SGV & Co

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Vision Insurance Consultants, Inc., which comprise the balance sheets as at December 31, 2006 and 2005, and the statements of income, statements of changes in stockholders' equity and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Vision Insurance Consultants, Inc. as of December 31, 2006 and 2005, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-1
Tax Identification No. 102-086-208
PTR No. 0266550, January 2, 2007, Makati City

April 4, 2007

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

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Vision Insurance Consultants, Inc.

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INDEPENDENT AUDITORS' REPORT

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. as of and for the year ended December 31, 2006, on which we have rendered the attached report dated April 4, 2007

In compliance with Securities Regulation Code Rule 68, we are stating that the above Company has four stockholders owning 100 or more shares each.

SYCIP GORRES VELAYO & CO.

Josephine H. Estomo
Partner
CPA Certificate No. 46349
SEC Accreditation No. 0078-AR-1
Tax Identification No. 102-086-208
PTR No. 0266550, January 2, 2007, Makati City

April 4, 2007

VISION INSURANCE CONSULTANTS, INC.
BALANCE SHEETS

	December 31	
	2006	2005
ASSETS		
Current Assets		
Cash	**₱282,054**	₱488,833
Receivables - net (Note 4)	**3,390,535**	2,470,827
Due from related parties (Note 8)	**26,204,490**	26,468,917
Prepayments and other current assets (Note 5)	**1,649,452**	1,255,456
Total Current Assets	**31,526,531**	30,684,033
Noncurrent Assets		
Office furniture, fixtures and equipment - net (Note 6)	**3,090**	11,714
Retirement plan assets (Note 11)	**1,242,512**	1,164,839
Deferred tax asset - net (Note 12)	**499,646**	456,590
Total Noncurrent Assets	**1,745,248**	1,633,143
TOTAL ASSETS	**₱33,271,779**	₱32,317,176
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities		
Due to insurance companies	**₱3,309,754**	₱2,479,868
Accounts payable and accrued expenses (Note 7)	**1,486,149**	1,345,711
Due to related parties (Note 8)	**–**	9,406
Total Current Liabilities	**4,795,903**	3,834,985
Stockholders' Equity		
Capital stock - ₱1 par value (Notes 9 and 15)		
Authorized - 2,000,000 shares		
Issued - 1,843,750 shares	**1,843,750**	1,843,750
Retained earnings:		
Appropriated (Note 9)	**26,155,250**	26,155,250
Unappropriated	**476,876**	483,191
Total Stockholders' Equity	**28,475,876**	28,482,191
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**₱33,271,779**	₱32,317,176

See accompanying Notes to Financial Statements.

VISION INSURANCE CONSULTANTS, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2006	2005
INCOME		
Commission income (Note 8)	**₱2,299,252**	₱3,047,397
Profit sharing commission	**271,600**	317,796
Interest income (Note 8)	**162,248**	154,892
Recovery of doubtful accounts	**111,554**	–
Other income - net	**336,098**	129,265
	3,180,752	3,649,350
EXPENSES (Note 10)	**3,190,973**	3,342,828
INCOME (LOSS) BEFORE INCOME TAX	**(10,221)**	306,522
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 12)		
Current	**39,150**	57,164
Deferred	**(43,056)**	8,140
	(3,906)	65,304
NET INCOME (LOSS)	**(₱6,315)**	₱241,218

See accompanying Notes to Financial Statements.

VISION INSURANCE CONSULTANTS, INC.

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2006 AND 2005

		Retained Earnings		
	Capital Stock (Notes 9 and 15)	Appropriated (Note 9)	Unappropriated	Total
BALANCES AT DECEMBER 31, 2004	**₱1,843,750**	**₱24,655,250**	**₱1,741,973**	**₱28,240,973**
Appropriation for contingency	–	1,500,000	(1,500,000)	–
Net income for the year	–	–	241,218	241,218
BALANCES AT DECEMBER 31, 2005	**1,843,750**	**26,155,250**	**483,191**	**28,482,191**
Net loss for the year	–	–	(6,315)	(6,315)
BALANCES AT DECEMBER 31, 2006	**₱1,843,750**	**₱26,155,250**	**₱476,876**	**₱28,475,876**

See accompanying Notes to Financial Statements.

