

COVER SHEET

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S.E.C. Registration Number

E U R O - M E D L A B O R A T O R I E S P H I L . ,  
I N C .

(Company's Full Name)

1 0 0 0 U N I T E D N A T I O N A V E N U E C O R .  
S A N M A R C E L I N O S T . M A N I L A  
(Business Address: No. Street City/Town/Province)

S a n d r a P i n e d a  
Contact Person

5 2 4 0 0 9 1 - 9 8  
Company Telephone Number

0 8 1 4  
Month Day

1 7 - Q  
FORM TYPE

Month Day  
Annual Meeting

Fiscal Year  
2 0 0 9

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings  
Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES



1. For the quarterly period ended June 30, 2009

2. SEC Identification Number 148022      3. BIR Tax Identification No. 000-288-655V

4. Exact name of registrant as specified in its charter EURO-MED LABORATORIES PHIL., INC.

5. Philippines  
(Province, country or other jurisdiction of incorporation or organization)

6.  (SEC Use Only)  
Industry Classification Code:

7. 1000 United Nations Avenue cor. San Marcelino St., Manila  
Address of principal office

1000  
postal code

8. (632) 524-0091 to 98  
Issuer's telephone number, including area code

9. Not Applicable  
Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Stock	3,543,122,000 shares

11. Are any or all of these securities listed on a Stock Exchange?

Yes  ]      No  ]

If yes, state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder, or Section 11 of the RSA and RSA Rule 11(a) -1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months (or for such shorter period that the registrant was required to file such reports);

Yes  ]      No  ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes  ]      No  ]

**EURO-MED LABORATORIES PHIL., INC.**  
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**SEC FORM 17-Q**

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## Part I – Financial Information

### Item 1. Financial Statements

See accompanying Interim Financial Statements.

### Item 2. Management Discussion and Analysis of Financial Condition and Results of Operations

- A. In view of the current global financial condition, Euro-Med Laboratories Phil., Inc. (the company) hereby assess its financial risk exposures on its financial instruments as of date of these financial statements.

The company, being primarily engaged in a manufacturing business have few financial instruments, such as accounts receivable, accounts payable and notes payable, as distinguished from a financial institution whose assets and liabilities are mostly financial instruments.

The financial risk exposures of the company are as follows:

#### 1. Currency or Foreign Exchange risk.

This risk arises on the financial instruments that are denominated in foreign currency other than the functional currency (the Philippine peso) in which they are measured. Such exposure arises from the sales of goods to export markets, importation of raw materials from foreign countries and from differences in exchange rates between assets, liabilities and equities, which are denominated in foreign currencies.

The Peso/Dollar exchange rate depreciates from about ₱ 47.07/US\$ 1 in January 2009 to about ₱ 48.37/US\$ 1 in June 2009. These depreciation results to a peso increase in export sales. The company's export sales for the periods ended January to June 2009 and 2008 are 9% and 16% of total sales, which are denominated, in foreign currency.

The raw materials being imported are initial inputs for producing parenteral solutions and LDPE bottles. The Peso/Dollar exchange rate depreciation will result in an increase in the company's production cost. The company manages this risk by maintaining at least two (2) or more suppliers of its material requirements, so that it would not be dependent in only one (1) supplier and to provide room for negotiating prices for three (3) months, six (6) months or one (1) year contracts.

The company's overall risk management program focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Company's financial performance by obtaining loans that are peso denominated only and maintaining US\$ accounts whose export proceeds are maintained from which payments for imports are made.

#### 2. Interest rate risk.

This risk arises on interest-bearing financial instruments recognized in the balance sheet, such as notes payable and acceptances payable. The company's exposure relates primarily to the company's short-term and long-term debt obligations with banks.

The company's loans as of June 30, 2009 that is exposed to interest rate risks are as follows (in 000):

Maturing within one (1) year:			
Notes payable	P	1,395,033	
Acceptances payable		<u>228,799</u>	P 1,623,832
Maturing over one (1) year:			
Notes payable			<u>456,533</u>
TOTAL			<u>P 2,080,365</u>

The company manages its exposure in interest rate risk by closely monitoring these loans with various banks and maximizing borrowing period based on market volatility of interest rates.

3. Credit risk.

This risk arises when one party to a financial instrument will cause a financial loss to the other party by failing to discharge an obligation. The company's exposure to this risk relates to its deposits with banks and trade and non-trade receivables.

The maximum credit exposure of the company as of June 30, 2009 follows (in 000):

Cash in banks	P	233,638
Trade receivables:		820,765
Non-trade receivables		<u>2,374</u>
TOTAL	P	<u>1,056,777</u>

To manage credit risk, the company maintains its bank deposits with reputable banks and trades only with recognized and credit-worthy customers. It is the Company's policy that all customers who wish to trade on credit terms are subjected to credit verification process with emphasis on their capacity, character and willingness to pay. Each customer, whether corporate or otherwise, has an approved credit limit. These limits are reviewed regularly by the Treasury Department, and customer balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant. Euro-Med's customers are hospitals, clinics, drugstores, medical distributors and traders as well as corporate/industrial accounts. The company's customer base is composed of more than 7,000 institutions nationwide. Hence, the company is not dependent on one or a few major customers and no customer accounts for more than ten percent (10%) of the company's sales and receivables.

4. Market risk.

This risk arises from fluctuations in the market prices of the company's products. The company is exposed to price risk because of the nature of its business. Euro-Med is the leading manufacturer of intravenous fluids in the Philippines and competes with other IVF manufacturers and importers. The risk is managed by maintaining good business relations with customers, producing a wide-range of products and providing prompt, courteous and efficient marketing and delivery service. Likewise, for valued customers, prices are contracted for a long-term period.

The company does not anticipate that its high quality intravenous fluid products will decline significantly in the foreseeable future and therefore, has not entered into derivative or other contracts to manage the risk of a decline in market prices. The Company reviews its outlook for market prices regularly in considering the need for active financial risk management.

5. Liquidity risk.

This risk arises when the company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's exposure relates to the Company's debt obligations to banks, to suppliers of raw materials and services and to government regulating and taxing authorities.

The Company's financial liabilities as of June 30, 2009 that are exposed to liquidity risk are as follows (in 000):

**Bank loans:**

Maturing within one (1) year		
Notes payable	P	1,395,033
Acceptances payable		<u>228,799</u>
		1,623,832
Maturing over one (1) year		456,533
Trade accounts payable		468,269
Income tax payable		33,408
Agency payable/accrued expenses		<u>13,214</u>
	P	<u><u>2,595,256</u></u>

The company manages this risk (a) by maintaining sufficient cash and cash equivalents with banks to fund the payments of currently maturing liabilities, (b) by securing credit lines from various reputable banks and (c) by maintaining good credit standing with banks and trade suppliers. The Company has Omnibus Credit Lines in the aggregate amount of about P 2.0 Billion on a clean basis from various commercial banks which provided for cash borrowings (Peso or Dollar), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no marginal deposit at opening). These credit lines are obtained and regularly renewed. Liquidity requirements and positions are monitored daily and monthly reports are reviewed by the management.

**B. Euro-Med's financial instrument profile as of June 30, 2009 follows:**

**B.1) Classification, description and measurements applied for each:**

<b>Classification</b>	<b>Description</b>	<b>Measurement</b>
1.1)A financial asset or financial liability at fair value through profit or loss (FVPL)	None	Not Applicable
1.2)Held to maturity Investments (HTM)	None	Not Applicable
1.3)Loans Receivables	and 3.1) Trade and other receivables	a) At initial recognition –measured at fair value
	3.2) Bank loans (Notes payable & Acceptances payable)	b) Subsequent Valuation – at amortized cost, less impairment loss if any.
	3.3) Trade accounts payable	

1.4) Available-for-sale Financial assets (AFS)	4.1) PLDT Shares	a) At initial recognition – measured at fair value
	4.2) Proprietary Shares in Casino Español de Manila	b) Subsequent valuation – at cost.

Investment in PLDT shares is a minimal amount of only ₱ 144,000 and is obtained only in connection with the various telephone lines required by the company. Likewise, the investment in the proprietary shares in Casino Español de Manila is only minimal at ₱ 200,000 and is obtained for entertaining Company Clients in its restaurant.

The Company has no complex securities particularly on derivatives.

B.2) Euro-Med has no investment in foreign securities.

B.3) Euro-Med has no financial instrument in the fair value hierarchy (FVPL financial securities).

B.4) The risks that are incorporated in the valuation of financial assets or liabilities are:

4.1) On Trade receivables –

In subsequent valuation of this account, the credit risk is considered by providing for an estimate of probable losses on doubtful accounts when collection of the full amount is no longer probable. The Company has provided an Allowance for doubtful accounts that reduces the carrying value of this asset.

4.2) Bank loans (Notes payable and Acceptances payable)

Since this liability is recognized initially at an amount equal to the principal payable at maturity and some are short-term, the interest rate risk has no significant effect on the carrying amount of this liability.

4.3 Trade accounts payable

Due to the short-term nature of this liability and is non-interest bearing, the interest rate risk has no effect on its carrying amount.

