

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 . C O R N E 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

1 1 1 4

Month Day

1 7 - Q

FORM TYPE

Month Day

Annual Meeting

Fiscal Year

2 0 0 8

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

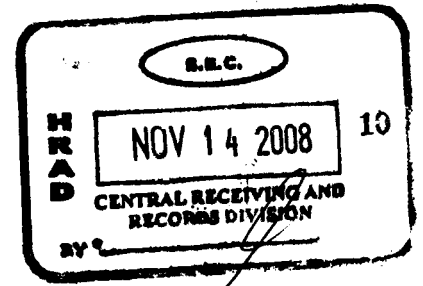
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SECURITIES AND EXCHANGE COMMISSION

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 September 30, 2008

2. SEC Identification Number 148022 3. BIR Tax Identification 000-288-655V

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

5. Philippines 6.  (SEC Use Only)  
(Province, country or other jurisdiction of Industry Classification Code:  
incorporation or organization)

7. 1000 United Nations Avenue cor. San Marcelino St., Manila 1000  
Address of principal office 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	3,221,020,000 shares

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

Yes [ x ]      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 [ x ]      No [   ]

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

Yes [ x ]      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 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 ₱ 40.65/US\$ 1 in January 2008 to about ₱ 46.60/US\$ 1 in September 2008. These depreciation results to a peso increase in export sales. The company's export sales for the periods ended September 2008 and December 2007 are the same at about 17% 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 provided 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 September 30, 2008 that is exposed to interest rate risks are as follows (in 000):

Maturing within one (1) year:			
Notes payable	₱	1,155,567	
Acceptances payable		<u>182,764</u>	1,338,331
Maturing over one (1) year:			
Notes payable			<u>636,050</u>
TOTAL	₱		<u><u>1,974,381</u></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 September 30, 2008 follows (in 000):

Cash in banks		₱	148,327
Trade receivables:			
Private	₱	578,582	
Government		<u>251,363</u>	829,945
Non-trade receivables			<u>2,139</u>
TOTAL	₱		<u><u>980,411</u></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 September 30, 2008 that are exposed to liquidity risk are as follows (in 000):

Bank loans:		
Maturing within one (1) year	P	1,338,331
Maturing over one (1) year		636,050
Trade accounts payable		191,145
Income tax payable		27,299
Agency payable/accrued expenses		28,066
	P	<u>2,220,891</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 September 30, 2008 follows:

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

Classification	Description	Measurement
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 and Receivables	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 of 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 Sept. 30, 2008		As of June 30, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>a) Financial assets</b>				
Cash	₱ 150,414	₱ 150,414	₱ 174,491	₱ 174,491
Trade & other receivables - net	807,631	807,631	756,270	756,270
Available for sale securities				
Quoted	144	144	144	144
Unquoted	200	200	200	200
<b>Total</b>	<b>₱ 958,389</b>	<b>₱ 958,389</b>	<b>₱ 931,105</b>	<b>₱ 931,105</b>
<b>b) Financial liabilities</b>				
Trade accounts payable	₱ 191,145	₱ 191,145	₱ 67,111	₱ 67,111
Notes payable	1,791,617	1,791,617	1,865,967	1,865,967
Acceptances payable	182,764	182,764	173,994	173,994
Other current liabilities	28,066	28,066	10,482	10,482

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.

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 4.7% from P1,631.9 million for the three quarters of 2007 to P1,709.2 million for the three quarters of 2008. The increase in sales was attributed to the increase in domestic sales and export sales. Domestic sales increased by 5.6% from P1,337.1 million for the three quarters of 2007 to P1,412.0 million for the three quarters of 2008, while export sales increased by 1.0% from P294.8 million for the three quarters of 2007 to P 297.2 million for the three quarters of 2008. 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 1% from P 707.2 million for the three quarters of 2007 to P 713.8 million for the three quarters of 2008. Cost of goods

manufactured and sold increased by 7.6% from P 924.7 million for the three quarters of 2007 to P 995.5 million for the three quarters of 2008. As a percentage of net sales, cost of goods manufactured and sold increased from 56.7% for the three quarters of 2007 to 58.2% for the three quarters of 2008. 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) decreased by 12.6% from P398.6 million for the three quarters of 2007 to P348.4 million for the three quarters of 2008. Operating expenses (administration, selling and distribution) increased by 18.4% from P308.7 million for the three quarters of 2007 to P365.4 million for the three quarters of 2008. The increase was due to increased variable operating expenses, i.e. delivery expenses, marketing development and entertainment expenses, commission and transportation expenses. Operating expenses as a percentage of the Company's net sales increased from 18.9% for the three quarters of 2007 to 21.4% for the three quarters of 2008. 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 15.6% from P159.2 million for the three quarters of 2007 to P134.4 million for the three quarters of 2008 due to the decrease in notes payable. 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 10.6% from P83.8 million for the three quarters of 2007 to P74.9 million for the three quarters of 2008. Net income decreased by 10.6% from P155.6 million for the three of quarters of 2007 to P139.1 million for the three quarters of 2008. 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 2.2% from P5.572 billion in 2007 to P5.694 billion in 2008. Current ratio increased by 15% from 1.00:1 in 2007 to 1.15:1 in 2008, while Equity ratio increased by 1.7% from 0.60:1 in 2007 to 061:1 in 2008.

The decrease in cash and cash equivalents was due to the payment of 2007 year end income tax in April 2008, payment of short term notes payable and other current liabilities. 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 increase of advances to suppliers and marketing development expense. The increase in Investment in Subsidiary was due to capital investment in newly incorporated

subsidiary, Hemotek Renal Center, Inc. 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 increase in advances and deposits. The increase in non-current Notes Payable was due to availment of a long-term loans to partially pay off- short term notes payable. The estimated income tax payable decreased since the amount as of 31 December 2007 represents the audited final and adjusted income tax payable as of the end of year 2007 which was paid in April 2008 while the amount as of 30 September 2008 includes the unaudited estimated tax on income for the third quarter of 2008. 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 19 December 2007, which was already reflected in the Balance sheet.

