



# Euro-Med Laboratories Phil., Inc.

14 April 2014

PHILIPPINE STOCK EXCHANGE  
Philippine Stock Exchange Center  
Ayala Triangle, Ayala Avenue  
Makati City

Attention : **Ms. JANET A. ENCARNACION**  
Head, Disclosure Department

Subject : **ANNUAL REPORT (17-A) FOR THE YEAR ENDED 31 DECEMBER 2013**

Dear Ms. Encarnacion,

Please find attached **EURO-MED LABORATORIES PHIL., INC.** Annual Report (17-A) for the year ended 31 December 2013.

Thank you.

Submitted by :  
**EURO-MED LABORATORIES PHIL., INC.**

By:

**JANICE R. ONG**  
Corporate Secretary

COVER SHEET

1 4 8 0 2 2

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 . A N D S U B S I D I A R I E S

(Company's Full Name)

1 0 0 0 U N I T E D N A T I O N A V E N U E C O R .  
S A N M A R C E L I N O S T . M A N I L A

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

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

Contact Person

5 2 4 0 0 9 1 - 9 8

Company Telephone Number

1 2 3 1

Month Day

Fiscal Year

2 0 1 3

1 7 A

FORM TYPE

Month Day

Annual Meeting

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

STAMPS

Remarks - pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A AMENDED

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



1. For the fiscal year ended Dec. 31, 2013

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

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

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

7. 1000 United Nations Avenue cor. San Marcelino St., Manila 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	4,112,140,540 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 [   ]

13. The aggregate market value of the voting stock held by non -affiliates of the registrant amounted to ₱ 660,088,897 (based on closing market price on March 15, 2014 of ₱ 1.68 per share).

**EURO-MED LABORATORIES PHIL., INC.**  
**ANNUAL REPORT TO STOCKHOLDERS**

	<u>Page</u>
<b>Part I BUSINESS AND GENERAL INFORMATION</b>	
Item 1 Business	1-8
Item 2 Properties	8
Item 3 Legal Proceedings	9
Item 4 Submission of Matters to a Vote of Security Holders	9
<b>Part II OPERATIONAL AND FINANCIAL INFORMATION</b>	
Item 5 Market for Issuer's Common Equity and Related Stockholder Matters	10-12
Item 6 Management's Discussion and Analysis or Plan of Operation	12-17
Item 7 Financial Statements	17 and 31-108
Item 8 Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	17-18
<b>Part III CONTROL AND COMPENSATION INFORMATION</b>	
Item 9 Directors and Executive Officers of the Issuer	18-21
Item 10 Executive Compensation	21-22
Item 11 Security Ownership of Certain Beneficial Owners and Management	22-24
Item 12 Certain Relationships and Related Transactions	24
<b>Part IV MINIMUM PUBLIC OWNERSHIP</b>	24
Item 13 MINIMUM PUBLIC OWNERSHIP	24
<b>Part V EXHIBITS AND SCHEDULES</b>	
Item 14 Exhibits and Reports on SEC Form 17-C	25 -26 and 31-108
<b>SIGNATURES</b>	27

## PART I - BUSINESS AND GENERAL INFORMATION

### Item 1 Business

#### History and Background

Euro-Med Laboratories Phil., Inc. (Euro-Med) was incorporated and registered with the Securities and Exchange Commission (SEC) on January 29, 1988. Upon receipt of the licenses and product registration approvals from the Food and Drug Administration Philippines (FDA). Euro-Med began commercial production in 1991. The parent Company (Euro-Med) is engaged in the manufacture of pharmaceutical products such as large and small volume parenterals and other solutions. Large volume parenterals (LVP) are more commonly known as intravenous fluids. Intravenous fluids are defined as any fluid applied directly into the vein. LVP are packaged in containers of more than 100 mL while small volume parenterals (SVP) are injections that are packaged in containers of 100 mL or less. SVP may also be used as a solvent for other drugs. The Company also manufactures sterile water for injection, and other solutions such as ophthalmic, inhalation, irrigation and dialysis. The Company is the largest manufacturer of high quality intravenous fluids in the Philippines. Euro-Med is the parent company of the following two (2) subsidiaries:

1. Hemotek Renal Center, Inc. (Hemotek /the Subsidiary), a 100% owned firm which was incorporated in June 2008 and is engaged as a dialysis center.
2. CafeFrance Corp. ( CafeFrance / the Subsidiary), a 100% owned firm which was newly incorporated in August 2010 and is engaged to operate restaurants, bakeries, food services, catering, food production and other related services incidental thereto.

Previously , Euro-Med has a subsidiary entity 102 E. Delos Santos Realty Co., Inc. (102 EDSA), a 100% owned firm acquired in May 2000 which is engaged in the rental of property. 102 EDSA'S only real property, a 10,936 square meter lot located at the corner of E. Delos Santos Ave. and Madison Street, Mandaluyong City is being rented to Euro-Med that expired on June 30, 2013 and was renewed for another one (1) year period ending on June 30, 2014.

On May 9, 2012, Euro-Med entered into a Share Purchase Agreement and sold all its shares of stock in 102 E. De Los Santos Realty Co.Inc. to SM Development Corporation (SMDC) for a total selling price of P1.25 billion.A 50% downpayment of the total selling price, equivalent to P625.0 million, was received on May 9, 2012 and the remaining balance of P625.0 million will be paid at the end of the thirty-sixth (36<sup>th</sup>) month from the signing of the Agreement or any other date as the parties may agree in writing.

Transfer of the shares to SMDC is expected to occur at the agreed closing date and turn-over of 102 EDSA's land devoid of any improvements thereon.

The sale of all the shares of 102 EDSA to SMDC was authorized, approved and ratified by the stock holders during the annual shareholders' meeting held on June 20, 2012.

The Company is 58.41% owned by its ultimate parent company, U.S.Automotive Co. Inc., which is also incorporated in the Philippines.

The Company has not at anytime been involved in any cases of bankruptcy, receivership or other similar proceedings.

#### Products

Presently, the company manufactures and distributes a wide range of parenteral products in various sizes ranging from 1mL to 1000mL. Parenteral products are considered unique because they are administered by injection through the skin or mucous membrane into internal body compartments. Parenteral products must be free from microbial contamination and toxic components, and an excep-

tionally high level of purity of the dosage form must be achieved. For this reason, the preparations of parenteral products have become a highly specialized area in pharmaceutical manufacturing.