B.5) Comparison of fair values (in 000):

	As of June 30, 2009		As of Dec. 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
a) Financial assets				
Cash	P 233,638	P 233,638	P 219,316	P 219,316
Trade & other receivables - net	794,991	794,991	936,721	936,721
Available for sale securities				
Quoted	144	144	144	144
Unquoted	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
Total	P <u>1,028,973</u>	P <u>1,028,973</u>	P <u>1,156,381</u>	P <u>1,156,381</u>
b) Financial liabilities				
Trade accounts payable	P 468,269	P 468,269	P 246,811	P 246,811
Notes payable	1,851,567	1,851,567	1,868,266	1,868,266
Acceptances payable	228,798	228,798	185,906	185,906
Other current liabilities	<u>13,214</u>	<u>13,214</u>	<u>6,486</u>	<u>6,486</u>
Total	P <u>2,561,848</u>	P <u>2,561,848</u>	P <u>2,307,469</u>	P <u>2,307,469</u>

B.6) Euro-Med is primarily a manufacturing company and not a financial institution. The Company has a very minimal investment in PLDT shares, which was obtained only for its telephone line requirements. Hence, the Company has not established any criteria to determine whether the market for a financial instrument is active or inactive.

C. The Company's operations have no seasonal aspects that had a material effect on the financial condition or results of operations. The Company operates regularly for twelve (12) months during the year and does its maintenance jobs during Sundays and holiday breaks. There are no known trends, demands, material commitments for capital expenditures, events, or uncertainties that will have a material impact on the Company's liquidity or have a material favorable or unfavorable impact on net sales/revenue/income from continuing operations. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There are no off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company's top five (5) key performance indicators are:

1.) The Company's net sales increased by 67% from P 1,090.8 million for the first half of 2008 to P 1,820.7 million for the first half of 2009. The increase in sales was attributed to the increase in domestic sales. Domestic sales increased by 81% from P 912.4 million for the first half of 2008 to P 1,651.7 million for the first half of 2009. Majority of the increase was due to the increase in sales of distributed products. The increase in sales indicator was chosen by management as it discloses the level of performance the Company has attained against the targeted growth. The percentage change is computed by dividing the peso increase in sales by the peso sales during the comparable period of previous year.

2.) Gross profit from sales increased by 4% from P 479.2 million for the first half of 2008 to P 500.7 million for the first half of 2009. Cost of goods manufactured and sold increased by 116% from P 611.6 million for the first half of 2008 to P1,320. 0 million for the first half of 2009. As a percentage of net sales, cost of goods manufactured and sold increased from 56.% for the first half of 2008 to 72% for the first half of 2009. The sudden increase can be attributed to the increase in sales of distributed finished products. The gross profit indicator provides information about product selling prices relative to production costs. The percentage change in gross

profit is computed by dividing the peso increase (decrease) in gross profit by the peso gross profit during the comparable period of previous year.

3.) Income from operations (income before finance income/cost and miscellaneous income) increased by 6% from P229.7 million for the first half of 2008 to P242.9 million for the first half of 2009. Operating expenses (administration, selling and distribution) increased by 3% from P249.5 million for the first half of 2008 to P257.8 million for the first half of 2009. The increase was due to increased variable operating expenses, i.e .marketing development and entertainment expenses, commission and transportation expenses. Operating expenses as a percentage of the Company's net sales decreased from 22.9% for the first half of 2008 to 14.2% for the first half of 2009. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on selling, distribution and administrative expenses. The percentage change in income from operations is calculated by dividing the peso increase (decrease) in operating income by the peso operating income during the comparable period of previous year. The percentage change in operating expenses is calculated by dividing the peso increase in operating expenses by the peso operating expenses during the comparable period of previous year.

4.) Net Finance income/cost and miscellaneous income decreased by 3% from P93.7 million for the first half of 2008 to P90.9 million for the first half of 2009. Changes in Net finance income/cost and miscellaneous income indicator provides information on significant elements of income and other expenditures that did not arise from the Company's continuing operations. The percentage change is calculated by dividing the peso increase(decrease) in Net finance income/cost and miscellaneous income by the net finance income/cost and miscellaneous income during the comparable period of previous year.

5.) Provision for income tax decreased by 4% from P47.6 million for the first half of 2008 to P45.6 million for the first half of 2009 due to the decrease in corporate income tax rate from 35% in 2008 to 30% in 2009 per RA# 9337. Net income increased by 20% from P88.4 million for the first half of 2008 to P106.4 million for the first half of 2009. Changes in net income are indicators of the adequacy of amount to satisfy stockholders' dividend and rate-of- return expectations. The percentage change in net income is calculated by dividing the peso increase/decrease in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 5% from P 6.014 billion in 2008 to P6.326 billion in 2009. Current ratio increased by 4% from 1.12:1 in 2008 to 1.17:1 in 2009, while Equity ratio decreased by 2% from 0.60:1 in 2008 to 0.59:1 in 2009.

The increase in cash and cash equivalents and the decrease in the accounts receivable was due to the collection of trade receivables. The increase in inventory was attributed to the purchases of new products to be distributed by the company. The increase in other current assets was due to the advances to subsidiary. The decrease in other non-current asset was due to the amortization of prepaid marketing development expense. The increase in Accounts payable was due to the purchases of new products to be distributed by the company. The increase in acceptances payable was due to the trust receipts on letters of credit for the importation of raw materials. The increase in other current liabilities was due to the increase in withholding tax payable. The income tax payable decreased since the amount as of 31 December 2008 represents the audited final and adjusted income tax payable as of the end of year 2008 which was paid in April 2009, while the amount as of 30 June 2009 includes the unaudited estimated tax on income for the second quarter of 2009. The decrease in Deferred credits was due to the amortization of deferred amount to rental income. The dividends represent the stock dividends declared by the Board of Directors on 17 December 2008 and April 7, 2009, which was already reflected in the Balance sheet.

Projection

The Company expected to increase its sales in 2009 by about 45% from its local and export sales. Majority of the increase, however, would come from its distribution business line with a higher cost of sales. The Company is continuously expanding its present product line to include specialty products for inhalation, ophthalmic, irrigation and other health care purposes. The Company expects to open new export markets in other countries and increase the number of products being exported.

The gross profit ratio is expected to decrease from 44% of sales in 2008 to about 31% of sales in 2009 due to higher cost of sales caused by the increase in imported materials, fuels and the higher cost of sales on products which are being distributed by the Company. The expected gross profit in 2009 is about P1,171 million.

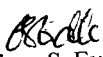
The net income for 2009 is expected to increase by about 5%. As a percentage of sales, the net income ratio is expected to decrease from 11% of sales in 2008 to about 8% in 2009. The expected net income in 2009 is about P299 million.

SIGNATURES

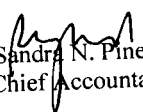
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**EURO-MED LABORATORIES PHILS., INC.**

By:

  
Georgiana S. Evidente  
President

August 11, 2009

  
Sandra N. Pineda  
Chief Accountant

August 11, 2009

**EURO-MED LABORATORIES PHIL., INC.****BALANCE SHEETS**

	Notes	30 June 2009 (Unaudited)	31 December 2008 Audited
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	3,4,5,6,35	P 233,638,226	P 219,316,308
Trade and other receivables, net	3,5,5,7,35	794,990,582	936,721,160
Inventories	3,6,8	1,269,546,071	903,038,733
Others	9	198,727,049	108,092,281
		<b>2,496,901,928</b>	<b>2,167,168,482</b>
<b>Non-current</b>			
Investment in subsidiary	3,7,10	107,356,940	107,356,940
Property, plant and equipment	3,8,11	3,589,645,922	3,601,971,925
Others	3,11, 12	131,662,670	138,462,771
		<b>3,828,665,532</b>	<b>3,847,791,636</b>
<b>TOTAL ASSETS</b>		<b>P 6,325,567,460</b>	<b>P 6,014,960,118</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Trade accounts payable	3,12,5,13,35	P 468,269,137	P 246,811,828
Notes payable	5,14,35	1,395,033,332	1,411,733,332
Acceptances payable	5,15	228,799,738	185,906,930
Income tax payable	3,2,31	33,407,858	82,206,705
Others	5,16	13,213,721	6,486,395
		<b>2,138,723,786</b>	<b>1,933,145,190</b>
<b>Non-current</b>			
Notes payable	5,14,35	456,533,333	456,533,333
Deferred credits	3,17	5,400,000	6,781,261
		<b>461,933,333</b>	<b>463,314,594</b>
<b>Equity</b>	20	<b>3,724,910,342</b>	<b>3,618,500,334</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 6,325,567,460</b>	<b>P 6,014,960,118</b>

*The notes on pages 12- 43 are an integral part of these financial statements.*

**EURO-MED LABORATORIES PHIL., INC.****STATEMENTS OF INCOME AND EXPENSES  
UNAUDITED**

	Notes	2009		2008	
		April-June	Jan. - June	April-June	Jan. - June
<b>NET SALES</b>	3.1, 22	<b>P995,576,318</b>	<b>P1,820,774,980</b>	P592,027,187	P1,090,813,030
<b>COST OF GOODS MANUFACTURED AND SOLD</b>	3.1,3.6, 25	<b>721,810,210</b>	<b>1,320,049,073</b>	330,288,478	611,616,452
<b>GROSS PROFIT</b>		<b>273,766,108</b>	<b>500,725,907</b>	261,738,709	479,196,578
Administrative and selling expenses	26, 27	(80,559,376)	(170,430,239)	(82,761,871)	(161,874,099)
Distribution expenses	27	(39,468,643)	(87,392,313)	(43,839,303)	(87,597,094)
Finance income	3.1, 23	512,141	803,709	371,142	882,079
Finance cost	3.14, 28	(45,130,344)	(98,097,567)	(47,047,993)	(95,032,593)
Foreign exchange gain (loss)	3.16, 35	384,434	4,366,861	792,838	(230,425)
Miscellaneous income	3.1, 24	1,855,207	2,037,939	529,009	665,057
<b>INCOME BEFORE INCOME TAX</b>		<b>111,359,527</b>	<b>152,014,297</b>	89,782,531	136,009,503
<b>PROVISION FOR INCOME TAX</b>	3.2, 31	<b>33,407,858</b>	<b>45,604,289</b>	31,423,886	47,603,326
<b>NET INCOME</b>		<b>P77,951,669</b>	<b>P106,410,008</b>	P58,358,645	P88,406,177
<b>EARNINGS PER SHARE</b>					
Basic and diluted	3.19, 32	<b>P0.02</b>	<b>P0.03</b>	P0.02	P0.03

The notes on pages 12-43 are an integral part of these financial statements.