#### Projection

The Company expected to increase its sales in 2008 by about 10% from its local and export 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 45% of sales in 2007 to about 44% of sales in 2008 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 2008 is about P1,148 million.



The net income for 2008 is expected to increase by about 5%. As a percentage of sales, the net income ratio is expected to be the same at 11% of sales in 2007 and 2008. The expected net income in 2008 is about P285 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 

November 07, 2008

  
Sandra N. Pineda  
Chief Accountant

November 07, 2008

# EURO-MED LABORATORIES PHIL., INC.

## BALANCE SHEETS

	Notes	30 September 2008 (Unaudited)	31 December 2007 (Audited)
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	2.7, 4	P 150,414,621 P	301,106,150
Trade and other receivables, net	2.9, 5	807,631,444	792,133,157
Inventories	2.10, 6	756,440,144	471,179,050
Others	2.14, 7	102,101,314	87,095,906
		<b>1,816,587,523</b>	<b>1,651,514,263</b>
<b>Non-current</b>			
Investment in subsidiary	2.11, 8	107,356,940	82,356,940
Property, plant and equipment	2.12, 2.13, 9	3,624,364,114	3,689,238,291
Others	2.14-15, 10, 35	145,963,841	148,987,091
		<b>3,877,684,895</b>	<b>3,920,582,322</b>
<b>TOTAL ASSETS</b>		<b>P 5,694,272,419 P</b>	<b>5,572,096,585</b>

## LIABILITIES AND EQUITY

<b>Current</b>			
Trade accounts payable	2.16, 11	191,145,268	67,111,043
Notes payable	2.18, 12	1,155,566,666	1,407,266,667
Acceptances payable	13	182,763,762	95,207,403
Income tax payable	2.21, 3.3, 29	27,299,019	55,554,215
Others	14	28,066,327	23,980,237
		<b>1,584,841,042</b>	<b>1,649,119,565</b>
<b>Non-current</b>			
Notes payable	2.18, 12	636,049,999	585,999,999
Deferred credits	15	2,700,000	5,400,000
		<b>638,749,999</b>	<b>591,399,999</b>
<b>Equity</b>		<b>3,470,681,376</b>	<b>3,331,577,021</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 5,694,272,418 P</b>	<b>5,572,096,585</b>

The notes on pages 12-40 are an integral part of these financial statements.

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

UNAUDITED

		2008		2007	
	Notes	July – September	Jan. - September	July – September	Jan. - September
<b>NET SALES</b>	2.17, 3, 20	<b>P618,418,768</b>	<b>P1,709,231,798</b>	P598,087,371	P1,631,914,381
<b>COST OF GOODS</b>					
<b>MANUFACTURED AND SOLD</b>	2.10, 23	<b>383,837,960</b>	<b>995,454,412</b>	386,918,023	924,670,021
<b>GROSS PROFIT</b>		<b>234,580,808</b>	<b>713,777,386</b>	211,169,348	707,244,360
Administrative and selling expenses	24	(61,882,577)	(223,756,676)	(54,772,853)	(185,081,473)
Distribution expenses	25	(54,053,148)	(141,650,242)	(39,965,332)	(123,590,532)
Finance income	2.17, 21	382,289	1,264,368	598,797	979,209
Finance cost	26, 27	(44,906,890)	(139,939,483)	(43,226,316)	(156,991,396)
Foreign exchange gain (loss)	2.20, 33	3,265,355	3,495,780	(2,256,796)	(6,099,154)
Miscellaneous income	22	150,510	815,567	(2,536,315)	2,951,024
<b>INCOME BEFORE INCOME TAX</b>		<b>77,536,347</b>	<b>214,006,700</b>	69,010,533	239,412,038
<b>PROVISION FOR INCOME TAX</b>	2.21, 3.3, 29	<b>27,299,039</b>	<b>74,902,345</b>	25,305,173	83,794,214
<b>NET INCOME</b>		<b>P50,237,308</b>	<b>P139,104,355</b>	P43,705,360	P155,617,824
<b>EARNINGS PER SHARE</b>					
Basic and diluted	2.22, 30	<b>P0.02</b>	<b>P0.05</b>	P0.02	P0.06

*The notes on pages 12-40 are an integral part of these financial statements.*

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

	Share capital (Notes 17, 18)	Share premium reserve	Retained earnings (Notes 17, 19)	Total equity	
				September 30, 2008	September 30, 2007
<b>Balances, 31 December 2007 and 30 September 2008 and 2007</b>	P3,221,020,000	P66,609,227	P43,947,794	P3,331,577,021	3,066,692,882
10% Stock dividend	-	-	-	-	-
Balances, 30 September 2008 and 2007	3,221,020,000	66,609,227	43,947,794	3,331,577,021	3,066,692,882
Net income for the period Jan.- September 2008, and 2007	-	-	139,104,355	139,104,355	155,617,825
<b>Balances, 30 September 2008 and 2007</b>	<b>3,221,020,000</b>	<b>66,609,227</b>	<b>183,052,149</b>	<b>3,470,681,376</b>	<b>3,222,310,707</b>

