

# 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)

<b>Jaime Y. Gonzales</b>
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(Contact Person)

<b>(02) 818-8711</b>
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(Company Telephone Number)

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*Month Day*  
(Calendar Year)

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(Form Type)

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*Month Day*  
(Annual Meeting)

<b>Not Applicable</b>
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(Secondary License Type, If Applicable)

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Dept. Requiring this Doc.

<b>Not Applicable</b>
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Amended Articles Number/Section

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Total No. of Stockholders

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Domestic

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Foreign

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To be accomplished by SEC Personnel concerned

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VISION INSURANCE CONSULTANTS, INC.

Financial Statements  
December 31, 2005 and 2004

and

Report of Independent Auditors

## **Report of Independent Auditors**

The Stockholders and the Board of Directors  
Vision Insurance Consultants, Inc.  
Chemphil Building  
851 A. Arnaiz Avenue  
Legaspi Village, Makati City

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

We 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 Vision Insurance Consultants, Inc. as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

**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

## **Report of Independent Auditors**

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Vision Insurance Consultants, Inc.

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April 10, 2006

## **Report of Independent Auditors**

The Stockholders and the Board of Directors  
Vision Insurance Consultants, Inc.  
Chemphil Building  
851 A. Arnaiz Avenue  
Legaspi Village, Makati City

We have audited the financial statements of Vision Insurance Consultants, Inc. for the year ended December 31, 2005, 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 only one stockholder owning one hundred (100) or more 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

**VISION INSURANCE CONSULTANTS, INC.**  
**BALANCE SHEETS**

	<b>December 31</b>	
	<b>2005</b>	2004 (As restated, Note 2)
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash	<b>₱488,833</b>	₱116,928
Receivables - net (Note 4)	<b>2,470,827</b>	3,269,725
Due from related parties (Note 9)	<b>26,953,547</b>	27,231,069
Prepayments and other current assets (Note 5)	<b>1,255,456</b>	429,917
<b>Total Current Assets</b>	<b>31,168,663</b>	31,047,639
<b>Noncurrent Assets</b>		
Noncurrent receivables (Note 7)	<b>91,428</b>	-
Office furniture, fixtures and equipment - net (Note 6)	<b>11,714</b>	21,543
Deferred income tax asset - net (Note 13)	<b>456,590</b>	464,730
Prepaid retirement (Note 12)	<b>1,164,839</b>	1,047,465
<b>Total Noncurrent Assets</b>	<b>1,724,571</b>	1,533,738
<b>TOTAL ASSETS</b>	<b>₱32,893,234</b>	₱32,581,377
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current Liabilities</b>		
Due to insurance companies	<b>₱2,479,868</b>	₱2,730,490
Accounts payable and accrued expenses (Note 8)	<b>1,345,711</b>	763,825
Due to related parties (Note 9)	<b>585,464</b>	846,089
<b>Total Current Liabilities</b>	<b>4,411,043</b>	4,340,404
<b>Stockholders' Equity</b>		
Capital stock - ₱1 par value (Notes 10 and 16)		
Authorized - 2,000,000 shares		
Issued - 1,843,750 shares	<b>1,843,750</b>	1,843,750
Retained earnings:		
Appropriated (Note 10)	<b>26,155,250</b>	24,655,250
Unappropriated	<b>483,191</b>	1,741,973
<b>Total Stockholders' Equity</b>	<b>28,482,191</b>	28,240,973
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>₱32,893,234</b>	₱32,581,377

*See accompanying Notes to Financial Statements.*

**VISION INSURANCE CONSULTANTS, INC.**  
**STATEMENTS OF INCOME**

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	<b>Years Ended December 31</b>	
	<b>2005</b>	2004 (As restated, Note 2)
<b>COMMISSION INCOME</b> (Note 9)	<b>₱3,047,397</b>	₱3,290,839
Operating expenses (Note 11)	<b>(3,342,828)</b>	(5,418,717)
Profit sharing commission	<b>317,796</b>	340,093
Interest income (Note 9)	<b>154,892</b>	405,687
Other income (charges) - net	<b>129,265</b>	(52,855)
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>306,522</b>	(1,434,953)
<b>PROVISION FOR (BENEFIT FROM ) INCOME TAX</b> (Note 13)		
Current	<b>57,164</b>	56,940
Deferred	<b>8,140</b>	(516,815)
	<b>65,304</b>	(459,875)
<b>NET INCOME (LOSS)</b>	<b>₱241,218</b>	(₱975,078)