**EURO-MED LABORATORIES PHIL., INC.**  
**STATEMENTS OF CHANGES IN EQUITY**

	Share capital (Notes 19, 20)		Share premium reserve		Retained earnings (Notes 19, 21)		Total equity	
	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008	June 30, 2009	June 30, 2008
<b>Balances, 31 December 2008 and 2007</b>	P 3,221,020,000	P 66,609,227	P 8,769,107	P 3,296,398,334	P 3,331,577,021			
10% Stock dividend distributable	322,102,000	-	-	322,102,000	-			
Balances, 30 June 2009 and 2008	3,543,122,000	66,609,227	8,769,107	3,618,500,334	3,331,577,021			
Net income for the period Jan.-June 2009 and 2008	-	-	106,410,008	106,410,008	88,406,177			
<b>Balances, 30 June 2009 and 2008</b>	<b>3,543,122,000</b>	<b>66,609,227</b>	<b>115,179,115</b>	<b>3,724,910,342</b>	<b>3,419,983,198</b>			

*The notes on pages 12- 43 are an integral part of these financial statements.*

# EURO-MED LABORATORIES PHIL., INC.

## STATEMENTS OF CASH FLOWS

	Notes	For Two Quarters ended 30 June			
		2009	2008		
(Unaudited)					
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		P	106,410,041	P	136,009,503
Income before income tax					
Adjustment for:					
Depreciation and amortization	3.8,11		84,863,739		84,321,129
Finance cost	3.14,28		98,097,567		95,032,593
Foreign exchange (income) loss	3.16,35		(4,366,861)		230,425
Finance income	3.1,23		(803,709)		(882,079)
Miscellaneous income	3.1,24		(2,037,986)		(665,057)
			282,162,791		315,593,650
Operating income before working capital changes					
Changes in assets and liabilities:					
(Increase) Decrease in:					
Trade and other receivables	3.5,5,7,35		141,730,578		35,863,390
Inventories	3.6,8		(366,507,338)		(165,176,611)
Other current assets	9		(90,634,768)		(14,759,928)
Increase (decrease) in:					
Trade accounts payable	3.12,5,13,35		221,457,309		305
Acceptances payable	5,15		42,892,808		78,786,368
Other current liabilities	5,16		6,727,326		(13,498,618)
Cash generated from operations			237,828,706		236,808,556
Interest paid	3.14,28		(98,097,567)		(95,032,593)
Income tax paid	3.2,31		(45,604,303)		(47,603,326)
Interest received	3.1,23		803,709		882,079
Net cash provided by operating activities			94,930,545		95,054,716
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Payment for the acquisition of property, plant and equipment	3.8,11		(72,537,735)		(40,665,029)
Dividend received	23		10,450		3,350
Decrease (increase) in other non-current assets	3.1,12		6,800,101		947,194
Net cash used for investing activities	3.1,23		(65,727,184)		(39,714,485)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Proceeds from availment of notes payable	5,14,35		16,700,000		(127,300,001)
Increase (decrease) in deferred credits	3,17		(1,381,261)		(2,700,000)
Net cash provided by financing activities			15,318,739		(130,000,001)
<b>NET INCREASE(DECREASE) IN CASH</b>			14,321,918		(126,615,168)
Cash and Cash Equivalents, Beginning of the Year	3.4,5,6,35		219,316,308		301,106,150
<b>Cash and Cash Equivalents, End of Period</b>	3.4,5,6,35	P	233,638,226	P	174,490,982

The notes on pages 12- 43 are an integral part of these financial statements.

# **EURO-MED LABORATORIES PHIL., INC.**

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## **NOTES TO FINANCIAL STATEMENTS**

### **1. Corporate Information**

Euro-Med Laboratories Phil., Inc. (Euro-Med/the Company) began its commercial production in 1991 after it has been registered with the Bureau of Food and Drugs (BFAD) to manufacture pharmaceutical products of large and small volume parenterals and other solutions such as ophthalmic, inhalation, irrigation and dialysis. The Company is currently the largest manufacturer of high quality intravenous fluids in the Philippines.

Euro-Med is the Parent Company of its subsidiaries, (1) 102 E. De Los Santos Realty Co., Inc. (102 EDSA/the Subsidiary), a 100% owned firm acquired in May 2000 which is involved in leasing out investment property, and (2) Hemotek Renal Center, Inc. (Hemotek/ the Subsidiary) a 100% owned firm which was newly incorporated in June 2008 and is engaged as a dialysis center.

Euro-Med is a publicly listed corporation incorporated and domiciled in the Philippines. The Company was registered with the Securities and Exchange Commission (SEC) on January 29, 1988. Its registered office address is at PPL Building, United Nations Avenue corner San Marcelino St., Manila.

Euro-Med had its first listing on the Philippine Stock Exchange (PSE) on July 2, 1998.

### **2. Basis of preparation**

The financial statements of the Company have been prepared on a historical cost basis, as modified by the revaluation of available-for-sale financial assets. Likewise, these are presented in Philippine Pesos, the Company's functional currency. All amounts are rounded to the nearest peso unless otherwise indicated.

#### Statement of compliance

The Company's financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

In preparing the financial statements, the accounting policies adopted are consistent with those of the previous financial years, except the following new and revised PFRS and Interpretations of PFRS that are relevant to Company's operations and effective for annual periods beginning on or after January 1, 2008:

#### *(a) Interpretations effective in 2008 but not relevant*

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Company's operations:

- Philippine Interpretation IFRIC 11, 'Group and treasury share transactions';
- Philippine Interpretation IFRIC 12, 'Service concession arrangements';
- Philippine Interpretation IFRIC 13, 'Customer loyalty programs'; and
- Philippine Interpretation IFRIC 14, 'The limit on a defined benefit asset, minimum funding requirements and their interaction',

*(b) The Company has not applied the following new and amended PFRS and Philippine Interpretation which are not yet effective for the year ended December 31, 2008:*

- PAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in

addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Company is currently assessing the impact of the revised standard on its financial statements when it adopts the standard on January 1, 2009.

- Amendment to PAS 32, *Financial Instruments: Presentation* and PAS 1 *Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective for annual periods beginning on or after January 1, 2009). The revisions provide a limited scope exception for puttable instruments to be classified as equity if they fulfil a number of specified features. These Amendments to the standards will have not affect financial position or performance of the Company, as the Company has not issued such instruments.
- PAS 39 (Amendment), *Financial instruments: Recognition and measurement* (effective from 1 January 2009). This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes the example of a segment so that the guidance is consistent with PFRS 8, 'Operating segments', which requires disclosure for segments to be based on information reported to the chief operating decision-maker. Currently, for segment reporting purposes, each subsidiary designates contracts with group treasury as fair value or cash flow hedges so that the hedges are reported in the segment to which the hedged items relate. This is consistent with the information viewed by the chief operating decision-maker. See note 3.1 for further details. After the amendment is effective, the hedge will continue to be reflected in the segment to which the hedged items relate (and information provided to the chief operating decision-maker), but the Company will not formally document and test this relationship.

When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

The Company will apply the PAS 39 (Amendment) from 1 January 2009.