*The notes on pages 12- 40 are an integral part of these financial statements.*

# EURO-MED LABORATORIES PHIL., INC.

## STATEMENTS OF CASH FLOWS

		For The Nine Months Ended Sept.	
	Notes	2008	2007
		(Unaudited)	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P214,006,700	P239,412,038
Adjustment for:			
Depreciation and amortization	9	126,481,696	124,722,078
Finance cost	26	139,939,483	156,991,396
Foreign exchange loss ( gain)	2.20, 33	(3,495,780)	6,099,154
Finance income	2.17, 21	(1,264,368)	(979,209)
Miscellaneous income	22	(815,567)	(2,951,024)
Operating income before working capital changes		476,932,099	527,224,666
Changes in assets and liabilities:			
(Increase) decrease in:			
Trade and other receivables	2.9, 5	(15,498,287)	(92,860,889)
Inventories	2.10, 6	(285,261,094)	(48,515,135)
Other current assets	2.14, 7	(15,005,408)	(20,918,796)
Increase (decrease) in:			
Trade accounts payable	2.16, 11	124,034,225	660,759
Acceptances payable	13	87,556,359	(17,220,177)
Other current liabilities	14	(4,086,090)	(13,134,820)
Cash generated from operations		368,671,804	335,235,608
Interest paid	26	139,939,483	156,991,396
Income tax paid	2.21, 3.2, 29	74,902,345	83,794,214
Interest received	21	1,261,018	976,459
Net cash provided by operating activities		584,774,650	576,997,677
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Payment for the acquisition of property, plant and equipment	9	(61,524,316)	(63,545,251)
Dividend received	21	3,350	2,750
Decrease (increase) in other non-current assets	10	3,023,250	(2,370,725)
Net cash used for investing activities		(58,497,716)	(65,913,226)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from availment of notes payable	2.18, 12	(201,650,001)	(449,999)
Increase (decrease) in deferred credits	15	(2,700,000)	-
Net cash provided by financing activities		(204,350,001)	(449,999)
<b>NET DECREASE IN CASH</b>		<b>(150,691,529)</b>	<b>(3,629,969)</b>
Cash and Cash Equivalents, Beginning of the Year	2.7, 4	301,106,150	276,976,598
<b>Cash and Cash Equivalents, End of Period</b>	2.7, 4	<b>P150,414,621</b>	<b>P273,346,629</b>

The notes on pages 12- 40 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. Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

##### **Basis of Preparation**

The financial statements of the Company have been prepared on a historical cost basis.

##### **2.1 Statement of Compliance**

These financial statements were prepared in accordance with the Philippine Financial Reporting Standards (PFRS). The term PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations which have been approved by the Accounting Standards Council (now called, Financial Reporting Standards Council or FRSC) and adopted by the SEC, including SEC pronouncements.

##### **2.2 Basis of Measurement**

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets.

##### **2.3 Functional and Presentation Currency**

The financial statements of the Company are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The financial statements are presented in Philippine peso, which is the Company's functional and presentation currency. All values are rounded to the nearest peso except when otherwise indicated.

##### **2.4 Use of Estimates and Judgments**

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

## 2.5 Changes in Accounting Policies

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

- *PFRS 7, Financial Instruments - Disclosures.* PFRS 7 includes all of the disclosure requirements relating to financial instruments and will replace the disclosure section of PAS 32 Financial Instruments: Disclosure and Presentation and all of PAS 30 Disclosures in the Financial Statements of Banks and Similar Financial Institutions. PAS 32 will then contain only presentation requirements for financial instruments. The most significant additional disclosure requirements of PFRS 7 (compared to PAS 32 and PAS 30) are as follows: (a) qualitative risk disclosures are to include information on the processes that an entity uses to manage and measure its risks, (b) quantitative data about the exposure to each type of risk (including credit risk, liquidity risk and market risk) arising from financial instruments, (c) information about the credit quality of financial assets that are neither past due nor impaired, (d) an analysis of financial assets that are past due or impaired, including a description of collateral held as security and its fair value, (e) a market risk sensitivity analysis which includes the effect of a reasonably possible change in the risk variables, along with the methods and assumptions used in preparing the analysis. The adoption of the Standard did not have a direct impact on the amounts included in the Company's financial statements. However, the new Standard resulted to changes in the financial instrument disclosures included in the Company's financial statements.
- *Amendments to PAS 1, Presentation of Financial Statements - Capital Disclosure.* This amendment, which is effective for annual periods beginning on or after January 1, 2007, requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital. The disclosures are based on information provided internally to key management personnel, and will include: (a) the objectives, procedures and policies used to manage capital (b) a description of what the entity manages as capital, the nature of any externally imposed capital requirements (if any) and how it meets objectives for managing capital, (c) quantitative information about what the entity manages as capital and any changes from the prior period, (d) whether the entity complied with externally imposed capital requirements and the consequences of any non-compliance, (if applicable). Additional disclosures required were included in the financial statements, where applicable.
- *Philippine Interpretation IFRIC 7, "Applying the Restatement Approach under PAS 29, Financial Reporting in Hyperinflationary Economies"* – the Company adopted the interpretation in 2007 which requires that when a country becomes hyperinflationary, PAS 29 must be applied as if the country had always been hyperinflationary and it provides guidance on calculating deferred taxes and comparatives.
- *Philippine Interpretation IFRIC 8, - "Scope of PFRS 2"* – This interpretation requires PFRS 2 to be applied to any arrangements in which the entity cannot identify specifically some or all of the goods received, in particular where equity instruments are issued for consideration which appears to be less than fair value.
- *IFRIC 9, Reassessment of Embedded Derivatives.* The Interpretation clarifies whether an entity should reassess whether an embedded derivative needs to be separated from the host contract after the initial hybrid contract is recognized. It concludes that reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. As the Company has no such transactions, this interpretation did not have any effect on the financial statements.

- IFRIC 10, *Interim Financial Reporting and Impairment*. IFRIC 10 addresses an inconsistency between PAS 34, Interim Financial Reporting and the impairment requirements relating to goodwill in PAS 36, Impairment of Assets and equity instruments classified as available for sale in PAS 39 Financial Instruments: Recognition and Measurement. The Interpretation states that the specific requirements of PAS 36 and PAS 39 take precedence over the general requirements of PAS 34 and, therefore, any impairment loss recognized for these assets in an interim period may not be reversed in subsequent interim periods. The adoption of this interpretation did not have any effect on the financial statements of the Company.

## 2.6 Future Changes in Accounting Policies

The following are the new accounting standards, amendments to existing standards and interpretations that will become effective subsequent to 2007.