*See accompanying Notes to Financial Statements.*

**VISION INSURANCE CONSULTANTS, INC.****STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	Capital Stock (Notes10)	Retained Earnings		Total
		Appropriated (Note 10)	Unappropriated	
<b>BALANCES AT DECEMBER 31, 2003, AS PREVIOUSLY REPORTED</b>	<b>₱1,843,750</b>	<b>₱24,655,250</b>	<b>₱2,065,553</b>	<b>₱28,564,553</b>
Effect of adoption of PAS 19 (Note 2)	–	–	651,498	651,498
<b>BALANCES AT DECEMBER 31, 2003, AS RESTATED</b>	<b>1,843,750</b>	<b>24,655,250</b>	<b>2,717,051</b>	<b>29,216,051</b>
Net loss for the year	–	–	(975,078)	(975,078)
<b>BALANCES AT DECEMBER 31, 2004</b>	<b>1,843,750</b>	<b>24,655,250</b>	<b>1,741,973</b>	<b>28,240,973</b>
Appropriation for contingency	–	1,500,000	(1,500,000)	–
Net income for the year	–	–	241,218	241,218
<b>BALANCES AT DECEMBER 31, 2005</b>	<b>₱1,843,750</b>	<b>₱26,155,250</b>	<b>₱483,191</b>	<b>₱28,482,191</b>

*See accompanying Notes to Financial Statements.*

**VISION INSURANCE CONSULTANTS, INC.**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2005</b>	2004 (As restated, Note 2)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	<b>₱306,522</b>	(₱1,434,953)
Adjustments for:		
Depreciation (Note 6)	<b>9,829</b>	4,708
Interest income	<b>(154,892)</b>	(405,687)
Provision for doubtful accounts (Note 11)	<b>81,089</b>	1,764,790
Operating income (loss) before working capital changes	<b>242,548</b>	(71,142)
Decrease (increase) in:		
Receivables	<b>717,809</b>	(1,689,665)
Amounts due from related parties	<b>(267,281)</b>	210,743
Prepayments and other current assets	<b>(825,539)</b>	229,169
Increase (decrease) in:		
Amounts due to insurance companies	<b>(250,622)</b>	(1,015)
Accounts payable and accrued expenses	<b>581,887</b>	(40,999)
Amounts due to related parties	<b>(260,625)</b>	14,514
Cash used in operations	<b>(61,823)</b>	(1,348,395)
Income taxes paid, including creditable taxes withheld and final tax	<b>(57,164)</b>	(260,977)
Interest received	<b>699,694</b>	286,185
Net cash from (used in) operating activities	<b>580,707</b>	(1,323,187)
<b>CASH FLOWS FROM INVESTING ACTIVITY</b>		
Additions to office furniture, fixtures and equipment (Note 6)	–	(14,727)
Increase in other noncurrent asset	<b>(208,802)</b>	–
<b>NET INCREASE (DECREASE) IN CASH</b>	<b>371,905</b>	(1,337,914)
<b>CASH AT BEGINNING OF YEAR</b>	<b>116,928</b>	1,454,842
<b>CASH AT END OF YEAR</b>	<b>₱488,833</b>	₱116,928

*See accompanying Notes to Financial Statements.*

# **VISION INSURANCE CONSULTANTS, INC.**

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## **NOTES TO FINANCIAL STATEMENTS**

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### **1. Corporate Information**

Vision Insurance Consultants, Inc. (the Company) was incorporated in the Philippines to primarily engage in insurance brokerage. 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) through its Executive Committee (Board Excom) on April 10, 2006.

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### **2. Summary of Significant Accounting and Financial Reporting Policies**

#### Basis of Financial Statement Preparation

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles (GAAP) 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 financial statements of the Company have been prepared on the historical cost basis and are presented in Philippine peso.

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

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 and financial reporting policies. The comparative figures for the 2004 financial statements were restated to reflect these changes in policies.

#### Adoption of New and Revised Accounting Standards

The Company adopted the following new and revised Philippine Accounting Standards (PAS) and PFRS. The new accounting standards 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 adoption of PAS 19 decreased net loss by ₱70,460 for the year ended December 31, 2004 and increased retained earnings as of December 31, 2004 and January 1, 2004 by ₱721,958 and ₱651,498, 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 37 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, were applicable.

Revised accounting standards:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which a company assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation, uncertainty and judgments management has made in the process of applying the company's accounting policies.
- 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.
- PAS 36, *Impairment of Assets*, prescribes guidance on how to measure the recoverable amount of an intangible asset with an indefinite useful life annually, whether or not there is an indication of impairment.