- PFRS 1 (Amendment) '*First time adoption of PFRS*', and PAS 27 '*Consolidated and separate financial statements*' (effective from 1 January 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from PAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The amended standard will not have an impact on the Company's financial statement.
- PFRS 2, *Share-based Payment - Vesting Condition and Cancellations* (effective for annual periods beginning on or after January 1, 2009). The standard has been revised to clarify the definition of a vesting condition and prescribes the treatment for an award that is effectively cancelled. It defines a vesting condition as a condition that includes an explicit or implicit requirement to provide services. This Standard will not have any effect on the financial statements as no events occurred that this amendments relates to.
- PFRS 3 (Revised), '*Business combinations*' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling

interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Company will apply PFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

- There are a number of minor amendments to PFRS 7, '*Financial instruments: Disclosures*', PAS 8, '*Accounting policies, changes in accounting estimates and errors*', PAS 10, '*Events after the reporting period*', PAS 18, '*Revenue*' and PAS 34, '*Interim financial reporting*', which are part of amendments to PFRSs which were issued primarily with a view of removing inconsistencies and clarifying words. These amendments are unlikely to have an effect on the Company's accounts and have therefore not been analyzed in detail.
- PFRS 8, '*Operating segments*', (effective on or after January 1, 2009), will replace PAS 14, '*Segment reporting*'. It adopts a management approach to reporting segment information. The information reported would be that which management uses internally for evaluating the performance of operating segments and allocating resources to those segments. Such information may be different from that reported in the balance sheets and the statements of income and expenses and companies will need to provide explanations and reconciliations of the differences. The amended standard is not relevant to the Company's operation as the Company has no business segment.
- Philippine Interpretation IFRIC 15, '*Agreements for construction of real estates*' (effective from 1 January 2009). The interpretation clarifies whether PAS 18, '*Revenue*', or PAS 11, '*Construction contracts*', should be applied to particular transactions. It is likely to result in PAS 18 being applied to a wider range of transactions. Philippine Interpretation IFRIC 15 is not relevant to the Company's operations as all revenue transactions are accounted for under PAS 18 and not PAS 11.
- Philippine Interpretation IFRIC 16, '*Hedges of a net investment in a foreign operation*' (effective from 1 October 2008). IFRIC 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the group. The requirements of PAS 21, '*The effects of changes in foreign exchange rates*', do apply to the hedged item.

The amendment will not affect the Company's financial position or performance as the Company has no hedge financial instruments.

(c) *Improvements to PFRS*

The first omnibus of amendments to PFRSs was issued primarily with a view to removing inconsistencies and clarifying wording. The following are separate transitional provisions for each standard:

- PFRS 5, '*Non-current Assets Held for Sale and Discontinued Operations*  
When a subsidiary is held for sale, all of its assets and liabilities will be classified as held for sale under PFRS 5, even when the entity retains a non-controlling interest in the subsidiary after the sale.  
  
The amendment will not have any effect on the Company's financial positions or operations as the Company has no investments classified as such.
- PAS 1, '*Presentation of Financial Statements*  
Assets and liabilities classified as held for trading are not automatically classified as current in the consolidated balance sheet. The Company amended its accounting policy accordingly and analyzed whether Management's expectation of the period of realization of financial assets and liabilities differed from the classification of the instrument. This will not result in any reclassification of financial instruments between current and noncurrent in the balance sheet.
- PAS 16, '*Property, Plant and Equipment*  
Items of property, plant and equipment held for rental that are routinely sold in the ordinary course of business after rental, are transferred to inventory when rental ceases and they are held for sale. The amendment will not have an effect on the Company's operations because none of the Company's ordinary activities comprise renting and subsequently selling assets.

- **PAS 19, *Employee Benefits***  
Revised the definition of ‘past service costs’, ‘return on plan assets’ and ‘short term’ and ‘other long-term’ employee benefits. Amendments to plans that result in a reduction in benefits related to future services are accounted for as curtailment.

The reference to the recognition of contingent liabilities to ensure consistency with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* was deleted.

The amendment will not affect the Company’s financial position or performance as the Company does not offer any retirement benefits to its employees

- **PAS 20, *Accounting for Government Grants and Disclosures of Government Assistance***  
Loans granted in the future with no or low interest rates will not be exempt from the requirement to impute interest. The difference between the amount received and the discounted amount is accounted for as government grant. Also, revised various terms used to be consistent with other PFRS.

The amendment will not have an impact on the Company’s operations as there are no loans received or other grants from the government.

- **PAS 23, *Borrowing Costs***  
The definition of borrowing costs is revised to consolidate the two types of items that are considered components of ‘borrowing costs’ into one - the interest expense calculated using the effective interest rate method calculated in accordance with PAS 39. The amendment has no effect on the Company’s financial position.

- **PAS 28, *Investment in Associates***  
If an associate is accounted for at fair value in accordance with PAS 39, only the requirement of PAS 28 to disclose the nature and extent of any significant restrictions on the ability of the associate to transfer funds to the entity in the form of cash or repayment of loans applies.

An investment in an associate is a single asset for the purpose of conducting the impairment test. Therefore, any impairment test is not separately allocated to the goodwill included in the investment balance.

The amendment will not have an impact on the Company’s financial positions or operations as there are no investments classified as such.

- **PAS 29, *Financial Reporting in Hyperinflationary Economies***  
The reference to the exception that assets and liabilities should be measured at historical cost, such that it notes property and equipment as being an example, rather than implying that it is a definitive list was revised. Also, revised various terms used to be consistent with other PFRS.

The amendment will not have an impact on the Company’s operations, as none of the Company’s subsidiaries or associates operate in hyperinflationary economies.

- **PAS 31, *Interest in Joint ventures***  
If a joint venture is accounted for at fair value, in accordance with PAS 39, only the requirements of PAS 31 to disclose the commitments of the venturer and the joint venture, as well as summary financial information about the assets, liabilities, income and expense will apply. The amendment will not have an impact on the Company’s operations as there are no interests held in joint ventures.

- **PAS 36, *Impairment of Assets***  
When fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Company will apply the PAS 28 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

- **PAS 38, *Intangible Assets***

Expenditure on advertising and promotional activities is recognized as an expense when the Company either has the right to access the goods or has received the services. This amendment has no effect on the Company because it does not enter into such promotional activities.

The reference to there being rarely, if ever, persuasive evidence to support an amortization method of intangible assets other than a straight-line method has been removed. This Amendment has no effect on the Company's intangible asset is only subjected to impairment test.

- **PAS 39, *Financial Instruments: Recognition and Measurement***  
Changes in circumstances relating to derivatives are not reclassifications and therefore may be either removed from, or included in, the 'fair value through profit or loss' classification after initial recognition. The reference in PAS 39 to a 'segment' when determining whether an instrument qualifies as a hedge was removed. Require the use of the revised effective interest rate when remeasuring a debt instrument on the cessation of fair value hedge accounting.
- **PAS 40, *Investment Properties***  
The scope such that property under construction or development for future use as an investment property is classified as investment property was revised. If fair value cannot be reliably determined, the investment under construction will be measured at cost until such time as fair value can be determined or construction is complete. Also, revised of the conditions for a voluntary change in accounting policy to be consistent with PAS 8 and clarified that the carrying amount of investment property held under lease is the valuation obtained increased by any recognized liability.

The amendment will not affect the Company's operations, as there are no investment properties which are held by the Company.

- **PAS 41, *Agriculture***  
The reference to the use of a pre-tax discount rate to determine fair value was removed. The prohibition to take into account cash flows resulting from any additional transformations when estimating fair value was removed. The term 'point-of-sale costs' with 'costs to sell' was also replaced.

The amendment will not affect the Company's operations as no agricultural activities are undertaken.

#### Use of estimates and judgments

The preparation of financial statements requires the management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of resources, liabilities, income and expenses. Actual results may differ from these estimates.

Estimated underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates is revised and in any future periods affected.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in note 4.

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, unless otherwise stated.

#### **3.1. Revenue and Expense Recognition**

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

### *Sale of goods*

Revenue from sale of goods is recognized upon delivery, when the significant risks and rewards of ownership of the goods have passed to the buyer and the amounts of revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable, excluding any trade discounts, prompt payment discounts and volume rebates.

### *Rental income*

Rental income is recognized in the income statement when earned in accordance with the term of the lease agreement and on a straight-line basis over the term of the lease.

### *Dividend income*

Dividend income is recognized when the shareholders' right to receive payment is established. The dividend is a cash dividend from another domestic corporation and is tax free under the Tax Code of the Philippines.

### *Interest income*

Revenue is recognized when it is determined that such income will accrue to the Company taking into account the effective yield on the asset and is presented gross of applicable tax withheld by the banks.

Costs and expenses are charged to operations when incurred

## 3.2. 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 are enacted or substantially enacted as at balance sheet date.

**Deferred tax.** Deferred tax is provided using the balance sheet liability method on temporary difference at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

In respect of taxable temporary differences associated with investment in subsidiaries, associates and interest in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of 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 recovered 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 expected to apply to the year when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantially enacted at the balance sheet date.

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.

## 3.3. Financial Assets and Liabilities

Financial assets include cash on hand and cash equivalents and other financial instruments. Financial instruments, other than hedging instruments, are classified into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The summary of accounting policies for financial instruments is presented below:

### 3.3.a. Date of recognition

Financial instruments are recognized in the statement of condition when the Company becomes a party to the contractual provisions of the instruments. Purchases or sales of financial assets that require delivery of assets within the time frame established by the regulation or convention in the marketplace are recognized on the settlement date.

### 3.3.b. Initial recognition of financial instruments

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction cost. The Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, Available for sale (AFS) financial assets, and loans and receivables. The Company classifies its financial liabilities as either financial liabilities at FVPL or other financial liabilities as appropriate. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

### 3.3.c. Classification of financial instruments between debt and equity

A financial instrument is classified as debt, otherwise as equity, if it has a contractual obligation to :

- Deliver cash or another financial asset to another entity, or
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Company.

If the Company does not have any unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to stockholder's equity net of any related income tax benefits.