The parenteral solutions manufactured by Euro-Med in plastic containers are all in parenteral-grade low-density polyethylene (LDPE) containers. The plastic containers are unbreakable and lightweight. Euro-Med's plastic container does not require air introduction in order to be dispensed which prevents particle contamination of the solution. Gravity and atmospheric pressure pressing on the container allows the fluid to flow out of the container.

Euro-Med also manufactures parenteral solutions in glass packaging. The glass container enables the solution to be seen at its clearest, facilitating inspection of content. Graduations can be read quite easily because of its rigidity.

All Euro-Med products are duly registered with the Food and Drug Administration (FDA) formerly BFAD prior to its release in the market. More products in various stages of development will be introduced in the market to broaden the Company's product line.

### **Large Volume Parenterals**

LVP apply to single dose injections intended for intravenous use and are packaged in containers labeled as containing more than 100 mL. Euro-Med manufactures LVP in plastic containers in 500mL and 1000mL sizes. Euro-Med also manufactures LVP in glass bottles in 250mL, 500mL and 1000mL sizes. In many cases, patients are given LVP shortly after they have been admitted to the hospital to provide the necessary fluids and caloric or electrolyte requirements. Ready access to the venous system also becomes available in case additional medication is required. An intravenous injection is made when immediate physiological action is needed from a drug.

### **Small Volume Parenterals**

SVP apply to injections that are packaged in containers labeled as containing 100mL or less. Euro-Med presently markets products in 20mL, 25mL and 50mL multiple dose plastic vials and 1 mL, 2 mL, 2.5 mL, 3 mL, 4 mL, 10 mL, and 20 mL plastic ampoules. Euro-Med's container of plastic vials has a rubber stopper which permits the insertion of a needle from a hypodermic syringe and the withdrawal of part of the solution.

### **Specialty Fluids**

These fluids may or may not be intravenous products used for surgical and non-surgical procedures. Dialysis Solutions are used in the management of renal failure and poisoning. They allow the selective removal of toxic substances, electrolytes and excessive body fluids from the blood. In peritoneal dialysis, the exchange of ions between the solution and the patient's blood is made across the membranes of the peritoneal cavity. Peritoneal Dialysis Solutions may be used for the treatment of acute or chronic renal failure and are not to be used intravenously. Haemodialysis Solution is a concentrated solution of electrolytes in Water for Injection. It is formulated such that when the concentrated solution is diluted in the prescribed manner, the electrolyte content will be similar to that of extracellular fluid or plasma. It is used in the management of renal failure and poisoning by allowing the selective removal of toxic substances, electrolytes, excess body fluids and metabolites such as urea, creatinine and uric acid. The Irrigation Solutions are sterile solutions intended to bathe and flush open wounds or body cavities. They are used topically and not parenterally. The Mannitol Injection is an osmotic diuretic that promotes the excretion of water. It may be used in the treatment of patients to reduce raised intraocular pressure, to reduce or prevent cerebral edema or for the treatment of acute renal failure.

### **Other Drug Preparation**

Euro-Med has launched several new oral drug preparations in syrup and suspension form. Euro-Med has also introduced new products for Nebulization and injection packaged in plastic ampoules.

### **Medical Devices**

In April 2006, Hospira Philippines Inc. appointed Euro-Med as its exclusive distributor of Hospira Venisystem products such as Venipuncture sets, IV Administration sets, and IV Equipment in the Philippines. Hospira will transition their Venisystem gravity sets to Lifeshield Non-DEHP gravity sets. It will also launch new line extension to their gravity Venisystem range which will also be made of non-DEHP materials. The distribution agreement is valid until the end of March 2008 and is being renewed automatically for one(1) year period.

The Products that are now available in the market are:

1. Lifeshield MacroDip Non-DEHP
2. Lifeshield MacroDip with Clave
3. Lifeshield Burette with Valve PP site Microdip 198 CM of Lifeshield Soluset Non-DEHP
4. Lifeshield Primary IV 10 inch with Clave Microdip of Lifeshield Microdip with Clave
5. Lifeshield Primary Set Microdip PP Y Site 801N NDEHP or Lifeshield Microdip set Non-DEHP.

### **Limulus Amebocyte Lysate (LAL) Test**

The LAL test is an endotoxin test derived from the blood of the Horseshoe Crab (*Limulus Polyphemus*). Endotoxins are lipopolysaccharide fractions of the cell wall of gram-negative bacteria, which have been found to be pyrogenic, or substances which cause fever, chills and body aches.

The LAL test is a sensitive and fast method for detection of endotoxins. It is routinely used to determine if the intravenous solutions are free from pyrogens. Prior to the availability of the LAL test in the Philippines, the only acceptable means of measuring pyrogenicity was through the rabbit pyrogen test. However, the rabbit pyrogen test cannot quantify the amount of pyrogens present in the test solution. Through the pioneering efforts of Euro-Med, the BFAD has accepted and accredited the LAL test as an alternate to the rabbit pyrogen test.

Since 1991, the Company has been the exclusive distributor of the LAL test in the Philippines for Associates of Cape Cod Incorporated of Massachusetts, U.S.A. The exclusive distributorship is valid until the end of 2003 and is automatically renewed every two (2) years.

### **Bottled Water**

Euro-Med has launched its own brand of distilled drinking water in various sizes ranging from 350 mL to 4000 mL. These products are manufactured from its plant in Cavite and Mandaluyong to ensure high quality bottled water.

### **Toll Manufacturing**

Euro-Med is engaged in the toll manufacturing of pharmaceutical products in solid and liquid form. These products are manufactured from its Cavite and Mandaluyong plants.

Euro-Med's Cavite plant has equipment to manufacture liquid and semi-liquid cosmetic and health-care products in 3 mL to 50mL plastic blister packs. The Cosmetic and Healthcare Division of the Company offers toll-manufacturing services to both local and multinational companies.

### **Effects of existing or probable governmental regulations on the business**

Pharmaceutical products in the Philippines are required to be registered with the FDA before the products can be sold. Product registration procedures are also required in other countries where the Company intends to sell its products. The time it takes to register a product can take from six (6) months to several years from the date of filing depending on the FDA or the similar foreign counterpart. Any significant delay in the registration of new products with the FDA could affect the Company's financial performance. The Company is not aware of any probable governmental regulation, which will have a significant effect on its business.

### **Transactions with or/an dependence on related parties**

The group, in the regular course of business, transact with related parties, which may consist but not limited to the following:

- Purchase of goods and services.
- Cash advances for working capital purposes.
- Lease of the Company's main office from the ultimate parent of the group.
- Regular bank transactions with an affiliate.
- The parent company provides management and accounting consultancy services to its subsidiaries.