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, stockholders' equity and retained earnings as of January 1, 2004 and December 31, 2004 and net loss for the year then ended December 31, 2004 are set out below:

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	₱33,137,645	₱651,498	₱33,789,143	₱31,873,657	₱707,720	₱32,581,377
Liabilities	4,573,092	-	4,573,092	4,354,642	(14,238)	4,340,404
Stockholders' Equity	28,564,553	651,498	29,216,051	27,519,015	721,958	28,240,973

Retained Earnings

	January 1, 2004	December 31, 2004
As previously reported	₱2,065,553	₱1,020,015
Effect of adoption of PAS 19	651,498	721,958
As restated	₱2,717,051	₱1,741,973

Net Loss

	For the Year Ended December 31, 2004
As previously reported	(₱1,045,538)
Effect of adoption of PAS 19	70,460
As restated	(₱975,078)

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 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 39, *Amendments to Financial Instruments: Recognition and Measurement* - effective January 1, 2006.

Management believes that the applications of the above standard or amendments will not have a material 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 respective effectivity dates.

Cash

Cash consists of cash on hand and in bank.

Receivables

Trade receivables are recognized and carried at original invoice amount less allowance for doubtful accounts, if any. 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 less allowance for doubtful accounts, if any.

Office Furniture, Fixtures and Equipment

Office furniture, fixtures and equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and any impairment in value. Such cost includes the cost of replacing part of such office furnitures and fixtures when that cost is incurred if the recognition criteria are met.

Depreciation commences once the assets are put into operational use and is computed on a straight-line basis over the estimated useful life of the assets ranging from two to five years.

The asset's residual values, useful lives and depreciation method are reviewed, and adjusted, if appropriate, at each balance sheet date.

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

#### Impairment of Non-Financial Assets

The carrying values of non-financial assets are reviewed for impairment when events or changes in circumstances indicate that 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 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 balance sheet dates.

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 and 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 was 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 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 equity to the statements of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss. 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 the statements of income.

#### 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:

#### *Commission*

Commission income is recognized based on premium billings prepared upon rendering of services to the insured and upon issuance of policies by the issuer. Premiums in the course of collection are for the account of the insurers and are remittable to them.

#### *Interest*

Interest income is recognized as the interest accrues.

#### 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. Retirement benefits 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 actuarial gains and losses not recognized reduced by the past service cost not yet recognized 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 net cumulative 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 net 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 life 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 income 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 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. Deferred income tax assets are recognized for all deductible temporary differences, excess minimum corporate income tax (MCIT) over regular corporate income tax and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible carryforward benefits of temporary differences, excess MCIT and unused NOLCO can be utilized.

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

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 (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

#### 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 approval of the BOD 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 the financial statements when material.

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### 3. **Significant Judgments and Accounting Estimates**

#### Judgment

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

#### *Determination of the Company's functional currency*

The Company, based on the relevant economic substance of the underlying circumstances, has determined its functional currency to be the Philippine peso. It is the currency of the primary economic environment in which it and its subsidiaries and associate operate.

#### *Classification of financial instruments*

The Company classifies a financial instrument, or its components, on initial recognition as a financial liability, a financial asset or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial liability, a financial asset or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Company's balance sheets.

Financial assets are further classified into the following categories:

- a. Financial asset at fair value through profit or loss
- b. Loan and receivable
- c. Held-to-maturity financial asset
- d. Available-for-sale financial asset

Financial liabilities, on the other hand, are further classified into the following categories:

- a. Financial liability at fair value through profit or loss
- b. Other liability

The Company determines the classification at initial recognition and re-evaluates this classification at every reporting date.

#### *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 with the lessors. As such, these lease agreements are accounted for as operating leases.

#### 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:

#### *Retirement Benefits*

The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by independent actuaries in calculating such amounts. Those assumptions are described in Note 10 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.

#### *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 net receivables amounted to ₱2,470,827 and ₱3,269,725 as of December 31, 2005 and 2004, respectively.

#### *Estimated Useful Lives and Residual values of Property and Equipment*

The Company estimates the useful lives and residual values 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 and residual values 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 values of the property and equipment amounted to ₱11,714 and ₱21,543 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 pre-tax discount rate in order to calculate the present value of those cash flows.

*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 income tax assets to be utilized. More details are provided in Note 11.