### Designation at fair value through profit or loss

The Company has designated financial assets and liabilities at fair value through profit or loss when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

Financial assets at FVPL are not reclassified subsequent to their recognition. As of June 30, 2009 and December 2008, the Company has no financial asset and financial liability at FVPL.

### HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the company sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the investment income in the statement of income. Gains and losses are amortized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the income statement.

As of June 30, 2009 and December 31, 2008, the Company has no held-to-maturity investments.

### Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not classified as financial assets held for trading, designated as AFS or FVPL. This accounting policy relate to the balance sheet caption: (a) receivable from customers and (b) receivable from clearing house.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortization cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the interest income in the statement of income. The losses arising from impairment of such loans and receivables are recognized in Provision for credit losses under the “General and administrative expense” account in the statement of income.

#### *AFS financial assets*

AFS financial assets are those which are designated as such or do not qualify to be classified as designated as financial assets at FVPL, HTM investment or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirement or changes in market conditions. These include government securities, equity investments and other debt instruments.

After initial measurement, AFS financial assets are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of restatement on foreign currency-denominated AFS debt securities, is reported in earnings. Interest earned on holding AFS financial assets are reported as interest income using the effective interest rate. Dividends earned on holding AFS financial assets are recognized in the statement of income as “Dividend income” when the right of the payment has been established. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as “Reserve for fluctuation on available-for-sale financial assets” in the equity section of the balance sheet. The losses arising from impairment of such investments are recognized as “Provision on impairment losses” in the statement of income. When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized as “Net realized gain on sale of AFS financial assets” in the statement of income.

When the fair value of AFS financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost.

#### *Other financial liabilities*

Issued financial instruments or their components, which are not designated as financial liabilities at FVPL, are classified as other financial liabilities, where the substance of the contractual arrangement results in the Company having an obligation either to deliver cash or another financial assets to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. This includes investment contracts which mainly transfer financial risk and has no or insignificant insurance risk.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortization cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to the Company’s payable to customers, accounts payable and accrued expenses, that meets the above definition (other than liabilities covered by other accounting standards, such as income tax payable).

#### 3.3.d. Derecognition

The Company recognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognized as a separate asset and liability.

The Company derecognizes a financial liability when the contractual obligations are discharged or cancelled or expire.

The Company enters into transactions whereby it transfers assets recognized on its balance, but retained either all risks or rewards of the transferred assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognized from the statements of condition. Transfers of assets with retention of all or substantially all risks and rewards include, for example, securities lending and repurchase transactions.

The Company also derecognizes certain assets when it charges off balances pertaining to the assets deemed to be uncollectible.

#### 3.3.e. Offsetting

Financial assets and financial liabilities are offset and the net amount reported in the statements of condition if, and only if, the Company has a legal right to set off the recognized amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. This is generally the case with master netting agreements; thus, the related assets and liabilities are presented gross in the statement of condition.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as in the Company's trading activity.

#### 3.3.f. Amortized cost measurement

The amortize cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

#### 3.3.g. Fair value measurement

The fair value for financial instruments traded in active markets at the balance sheet date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. When current bid and asking prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has been a significant change in economic circumstances since the time of the transaction.

For all other financial instruments not listed in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques included net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models, and other relevant valuation models.

#### 3.3.h. Identification and measurement of impairment

At each reporting date, the Company assesses whether a financial asset or group of financial assets is impaired.

A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event' and that loss event/s has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated). Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

#### Loans and receivables

For loans and receivables carried at amortized cost, the Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Company determines that no objective evidence of impairment exists for individually assessed financial asset, whether

significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the statement of income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of 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.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are group on the basis of such credit risk characteristics as type of borrower, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

#### *AFS financial assets carried at fair value*

In case of equity investments classified as AFS financial assets, impairment indicators would include a significant or prolonged decline in the fair value of the investments below its cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the statement of income – is removed from the equity and recognized in the statement of income. Impairment losses on equity investments are not reversed through the statement of income. Increases in fair value after impairment are recognized directly in equity.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Interest continues to be accrued at the original effective interest rate on the reduced carrying amount of the asset and is recorded as part of "Investment income" in the statement of income. If in subsequent year, the fair value of a debt instrument increased and the increase can be objectively related to an event occurring after the impairment loss was recognized in the statement of income, the impairment loss is reversed through the statement of income.

#### *AFS financial 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 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 asset.

### 3.4. Cash and Cash Equivalents

Cash includes cash on hand and in banks and revolving fund. This account is recorded at face value. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amount of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

### 3.5. Trade and Other Receivables

#### 3.5.a. Trade

Trade receivables are recognized and carried at original invoice amount less an estimate made for doubtful accounts based on the review of all outstanding amounts as of balance sheet date. An estimate for probable losses is made when collection of the full amount is no longer probable.

The Company has provided an allowance for doubtful accounts to take care of the estimated possible losses, which may be incurred in the non-collection of receivables.

#### 3.5.b. Others

This account includes the current portions of advances and deposits, housing loan assistance, and car loans, which are expected to be realized in the twelve (12) month period from balance sheet date.

### 3.6. Inventories

Inventories are valued at the lower of cost and net realizable value. Net realizable value for finished goods and raw materials is the estimated selling price in the ordinary course of business, less estimated costs of completion and estimated costs necessary to make the sale. In determining the net realizable value, the Company considers any adjustments necessary for obsolescence.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

#### 3.6.a. Finished Goods

Determined primarily on the basis of using the first-in, first out (FIFO) method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced.

#### 3.6.b. Raw Materials

Cost is determined using the first-in, first-out basis.

### 3.7. Investment in Subsidiary

Upon the adoption of PAS 27, "Consolidated and Separate Financial Statements" in the beginning of the year 2005, the Company changed its accounting method to account for its 100% investment in its subsidiary, 102 E. Delos Santos Realty Co., Inc. from equity method to cost method. Cost method was also used to account for the company's 100% investment in its newly incorporated subsidiary in June, 2008. A subsidiary is an entity that is controlled by another entity known as the parent company.

Subsidiary is an entity over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

### 3.8. Property, Plant and Equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and accumulated provision for any impairment in value.

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

such item can be measured reliably, the expenditures are capitalized as an additional cost of the said property and equipment.

Land is stated at cost less impairment in value; if any. The carrying values of the property, plant and equipment are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Land improvements	20 years
Building and improvement	30 years
Machinery and equipment	20 years
Laboratory equipment	10 years
Transportation equipment	10 years
Office furniture, equipment and improvements	10 years

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property.

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

### 3.9. Impairment of Non-financial Assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing the value in use, the estimated future cash flows are discounted to their present value using the pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates using the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized.

There is no impairment loss recognized on the company's assets in the financial statements for June 30, 2009 and December 31, 2008.

### 3.10. Prepaid Marketing Development Expense

This refers to the amount stipulated in the Company's sales contracts, which are amortized over the term of the relevant sales contracts.

### 3.11. Patents/Rights

Patents and rights are carried at acquisition cost and being amortized over a period of twenty (20) years.

Subsequent expenditure on intangible asset is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

### 3.12. Trade Accounts Payable

This account represents the outstanding non-interest bearing payables to suppliers of finished goods, raw materials and other services. There are no existing advances from directors, officers and employees.

### 3.13. Leases

The determination of whether an arrangement is, or contain a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement conveys a right to use the asset.

Company as a Lessee. Operating lease payments are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Company as a Lessor. Leases where the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same bases as rental income.

### 3.14. Borrowing Costs

The Company accounts its borrowing costs as expenses in the period in which they are incurred, except to the extent that they are capitalized. Accordingly, interest on loans used to finance capital expenditures is capitalized as part of the cost of the property during the installation/construction period. Under PAS 23, capitalization of borrowing cost as part of the cost of an asset commences when:

- expenditures of the asset are being incurred;
- borrowing costs are being incurred ; and
- activities to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

### 3.15. Research and Development Costs

Expenditure on research for activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved product and processes, is capitalized if the product or process is technically and commercially feasible.

### 3.16. Foreign Currency Transaction and Translations

Foreign currency transactions are recorded in Philippine peso based on the exchange rate prevailing at the time of transaction. Outstanding foreign currency denominated assets and liabilities are restated based on the exchange rate prevailing at the balance sheet date. Foreign exchange gain(loss) account on foreign exchange translation represents gains and loss arising from subsequent settlements or restatements of foreign currency denominated assets and liabilities at exchange rates different from those at which they were recorded and are credited or charged to income.

### 3.17. Business Segment Information

The Company is primarily engaged in manufacturing pharmaceutical products whether for domestic and export sales (see Note 22, 33) that constitute the Company's reportable segments, which is consistent with how the Company's management internally disaggregate financial information for the purpose of making internal operating decisions and evaluating performance.

The Company's assets are utilized for manufacturing pharmaceutical products whether for domestic or export sales. Management considers that it is impractical to allocate such assets and related liabilities to the business segments. Accordingly, segment assets, segment liabilities and other segment information on cash flows and capital expenditures are not separately allocated to the business segments.

### 3.18. Provisions and Contingencies

#### 3.18.a. Provision

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event; it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. 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 assessments 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 a borrowing cost.

#### 3.18.b. Contingencies

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

### 3.19. Earnings Per Share (EPS)

Basic EPS is computed by dividing net income attributable to equity holders by the weighted average number of common shares issued and outstanding during the year, adjusted for any stock dividends declared.