- PFRS 8, *Operating Segments* which will be effective for annual periods beginning on or after January 1, 2009 adopts a management approach to reporting segment information. PFRS 8 will replace PAS 14, *Segment Reporting*.
- Amendment to PAS 23, *Borrowing Costs* which will be effective for annual periods beginning on or after January 1, 2009.
- Amendment to PAS 1, *Presentation of Financial Statements*, which will be effective for annual periods beginning on or after January 1, 2009, introduces new disclosures to aggregate information in the financial statements on the basis of shared characteristics. Additional disclosures required by this amendment will be included in the financial statements when this amendment is adopted.
- Amendment to PAS 32 and PAS 1, *Puttable Financial Instruments*, which will be effective for annual period beginning on or after January 1, 2009). The amendment to PAS 32 requires certain puttable instruments and obligations arising on liquidation to be classified as equity if certain criteria are met. The amendment to PAS requires disclosure of certain information relating to puttable instruments classified as equity. The Company does not expect these amendments to impact the financial statements of the Company.
- Philippine Interpretation IFRIC 12, *Service Concession Arrangements*, which will be effective for annual periods beginning on or after January 1, 2008).
- Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*, which will become effective on July 1, 2008. This interpretation requires customer loyalty award credits to be accounted for as a separate component of the sales transaction in which they are granted and therefore part of the fair value of the consideration received is allocated to the award credits and deferred over the period that the award credits are fulfilled. The Company expects that this interpretation will have no impact on the Company's financial statements as no such schemes currently exist.
- Philippine Interpretation IFRIC 14, *PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* which will be effective for annual periods beginning on or after January 1, 2008.

## 2.7 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.

## 2.8 Financial Assets and Financial Liabilities

Financial assets within the scope of PAS 39 are classified as either, financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, available-for-sale (AFS) investments, or loans and receivables, as appropriate. Financial liabilities on the other hand are classified as either financial liabilities at FVPL or other liabilities, as appropriate. The Company determines the classification of its financial assets and financial liabilities at initial recognition and where allowed and appropriate, reevaluates this designation at each financial year end.

Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs, if any, are included in the initial measurement of financial assets and financial liabilities, except for any financial instruments measured at FVPL. The Company recognizes a financial asset or financial liability in the balance sheet when it becomes a party to the contractual provision of the instruments. All regular way purchases and sales of financial asset are recognized on the trade date, i.e. the date that the Company commits to purchase the asset. Regular way purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace are recognized on the settlement date.

### *Determination of Fair Value*

The fair value for financial instruments traded in active markets at 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 ask prices are not available, the price of the most recent transaction provides evidence of the current fair value as long as there has not 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 include net present value techniques, comparison to similar instruments for which market observable prices exist, options pricing models and other relevant valuation models.

### *Financial Assets and Financial Liabilities at FVPL*

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

Financial assets and financial liabilities are classified as FVPL if they are required for the purpose of selling and repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or a financial guarantee contract. The mark-to-market loss on the derivative is included in the income statement under "Foreign exchange gain (loss) " account.

Financial assets and financial liabilities classified in this category are designated by management on initial recognition when any of the following criteria are met:

1. The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
2. The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
3. The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the balance sheet at fair value. Changes in fair value are reflected in the statement of income. Interest earned or incurred is recorded in interest income or expense, respectively, while dividend income is recorded in other operating income according to the terms of the contract, or when the right of the payment has been established.

The Company has no financial asset and financial liability at FVPL as of September 30, 2008 and 2007.

#### *Held-to-Maturity (HTM) Investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities which the Company's 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 investments. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less any 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. Gains and losses are recognized in the statement of 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 statement of income. The effects of restatement of foreign currency-denominated HTM investments are recognized in the consolidated statement of income.

As of September 30, 2008 and December 31, 2007, the Company has no HTM investments.

#### *Loans and Receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale, and are not classified as other financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. This accounting policy applies primarily to the Company's receivables. After initial measurement, loans and receivables are subsequently carried at amortized cost using the effective interest rate method less any allowance for impairment. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. The amortization is included under interest income account in the statement of income. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

#### *Available-for-Sale (AFS) Investments*

AFS investments are those non-derivative investments which are designated as such or do not qualify to be classified as designated financial assets or financial liabilities at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. After initial measurement, AFS investments 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 the consolidated statement of income. The unrealized gains and losses arising from the fair valuation of AFS investments are excluded, net of tax, from reported earnings and are reported under the Equity section of the consolidated balance sheet, if any.

When the security is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the consolidated statement of income. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Where the Company holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS investments are reported as interest income using the effective interest rate. Dividends earned on holding AFS investments are recognized in the consolidated statement of income, when the right to receive payment has been established. The losses arising from impairment of such investments are recognized in the statement of income and expenses.

#### *Other Financial Liabilities*

Other financial liabilities include: notes payable; trade and other payable; and long-term debt. These are initially recognized at cost being the fair value of the consideration received less directly attributable transaction costs.

Gains and losses are recognized in the statement of income when the liabilities are derecognized, as well as through amortization process.

### Derecognition of Financial Assets and Liabilities

#### *Financial Assets*

Financial instruments are recognized in the financial statements when the Company becomes a party to the contractual provisions of the instrument. A financial asset (or where applicable, a part of a group of similar financial assets) is derecognized when:

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

Where the Company has transferred its rights to receive cash flows from an assets and has neither transferred nor retained substantially all the risk and rewards of the assets, the assets are recognized to the extent of the Company’s continuing involvement in the asset.

#### *Financial Liabilities*

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

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

### Offsetting Financial Instruments

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

## 2.9 Trade and Other Receivables

### 2.9 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.

### 2.9 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. The Company has no receivables from subsidiaries and receivables from related parties during the period.

## 2.10 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:

### 2.10 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.

### 2.10 b Raw Materials

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

## 2.11 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. 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.

## 2.12 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.

#### 2.13 Impairment of Non-financial Assets

The company performs impairment review on assets on an annual basis or more frequently if events or changes in circumstances indicate that the carrying values maybe impaired. If the carrying values of the assets exceed the estimated recoverable amount, the assets are written down to their recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. Estimating the value in use requires the company to make an estimate of the expected future cash flows from the asset and also to choose a suitable period and discount rate in order to calculate the present value of those cash flows. An impairment is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss, if any, is charged to the operations in the period in which it arises.

There is no impairment loss recognized on the company's assets in the financial statements for September 30, 2008 and 2007.

#### 2.14 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.

#### 2.15 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.

#### 2.16 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.

#### 2.17 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

#### Leases

The determination of whether an arrangement is, or contains 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.