The Company's net deferred income tax assets amounted to ₱456,590 and ₱464,730 as of December 31, 2005 and 2004, respectively.

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4. **Receivables**

	2005	2004
Premiums	<b>₱2,516,896</b>	₱2,893,639
Commissions	<b>278,516</b>	345,758
Others (Note 7)	<b>450,629</b>	861,378
	<b>3,246,041</b>	4,100,775
Less allowance for doubtful accounts	<b>775,214</b>	831,050
	<b>₱2,470,827</b>	₱3,269,725

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5. **Prepayments and Other Current Assets**

	2005	2004 (As restated, Note 2)
Prepaid taxes	<b>1,050,008</b>	308,468
Others	<b>205,448</b>	121,449
	<b>₱1,255,456</b>	₱429,917

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**6. Office Furniture, Fixtures and Equipment**

	2005	2004
<b>Cost</b>		
Beginning balance	<b>₱500,483</b>	₱485,756
Additions	-	14,727
Ending balance	<b>500,483</b>	500,483
<b>Accumulated Depreciation</b>		
Beginning balance	<b>478,940</b>	474,232
Depreciation	<b>9,829</b>	4,708
Ending balance	<b>488,769</b>	478,940
<b>Net Book Value</b>	<b>₱11,714</b>	₱21,543

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**7. Noncurrent Receivable**

In 2005, Manila Electric Company (MERALCO), informed the Company that in reference to the MERALCO Phase IVB of the refund approved by the Energy Regulatory Board, the Company's electric service was qualified for refund under Phase IVB.

Under the refund MERALCO scheme, the refund may be received through postdated checks or as a fixed monthly credit to bills with cash option. The Company intends to recover the refund through postdated check to be collected over 5.25 years, starting in April 2006 up to July 2011.

The Company recognized a receivable from MERALCO amounting to ₱138,784, which consists of unearned interest income of 30,677, and income from refund of 108,106. The receivable was discounted using an effective interest rate of 11%. Breakdown of outstanding balance as of December 31, 2005 are as follows:

	Current	Noncurrent
Receivable from MERALCO	₱26,435	₱112,349
Deferred interest income	9,757	20,920

The current portion of the refund receivable is included under "Receivable-others" account (see Note 4)

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**8. Accounts Payable and Accrued Expenses**

	2005	2004 (As restated, Note 2)
Accounts payable	<b>₱1,190,260</b>	₱628,195
Accrued expenses	<b>155,451</b>	135,630
	<b>₱1,345,711</b>	₱763,825

## 9. Related Party Transactions

In the normal course of business, the Company had the following transactions with related parties (related parties refer to Chemical Industries of the Philippines, Inc. and its subsidiaries and associates):

- a. Insurance underwriting services rendered by the Company to related parties. Commission earned from these transactions amounted to ₱2,826,054 in 2005 and ₱2,985,115 in 2004.
- b. Extension of noninterest and interest-bearing (interest rate ranging from 7.5% to 9.1% in 2005 and 2004) cash advances. Interest income earned amounted to ₱151,036 in 2005 and ₱399,931 in 2004.
- c. Outstanding receivables from related parties are as follows:

	Premiums Receivable		Advances				Interest		2005 Total	2004 Total
	2005	2004	Noninterest-bearing		Interest-bearing		2005	2004		
			2005	2004	2005	2004				
LMG Chemical Corp. (LMG)	<b>₱11,393,217</b>	₱13,900,354	<b>₱1,178,781</b>	₱2,869,151	<b>₱-</b>	₱681,580	<b>₱-</b>	₱655,607	<b>₱12,571,998</b>	₱18,106,692
CAWC, Inc. (CAWC)	<b>7,629,562</b>	1,917,989	-	10,302	-	-	-	8,224	<b>7,629,562</b>	1,936,515
Chemical Industries of the Philippines, Inc. (CIP)	<b>2,346,840</b>	2,006,030	<b>2,253,768</b>	2,520,324	<b>1,161,480</b>	1,311,804	<b>953,454</b>	834,425	<b>6,715,542</b>	6,672,583
Perfumeria Espanola Corp. (PEC)	<b>31,274</b>	29,148	-	-	-	-	-	-	<b>31,274</b>	29,148
Kemwater Phil. Corp (KPC)	<b>4,619</b>	486,131	-	-	-	-	-	-	<b>4,619</b>	486,131
CMC	<b>552</b>	-	-	-	-	-	-	-	<b>552</b>	-
	<b>₱21,406,064</b>	₱18,339,652	<b>₱3,432,549</b>	₱5,399,777	<b>₱1,161,480</b>	₱1,993,384	<b>₱953,454</b>	₱1,498,256	<b>₱26,953,547</b>	₱27,231,069