VISION INSURANCE CONSULTANTS, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Income (loss) before income tax	**(₱10,221)**	₱306,522
Adjustments for:		
Depreciation (Note 6)	**8,624**	9,829
Interest income	**(162,248)**	(154,892)
Operating income (loss) before working capital changes	**(163,845)**	161,459
Decrease (increase) in:		
Receivables	**(919,708)**	798,898
Amounts due from related parties	**(337,561)**	(1,113,370)
Prepayments and other current assets	**(471,669)**	(825,539)
Increase (decrease) in:		
Amounts due to insurance companies	**829,886**	(250,622)
Accounts payable and accrued expenses	**140,438**	581,887
Amounts due to related parties	**(9,406)**	585,464
Net cash used in operations	**(931,865)**	(61,823)
Interest received	**764,236**	699,694
Income taxes paid, including creditable taxes withheld and final tax	**(39,150)**	(57,164)
Net cash from (used in) operating activities	**(206,779)**	580,707
CASH FLOWS FROM INVESTING ACTIVITY		
Increase in other noncurrent asset	**–**	(208,802)
NET INCREASE (DECREASE) IN CASH	**(206,779)**	371,905
CASH AT BEGINNING OF YEAR	**488,833**	116,928
CASH AT END OF YEAR	**₱282,054**	₱488,833

See accompanying Notes to Financial Statements.

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 4, 2007.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Preparation and Statement of Compliance
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

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.

Changes in Accounting Policies
The accounting policies adopted are consistent with those of the previous year, except that the Company has made changes in accounting policies resulting from adoption of the following new and revised standards and Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) effective January 1, 2006:

- PAS 19, *Employee Benefits*, provides additional option to recognize all actuarial gains and losses immediately outside of profit or loss (i.e., in equity). If the new option is adopted, present actuarial gains and losses in a statement of changes in equity titled 'Statement of Recognized Income and Expenses'. The Company chose not to apply the new option to recognize all actuarial gains and losses immediately outside of profit or loss.

- PAS 39, *Financial Instruments: Recognition and Measurement*

  Amendment for *financial guarantee contracts* requires financial guarantee contracts that are not considered to be insurance contracts to be recognized initially at fair value and to be remeasured at the higher of the amount determined in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* and the amount initially recognized less, when appropriate, cumulative amortization recognized in accordance with PAS 18, *Revenue.*

  Amendment for *hedges of forecast intragroup transactions* permits the foreign currency risk of a highly probable intragroup forecast transaction to qualify as the hedged item in a cash flow hedge, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and that the foreign currency risk will affect the statement of income.

Amendment for the *fair value option* restricts the use of the option to designate any financial asset or any financial liability to be measured at fair value through profit or loss.

- Philippine Interpretation IFRIC 4, *Determining Whether an Arrangement Contains a Lease*, provides guidance in determining whether arrangements contain a lease to which lease accounting must be applied. The adoption of this interpretation did not have any significant impact on the Company's financial statements.

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

Future Changes in Accounting Policies

The following are the new and revised accounting standards and interpretations that will become effective subsequent to 2006:

- PFRS 7, *Financial Instruments: Disclosures*, and the complementary amendment to PAS 1, *Presentation of Financial Statements: Capital Disclosures* (effective for annual periods beginning on or after January 1, 2007), introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, as well as sensitivity analysis to market risk. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital.

- PFRS 8, *Operating Segments* (effective for annual periods beginning on or after January 1, 2009), requires a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*, and is required to be adopted only by entities whose debt or equity instruments are publicly traded, or are in the process of filing with the Philippine Securities and Exchange Commission for purposes of issuing any class of instruments in a public market.

- Philippine Interpretation IFRIC 7, *Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies* (effective for annual periods beginning on or after March 1, 2006), provides guidance on how to apply PAS 29 when an economy first becomes hyperinflationary, in particular the accounting for deferred income tax.

- Philippine Interpretation IFRIC 8, *Scope of PFRS 2* (effective for annual periods beginning on or after May 1, 2006), requires PFRS 2 to be applied to any arrangements where equity instruments are issued for consideration which appears to be less than fair value.