Diluted (EPS) is calculated by dividing the net income attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on the conversion of all dilutive potential ordinary shares into ordinary shares.

### 3.20. Related Party Transactions

Parties are considered to be related if one of the parties has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

### 3.21. Events After the Balance Sheet Date

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

3.22. The interim financial data as of June 30, 2009 and 2008 are unaudited ; however, the interim data include all adjustments consisting only of normal recurring adjustments necessary for a fair statements of the results for the interim period.

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

The preparation of the financial statements in accordance with PFRS requires the Company to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### 4.1. Judgments

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

##### *Classification of Financial Instruments*

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

##### *Operating Lease Commitments – Company as Lessee*

The Company has operating lease agreements for its depots and office. The Company has determined that the risks and rewards of ownership for the underlying properties have been retained by the respective lessors. Accordingly, the leases are accounted for as operating leases.

##### *Contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with the company's legal counsel handling the defense in these matters and is based upon an analysis of potential results. The Company currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these procedures.

#### 4.2. Key sources of estimation uncertainty

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

##### *Estimated Allowance for Impairment Losses on Receivables*

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the receivable account.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

Allowance for impairment loss on trade receivables amounted to P28,149,217 in 2009 and 2008. Total receivables, net of allowance for impairment loss, amounted to P 794,990,583 and P936,721,160 as of June 30, 2009 and 2008, respectively (see Note 7).

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

The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the property and equipment. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

The carrying values of property and equipment as of June 30, 2009 and 2008 are disclosed in Note 11.

##### *Impairment of Non-Financial Assets*

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

- significant under performance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Company evaluated impairment on non-financial assets on a basis described in accounting policy 3 (3.9).

No indications of impairment were noted on property and equipment as of June 30, 2009 and 2008.

#### *Recognition of deferred tax assets*

Deferred tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which these can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized. These assets are periodically reviewed for realization. Periodic reviews cover the nature and amount of deferred income and expense items, expected timing when assets will be used or liabilities will be required to be reported, reliability of historical profitability of businesses expected to provide future earnings and tax planning strategies which can be utilized to increase the likelihood that tax assets will be realized.

The Company reviews its deferred tax assets at each balance sheet date and reduces the carrying amount to the extent that is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Any deferred tax asset will be re-measured if it might result in derecognition when the expected tax law to be enacted has a possible risk on the realization.

## 5. Financial Assets and Liabilities

The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it is practicable to estimate such value:

#### *Short-term financial instruments:*

Due to the short-term nature of the transactions, the carrying value of cash and cash equivalents, trade and other receivables, trade accounts payable, acceptances payable and other current liabilities approximate their fair values.

#### *Available-for-sale financial assets*

The fair values of publicly traded instruments and similar investments are based on quoted bid prices. The Company's available-for-sale financial assets represents the PLDT stocks held under the Investees' Subscribers Investment Plan and corporate proprietary shares in Casino Español de Manila (CEDM)

The fair value of PLDT shares equal its year-end book value while the fair value of the CEDM securities cannot be reasonably be determined, thus, these are carried at cost, subject to impairment.

#### *Long-term debt*

The fair value of the long-term debt approximates its carrying value due to the quarterly repricing of the instrument.

#### **Fair value**

The following table sets forth the carrying values and estimated fair values of the financial assets and financial liabilities presented per class and category as of June 30, 2009 and 2008.

	2009		2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial assets</b>				
Cash	P 233,638,226	P 233,638,226	P 219,316,308	P 219,316,308
Trade and other receivables				
Trade	820,765,040	820,765,040	962,759,810	962,759,810
Non-trade	2,374,760	2,374,760	2,110,567	2,110,567
	1,056,778,026	1,056,778,026	1,184,186,685	1,184,186,685
<b>Available for sale securities</b>				
Quoted	144,000	144,000	144,000	144,000
Unquoted	200,000	200,000	200,000	200,000
	344,000	344,000	344,000	344,000
	1,057,122,026	1,057,122,026	1,184,530,685	1,184,530,685
<b>Financial liabilities</b>				
Trade accounts payable	468,269,137	468,269,137	246,811,828	246,811,828
Notes payable (including non-current portic	1,851,566,665	1,851,566,665	1,868,266,665	1,868,266,665
Acceptances payable	228,799,738	228,799,738	185,906,930	185,906,930
Other current liabilities	13,213,721	13,213,721	6,486,395	6,486,395
	P 2,561,849,261	P 2,561,849,261	P 2,307,471,818	P 2,307,471,818

## 6. Cash and Cash Equivalents

This account consists of:

	June 30, 2009	2008
Cash on hand /revolving fund	P 1,634,177	P 1,614,177
Cash in banks	232,004,049	217,702,131
	P 233,638,226	P 219,316,308

Cash in bank earn interest at the respective bank deposit rates.

The following are the details of US\$ savings deposits as of June 30, 2009 and 2008:

	June 30, 2009	2008
Cash in banks	457,237	387,322
Exchange rate	48.37	47.69
Amount in peso	P 22,116,572	P 18,471,395

## 7. Trade and Other Receivables

This account consists of:

	June 30, 2009	2008
Trade	820,765,040	962,759,810
Others	2,374,760	2,110,567
	823,139,800	964,870,377
Less: Allowance for doubtful accounts	28,149,217	28,149,217
	P 794,990,583	P 936,721,160

### **Other Receivables**

This represents dividends receivable and other non-trade receivable.

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account.

Allowance for doubtful accounts relates to trade receivables. No allowance was provided on other receivables. The movement in the allowance for doubtful accounts follows:

	June 30, 2009	2008
Balance at beginning of year	P 28,149,217	P 24,452,572
Charges	-	3,696,645
Balance at end of period	P 28,149,217	P 28,149,217

## 8. Inventories

The account consists of:

	June 30, 2009	2008
Raw materials	P 276,708,060	P 211,648,940
Finished goods	992,838,011	691,389,793
	P 1,269,546,071	P 903,038,733

There are no transactions or events which occurred during the year involving the following:

- Declines subsequent to balance sheet date in market prices of inventory not protected by firm sales contract.
- Changes in pricing methods and the effects thereof;
- Unusual purchase commitments and accrued net losses, if any, on such commitments. (Losses which are expected to arise from firm and noncancellable commitments for the future purchase of inventory items should, if material, be recognized in the accounts and separately disclosed in the income statements);
- The amount of any substantial and unusual write downs.

The estimated net realizable values of inventories are as follows:

	June 30, 2009	2008
Raw materials	P 304,708,281	P 353,820,415
Finished goods	1,185,899,846	987,699,704
	P 1,490,608,127	P 1,341,520,119

#### 9. Other Current Assets

The account consists of:

	June 30, 2009	2008
Prepaid marketing development	P 23,568,157	P 25,243,283
Creditable withholding VAT/TAX	12,015,468	11,261,026
Bidders and performance bond	20,592,006	18,067,923
Advances to officers and employees, housing and car loans	14,179,593	12,990,618
Advances and deposits	16,075,684	19,993,812
Advances to related party	88,500,000	2,000,000
Input tax (unamortized portion)	23,796,141	18,535,619
	P 198,727,049	P 108,092,281

*Prepaid marketing development refers to the current portion of the amount presented in non-current asset- others and which are to be amortized within the next twelve (12) month period.*

*Creditable withholding VAT and TAX refers to deductions made by customers from their payments for our sales of goods and are creditable from VAT output tax, upon submission of the relative Certificate of Withholding VAT from these customers.*

*Bidders and Performance bond refers to cash bonds deposited with customers as required by its bidding procedures. Bidders bond are withdrawable within thirty (30) days from completion of bidding, while performance bonds are withdrawable within six (6) to twelve (12) months from completion of sales contracts.*

*Advances to officers and employees refers to advances for company expenses which are subject to liquidation by concerned officers/employees within the next twelve(12) month period. Housing and car loans includes loan assistance to employees for acquisition of house or car and are deductible from the salaries of concerned employees,*

*Advances and deposits refer to advances to supplier of goods and services and are liquidated within the next twelve(12) month period.*

*Input tax refers to the Value Added Tax (VAT) due from or paid by a VAT registered person in the course of his trade or business on importation of goods or local purchases of goods and for services, including lease or use of property, from a VAT – registered person. These are creditable against the output VAT on sale of goods and services during the taxable quarter(s), except input tax for purchases of capital goods, the aggregate acquisition cost of which in a calendar month exceeds one million pesos (P1.0 million) which shall be spread evenly on a monthly basis over the estimated useful life of the capital goods.*

#### 10. Investment in Subsidiary

The movement of the Company's investment in subsidiary is presented below:

	June 30, 2009	2008
Balance, January 1	P 107,356,940	P 82,356,940
Investment in Hemotek Renal Center Inc. ( a newly incorporated 100% subsidiary)	-	25,000,000
	P 107,356,940	P 107,356,940

During the year 2008, the Company incorporated Hemotek Renal Center, Inc. (the Subsidiary), a 100% owned firm which was newly incorporated in June, 2008 and is engaged as a dialysis center.