- d. Service agreement with CIP for the Company's management support activities. The service fee consists of the management fee and the shared services fee. Management fee amounting to ₱600,000 in 2005 and 2004 represents the Company's share in the general corporate overhead incurred by CIP. The shared services fee is billed based on activity-based costing, under which, services rendered are based on man-hours spent or number of items processed or output produced as applicable. Share in common services charged to operations amounted to ₱1,027,870 in 2005 and ₱1,325,556 in 2004.
- e. Rental agreement with CIP for the lease of the Company's office space for one year, renewable at the option of both parties. Rental expense charged to operations amounted to ₱151,974 in 2005 and ₱155,899 in 2004.
- f. Risk management services were provided to related parties. The amount billed is based on actual time charges. Risk management fees, amounting to ₱81,409 and ₱153,371 in 2005 and 2004, respectively, are shown as deductions from "Share in common services".
- g. Compensation of key management personnel consists of short-term employee benefits amounting to ₱318,891 in 2005 and ₱361,601 in 2004.

h. Outstanding payables to related parties are as follows:

	<b>2005</b>	2004
LMG	<b>₱296,355</b>	₱200,838
CIP	<b>275,084</b>	610,703
KPC	<b>14,025</b>	21,367
PEC	-	13,181
	<b>₱585,464</b>	₱846,089

## 10. Stockholders' Equity

On June 15, 2004, the Company's Board Excom passed a written memorandum where they resolved to increase the Company's authorized capital stock from ₱2,000,000 at ₱1 par value per share to ₱22,000,000 at the same par value per share. It further resolved to declare stock dividends amounting to ₱16,593,750 or nine shares for every share of stock outstanding as of December 31, 2003. The Board Excom has not yet convened to approve and ratify the foregoing resolutions. The Company has previously appropriated retained earnings amounting to ₱24,655,250 for such purpose.

On December 31, 2005, the Board Excom resolved to increase the appropriated retained earnings by ₱1,500,000 to answer for any contingency that may arise during the business operations of the Company.

## 11. Operating Expenses

	<b>2005</b>	2004
Share in common services (Note 9)	<b>₱1,027,870</b>	₱1,172,185
Personnel (Note 12)	<b>994,173</b>	1,218,213
Management fee (Note 9)	<b>600,000</b>	600,000
Rent (Note 9)	<b>151,974</b>	155,899
Directors' fee	<b>144,000</b>	144,000
Utilities	<b>132,909</b>	124,881
Provision for doubtful accounts	<b>81,089</b>	1,764,790
Insurance	<b>62,221</b>	62,152
Professional fees	<b>61,365</b>	79,018
Taxes and licenses	<b>34,369</b>	39,485
Office supplies	<b>29,763</b>	42,815
Transportation	<b>13,266</b>	10,571
Depreciation (Note 6)	<b>9,829</b>	4,708
	<b>₱3,342,828</b>	₱5,418,717

## 12. Retirement Benefits Cost

The Company, together with its affiliated companies, is participating 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.

The following tables summarize the components of net retirement gain recognized in the statements of income and the funding status and amounts recognized in the balance sheets.

Net retirement gain for the year are as follows:

	<b>2005</b>	2004 (As restated, Note 2)
Current service cost	<b>(P8,146)</b>	(P7,076)
Interest cost	<b>(15,639)</b>	(12,516)
Expected return on plan assets	<b>119,588</b>	105,731
Net actuarial loss	<b>(3,137)</b>	(3,452)
<b>Net retirement gain</b>	<b>P92,666</b>	P82,687

Net pension assets recognized by the Company are as follows:

	<b>2005</b>	2004 (As restated, Note 2)
Fair value of plan assets	<b>P1,140,863</b>	P 996,568
Present value of pension liabilities	<b>(154,109)</b>	(130,324)
	<b>986,754</b>	866,244
Unrecognized net actuarial loss	<b>178,085</b>	181,221
<b>Net pension assets</b>	<b>P1,164,839</b>	P1,047,465

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

	<b>2005</b>	2004 (As restated, Note 2)
Balance at beginning of year	<b>P130,324</b>	P104,300
Current service cost	<b>8,146</b>	7,076
Interest cost	<b>15,639</b>	12,516
Actuarial loss	-	6,432
<b>Balance at end year</b>	<b>P154,109</b>	P130,324