- Philippine Interpretation IFRIC 9, *Reassessment of Embedded Derivatives* (effective for annual periods beginning on or after June 1, 2006), establishes that the date to assess the existence of an embedded derivative is the date an entity first becomes a party to the contract, with reassessment only if there is a change to the contract that significantly modifies the cash flows.

- Philippine Interpretation IFRIC 10, *Interim Financial Reporting and Impairment* (effective for annual periods beginning on or after November 1, 2006), prohibits the reversal of impairment losses on goodwill and available-for-sale equity investments recognized in the interim financial reports even if impairment is no longer present at the annual balance sheet date.

- Philippine Interpretation IFRIC 11, *PFRS 2 - Group and Treasury Share Transactions* (effective for annual periods beginning on or after March 1, 2007), requires arrangements whereby an employee is granted rights to an entity's equity instruments to be accounted for as an equity-settled scheme by the entity even if (a) the entity chooses or is required to buy those equity instruments (e.g., treasury shares) from another party, or (b) the shareholders of the entity provide the equity instruments needed. It also provides guidance on how subsidiaries, in their separate financial statements, account for such schemes when their employees receive rights to the equity instruments of the parent.

- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, (effective for annual periods beginning on or after January 1, 2008), covers contractual arrangements arising from private entities providing public services.

The Company is currently assessing the financial statements impact of the foregoing standards and interpretations. The effects of the adoption of these standards and interpretations, if any, will be included in the Company's financial statements when the Company adopts them.

Cash
Cash consists of cash on hand and in banks.

Financial Assets and Liabilities
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. Financial liabilities, on the other hand, are classified as either financial liabilities at fair value through profit or loss or other liabilities, as appropriate. When financial assets and financial liabilities 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 after initial recognition and, where allowed and appropriate, re-evaluates this designation at each balance sheet date.

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

Financial Assets or Financial Liabilities at Fair Value Through Profit or Loss
Financial assets or financial liabilities classified in this category are designated by management on initial recognition when the following criteria are met:
- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on them on a different basis, or

- The assets and liabilities are part of a group of financial assets, financial liabilities, respectively, or both financial assets and financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, or
- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets or financial liabilities classified as held for trading are included in the category ‘financial assets or financial liabilities at fair value through profit or loss’. Financial assets or financial liabilities 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 statement of income.

The Company has not designated any financial assets or liabilities as financial assets or liabilities at fair value through profit or loss.

Held-to-maturity Investments
Non-derivative financial assets with fixed or determinable payments and fixed maturities 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 less allowance for impairment. 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 statement of income when the investments are derecognized or impaired, as well as through the amortization process.

The Company has not designated any financial assets as held-to-maturity.

Loans and Receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities 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 statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Classified as loans and receivables are the Company’s trade receivables and due from related parties.

Available-for-sale Financial Assets
Available-for-sale financial assets are those non-derivative 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 statement of income.

The Company has not designated any financial assets as available-for-sale financial assets.

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.

Other Financial Liabilities
Other financial liabilities pertains to financial liabilities that are not held for trading or not designated as fair value through profit or loss upon the inception of the liability. These include liabilities arising from operations (e.g., payables, accruals).

The liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

<u>Derecognition of Financial Assets and Liabilities</u>
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 when:

- the rights to receive cash flows from the asset have expired; or
- 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, cancelled or expired.

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

<u>Impairment of Financial Assets</u>
The Company assesses at each balance sheet date whether or not 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 the use of an allowance account. The amount of the loss shall be recognized in the statement 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 statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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 statement of income, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as available-for-sale are not recognized in statement of income. Reversals of impairment losses on debt instruments are reversed through statement of income, if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statement of income.

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

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 any 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 statement of income.

Revenue

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

Commission

Commission 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 present value of 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 retirement plan assets recognized by the Company in respect of the defined benefit retirement 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 retirement plan assets recognized by the Company in respect of the defined benefit retirement 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.

Operating Leases

The determination of whether the arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception on the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether fulfillment is dependent on a specified asset; or (d) there is substantial change to the asset.

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

For arrangements entered prior to January 1, 2005, the date of inception is deemed to be January 1, 2005 in accordance with the transitional requirements of Philippine Interpretation IFRIC 4.