## 11. Property, Plant and Equipment

The roll-forward analysis of this account follows:

June 30, 2009

	Land and Land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
<b>COST</b>					
At 1 January 2009	39,693,201	383,580,561	4,512,163,839	12,751,750	4,948,189,351
Additions	-	25,793,964	46,743,772	-	72,537,736
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
<b>June 30, 2009</b>	<b>39,693,201</b>	<b>409,374,526</b>	<b>4,558,907,611</b>	<b>12,751,750</b>	<b>5,020,727,087</b>
<b>ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS</b>					
At 1 January 2009	11,953,565	135,759,814	1,188,275,606	10,228,440	1,346,217,425
Depreciation, amortization, and impairment loss	374,827	4,500,043	79,707,788	281,080	84,863,738
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
<b>June 30, 2009</b>	<b>12,328,392</b>	<b>140,259,858</b>	<b>1,267,983,394</b>	<b>10,509,520</b>	<b>1,431,081,163</b>
<b>NET BOOK VALUE AS OF June 30, 2009</b>	<b>27,364,809</b>	<b>269,114,668</b>	<b>3,290,924,217</b>	<b>2,242,230</b>	<b>3,589,645,922</b>

December 31, 2008

	Land and Land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
<b>COST</b>					
At 1 January 2008	39,693,201	373,205,791	4,441,485,751	12,751,750	4,867,136,493
Additions	-	10,374,770	70,678,088	-	81,052,858
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
<b>December 31, 2008</b>	<b>39,693,201</b>	<b>383,580,561</b>	<b>4,512,163,839</b>	<b>12,751,750</b>	<b>4,948,189,351</b>
<b>ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS</b>					
At 1 January 2008	11,203,910	124,914,782	1,032,113,231	9,666,278	1,177,898,201
Depreciation, amortization, and impairment loss	749,654	10,845,032	156,162,375	562,162	168,319,224
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
<b>December 31, 2008</b>	<b>11,953,565</b>	<b>135,759,814</b>	<b>1,188,275,606</b>	<b>10,228,440</b>	<b>1,346,217,425</b>
<b>NET BOOK VALUE AS December 31, 2008</b>	<b>27,739,636</b>	<b>247,820,747</b>	<b>3,323,888,233</b>	<b>2,523,310</b>	<b>3,601,971,924</b>

Depreciation expense for the six months ended June 30, 2009 and 2008 amounted to P 84,863,739 and P84,265,660 respectively, broken down as follows:

	June 30, 2009	June 30, 2008
Charged to:		
Factory overhead	80,353,102	80,022,352
Distribution expenses	2,639,497	2,674,808
Administrative and Selling expenses	1,871,140	1,568,500
	<b>84,863,739</b>	<b>84,265,660</b>

Machinery in progress is included in the machinery and equipment amounting to P1,315,772,116 in 2009 and in 2008.

Machinery in progress is included in the machinery and equipment amounting to P1,315,772,116 in 2009 and in 2008.

Certain real estate and machines were used as collateral for long-term borrowings (See note 14).

## 12. Other Non-Current Assets

The account at June 30 consists of:

	June 30, 2009	2008
Deferred income tax	P 9,343,393	P 9,343,394
Available-for-sale securities	344,000	344,000
Patents/Rights	820,776	876,246
Prepaid marketing development expense	94,272,629	100,973,133
Advances and deposits, housing and car loans (realizable beyond the next 12 month period)	26,881,872	26,925,998
	<u>P 131,662,670</u>	<u>P 138,462,771</u>

*Deferred income tax* refers to the deferred income tax on allowance for bad debts.

*Available-for-sale securities* are the Company's investment in PLDT shares and Casino Español de Manila. As of June 30, 2009, the fair value of the said investments equals its year-end book value.

The account consists of:

	June 30, 2009	2008
Philippine Long Distance Tel. Corp.(PLDT)	P 144,000	P 144,000
Casino Español de Manila	200,000	200,000
	<u>P 344,000</u>	<u>P 344,000</u>

The PLDT shares represents stocks held by the Company under the investee's Subscribers Investment Plan. This is in connection with the various telephone lines acquired by the Company. Investment in Casino Español de Manila represents corporate proprietary shares.

*Patents and rights* are carried at acquisition cost and being amortized over a period of twenty (20) years. The Company has registered tradenames and trademarks with the Department of Trade – Bureau of Patents, Trademarks and Technology (BPTTT).

Movement in Patents/Rights account during the period 30 June 2009 and 2008 are as follows:

	June 30, 2009	2008
Balance, beginning	P 876,245	P 987,184
Additions during the year	-	-
Amortizations during the period	55,470	110,939
Balance, ending	<u>P 820,775</u>	<u>P 876,245</u>

*Prepaid marketing development expenses*, refer to those expenses which are to be amortized for more than twelve months. The amount presented is net of current portion reported under current assets-others.

The account *advances and deposits* pertain to advances to suppliers for company expenses which are subject to liquidation beyond the next twelve (12) month period from balance sheet date. Housing and car loans are deductible from salaries of concerned employees. The amount presented is net of current portion reported under current asset-others.

**13. Trade Accounts Payable**

The account relates to the outstanding payables to the Company's suppliers of raw materials, finished goods and other services. As of balance sheet date, the balances amount to P468,269,137 and P246,811,828 for 2009 and 2008, respectively.

**14. Notes Payable**

The account at June 30 consists of:

	June 30, 2009	2008
Current	P 1,395,033,332	P 1,411,733,332
Non-current	456,533,333	456,533,333
	P 1,851,566,665	P 1,868,266,665

Notes payable-current represents the Company's net availments from the Omnibus Credit lines granted by various local banks in the aggregate principal amount of P1,395,033,332 and P1,411,733,332 in 2009 and 2008 respectively. The proceeds of the loans were used for working capital and capital expenditures. Credit lines are available in peso or dollar availments of up to 360 days term. Interest is payable / renewable monthly or every 60 to 90 days in arrears at prevailing bank loan rate. Also included in this account is the current maturing portion of long-term loan amounting to P155,033,332 in 2009 and 361,733,332 in 2008.

Notes payable - non-current pertains to the loans obtained by the Company from local banks payable in three (3) to seven (7) years on principal amortization and interest rates are based on T-bills plus spread. The loan proceeds were used to refinance short-term notes payable and for capital expenditures. The loans are collateralized by a mortgage on land with an area of 36,314 sq. meters in Cavite; building and improvements on land; and machinery consisting of three production lines.

As at balance sheet date, total long-term loans are presented net of current maturing portion as follows:

	June 30, 2009	2008
Long-term loans	611,566,665	818,266,665
Current portion of long-term loans	155,033,332	361,733,332
	P 456,533,333	P 456,533,333

The current portion of the long-term loans pertains to the amount of the liability due within one year following the close of the balance sheet date.

The Company has Omnibus Credit lines in the aggregate amount of about P2.0 billion on a clean basis from various commercial banks. These credit lines provide for cash borrowings (Peso or Dollars), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no marginal deposit at opening). Availments are for a period of 180 to 360 days, with interest payable/reviewable monthly or every 60 to 90 days in arrears at prevailing bank loan rates.

The details of Property, Plant and Equipment pledged as security to liabilities based on fair market value as at balance sheet date follows:

Land	P 152,519,000
Building and improvements	200,792,000
Machinery and equipment	1,669,053,000
	<u>P 2,022,364,000</u>

The titles of real estate properties were not restricted.

**15. Acceptances Payable**

This account represents Trust receipts on letters of credit obtained from various local banks for the importation of various raw materials. This is part of the availments from Omnibus Credit lines of various commercial banks. Credit lines provide for:

- a) No margin deposit at opening of letters of credit.
- b) Foreign exchange conversion at prevailing bank rate.
- c) Usance and Trust Receipts available up to 180 days with interest payable / reviewable monthly or every 30 to 90 days in arrears at prevailing bank loan rate.

**16. Other Current Liabilities**

The account at June 30 consists of:

	June 30, 2009	2008
Accrued expenses	P 3,816,330	P 1,387,133
Agency payable	9,397,391	5,099,262
	<u>P 13,213,721</u>	<u>P 6,486,395</u>

Accrued expenses represent accrual of purchases of finished goods inventories, raw materials, and services.

Agency payable account consists of:

	June 30, 2009	2008
SSS/Pag-ibig/Philhealth premium and loans	P 2,246,039	P 2,267,633
BIR withholding taxes and VAT payable	7,151,352	2,831,629
	<u>P 9,397,391</u>	<u>P 5,099,262</u>

**17. Deferred Credits**

This represents advance rental and refundable deposits amounting to P 5,400,000 and P6,781,261 for 2009 and 2008 respectively.

**18. Provisions and Contingencies**

Provisions are recognized only when the company has (a) a present obligation (legal or constructive) as a result of a past event; (b) it is probable ( i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) 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 assessments 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 interest expense. Where the company expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but

only when the receipt of the reimbursement is virtually certain provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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

As of June 30, 2009 the company had a total of forty seven (47) pending cases, forty (45) of which were filed for the collection of various amounts for bouncing checks. The aggregate amount claimed for the same is approximately P9.6 million. Three (3) of these cases not filed by the company are Insolvency Proceedings against customers for which the company have pending claims for payments and the remaining two (2) cases, the first case is a BFAD administrative case that has been archived while the second case is a civil suit in the amount of approximately P1.2 million for unpaid supplies filed by a private complainant for the collection of sum of money against a contractor which constructed a building for the company. The case is now on appeal by petition for review filed in behalf of Euro-Med on January 2007 with the Supreme Court.