See Note 22 to Consolidated Financial Statements for detailed transactions with Related Parties.

### **Patents, trademarks, licenses, franchises, concessions, or royalty agreements including duration:**

The Company's wide range of parenteral and other pharmaceutical products are all registered with BFAD now Food and Drug Administration (FDA) with the corresponding Certificate of Product Registration (CPR). The term of these CPRs ranges from two (2) to five (5) years, and are renewed regularly.

The Company has also been issued by FDA the following Licenses to Operate (LTO) with a term of one (1) to three (3) years, which are renewed regularly:

1. Drug Manufacturer/Repacker
2. Medical Device Manufacturer
3. Medical Device Distributor/Importer/Wholesaler
4. Food Manufacturer/Repacker
5. Cosmetic Laboratory
6. Drug Trader

The Company has registered the following tradename and trademarks with the Department of Trade – Intellectual Property Office, Trademarks and Technology Transfer with a term of ten (10) years:

1. EURO-MED
2. EUROPERSOL
3. EURO-ION
4. The Company Logo with three (3) horizontal bars within a circle.
5. Multisol
6. Intrapersol
7. Multi-Ion MB
8. Eurosol-R
9. Eurosol-MK
10. Eurosol- M
11. LM

In 2011, the Company acquired the international trademarks "Lidex®", "Lidemol®", "Synelar®", owned by and registered under the name of Stiefel Laboratories, Inc., (Stiefel US) and "Dobutrex®", owned and registered under the name of Glaxosmithkline Philippines, Inc. (GSKPI) and all registered intellectual property rights associated with these trademarks, through the assignment by Stiefel US and GSKPI of the subject trademarks to the Company.

### **Employees and labor contract**

As of December 31, 2013, Euro-Med (Parent Company) employs a total of 788 employees, consisting of 13 Executive Officers, 84 Managerial and 691 rank and file and casual personnel. There has not been a strike in the company. In a Certification Election on November 4, 1999 held under the supervision of the Department of Labor and Employment (DOLE) – Region IV, Euro-Med Employ-

ees Union won and was subsequently certified on November 15, 1999 as the sole and exclusive bargaining agent of regular rank and file employees of Euro-Med Laboratories Phil., Inc. for purposes of collective bargaining. A new collective bargaining agreement was ratified on March 13, 2009 that would cover the period January 1, 2010 to December 31, 2014. Among others, the CBA provide for the following benefits:

- (a) Annual salary increase.
- (b) Birthday, Bereavement, Graduation and Wedding leave with pay.
- (c) Optional retirement after 10 years of service.
- (d) Free uniforms
- (e) Housing and emergency assistance loan

Euro-Med is the Parent Company of two (2) subsidiaries:

1. Hemotek Renal Center, Inc., a 100% owned firm which was incorporated in June 2008 and is engaged as a dialysis center. This subsidiary has a total of 227 employees as of December 31, 2013.
2. CafeFrance Corp. ( CafeFrance / the Subsidiary), a 100% owned firm which was newly Incorporated in August 2010 and is engaged to operate restaurants, bakeries, food services, catering, food production and other related services incidental thereto. The subsidiary has a total of 477 employees as of December 31, 2013.

### **Raw Materials**

Euro-Med's raw materials are obtained on a competitive basis from various local and foreign suppliers. The Company always maintain at least two (2) or more suppliers of its material requirements, so that it would not be dependent on only one (1) supplier. There are no major existing supply contracts. These materials are vital inputs for producing parenteral solutions and LDPE bottles. Supply shortages or increases in prices of these raw materials will result in an increase in the Company's production cost.

### **Marketing and Distribution**

#### **Industry Data**

The Philippine IV Fluid market at present does not have complete information and studies from any independent research institution monitoring the industry's total rated capacity, actual market size and value and competitors.

Current estimates are derived from Company reports extrapolated from data obtained through hospitals, drugstores, clinics and medical associations and thus may differ from other industry reports.

Euro-Med is the leading manufacturer of LVP in the Philippines with about eighty percent (80%) market share in the country (based on Company data). Euro-Med competes with other companies such as Baxter Healthcare Phil., Inc., B. Braun Medical Supplies, Inc., and LVP Philippines Inc. and Endure Medical Inc. Euro-Med competes in terms of quality, price, availability, delivery service and customer relations. Euro-Med's continued success in the IV Fluids market can be attributed to its high quality products, wide range of product line, competitive price, availability, efficient delivery and dedicated sales team. The Company has a customer base composed of more than 8,000 institutions nationwide. The Company's sales, therefore, are not dependent on one or a few major customers and no customer accounts for more than ten percent (10%) of the Company's sales. Among the Company's customers are hospitals, clinics, drugstores, medical distributors and traders as well as corporate/industrial accounts. Euro-Med's primary customers are hospitals all over the country. Hospitals can be either private or government sub-divided into primary, secondary and tertiary levels, depending on the bed capacity and hospital equipment. In 2013 sales to hospitals and clinics accounted for approximately 64% of total revenues. Sales to drugstores reached 19% while combined revenues from distributors, traders, industrial accounts and laboratories reached approximately 11% of total Company revenues.

On occasion, the Company participates in trade shows, trade fairs and medical conventions to broaden awareness of the existing product lines and to support the medical associations sponsoring these conventions.

Over the years, Euro-Med has established strong and efficient marketing teams, who are deployed all over the country to promote and sell its products. Euro-Med has established its own nationwide distribution network providing prompt and efficient delivery service to customers. The Company maintains fourteen (14) depots strategically located in key cities all over the country. There are currently six (6) depots in Luzon including the Central Warehouse in Cavite, four (4) in Visayas and four (4) in Mindanao. At present, Euro-Med is leasing these provincial depots except Plaridel, Bulacan which is owned by the Company.

To ensure on-time delivery of Euro-Med products to its customers, the Company uses local trucking companies for its nationwide distribution. To transfer finished goods from its Central Warehouse in Cavite plant to the provincial depots specifically in the Visayas and Mindanao areas, Euro-Med utilizes local companies for inter-island shipping.