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

Income Taxes

Current 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 have been enacted or substantively enacted at the balance sheet date.

Deferred Tax

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

The carrying amount of the deferred 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 tax asset to be utilized. Unrecognized deferred 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 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.

Deferred tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Foreign Currency Transactions and Translations
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 recognized in the parent company statement of income.

Provisions and Contingencies
Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. 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.

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

Events After the Balance Sheet Date
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.

3. Significant Accounting Judgments and Estimates

The preparation of the accompanying financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The judgments, estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances that are believed to be reasonable as of the date of the financial statements. While the Company believes that the assumptions are reasonable and appropriate, differences in the actual experience or changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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 Philippine peso. It is currency of the primary economic environment ion 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 agreement and the definitions of a financial liability, a financial asset or an equity instrument. The substance of a financial instrument, rather that its legal form, governs its classification in the Company's balance sheet.

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

Operating lease - *the Company 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.

The Company's rental expense charged to operations amounted to ₱128,794 in 2006 and ₱151,974 in 2005.

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 ₱3,390,535 and ₱2,470,827 as of December 31, 2006 and 2005, respectively, net of allowance for doubtful accounts of ₱663,337 in 2006 and ₱775,214 in 2005.

Estimation of useful lives and residual values of office furniture, fixtures and equipment
The Company estimates the useful lives and residual values of office furniture, fixtures 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 office furniture, fixtures and equipment based on factors that include asset utilization and 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 office furniture, fixtures and equipment would increase depreciation expense and decrease noncurrent assets.

The carrying values of the property and equipment amounted to ₱3,090 and ₱11,714 as of December 31, 2006 and 2005, respectively. Total depreciation expense charged to operations amounted to ₱8,624 in 2006 and ₱9,829 in 2005 (see Note 6).

Estimation of retirement benefits
The determination of the obligation and cost of retirement benefits is dependent on the selection of certain assumptions used by independent actuary in calculating such amounts. Those assumptions are described in Note 11 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 retirement plan assets amounted to ₱1,242,512 and ₱1,164,839 as of December 31, 2006 and 2005, respectively. Retirement gain included under "Other income" amounted to ₱77,673 in 2006 and ₱92,666 in 2005 (see Note 11).

Recognition of deferred 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. More details are provided in Note 12.

The Company's net deferred tax asset amounted to ₱499,646 and ₱456,590 as of December 31, 2006 and 2005, respectively.

Provisions
The Company provides for present obligations (legal or constructive) where it is probable that there will be an outflow of resources embodying economic benefits, that will be required to settle said obligations. An estimate of the provision is based on known information at balance sheet date, net of any estimated amount that may be reimbursed to the Company. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information.

4. Receivables

	2006	2005
Premiums	**₱2,309,422**	₱2,516,896
Commissions	**1,344,349**	278,516
Others	**400,101**	450,629
	4,053,872	3,246,041
Less allowance for doubtful accounts	**663,337**	775,214
	₱3,390,535	₱2,470,827

5. Prepayments and Other Current Assets

	2006	2005
Prepaid expenses	**₱1,499,325**	1,050,008
Others	**150,127**	205,448
	₱1,649,452	₱1,255,456

6. Office Furniture, Fixtures and Equipment

	2006	2005
Cost	**₱500,483**	₱500,483
Accumulated Depreciation		
Beginning balance	**488,769**	478,940
Depreciation	**8,624**	9,829
Ending balance	**497,393**	488,769
Net Book Value	**₱3,090**	₱11,714

7. Accounts Payable and Accrued Expenses

	2006	2005
Accounts payable	**₱1,224,570**	₱1,190,260
Accrued expenses	**261,579**	155,451
	₱1,486,149	₱1,345,711

8. 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 ₱2,169,376 in 2006 and ₱2,826,054 in 2005.

b. Extension of noninterest and interest-bearing (interest rate of 6% in 2006 and 2005) cash advances. Interest income earned amounted to ₱160,058 in 2006 and ₱151,036 in 2005.

c. Outstanding receivables from related parties are as follows:

			Advances							
	Premiums Receivable		Noninterest-bearing		Interest-bearing		Interest		**2006**	2005
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005	**Total**	Total
LMG Chemical Corp. (LMG)	**₱10,025,744**	₱11,393,217	**₱1,101,284**	₱882,426	**₱–**	₱–	**₱–**	₱–	**₱11,127,028**	₱12,275,643
CAWC, Inc. (CAWC)	**10,098,870**	7,629,562	**–**	–	**–**	–	**–**	–	**10,098,870**	7,629,562
Chemical Industries of the Philippines, Inc. (CIP)	**716,580**	2,346,840	**1,830,408**	2,070,112	**1,614,734**	1,161,480	**351,465**	953,454	**4,513,187**	6,531,886
Perfumeria Espanola Corp. (PEC)	**9,190**	31,274	**–**	–	**–**	–	**–**	–	**9,190**	31,274
Kemwater Phil. Corp (KPC)	**456,215**	–	**–**	–	**–**	–	**–**	–	**456,215**	–
CMC	**–**	552	**–**	–	**–**	–	**–**	–	**–**	552
	₱21,306,599	₱21,401,445	**₱2,931,692**	₱2,952,538	**₱1,614,734**	₱1,161,480	**₱351,465**	₱953,454	**₱26,204,490**	₱26,468,917

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 2006 and 2005 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 ₱944,457 in 2006 and ₱1,027,870 in 2005.

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 ₱128,794 in 2006 and ₱151,974 in 2005.

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 in 2005 are deducted from "Share in common services".

g. Compensation of key management personnel consists of short-term employee benefits amounting to ₱307,706 in 2006 and ₱318,891 in 2005.

h. Outstanding payable to KPC amounted to ₱9,406 in 2005.

9. 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.

10. Expenses

	2006	2005
Personnel (Note 11)	**₱1,052,935**	₱994,173
Share in common services (Note 8)	**944,457**	1,027,870
Management fee (Note 8)	**600,000**	600,000
Directors' fee	**144,400**	144,000
Rent (Note 8)	**128,794**	151,974
Utilities	**109,280**	132,909
Professional fees	**70,931**	61,365
Insurance	**62,606**	62,221
Taxes and licenses	**43,428**	34,369
Transportation	**14,898**	13,266
Office supplies	**₱10,620**	₱29,763
Depreciation (Note 6)	**8,624**	9,829
Provision for doubtful accounts	**–**	81,089
	₱3,190,973	₱3,342,828

11. **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 is as follows:

	2006	2005
Current service cost	**₱15,597**	₱8,146
Interest cost	**18,344**	15,639
Expected return on plan assets	**(114,086)**	(119,588)
Net actuarial loss	**2,472**	3,137
Net retirement gain	**(₱77,673)**	(₱92,666)
Actual return on plan assets	**₱130,287**	₱119,588

Retirement plan assets recognized by the Company are as follows:

	2006	2005
Fair value of plan assets	**₱1,271,150**	₱1,140,863
Present value of retirement liabilities	**(366,477)**	(154,109)
	904,673	986,754
Unrecognized net actuarial loss	**337,839**	178,085
Retirement plan assets	**₱1,242,512**	₱1,164,839

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

	2006	2005
Balance at beginning of year	**₱154,109**	₱130,324
Current service cost	**15,597**	8,146
Interest cost	**18,344**	15,639
Actuarial loss	**178,427**	–
Balance at end year	**₱366,477**	₱154,109

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

	2006	2005
Balances at beginning of year	**₱1,140,863**	₱996,568
Expected return on plan assets	**114,086**	119,588
Actual contributions	**–**	24,707
Actuarial gain	**16,201**	–
Balance at end year	**₱1,271,150**	₱1,140,863

Movements of the retirement plan assets are as follows:

	2006	2005
Retirement assets at beginning of year	**₱1,164,839**	₱1,047,466
Actual contribution	**–**	24,707
Net retirement gain recognized	**77,673**	92,666
Retirement assets at end of year	**₱1,242,512**	₱1,164,839

The major categories of plan assets of the Company as a percentage of the fair value of the plan assets as of December 21, 2006 are as follows:

Investment in government securities	**58%**
Investment in stocks	**12%**
Other investments	**25%**
Other assets	**5%**

The overall expected return on the plan assets is determined based on the market prices prevailing on the date applicable to the period over which the obligation is to be settled. There has been no change in the expected rate of return on plan assets.

