.8% or the Philippine national government deficit as a percentage of GDP of the previous year exceeds 1.5%; and
- iv. The amount of interest paid or incurred within a taxable year on indebtedness in connection with the taxpayer's profession, trade or business shall be allowed as a deduction from gross income, provided that, the taxpayer's otherwise allowable deduction for interest expense shall be reduced by 42% of the interest income subject to final tax, provided that, effective January 1, 2009, the rate shall be 33%.

On January 31, 2006, the President, upon recommendation of the Secretary of Finance, approved the 2% increase in VAT rate effective on February 1, 2006.

16. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise cash and cash equivalents and held-to-maturity investments. The Company has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Company's financial instruments are foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks and they are summarized below.

Foreign Currency Risk

The Company has transactional currency exposures. Such exposure arises from purchases in currencies other than the functional currency. Approximately 65% of the Company's purchases are denominated in currencies other than the functional currency.

Credit Risk

The Company trades only with recognized, creditworthy third parties. It is the Company's policy that all customers 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 the Company's exposure to bad debts is not significant.

Liquidity Risk

The Company's objective is to maintain a balance between continuity of funding and flexibility through availment of cash advances from affiliates.

17. Financial Assets and Liabilities

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

	Carrying Amount		Fair Value	
	2005	2004	2005	2004
Financial assets:				
Cash and cash equivalents	₱18,720,421	₱18,632,818	₱18,729,421	₱18,632,818
Trade receivables	17,188,509	15,992,613	17,188,509	15,992,613
Financial liability:				
Trade payables	13,806,476	12,606,014	13,806,476	12,606,014

18. Other Matters

- a. The Company has an agreement with JDH Philippines Inc. (JDH) for the distribution of its products. The agreement was terminated effective January 31, 2005. The said agreement provided that upon termination, JDH will resell to the Company and the Company will repurchase all stock of the products in inventory at the original costs. The total value of inventory buy-back from JDH as of January 31, 2005 amounted to ₱12.8 million. A total of ₱11 million worth of the said inventory was sold to the new distributor.
- b. The Company engaged SYSU International, Inc. in lieu of JDH for the distribution of its products effective February 1, 2005. Under the new agreement, the Company will sell the products net of 20% distribution fee (inclusive of value added tax) and any other present and future applicable taxes.
- c. The Company also engaged Creative Wonders International Corporation for the distribution of the Company's products particularly Barbie eau de cologne and body sprays effective November 1, 2004. The distribution fee is 20% of its trade price.