### **Exports**

Euro-Med is presently exporting its intravenous fluids to several countries and will be expanding its international customer base to include markets in other parts of the world. In 2011, 2012 and 2013, export sales contributed approximately 15%, 16% and 15% respectively of total Company sales. The Company expects this figure to rise in the succeeding years. The Company products are imported and distributed by a local distributor(s) in the respective countries. The breakdowns of exports per region for the past three (3) years are as follows:

<b>REGION</b>	<b>2011</b>		<b>2012</b>		<b>2013</b>	
	<b>P('000)</b>	<b>%</b>	<b>P('000)</b>	<b>%</b>	<b>P('000)</b>	<b>%</b>
ASEAN	₱ 310,638	63.4%	₱ 322,239	64.1%	₱ 308,440	69.3%
Other Asia	66,575	13.6%	69,693	13.9%	23,417	5.3%
Africa	53,487	10.9%	67,001	13.3%	65,073	14.6%
Others	59,145	12.1%	43,829	8.7%	47,934	10.8%
<b>Total</b>	<b>₱ 489,845</b>	<b>100%</b>	<b>₱ 502,762</b>	<b>100%</b>	<b>₱ 444,864</b>	<b>100%</b>

### **Research and Development**

Euro-Med is continuously developing additional pharmaceutical products for ophthalmic, inhalation, irrigation and other health care purposes. In 2011, 2012 and 2013, the Research and Development Department of Euro-Med spent ₱ 16.7 million, ₱ 21.1 million and ₱ 19.2 million respectively to develop new products. The funds were used to purchase raw materials and laboratory equipment to test the new formulations.

Euro-Med's laboratory facilities are equipped with the latest equipment for testing raw materials and finished pharmaceutical products. The laboratory has been certified as an accredited laboratory by the Board of Chemistry of the Professional Regulation Commission. The Company offers analytical laboratory services to other companies for the testing of selected raw materials and pharmaceutical products to maximize the usage of these modern equipment.

### **Costs and effects of compliance with environmental laws.**

The Company has invested ₱ 1.8 million in capital expenditures for pollution prevention equipment to comply with environmental regulations. Annual expenditures to maintain and operate the pollution facility currently amount to about ₱ 2.0 million. The Company adopts a proactive approach to environmental standards and its facilities are constructed to high standards.

## Major business risks

- **Raw materials**

At present, Euro-Med's raw materials are primarily sourced from other countries. These materials are initial inputs for producing parenteral solutions and LDPE bottles. Supply shortages or increases in world prices of these raw materials will result in an increase in the Company's production cost. The Company always maintain at least two (2) or more suppliers of its material requirements, so that it would not be dependent in only one (1) supplier and to provide room for negotiating prices for three (3) months, six (6) months or one (1) year contracts.

- **Product registration**

Pharmaceutical products in the Philippines are required to be registered with the BFAD before the product can be sold. Product registration procedures are also required in other countries where the Company intends to sell its products. The time it takes to register a product can take from six (6) months to several years from the date of filing depending on the BFAD or the similar foreign counterpart. Any significant delay in the registration of new products with BFAD could affect the Company's financial performance. The Company has employed a full-time regulatory officer to follow-up applications for product registrations.

- **Foreign Exchange**

Most of Euro-Med's raw materials are imported from various sources abroad. Payment for these imports are made in U.S. Dollars. As such, any significant depreciation of Philippine Peso against the U. S. Dollar may affect the Company's margins and profitability. The Company is continuously expanding its export sales to different countries to increase its U.S. Dollar revenues as an hedge to currency fluctuations. The company has exposures in foreign currencies, primarily in US dollars. Foreign exchange risk arises from difference in exchange rates between assets, liabilities and equity which are denominated in foreign currency. The company manages this risk by having peso denominated loans only and maintaining US\$ accounts where export proceeds are maintained from which payments for imports are made

- **Medical Supplies**

At present, Hemotek's medical supplies are primarily sourced from local suppliers which act as distributors of other countries. These supplies are used mainly for the patient's dialysis treatment and other medicines as needed during the treatment. Increase or decrease in prices of supplies affects the dialysis rates and medicines. To avoid sudden price changes, the Company always maintains at least three (3) or more suppliers of its item of medical supplies to provide room for negotiation of prices.

- **Receivables from Philippine Charity Sweepstakes Office (PCSO)**

Some dialysis patients are receiving Guaranty Letters (GL) as government assistance from PCSO. Consumption of GL amount is monitored daily per patient to avoid overcharge to PCSO GL. Once GL amounts are fully consumed by the patient, statement of account (SOA) is prepared and submitted to PCSO for the processing of payment to the Company. Constant monitoring of PCSO receivable is needed for the preparation of SOA which will serve as the basis of PCSO for the payment of the Company's receivable.

- **Receivables from Philippine Health Insurance Corp. (Philhealth)**

The company accepts patients which are Philhealth members. These receivables are monitored per patient both in the head office and in branches so that all charges reimbursable from Philhealth are properly accounted. The Philhealth officer prepares transmittal form for submission to Philhealth. Checking of payments against transmittal form previously received by Philhealth and verification of Philhealth eligibility are being done in the head office to ensure that all charges to Philhealth are being collected by the Company.

- **Medical Practice Risks**

Hemotek Stand alone units do not accept critical patients and refer these to hospitals. Hemotek Hospital Units risk falls under the management of the hospital.

- Raw Materials.**

CafeFrance prides itself as the place for fresh and healthy food. Sourcing of the raw materials that go into every CafeFrance product is therefore of paramount importance, requiring a good balance between managing costs and ensuring a reliable, uninterrupted and abundant supply that meet its quality standards for freshness, safety and consistency. The flour that is used in its baked products is imported all the way from France, and all the fresh produce that are used in all the stores go through a careful inspection and selection process, demanding huge man-hours of quality control. As perishable raw materials are susceptible to price fluctuations, it has been a challenge for the Purchasing function to meet demand requirements within cost budgets. Since stock-outs translate to lost revenue, the Company has had to keep a balance between managing margins and biting the bullet to buy these raw materials at higher costs, just to keep the customer relationship and ensure vendor's continuity of supply. One of the strategies being adopted is to go directly to the source of these raw materials to save on middle-men costs, look for substitute raw materials without compromising flavor and quality, and or accredit and maintain more suppliers whose pooled supply capacity can meet our requirements. We have also taken to locking these vendors on supply agreements for a quarter or more, just to manage the cost volatility and reasonably predict and ensure product margins.
- Stores**

CafeFrance stores are insured against fire, food poisoning, loss of money and securities inside the stores' premises due to robbery or burglary, as well as liability for accidents within the stores' premises. While insurance costs are high, the Company has opted to get a comprehensive insurance coverage to manage its risks from the above incidents, thereby limiting possible losses arising from any of the above incidents.
- Manpower**

The Company is highly dependent on its human resources, investing heavily in the training of personnel in its stores and its Commissary. All personnel in the commissary are compliant with government-mandated clearances for workers in the food industry, and some of them even have special accreditations and licenses beyond what the government requires. Our coterie of personnel at the stores all went through a rigorous selection process and a uniform service standards training; but beyond the costs of recruitment and training, the Company continues to contend with the industry reality of employee turnover. Employee retention has been a challenge, and to mitigate the risk of possible disruption in our operations arising from sudden employee resignations, the Company has had to rely on outsourced services providers for the steady supply of manpower. Over and above the payroll of the outsourcing service provider, CafeFrance has had to pay a premium for the provider's administration fees, but in so doing, the Company has managed to address the risk of manpower supply as well as the perennial issue on employee turnover.