### 2.18 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.

### 2.19 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.

### 2.20 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.

#### 2.21 Income Taxes

The Company adopted the Philippine Accounting Standards (PAS)/International Accounting Standards (IAS) No. 12, "Income Taxes" which prescribes the accounting treatment and deferment of income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. The standard provides for the recognition of deferred tax asset when it is possible that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset valuations.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

The income tax for the period ended September 30, 2008 and 2007 were estimates and unaudited. The final tax for the year are recomputed and audited by the external auditor of the company.

#### 2.22 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.

#### 2.23 Business Segment Information

The Company is primarily engaged in manufacturing pharmaceutical products whether for domestic and export sales (see Note 20.2) 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.

#### 2.24 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.

#### 2.25 Interim Financial Data

The interim financial data as of September 30, 2008 and 2007 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.

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

The preparations of the financial statements in compliance with PFRS requires management to make judgments, estimates and assumptions that affects the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable. The following presents a summary of these significant accounting judgments, estimates and assumptions.

#### **3.1 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.

#### **3.2 Estimates and Assumptions**

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 P24,452,572 in 2008 and 2007. Total receivables, net of allowance for impairment loss, amounted to P807,631,444 and P792,133,157 as of September 30, 2008 and 2007, respectively (see Note 5).

#### *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 September 30, 2008 and 2007 are disclosed in Note 9.

#### *Asset Impairment*

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 underperformance relative to the 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.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No indications of impairment were noted on the property, plant and equipment as of September 30, 2008 and 2007.

### 3.3 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 are reassessed at each balance sheet date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates 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.

The income tax for the period ended September 30, 2008 and 2007 were estimates and unaudited. The final tax for the year are recomputed and audited by the external auditor of the company.

### 3.4 Provisions

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

### 3.5 Contingencies

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

### 3.6 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.

## 4. Cash and Cash Equivalents

This account consists of:

	Sept. 30, 2008	2007
Cash on hand	472,966	368,741
Cash in banks	148,327,478	299,195,731
Revolving fund	1,614,177	1,541,678
	<u>150,414,621</u>	<u>301,106,150</u>

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

The following are the details of US\$ savings deposits as of September 30, 2008 and December 31, 2007:

	September 30, 2008	2007
Cash on hand and in banks	654,671	1,160,675
Exchange rate	46.92	41.04
Amount in peso	30,717,159	47,635,244

## 5. Trade and Other Receivables

This account consists of:

	Sept. 30, 2008	2007
Trade		
Private	578,581,764	666,602,397
Government	251,363,305	148,161,477
	829,945,069	814,763,874
Others	2,138,947	1,821,855
	832,084,016	816,585,729
Less: Allowance for doubtful accounts	24,452,572	24,452,572
	807,631,444	792,133,157

### Other receivables

This represents dividends receivable and other non-trade receivable.

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

	Sept. 30, 2008	2007
Balance at beginning of year	24,452,572	20,799,364
Charges	-	3,653,208
Balance at end of period	24,452,572	24,452,572

## 6. Inventories

The account consists of:

	Sept. 30, 2008	2007
Raw materials	P 216,783,837	P 156,073,480
Finished goods	539,656,308	315,105,570
	P 756,440,145	P 471,179,050

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 value of inventories are as follows:

	Sept. 30, 2008	2007
Raw materials	P 329,688,707	P 269,920,003
Finished goods	734,610,680	462,989,050
	P 1,064,299,387	P 732,909,053

## 7. Other Current Assets

The account consists of:

	Sept. 30, 2008	2007
Prepaid marketing development	P 26,817,839	P 28,119,787
Creditable withholding VAT/TAX	10,621,269	9,333,853
Bidders and performance bond	17,146,189	12,827,453
Advances to officers and employees, housing and car loans	11,415,382	11,071,560
Advances and deposits	17,840,633	20,115,710
Input tax (unamortized portion)	18,260,002	5,627,543
	P 102,101,314	P 87,095,906

*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* 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) 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.

## 8. Investment in Subsidiary

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

	Sept. 30, 2008	2007
Balance, January 1	P 82,356,940	P 82,356,940
Investment in Hemotek Renal Center Inc. (a newly incorporated 100% subsidiary)	25,000,000	0.00
	P 107,356,940	P 82,356,940

## 9. Property, Plant and Equipment

The roll-forward analysis of this account follows:

Sept. 30, 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	4,441,485,750	12,751,750	4,867,136,492
Additions	-	8,961,284	52,563,032	-	61,524,316
Retirements/disposals	-	-	-	-	-
AT 30 Sept. 2008	39,693,201	382,167,075	4,494,048,782	12,751,750	4,928,660,807
<b>ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS</b>					
At 1 January 2008	11,203,909	124,914,782	1,032,113,231	9,666,277	1,177,898,199
Depreciation, amortization, and impairment loss	562,241	8,133,774	117,280,856	421,621	126,398,492
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
AT 30 Sept. 2008	11,766,150	111,704,458	1,149,394,087	10,087,899	1,304,296,692
<b>NET BOOK VALUE AS OF 30 Sept. 2008</b>	<b>27,927,051</b>	<b>270,462,617</b>	<b>3,344,654,696</b>	<b>2,663,851</b>	<b>3,624,364,116</b>
<b>Sept. 30, 2007</b>					
	Land and Land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
<b>COST</b>					
At 1 January 2007	39,693,201	370,134,786	4,361,039,022	11,501,750	4,782,368,758
Additions	-	3,071,005	80,446,728	1,250,000	84,767,734
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
AT 31 DECEMBER 2007	39,693,201	373,205,791	4,441,485,750	12,751,750	4,867,136,491
<b>ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS</b>					
At 1 January 2007	10,454,255	111,704,458	880,216,844	9,342,755	1,011,718,312
Depreciation, amortization, and impairment loss	749,654	13,210,324	151,896,387	323,522	166,179,888
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
AT 31 DECEMBER 2007	11,203,909	124,914,782	1,032,113,231	9,666,277	1,177,898,199
<b>NET BOOK VALUE AS OF 31 DECEMBER 2007</b>	<b>28,489,292</b>	<b>248,291,009</b>	<b>3,409,372,519</b>	<b>3,085,473</b>	<b>3,689,238,292</b>

Depreciation expense for the six months ended Sept. 30, 2008 and 2007 amounted to P126,398,492 and P124,638,874 respectively, broken down as follows:

	Sept. 30, 2008	Sept. 30, 2007
Charged to:		
Factory overhead	120,033,528	119,912,754
Distribution expenses	4,012,213	3,808,222
Administrative and Selling expenses	2,352,751	917,898
	126,398,492	124,638,874

Machinery in progress is included in the machinery and equipment amounting to P1,315,772,116 in 2008 and in 2007.