The principal assumptions used in determining retirement benefits costs for the Company's plans are as follows as of January 1 of each year:

	2006	2005
Number of employees	**2**	2
Discount rate per annum	**12%**	12%
Expected annual rate of return on plan assets	**12%**	12%
Future annual increase in salary	**6%**	6%

As of December 31, 2006, the following are the assumptions: discount rate of 8%, expected annual rate of return on plan assets of 10% and future annual increase in salary of 6%.

Amount for the current and previous years are as follows:

	2006	2005
Defined benefit obligations	**₱366,477**	₱154,109
Fair value of plan assets	**1,271,150**	1,140,863
Overfunded retirement obligation	**(904,673)**	(986,754)
Experience adjustment on plan liabilities	**141,620**	–
Experience adjustment on plan assets	**16,200**	–

12. **Income Taxes**

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

	2006	2005
Deferred tax assets on:		
Tax effects of:		
NOLCO	**₱591,815**	₱520,857
Provision for doubtful accounts	**232,168**	271,325
Unamortized past service cost	**1,471**	1,742
Excess MCIT	**109,071**	70,359
	934,525	864,283
Deferred tax liability on retirement plan assets	**(434,879)**	(407,693)
Net deferred tax asset	**₱499,646**	₱456,590

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

	2006	2005
MCIT	**₱38,712**	₱56,393
Final tax on interest income	**438**	771
	₱39,150	₱57,164

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

	2006	2005
Provision for (benefit from) income tax computed at statutory income tax rates	**(₱3,577)**	₱99,620
Adjustments for:		
Interest income already subjected to final tax	**(329)**	(481)
Effect of change in tax rate	**–**	(33,835)
Provision for (benefit from) income tax	**(₱3,906)**	₱65,304

d) As of December 31, 2006, 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:

	NOLCO		Excess	
Year Incurred	Amount	Tax Effect	MCIT	Available Until
2004	₱1,488,163	₱520,857	₱55,789	2007
2005	–	–	14,570	2008
2006	202,736	70,958	38,712	2009
	₱1,690,899	₱591,815	₱109,071	

e) 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 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.

On November 21, 2006, the President signed into law RA No. 9361 which amends Section 110(B) of the Tax Code. This law, which became effective on December 13, 2006, provides that if the input tax, inclusive of the input tax carried over from the previous quarter exceeds the output tax, the excess input tax shall be carried over to the succeeding quarter or quarters. The Department of Finance through the Bureau of Internal Revenue issued Revenue Regulations No. 2-2007 to implement the provisions of the said law. Based on the regulation, the amendment shall apply to the quarterly VAT returns to be filed after the effectivity of RA No. 9361 except VAT returns covering taxable quarters ending earlier than December 2006.

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13. **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 due to/from related party, which arise directly from its operations.

The main risks arising from the Company's financial instruments are credit risk and liquidity risk. The BOD reviews and approves 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.

Liquidity Risk
The Company's objective is to maintain a balance between continuity of funding and flexibility. The Company avails credit facilities from related parties and maximizes the net cash inflows from operations to finance its working capital requirements.

14. Financial Assets and Liabilities

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

	Carrying Amount		Fair Value	
	2006	2005	**2006**	2005
Financial assets:				
Cash	**₱282,054**	₱488,833	**₱282,054**	₱488,833
Premiums receivables (Note 4)	**2,309,422**	2,516,896	**2,309,422**	2,516,896
Commission receivables (Note 4)	**1,344,349**	278,516	**1,344,349**	278,516
Due from related parties	**26,204,490**	26,468,917	**26,204,490**	26,468,917
	₱30,140,315	₱29,753,162	**₱30,140,315**	₱29,753,162
Financial liabilities:				
Trade payables (Note 7)	**₱1,224,570**	₱1,190,260	**₱1,224,570**	₱1,190,260
Due to related parties	**–**	9,406	**–**	9,406
	₱1,224,570	₱1,199,666	**₱1,224,570**	₱1,199,666

The carrying amounts of the above financial assets and liabilities approximate their fair values either because of their short-term nature or the interest rates that they carry which approximate the interest rates for comparable instruments in the market.

15. Other Matter

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.