## **Item 2 Properties**

### **Cavite Plant**

The pharmaceutical manufacturing plant is located on a 36,314 square meter lot located along Aguinaldo Highway, Dasmariñas, Cavite. The plant consists of executive and departmental offices, various meeting rooms, library for reference materials, storage for packaging materials, production facilities, laboratories, four (4) warehouses, a machine shop, power plant, cafeteria and a dormitory for the Company's technical staff. The land, buildings, machinery and equipment are wholly owned by the Company and are mortgaged as collateral for the Company's long term debt. There are no existing limitations on its ownership or usage.

### **Mandaluyong Plant**

The pharmaceutical manufacturing plant is located on a 10,936 square meter lot located at the corner of Epifanio delos Santos Avenue (EDSA) and Madison Street, Mandaluyong City, Metro Manila. The land is being leased from 102 E. Delos Santos Realty Co., Inc, previously a subsidiary (please see Item 1). The plant consists of an office building, recreation hall, cafeteria, production facilities, laboratories and warehouse. The buildings, machinery and improvements are wholly owned by the

Company and are not subject to any mortgage or lien. There are no existing limitations on its ownership or usage.

### **Bulacan Depot**

Euro-Med acquired a 2,500 square meter commercial lot along the National Highway in Plaridel, Bulacan. A 1,900 square meter warehouse with a two-storey office building was constructed and completed in July 1997. The land and building are wholly owned by the Company and are mortgaged as collateral for the Company's long term debt. There are no existing limitations on its ownership or usage.

### **Properties/Offices under lease**

The Company leases the following properties:

(a) The Company's head office at the PPL Building, United Nations Avenue corner San Marcelino Street, Manila from U. S. Automotive Co., Inc., a majority stockholder of the company. The lease is for a one (1) year period and is being renewed annually subject to mutual agreement of the parties. The rent for the year 2013 amounted to ₱ 19,822,440.

(b) A 10,936 square meter lot located at the corner of Efipanio delos Santos Avenue and Madison Street, Mandaluyong City from 102 E. Delos Santos Realty Co., Inc., preciously a subsidiary (see Item 1). The lease is for one (1) year period and being renewed annually subject to mutual agreement of the parties. The rent for the year 2013 amounted to P 15,765,374.

(c) The Company's twelve (12) depots which are located strategically in key cities all over the country. The lease contracts are for a one (1) year period and are being renewed annually subject to mutual agreement of the parties. The rent for the year 2013 amounted to ₱9,189,921.

(d) The Company's warehouse located in Silang, Cavite. The lease contract is for 5 year period and is subject to renewal upon mutual agreement of the parties. The rent for the year 2013 amounted to P 17,409,072.

The Company has no plans to acquire any property in the next twelve (12) months.

### **ITEM 3 Legal Proceedings**

The Company is subject to lawsuits and legal actions in the ordinary course of business. The company or any of its subsidiaries is not a party to, and its properties are not the subject of, any material pending legal proceedings that could be expected to have a material adverse effect on the Company's financial position or results of operations.

As of December 31, 2013, the Company had a total of forty-five (45) pending cases, forty-one (41) of which were filed by Euro-Med in various dates and courts in the Philippines against its customers for the collection of various amounts and/or bouncing checks and a case filed by a former employee in the labor Relations Commission. The aggregate amount claimed for these 42 collection cases and labor is approximately P 11.7 million which is less than 1% of the group's current assets.

The remaining other cases are insolvency cases by clients where Euro-Med has pending liabilities.

### **Item 4 Submission of Matters to a Vote of Security Holders**

There was no matter submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year covered by this report.

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5 Market for Issuer’s Common Equity and Related Stockholder Matters

#### 1.) Market Information

Euro-Med’s common shares are publicly listed with the Philippine Stock Exchange.

The high and low sales prices of the shares are:

2014		HIGH		LOW
1 <sup>st</sup> Quarter	P	1.68	P	1.68
2013		HIGH		LOW
1 <sup>st</sup> Quarter	P	2.32	P	1.7
2 <sup>nd</sup> Quarter		2.25		1.72
3 <sup>rd</sup> Quarter		2		1.53
4 <sup>th</sup> Quarter		1.73		1.01
2012		HIGH		LOW
1 <sup>st</sup> Quarter	P	3.8	P	1.29
2 <sup>nd</sup> Quarter		2.27		1.72
3 <sup>rd</sup> Quarter		2.19		1.87
4 <sup>th</sup> Quarter		1.85		1.8
2011		HIGH		LOW
1 <sup>st</sup> Quarter	P	1.77	P	1.12
2 <sup>nd</sup> Quarter		1.8		1.11
3 <sup>rd</sup> Quarter		1.8		1
4 <sup>th</sup> Quarter		1.72		1.1

The market price per share of Euro-Med is ₱ 1.68 on March 15, 2014 (the latest practicable trading date before submission of the report).

#### 2.) Holders

As of March 15, 2014, the Company has on record a total of 555 stockholders with a total of 4.112 Billion issued and outstanding shares. The top twenty (20) stockholders are as follows:

	<u>Stockholder's Name</u>	<u>Total Shares</u>	<u>%</u>
1	U.S. AUTOMOTIVE CO., INC.	2,401,747,112	58.41%
2	USAUTO CO., INC.	855,505,147	20.80%
3	PHILIPPINE TRUST COMPANY	231,124,845	5.62%
4	PHILIPPINE TRUST COMPANY (Trust Department)	133,986,446	3.26%
5	EVERGREEN STOCK BROKERAGE	298,725,323	7.26%
6	YAP, JOHNNY C.	36,980,720	0.90%
7	YAP III, EMILIO C.	35,695,668	0.87%
8	YAP, NICHOL C.	35,695,668	0.87%
9	YAP, ENRIQUE RAYMOND I.	16,067,839	0.39%
10	YAP, MICHAEL VINCENT Y.	15,257,017	0.37%
11	YAP, JR. ENRIQUE Y.	15,000,000	0.36%
12	PCD NOMINNE CORP. (FIL)	10,338,028	0.25%
13	ILUSORIO, ROBERTO HAVEL K.	5,000,000	0.12%
14	ILUSORIO, CARLO DANIEL K.	5,000,000	0.12%
15	EVIDENTE, GEORGIANA S.	1,285,052	0.03%
16	MARAMBA, TOMAS P.	1,285,052	0.03%
17	COHU, MARSHALL COHU ITF: MARC C. ALLAN	822,430	0.02%
18	COHU, MARSHALL COHU ITF: DANICA MARIE C.	616,823	0.02%
19	COHU, MARSHALL COHU ITF: DIANNE BERNICE C.	616,823	0.02%
20	GOLDCLASS INC.	272,729	0.01%