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

	<b>2005</b>	2004 (As restated, Note 2)
Balances at beginning of year	<b>P996,568</b>	P881,090
Expected return on plan assets	<b>119,588</b>	105,731
Actual contributions	<b>24,707</b>	6,692
Actuarial gain	-	3,055
<b>Balance at end year</b>	<b>P1,140,863</b>	P996,568

Movements of the pension assets are as follows:

	<b>2005</b>	2004 (As restated, Note 2)
Pension assets at beginning of year	<b>₱1,047,465</b>	₱958,086
Actual contribution	<b>24,767</b>	6,692
Net retirement gain recognized	<b>92,666</b>	82,687
Pension assets at end of year	<b>₱1,164,839</b>	₱1,047,465

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.

### 13. Income Taxes

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

	<b>2005</b>	2004 (As restated, Note 2)
Deferred income tax assets on:		
Income tax effects of:		
NOLCO	<b>₱520,857</b>	₱476,212
Provision for doubtful accounts	<b>271,325</b>	265,936
Unamortized past service liability	<b>1,742</b>	1,982
Excess MCIT	<b>70,359</b>	55,789
	<b>864,283</b>	799,919
Deferred tax liability on pension asset	<b>407,693</b>	335,189
Net deferred income tax assets	<b>₱456,590</b>	₱464,730

The Company's NOLCO and excess MCIT can be offset against future taxable income and regular corporation income tax due respectively, until 2007 and 2008.

b) The components of the Company's provision for current income tax are as follows:

	<b>2005</b>	2004
Minimum corporate income tax	<b>₱56,393</b>	₱55,789
Final tax on interest income	<b>771</b>	1,151
	<b>₱57,164</b>	₱56,940

- c) The reconciliation of the provision for income tax computed at the statutory income tax rate to the provision for income tax shown in the statements of income follows:

	2005	2004 (As restated, Note 2)
Provision for (benefit from) income tax computed at statutory income tax rate	<b>₱99,619</b>	(₱459,185)
Effect of change in tax rate	<b>(33,834)</b>	-
Interest income already subjected to final tax	<b>(481)</b>	(690)
<b>Provision for (benefit from) income tax</b>	<b>₱65,304</b>	<b>(₱459,875)</b>

- d) As of December 31, 2005, the Company's NOLCO and excess MCIT that can be claimed as deduction from future taxable income and regular corporate income tax due, respectively, are as follows:

Year Incurred	NOLCO		Excess MCIT	Available Until
	Amount	Tax Effect		
2004	₱1,488,163	₱520,857	₱55,789	2007
2005	-	-	14,570	2008
	<b>₱1,488,163</b>	<b>₱520,857</b>	<b>₱70,359</b>	

- e) On May 24, 2005, the new Expanded Value-Added Tax (E-VAT) law was signed as Republic Act 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 deductible 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 of the Philippines, upon recommendation of the Secretary of Finance, approved the 2% increase in VAT rate effective on February 1, 2006.

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#### 14. Financial Risk Management Objectives and Policies

The Company's principal financial instruments comprise of cash. The Company has various other financial assets and liabilities such as trade receivables, trade payables, and related party transactions, which arise directly from its operations.

The main risks arising from the Company's financial instruments are liquidity risk and credit risk. The BOD reviews and agrees on policies for managing each of these risks and they are summarized below:

##### *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 are subjected 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. For transactions that are not denominated in the functional currency of the relevant operating unit, the Company does not offer credit terms without the specific approval of the Head of Credit Control.

##### *Liquidity Risk*

The Company's exposure to liquidity risk is minimal.

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#### 15. 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	<b>₱488,833</b>	₱116,928	<b>₱488,833</b>	₱116,928
Premiums receivables	<b>2,516,896</b>	2,893,639	<b>2,516,896</b>	2,893,639
Commission receivables	<b>278,516</b>	345,758	<b>278,516</b>	345,758
Due from related parties	<b>26,953,547</b>	27,231,069	<b>26,953,547</b>	27,231,069
Financial liabilities:				
Trade payables	<b>1,190,260</b>	628,195	<b>1,190,260</b>	628,195
Due to related parties	<b>585,464</b>	846,089	<b>585,464</b>	846,089

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#### 16. Other Matters

Approximately 20% of the outstanding shares of stock of the Company are the subject of a pending issue on ownership filed with the Securities and Exchange Commission. Management believes that the ultimate outcome of the pending issue has no material effect on the financial statements.