The Company had filed a Petition for Review with the Court of Tax Appeals on 6 October 2005 appealing the Decision of the Deputy Commissioner, Bureau of Internal Revenue (BIR), denying our protest on their assessment of P258.7 million as deficiency taxes (inclusive of penalties, surcharges and interest) for the year 2000. The company had filed tax amnesty return on October 2, 2007, pursuant to Republic act. No. 9480 (RA# 9480) which became effective on June 16 2007. The benefits and privileges of this law are:

a.) Immunity from payment of taxes as well as additions thereto and appurtenant civil, criminal or administrative penalties under the National Internal Revenue Code (NIRC) of 1997, arising from the failure to pay any and all internal revenue taxes for taxable year 2005 and prior years.

b.) The company's Tax Amnesty Return shall not be admissible as evidence in all proceedings that pertain to taxable year 2005 and prior years, in so far as such proceedings relate to internal revenue taxes. The same shall not be examined, inquired or looked into by any person or government office.

c.) The books of accounts and other records of the company for the years covered by the tax amnesty availed of shall not be examined by the BIR.

The case is now considered "Closed and Terminated" by the Court of Tax appeals per its resolution dated December 12, 2007, and per BIR letter dated February 4, 2008.

The Company's unused letters of credit as of June 30, 2009 and 2008 amounted to approximately P 81.1 million and P105.6 million, respectively.

## **19. Dividend Declaration**

In a meeting held on December 17, 2008 and April 7, 2009, the Board of Directors approved the declaration of 10% stock dividend from the unrestricted retained earnings of the Corporation as of 31 December 2008 and in furtherance thereof, approved the additional issuance of three hundred twenty two million One hundred two thousand (322,102,000) shares from its authorized and unissued capital stock subject to the approval of shareholders at the annual shareholders meeting to be held in 2009, the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

The stock dividend of 10% is equivalent to three hundred twenty two million One hundred two thousand (322,102,000) shares at par value based on the issued and outstanding capital stock of the Corporation of three billion two hundred twenty one million twenty thousand (3,221,020,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- The stockholders during the annual stockholders' meeting held on June 17, 2009.
- The Securities and Exchange Commission (SEC) on July 14, 2009.
- The Philippine Stock Exchange, Inc., (PSE) on July 13, 2009.

In a meeting held on December 19, 2007, the Board of Directors approved the declaration of 10% stock dividend from the unrestricted retained earnings of the Corporation as of 31 December 2007 and in furtherance thereof, approved the additional issuance of two hundred ninety two million eight hundred twenty thousand (292,820,000) shares from its authorized and unissued capital stock subject to the approval of shareholders at the annual shareholders meeting to be held in 2008, the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange (PSE).

The stock dividend of 10% is equivalent to two hundred ninety two million eight hundred twenty thousand (292,820,000) shares at par value based on the issued and outstanding capital stock of the Corporation of two billion nine hundred twenty eight million two hundred thousand (2,928,200,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- The stockholders during the annual stockholders' meeting held on June 18, 2008.
- The Securities and Exchange Commission (SEC) on July 11, 2008.
- The Philippine Stock Exchange, Inc., (PSE) on July 11, 2008 and was listed on that same date.

## 20. Share Capital

The account at 30 June 2009 consists of:

Authorized		
No. of shares		3,800,000,000
Par value		P 1.00
		<u>P 3,800,000,000</u>
	2009	2008
Issued	P 3,221,020,000	P 3,221,020,000
Stock dividend distributable (See note 19)	322,102,000	322,102,000
	<u>P 3,543,122,000</u>	<u>P 3,543,122,000</u>

## 21. Retained Earnings

This account represents retained earnings amounting to P115,179,115 in 2009 and P8,769,107 in 2008. There are no restrictions, statutory or contractual, including those relating to legal reserves and capitalized earnings, which limit for dividend purposes and other appropriations. The amounts are all unappropriated/free. There is no existing stock purchase agreement.

## 22. Net Sales

22.1. The account at June 30 consists of:

	June 30, 2009	June 30, 2008
Sale of goods	P 1,812,674,980	P 1,081,440,544
Rental and other services	8,100,000	9,372,486
	<u>P 1,820,774,980</u>	<u>P 1,090,813,030</u>

22.2. The total net sales of goods are broken down as follows:

	June 30, 2009	June 30, 2008
Export sales		
ASEAN	P 95,978,680	P 94,401,944
Other Asian countries	13,547,988	25,198,825
Africa	46,561,047	45,989,071
Others	13,032,860	12,785,798
	169,120,574	178,375,638
Local sales	1,651,654,406	912,437,392
	P 1,820,774,980	P 1,090,813,030

### **23. Finance Income**

The account at June 30, consists of:

	June 30, 2009	June 30, 2008
Interest income	793,259	878,729
Dividends	10,450	3,350
	P 803,709	P 882,079

### **24. Miscellaneous Income**

Miscellaneous income consists of the following:

	June 30, 2009	June 30, 2008
Interest on car/housing loan	P374,038	P280,109
Meralco refund	761,875	380,938
Others	902,073	4,010
	P 2,037,986	P 665,057

### **25. Cost of Goods Manufactured and Sold**

This account consists of the following:

	June 30, 2009	June 30, 2008
Raw materials used	P 304,721,319	P 340,632,987
Direct labor	50,566,799	26,045,444
Manufacturing overhead	285,543,664	306,926,515
Cost of goods manufactured	640,831,782	673,604,946
Finished goods		
Beginning of year	691,389,793	315,105,570
Purchases	980,665,509	68,736,263
End of the period	(992,838,011)	(445,830,327)
	P 1,320,049,073	P 611,616,452

The breakdowns of raw materials used at June 30 are as follows:

	June 30, 2009	June 30, 2008
Raw materials		
Beginning of year	P 211,648,940	P 156,073,480
Purchases	369,780,439	375,084,842
Raw materials available for use	581,429,379	531,158,322
End of the period	(276,708,060)	(190,525,335)
	<b>P 304,721,319</b>	<b>P 340,632,987</b>

## **26. Administrative and Selling Expenses**

This account consists of the following:

	June 30, 2009	June 30, 2008
Marketing and development expense	P62,148,881	P60,414,384
Salaries and commissions	45,203,846	43,488,371
Transportation and travelling	14,720,663	11,280,993
Final VAT	10,090,827	3,698,183
Taxes and licenses	4,777,105	3,329,282
Representation and entertainment	5,165,481	9,103,151
Professional fees	4,554,225	3,061,118
Rentals	3,518,656	2,691,921
Office supplies	1,416,603	1,917,140
Gas and oil	1,845,276	2,081,061
Postage and telephone	2,589,785	2,099,298
SSS/Medical/ECC/HDMF	1,882,557	1,503,006
Depreciation	1,871,140	1,568,500
Light and water	1,447,460	1,197,578
Insurance	840,703	837,475
Repairs and maintenance	631,712	3,004,431
Training and seminars	1,784,321	1,980,071
Subscription and dues	317,850	322,282
Amortization	55,469	55,469
Miscellaneous	5,567,679	8,240,385
	<b>P170,430,239</b>	<b>P 161,874,099</b>

The rental expense represents charges on operating lease agreements, which are renewable annually subject to mutual agreement of both parties.

## **27. Distribution Expenses**

This account consists of the following

	June 30, 2009	June 30, 2008
Delivery expenses	P55,971,686	P59,466,343
Rentals	9,216,188	7,144,023
Salaries	7,866,340	6,287,031
Taxes and licenses	5,700,668	5,696,293
Depreciation	2,639,497	2,674,809
Office warehouse supplies	1,313,608	1,527,487
Repairs and maintenance	910,950	1,448,208
Light and water	670,239	777,464
Postage and telephone	662,063	694,896
SSS/Medical/ECC/HDMF	454,262	384,552
Representation and entertainment	308,529	187,530
Transportation and travelling	218,458	215,069
Insurance	192,289	119,706
Miscellaneous	1,267,536	973,683
	<b>P87,392,313</b>	<b>P87,597,094</b>

The rental expense represents charges on operating lease agreements, which are renewable annually subject to mutual agreement of both parties.

#### **28. Finance Costs**

This account consists of interests on loans as follows:

	June 30, 2009	June 30, 2008
Short-term loans	68,577,720	P 66,197,141
Long-term loans	29,519,847	28,835,452
	<b>P 98,097,567</b>	<b>P 95,032,593</b>

#### **29. Borrowing Costs**

PAS 23, *Borrowing costs* prescribes the accounting treatment for borrowing costs to generally require the immediate expensing of borrowing costs. However, the standard permits, as allowed alternative treatment, the capitalization of such costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that takes a substantial period of time to get ready for its intended use or sale) as part of the cost of the appropriate qualifying asset/s. Capitalization of borrowing cost ceases when substantially all the activities necessary to prepare the assets for its intended purpose are completed.

The amounts of interest capitalized/expensed for each period covered are as follows:

	June 30, 2009	June 30, 2008
Capitalized	P -	P -
Expensed	98,097,567	95,032,593
	<b>P 98,097,567</b>	<b>P 95,032,593</b>
Capitalization rate	0%	0%