### 3.) Dividends

The Company declared the following dividends for the past three (3) years:

<u>Year</u>	<u>Kind</u>	<u>Amount</u>	<u>Rate</u>	<u>Record Date</u>
2011	Stock	269.00 Million	7.00%	July 08 2011
2012	Cash	123.36 Million	3.00%	June 13, 2012
2013	Cash	205.60 Million	5.00%	June 20, 2013

The Company has not restricted any portion of its retained earnings for future expenses, contingencies or other purposes.

### 4.) Recent Sales of Unregistered or Exempt Securities, Including recent issuance of Securities Constituting an Exempt Transaction.

For the past three (3) years the registrant has not sold securities which were not registered under the Code. There was no sales of reacquired securities, as well as securities issued in exchange for property, service and other securities, resulting from the modification of outstanding securities.

The Company has issued two hundred sixty-nine million (269,018,540) shares on July 12, 2011 as an exempt transaction under Section 10.1(d) of Securities Regulation Code. The issuance is exempt since the subject securities were distributed to existing stockholders by way of stock dividend pursuant to SEC approval for the increase of Capital stock dated June 29, 2011.

The Company has issued three hundred million (300,000,000) shares on July 21, 2010 as an exempt transaction under Section 10.1(d) of Securities Regulation Code. The issuance is exempt since the subject securities were distributed to existing stockholders by way of stock dividend pursuant to SEC approval for the increase of Capital Stock dated September 29, 2010.

The Company has issued three hundred twenty two million one hundred two thousand (322,102,000) shares on July 14, 2009 as an exempt transaction under Section 10.1(d) of Securities Regulation Code. The issuance is exempt since the subject securities were distributed to existing stockholders by way of stock dividend pursuant to SEC Resolution No. 122 Series of 2009 dated July 14, 2009.

## **Item 6 Management's Discussion and Analysis or Plan of Operation**

### **Calendar Year 2013 Compared to Calendar Year 2012**

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 break. 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 1.51 % from ₱ 4,498.9 million in 2012 to ₱ 4,566.9 million in 2013. The domestic sales increased by 3.1% from ₱ 3,996.2 million in 2012 to ₱ 4,122.1 million in 2013, while Export sales decreased by 11.5% from ₱ 502.8 million in 2012 to ₱ 444.9 million in 2013. The increase in sales indicator was chosen by management as it disclosed 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.) The gross profit on sales increased by 0.19% from ₱ 1,342.6 million for the year 2012 to ₱ 1,345.1 million for the year 2013. Cost of sales and service increased by 2.07% from ₱ 3,156.4 million in 2012 to ₱ 3,221.8 million in 2013 due to increase in cost ratios of subsidiaries on their newly opened branches. As a percentage of net sales, Cost of sales and service increased from 70.16% in 2012 to 70.55% in 2013. 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 in gross profit by the peso gross profit during the comparable period of previous year

3.) Income from operations (income after administrative, selling and distribution expenses) decreased by 8.47% from ₱ 462.3 million for the year 2012 to ₱ 423.1 million for the year 2013. Operating expenses (administrative, selling and distribution) increased by 4.73% from ₱ 880.3 million in 2012 to ₱ 921.9 million in 2013. The increase was due to the increased operating expenses i.e. marketing development expense, commissions, transportation and travelling, rentals, electricity and taxes mostly attributable to the subsidiaries. As a percentage of net sales, operating expenses increased from 19.57% in 2012 to 20.19% in 2013. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on administrative, selling and distribution expenses. The percentage change in income from operations is calculated by dividing the peso increase 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 cost/income (finance income, finance costs and other income) decreased by 152.43% from ₱ 287.5 million in 2012 to ₱ (150.7 million) in 2013 since the Company realized in 2012 a net gain on disposal of investment in Subsidiary (102 EDSA Realty Co., Inc.). Changes in net finance costs/income indicator provides information on significant elements of other income and other expenditures from the Company's continuing operations. The percentage change is calculated

by dividing the peso increase of net finance income/charges by the peso finance income/charges during the comparable period of previous year.

5.) Provision for income tax decreased by 5.09% from ₱ 88.1 million in 2012 to ₱ 83.7 million in 2013. The provision for income tax excludes the final capital gains tax of ₱ 95.8 million on the sale of investment in subsidiary. The net income decreased by 71.48% from ₱ 661.6 million in 2012 to ₱ 188.7 million in 2013 due to net capital gain on disposal of investment in subsidiary in 2012. 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 in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 3.53% from ₱ 9,024.0 million in 2012 to ₱ 9,342.7 million in 2013. Current ratio decreased by 8.12% from 1.28:1 in 2012 to 1.17:1 in 2013. Debt ratio increased by 4.56% from 0.45:1 in 2012 to 0.47:1 in 2013, while the equity ratio decreased by 3.6% from 0.55:1 in 2011 to 0.53:1 in 2013.

The decrease in cash and cash equivalents and the increase in trade and other receivable was due to a relatively longer time for customers to settle their accounts. The increase in inventories was due to increase in inventories of subsidiaries for their newly opened branches and stocking-up of IV fluids in preparations for the dismantling of Mandaluyong plant. The increase in other current assets and other non-current assets was due to the increase in prepaid marketing development expense, advances to suppliers and receivable from SMDC for the 50% balance for the sale of 102 EDSA shares. The increase in property plant & equipment was due to acquisitions of machineries and building improvements for the transfer of Mandaluyong production to Cavite plant. The decrease of intangible assets was due to amortization for the year. The increase in deferred tax assets was due to the recognition of additional retirement expense per PAS #19 (revised 2013). The increase in trade payables was due to the purchases of raw materials and services from suppliers. The increase in acceptances payable was due to the availments of trust receipts on letters of credit for the importation of raw materials and local distributed products. The increase in income tax payable was due to lower creditable withholding tax claimed for year end of 2013. The increase in total Notes Payable was due to the new availments of loans. The decrease in other current liabilities was due to the decrease in agency payable. The increase in retirement liability was due to recognition of additional retirement expense for year 2013 per PAS #19. The decrease in retained earnings was due to cash dividend declared and paid in 2013.