Certain real estate and machines were used as collateral for long-term borrowings (See note 12).

#### 10. Other Non-Current Assets

The account consists of:

	Sept. 30, 2008	2007
Deferred income tax	P 8,049,568	P 8,049,568
Available-for-sale securities	344,000	344,000
Patents/Rights	903,980	987,184
Prepaid marketing development expense	107,271,355	112,479,150
Advances and deposits, housing and car loans (realizable beyond the next 12 month period)	29,394,938	27,127,189
	P 145,963,841	P 148,987,091

*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 30 Sept. 2008, the fair value of the said investments equal its year-end book value.

The account consist of:

	Sept. 30, 2008	2007
Philippine Long Distance Tel. Corp.(PLDT)	P 144,000	P 144,000
Casino Español de Manila	200,000	200,000
	P 344,000	P 344,000

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 Sept. 2008 and 2007 are as follows:

	Sept. 30, 2008	2007
Balance, beginning	P 987,184	P 1,098,123
Additions during the year		-
Amortizations during the period	83,205	110,939
Balance, ending	P 903,979	P 987,184

*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.

#### 11. Trade Accounts Payable

The account relates to the outstanding payables to the Company's suppliers of raw materials and other services. As of balance sheet date, the balances amount to P 191,145,268 and P67,111,043 for 2008 and 2007, respectively.

#### 12. Notes Payable

The account consists of:

	Sept. 30, 2008	2007
Current	P 1,155,566,666	P 1,407,266,667
Non-current	636,049,999	585,999,999
	P 1,791,616,665	P 1,993,266,665

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 P1,115,566,666 and P1,407,266,667 in 2008 and 2007 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 P93,533,335 in 2008 and P302,266,667 in 2007.

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:

	Sept. 30, 2008	2007
Long-term loans	P 729,583,334	P 888,266,666
Current portion of long-term loans	93,533,335	302,266,667
	P 636,049,999	P 585,999,999

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
	P 2,022,364,000

The titles of real estate properties were not restricted.

### 13. 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:

- No margin deposit at opening of letters of credit.
- Foreign exchange conversion at prevailing bank rate.
- 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.

### 14. Other Current Liabilities

The account consists of:

	Sept. 30, 2008	2007
Accrued expenses	P 959,634	P 974,936
Agency payable	4,106,693	23,005,301
Advances from Subsidiary- Hemotek	23,000,000	-
	P 28,066,327	P 23,980,237

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

Agency payable account consists of:

	Sept. 30, 2008	2007
SSS/Pag-ibig/Philhealth premium and loans	P 400,210	P 396,027
BIR withholding taxes and VAT payable	3,706,482	22,609,274
	P 4,106,692	P 23,005,301

## **15. Deferred Credits**

This represents advance rental and refundable deposits amounting to P 2,700,000 and 5,400,000 for 2008 and 2007 respectively.

## **16. 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 Sept. 30, 2008 the company had a total of fifty(50) 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 P10.2 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. The remaining two(2) cases, the first case is a BFAD administrative case that has been archived. 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 have 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 30 Sept. 2008 amounted to approximately P 80.2 million and P89.9 million in 2007.

## 17. Dividend Declaration

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 and 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 and 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:

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

In a meeting held on December 21, 2006, the Board of Directors approved the declaration of 10% stock dividend from the unrestricted retained earnings of the Corporation as of December 31, 2006 and in furtherance thereof, approved the additional issuance of two hundred sixty six million and two hundred thousand (266,200,000) shares from its authorized and unissued capital stock.

The stock dividend of 10% is equivalent to two hundred sixty six million and two hundred thousand (266,200,000) shares at par value based on the issued and outstanding capital stock of the Corporation of two billion six hundred sixty two million (2,662,000,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- d) The stockholders during the annual stockholders' meeting held on June 20, 2007.
- e) The Securities and Exchange Commission (SEC) on July 24, 2007.
- f) The Philippine Stock Exchange, Inc., (PSE) on July 25, 2007 and was listed on that same date.

## 18. Share Capital

The account at 30 Sept. consists of:

<b>Authorized</b>		
No. of shares		3,800,000,000
Par value		P 1.00
		<b>P 3,800,000,000</b>
	<b>2008</b>	<b>2007</b>
Issued	<b>3,221,020,000</b>	2,928,200,000
Stock dividend distributable (See note 17)	-	292,820,000
	<b>P 3,221,020,000</b>	<b>P 3,221,020,000</b>

## 19. Retained Earnings

This account represents retained earnings amounting to P183,052,149 in 2008 and P 227,501,480 in 2007. 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.

## 20. Net Sales

20.1 The account for period ended 30 Sept. 2008 and 2007 consists of:

	Sept. 30, 2008	Sept. 30, 2007
Sale of goods	P 1,692,359,801	P 1,619,764,381
Rental and other services	16,871,998	12,150,000
	<b>P 1,709,231,798</b>	<b>P 1,631,914,381</b>

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

	Sept. 30, 2008	Sept. 30, 2007
Export sales		
ASEAN	P 151,896,104	P 150,691,463
Other Asian countries	5,139,299	5,069,575
Africa	95,113,850	94,898,981
Others	45,037,226	44,147,959
	<b>297,186,479</b>	<b>294,807,978</b>
Local sales	1,395,173,322	1,324,956,403
	<b>P 1,692,359,801</b>	<b>P 1,619,764,381</b>

## 21. Finance Income

The account consists of:

	Note	Sept. 30, 2008	Sept. 30, 2007
Interest income	2.17	1,261,018	976,459
Dividends	2.17	3,350	2,750
		<b>P 1,264,368</b>	<b>P 979,209</b>

## 22. Miscellaneous Income

Miscellaneous income consists of the following:

	Sept. 30, 2008	Sept. 30, 2007
Interest on car/housing loan	<b>P430,577</b>	P341,853
Meralco refund	<b>380,938</b>	1,523,750
Others	<b>4,053</b>	1,085,420
	<b>P 815,567</b>	P 2,951,023

## 23. Cost of Goods Manufactured and Sold

This account consists of the following:

	Sept. 30, 2008	Sept. 30, 2007
Raw materials used	<b>P 502,960,679</b>	P 440,331,891
Direct labor	<b>35,164,221</b>	30,126,176
Manufacturing overhead	<b>492,148,470</b>	409,834,100
Cost of goods manufactured	<b>1,030,273,370</b>	880,292,167
Finished goods		
Beginning of year	<b>315,105,570</b>	287,868,480
Purchases	<b>189,731,781</b>	101,854,347
End of the period	<b>(539,656,308)</b>	(345,344,974)
	<b>P 995,454,412</b>	P 924,670,020

The breakdown of raw materials used at 30 Sept. are as follows:

	Sept. 30, 2008	Sept. 30, 2007
Raw materials		
Beginning of year	<b>P 156,073,480</b>	P 178,456,321
Purchases	<b>563,671,036</b>	431,370,533
Raw materials available for use	<b>719,744,516</b>	609,826,854
End of the period	<b>(216,783,837)</b>	(169,494,963)
	<b>P 502,960,679</b>	P 440,331,891

## 24. Administrative and Selling Expenses

This account consists of the following:

	Sept. 30, 2008	Sept. 30, 2007
Marketing and development expense	P80,241,317	P58,936,690
Salaries and commissions	59,602,013	58,184,878
Transportation and travelling	24,853,162	23,332,259
Taxes and licenses	7,190,626	10,549,233
Representation and entertainment	7,386,940	4,933,892
Professional fees	4,859,503	3,502,827
Office supplies	2,758,821	3,452,294
Postage and telephone	3,362,171	2,867,899
Gas and oil	3,089,845	2,267,092
Rentals	5,551,249	1,726,175
SSS/Medical/ECC/HDMF	2,335,187	2,026,284
Light and water	1,697,527	1,584,804
Insurance	1,206,801	1,085,943
Depreciation	2,352,751	917,898
Subscription and dues	474,692	889,578
Repairs and maintenance	904,569	763,515
Final VAT	7,549,567	930,566
Training and seminars	397,919	100,463
Amortization	83,204	83,204
Miscellaneous	7,858,812	6,945,979
	<b>P223,756,676</b>	<b>P 185,081,473</b>

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

## **25. Distribution Expenses**

This account consists of the following

	Sept. 30, 2008	Sept. 30, 2007
Delivery expenses	P100,016,513	P85,619,465
Salaries and commissions	9,326,314	9,277,972
Rentals	10,618,485	7,511,612
Taxes and licenses	8,287,209	7,122,895
Office supplies	2,696,119	5,750,881
Depreciation	4,012,213	3,808,222
Repairs and maintenance	1,828,020	1,184,076
Postage and telephone	1,000,198	839,034
SSS/Medical/ECC/HDMF	615,776	530,504
Light and water	1,066,332	472,889
Transportation and travelling	249,993	303,005
Insurance	177,551	158,538
Representation and entertainment	212,950	103,049
Miscellaneous	1,542,570	908,390
	<b>141,650,243</b>	<b>123,590,532</b>

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

## 26. Finance Costs

This account consists of interests on loans as follows:

	Sept. 30, 2008	Sept. 30, 2007
Short-term loans	94,926,242	P 100,549,209
Long-term loans	45,013,241	56,442,187
	<b>P 139,939,483</b>	<b>P 156,991,396</b>

## 27. 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:

	Sept. 30, 2008	Sept. 30, 2007
Capitalized	P -	P -
Expensed	139,939,483	156,991,396
	<b>P 139,939,483</b>	<b>P 156,991,396</b>
Capitalization rate	0%	0%

## 28. Research and Development Cost

Research and development expenditures recognized as an expense during the period consist of the following:

	Sept. 30, 2008	Sept. 30, 2007
Material, Research Cost, laboratory supplies and salary of R & D staff	P 23,506,862	P 16,548,437
	<b>P 23,506,862</b>	<b>P 16,548,437</b>

## 29. Income Tax

Under current tax laws, corporations subject to income tax are required to file quarterly returns and pay the corresponding amount of tax. Certain income received by the Company are subject to either a final or creditable income tax at rates specified by law and are remitted by the payors for the account of the Company. An amended return is filed after the end of the taxable year at which time the balance, if any shall be paid.

PAS 12 "Income Tax", prescribes the accounting treatment and deferment of income taxes. The standards require the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, asset for all temporary differences with certain exemptions. The standards provides for the recognition of a deferred

tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.

Pursuant to Sec. 24, in relation to Section 27(E) and Section 28(A) (20) of the National Internal Revenue Code, as originally provided by R.A. No. 8424, a Minimum Corporate Income Tax of two percent (2%) of gross income (except passive income and certain related expenses) as of the end of the taxable year is now imposed.

The income tax for the period ended Sept. 30, 2008 and 2007 were estimates and unaudited. The final tax for the year are recomputed and audited by the external auditor of the company.

### **30. Earnings Per Share (EPS)**

Computation of basic and diluted EPS is shown below:

	Sept. 30, 2008	Sept. 30, 2007
Net income	P139,104,355	P155,617,824
Divided by: weighted average number of outstanding shares	2,928,200,000	2,662,000,000
<b>Earnings per share - Basic / Diluted</b>	<b>P0.05</b>	P0.06

Earnings per share (EPS) is computed based on weighted average number of common shares outstanding during each year adjusted for any stock dividends declared. No stock options, warrants and debenture bonds were offered, exercised nor converted for both years. The basic and the diluted earnings per share is P0.05 and P 0.06 for the period Sept. 30, 2008 and 2007.