### **Projection**

The Company expects to increase its sales in 2014 by about 4% primarily due to the increase in sales from its two(2) subsidiaries CafeFrance Corp. and Hemotek Renal Center, Inc. The parent company is continuously expanding its present product lines to include specialty products for inhalation, ophthalmic, irrigation and other health care purposes. Likewise, it expects to open new export markets in other countries and increases the number of products being exported. The subsidiaries are continuously opening-up new branches throughout the country. The operating income is expected to increase by about 9% or about P463 million.

The expected net income for 2014 is about P210 million, which is about 4% to 5% of sales..

### **Calendar Year 2012 Compared to Calendar Year 2011**

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 break. 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 11.7 % from ₱ 4,028.7 million in 2011 to ₱ 4,498.9 million in 2012. The domestic sales increased by 12.9% from ₱ 3,538.9 million in 2011 to ₱ 3,996.2 million in 2012, while Export sales increased by 2.64% from ₱ 489.8 million in 2011 to ₱ 502.8 million in 2012. The increase in sales indicator was chosen by management as it disclosed 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.) The gross profit on sales decreased by 0.09% from ₱ 1,350.9 million for the year 2011 to ₱ 1,338.6 million for the year 2012. Cost of sales and service increased by 18% from ₱ 2,677.8 million in 2011 to ₱ 3,160.3 million in 2012 due to increase in cost ratios of subsidiaries on their newly opened branches. As a percentage of net sales, Cost of sales and service increased from 66.4% in 2011 to 70.2% in 2012. 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 in gross profit by the peso gross profit during the comparable period of previous year

3.) Income from operations (income after administrative, selling and distribution expenses) decreased by 17.4% from ₱ 531.9 million for the year 2011 to ₱ 439.4 million for the year 2012. Operating expenses (administrative, selling and distribution) increased by 9.8% from ₱ 818.9 million in 2011 to ₱ 899.3 million in 2012. The increase was due to the increased operating expenses i.e. marketing development expense, commissions, transportation and travelling, rentals, electricity and taxes mostly attributable to the subsidiaries. As a percentage of net sales, operating expenses decreased from 20.3% in 2011 to 19.9% in 2012. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on administrative, selling and distribution expenses. The percentage change in income from operations is calculated by dividing the peso increase 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.

5.) Net Finance cost/income (finance income, finance costs and other income) increased by 260.5% from ₱ 187.9 million in 2011 to ₱ 301.6 million income in 2012 due to the net gain on disposal of investment in subsidiary, (net of provision for impairment loss on property, plant and equipment, final tax and other related expenses for the sale of shares of 102 EDSA Realty Co., Inc.). Changes in net finance costs/income indicator provides information on significant elements of other income and other expenditures from the Company's continuing operations. The percentage change is calculated by dividing the peso increase of net finance income/charges by the peso finance income/charges during the comparable period of previous year.

5.) Provision for income tax decreased by 15.8% from ₱ 101.6 million in 2011 to ₱ 85.5 million in 2012. The provision for income tax excludes the final capital gains tax of ₱ 95.8 million on the sale of investment in subsidiary. The net income increased by 171.8% from ₱ 242.5 million in 2011 to ₱ 655.4 million in 2012 due to the net capital gain on sale of subsidiary (102 EDSA Realty Co., Inc.). 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 in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 6.94% from ₱ 8,428.5 million in 2011 to ₱ 9,013.8 million in 2012. Current ratio increased by 5.21% from 1.22:1 in 2011 to 1.28:1 in 2012. Debt ratio decreased by 5.13% from 0.47:1 in 2011 to 0.45:1 in 2012, while the equity ratio increased by 4.56% from 0.53:1 in 2011 to 0.55:1 in 2012.

The decrease in cash and cash equivalents was due to the full payment of installment contract payable. The increase in trade and other receivable was due to a relatively longer time for customers to settle their accounts. The increase in inventories was due to increase in inventories by subsidiaries as there are newly opened branches and stocking-up of IV fluids in preparations for the dismantling of Mandaluyong plant. The increase in other current assets and other non-current assets was due to the increase in prepaid marketing development expense, advances to suppliers and receivable from

SMDC for the 50% balance for the sale of 102 EDSA shares . The decrease in property plant & equipment and investments property was due to the writedown of certain Mandaluyong plant property related to the sale of Investment in subsidiary, 102 EDSA on May 9, 2012. The decrease in intangible assets was due to write down of an intangible asset in relation to the sale of investment in Subsidiary, 102 EDSA Realty Co., Inc. . The increase in deferred tax assets was due to the recognition of additional retirement expense per PAS #19 (revised 2011). The increase in trade payables was due to the purchases of raw materials and services from suppliers. The decrease in acceptances payable was due to the payments of trust receipts on letters of credit for the importation of raw materials and local distributed products. The decrease in income tax payable was due to lower taxable income in 2012. The increase in total Notes Payable was due to the new availments of loans. The decrease in total installment contract payable was due to full payment during the year of the total balance of the account. The decrease in other current liabilities was due to the decrease in agency payable. The increase in retirement liability was due to recognition of additional retirement expense for year 2012 per PAS #19. The decrease in other non-current liabilities was due to recognition of advance rental earned during the year. The increase in capital stock and the increase in retained earnings was due to the net income for the year 2012.

### **Projection**

The Company expects to increase its sales in 2013 by about 7% primarily due to the increase in sales from its two(2) subsidiaries CafeFrance Corp. and Hemotek Renal Center, Inc. The parent company is continuously expanding its present product lines to include specialty products for inhalation, ophthalmic, irrigation and other health care purposes. Likewise, it expects to open new export markets in other countries and increases the number of products being exported. The subsidiaries are continuously opening-up new branches throughout the country. The operating income is expected to increase by about 6% or about P465 million.

The expected net income for 2013 is about P200 million, which is about 4% to 5% of sales..