### **31. Business Information**

The following table presents revenues, net income, total assets and total liabilities information for the period Sept. 30, 2008 and 2007.

	Sept. 30, 2008	Sept. 30, 2007
Revenues	P 1,709,231,798	P 1,631,914,381
Net income	139,104,355	155,617,824
Total assets	5,694,272,419	5,556,808,710
Total liabilities	2,223,591,041	2,334,498,002

### **32. Related Party Transactions**

- The Company is leasing its office at PPL Building, United Nations Avenue corner San Marcelino Street, Manila from US Automotive Co., Inc., a majority stockholder of the Company. The lease is for one (1) year period and is being renewed annually subject to mutual agreement of the parties. In renewal, the Management considers the lease rates charged to the other tenants in the building and in the vicinity. The rent for the period January to Sept. 2008 and 2007 amounted to P4,451,249 and P1,726,175 respectively. The outstanding payable as of Sept. 30, 2008 is P627,493 including electric and water consumption. There are no other ongoing contractual or other commitments as a result of the arrangement.
- The Company is leasing a 10,936 square meter lot located at the corner of Epifanio Delos Santos Avenue and Madison Street, Mandaluyong City from 102 E. Delos Santos Realty Co., Inc., a 100% owned subsidiary. The lease that expired on June 30, 2008 was renewed for a one (1) year period until June 30, 2009. Inasmuch as 102 EDSA Realty Co., Inc. is a wholly owned subsidiary, the Management also considers the market lease rates in the area and the financial requirements of its

subsidiary in determining the lease amount. The rent for the period January to Sept. 2008 and 2007 were the same at P10,350,000. There are no outstanding payables as of 30 Sept. 2008. There are no other ongoing contractual or other commitments as a result of the arrangement.

- The Company purchased labels from Philippine Label Pack Corp., a corporation wherein some major stockholders are family members of one (1) of the Company's directors/executive officers. These transactions are made substantially on the same terms and conditions as transactions with other suppliers of the Company. The purchase price depends on the prices submitted/quoted by various suppliers. Purchases for the period January to Sept. 2008 and 2007 amounted to P9,686,852 and P8,261,664 respectively. No outstanding payables as of Sept. 30, 2008. There are no ongoing contractual or other commitments as a result of the arrangement.
- There are no outstanding loan payables between related parties.

### **33. Financial Risk Management Objectives and Policies**

#### **33a Financial Risk Factor**

The Company's activities expose it to a variety of financial risk. The main risk arising from the financial statements are credit risk, liquidity risk, market risk (including foreign exchange risk and price risk), and interest rate risk.

The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risks arises from future commercial transactions, recognized assets and liabilities, importations and export sales.

#### **33b Foreign Exchange Risk**

Foreign exchange risk arises on the financial instruments that are denominated in foreign currency other than the functional currency in which they are measured.

The Company, also has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Company's functional currency. For the years ended December 31, 2007 and 2006, approximately, 17.05% and 18.79% of the Company's total sales are denominated in currencies other than the functional currency.

The Company has no US Dollar denominated debt for the period Sept. 30, 2008 and 2007.

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.

#### **33c Credit Risk**

To manage credit risk, the Company 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 subject to credit verification process with emphasis on their capacity, character and willingness to pay. Each customer, whether corporate or otherwise, has an approved maximum credit limit. These limits are reviewed regularly by the Treasury Department. Trade receivable balance is monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant.

The Company has no significant concentrations of credit risk.

#### **33d Liquidity Risk**

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities as well as securing credit lines from other banks. Liquidity requirements and positions are monitored daily and

monthly reports are reviewed by the management. Sufficient credit lines with various local banks are obtained and regularly renewed.

### 33e Price Risk

The Company is exposed to price risk because of the nature of its business. This 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 fluids 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.

### 33f Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments recognized in the balance sheets and on some financial instruments not recognized in the balance sheets (ie. certain loan commitments, if any)

The Company's exposure to interest rate risk relates primarily to the Company's short-term and long-term debt obligations. The Company manages its exposures in interest rate risk by closely monitoring the same with various banks and other financial instruments and maximizing borrowing period based on market volatility of interest rates.

Table below sets out the carrying amount, by maturity, of the Company's loans that is exposed to interest rate risk:

	Sept. 30, 2 008	2007
Within one (1) year	P 1,155,566,666	P 1,407,266,667
Over one(1) year	636,049,999	585,999,999
<b>Total</b>	<b>P 1,791,616,665</b>	<b>P 1,993,266,666</b>

## 34. Compensation of Key Management Personnel

The Company's executive officers receive a fixed basic salary on a monthly basis. The Company does not enter into an employment/management contract with any of its executive officers. There are no outstanding warrants or options held by directors and officers.

Name	Principal position	Year	Salary	Bonus	Other Annual Compensation
Georgiana S. Evidente	President	)			
Enrique C. Yap	Executive Vice President	)			
Evangeline V. Baviera	Executive Vice President	)	2005	P 5,968,000	P 1,587,000
Johnny C. Yap	Treasurer	)	2006	P 7,764,000	P 3,362,360
Sandra N. Pineda	Chief Accountant	)	2007	P 9,570,000	P 5,075,000
					P 1,300,000

## 35. 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.

**36.Schedule of Aging of Accounts Receivable – Trade**

Accounts receivable-trade represents sales of Company's products to customers with credit terms of 0-90 days. The company's normal operating cycle is one(1) year period. Aging of accounts receivable as of Sept. 30, 2008 follows:

0-30 days	252,093,700
31-60 days	164,438,746
61-90 days	104,595,770
over 90 days	267,647,301
under litigation	18,855,927
Total	807,631,444

**37.Additional Disclosure Requirements of SRC Rule 68**

Under the following disclosure requirements by SRC Rule 68, the Company has neither an existing plan nor a transaction involving the following:

- a) Preferred shares.
- b) Pension and retirement plans.
- c.) Profit sharing and other similar plans.
- d.) Capital stock optioned, sold or offered for sale to directors, officers and key employees.
- e.) Warrants or rights outstanding.
- f.) Defaults