### **Calendar Year 2011 Compared to Calendar Year 2010**

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 break. 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 0.18 % from ₱ 4,021.6 million in 2010 to ₱ 4,028.7 million in 2011. The domestic sales increased by 0.80% from ₱ 3,509.1 million in 2010 to ₱ 3,538.9 million in 2011, while Export sales decreased by 4.4% from ₱ 512.4 million in 2010 to ₱ 489.8 million in 2010. The increase in sales indicator was chosen by management as it disclosed 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.) The gross profit on sales increased by 30.5% from ₱ 1,280.6 million for the year 2010 to ₱ 1,671.8 million for the year 2011. Cost of goods manufactured and sold decreased by 14% from ₱ 2,740.9 million in 2010 to ₱ 2,356.9 million in 2011 due to lower sales of distributed products with high cost ratio. As a percentage of net sales, cost of goods manufactured and sold decreased from 68.2% in 2010 to 58.5% in 2011. 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 in gross profit by the peso gross profit during the comparable period of previous year

3.) Income from operations (income after administrative, selling and distribution expenses) decreased by 16.5% from ₱ 631.0 million for the year 2010 to ₱ 526.5 million for the year 2011. Operating expenses (administrative, selling and distribution) increased by 76.3% from ₱ 649.6 million in 2010 to ₱ 1,145.3 million in 2011. The increase was due to the increased operating expenses i.e. marketing development expense, commissions, transportation and travelling, rentals, electricity and taxes mostly attributable to the subsidiaries. As a percentage of net sales, operating expenses increased from 16.2% in 2010 to 28.4% in 2011 mostly attributable to the subsidiaries. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on administrative, selling and distribution expenses. The percentage change in income from operations is calculated by dividing the peso increase 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 cost/income (finance income, finance costs and other income) decreased by 10.8% from ₱ 204.6 million in 2010 to ₱ 182.4 million in 2011 due to the decrease in finance cost on loans and in foreign exchange loss in 2011. Changes in net finance costs/income indicator provides information on significant elements of other income and other expenditures from the Company's continuing operations. The percentage change is calculated by dividing the peso increase of net finance costs/income by the peso finance costs/income during the comparable period of previous year.

5.) Provision for income tax decreased by 20.5% from ₱ 127.8 million in 2010 to ₱ 101.6 million in 2011. The net income decreased by 18.8% from ₱ 298.6 million in 2010 to ₱ 242.5 million in 2011. 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 in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 13.3% from ₱ 7,439.9 million in 2010 to ₱ 8,428.5 million in 2011. Current ratio decreased by 24.3% from 1.61:1 in 2010 to 1.22:1 in 2011. Debt ratio increased by 9.3% from 0.43:1 in 2010 to 0.47:1 in 2011, while the equity ratio decreased by 7% from 0.57:1 in 2010 to 0.53:1 in 2011.

The increase in cash and cash equivalents was due to the proceeds of notes payable and collections of advances to subsidiary. The increase in accounts receivable was due to a relatively longer time for customers to settle their accounts. The increase in other current assets and other non-current assets was due to the increase in prepaid marketing development expense and advances to suppliers. The increase in property plant and equipment was due to acquisitions of machineries and equipments. The increase in intangible assets was due to the acquisition of Trademarks and licenses. The increase in deferred tax assets was due to recognition of additional retirement expense per PAS #19 for 2011. The increase in trade accounts payable was due to the purchases of raw materials and services from suppliers. The decrease in acceptances payable was due to the payments of trust receipts on letters of credit for the importation of raw materials and local distributed products. The decrease in income tax payable was due to lower taxable income in 2011. The increase in total Notes Payable was due to the new availments of loans. The decrease in total installment contract payable was due to payments made during the year. The increase in other current liabilities was due to the increase in agency payable. The increase in retirement liability was due to recognition of additional retirement expense for year 2011. The increase in deferred credits was due to the advance rental income received. The increase in capital stock and the decrease in retained earnings was due to the declaration of stock dividends.

### **Projection**

The Company expects to increase its sales in 2012 by about 17% primarily due to the increase in sales from its two(2) subsidiaries CafeFrance Corp. and Hemotek Renal Center, Inc. The parent company is continuously expanding its present product lines to include specialty products for inhalation, ophthalmic, irrigation and other health care purposes. Likewise, it expects to open new export markets in other countries and increases the number of products being exported.

The gross profit ratio is expected to decrease from 41% of sales in 2011 to about 31% of sales in 2012 due to lower gross profit margin from sales of its subsidiaries. The expected gross profit in 2012 is about P1.4 billion.

The expected net income for 2012 is about P260 million, or an increase of about 6% to 7%. As a percentage of sales, the net income ratio is about 6% to 7% of net sales.

### **Liquidity and Capital Resources**

The Company's primary need for funds is to finance its operations and capital expenditures. Historically, the Company relied on its internally generated funds, revolving Omnibus Credit Lines and long term debts from various banks.

Capital expenditures for the years 2011, 2012 and 2013 were ₱ 472.9 million, ₱ 397.3 million and P 127.6 million respectively. These capital expenditures related primarily to the expansion programs of the Company for land, buildings, machinery and equipment.

Working capital and capital expenditures for the years 2010, 2011 and 2012 were financed through internally generated funds, and short term and long-term borrowings from various commercial banks.

The Company has Omnibus Credit Lines in the aggregate amount of about ₱ 4.0 billion on a clean basis from various commercial banks. These credit lines provide for cash borrowings (Peso or Dollar), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no margin deposit at opening). Availments are for a period 180 to 360 days, with interest payable/reviewable monthly or every 60 to 90 days in arrears at prevailing bank loan rates.

### **Plans of the Company**

Euro-Med intends to expand its present product line to include specialty products for inhalation, ophthalmic, irrigation and other healthcare purposes. New products will include oral drug preparation in tablet, syrup and suspension. The Company expects to open new export markets in other countries and increased the number of products being exported. The subsidiaries are continuously looking for branches throughout the country.

## **Item 7 Financial Statements**

Exhibit I - Statement of Management's Responsibility for Financial Statements.

Exhibit II - Audited Consolidated Financial Statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries as of December 31, 2011, 2012 and 2013.

## **Item 8 Information on Independent Accountant and other Related Matters**

### **1.) External Audit fees and Services**

#### **a.) Audit and Audit Related Fees**

The aggregate fees billed by the Company's external auditors for the years 2012 and 2013 amounted to P 338,000 and P266,000 respectively. These amounts cover the cost of the regular audit of the Company's annual financial statements in connection with statutory and regulatory filings for those covered years. These fees also include consultation on minor accounting matters and minor tax matters, such as queries on new BIR regulations, computation of VAT, etc. Any work that will involve our external auditors to represent the company on cases with the Bureau of Internal Revenue and other regulatory bodies are considered major accounting and tax matters which shall be billed commensurate with the number of hours spent by the auditors working on such consultation.

#### **b.) Tax fees – None**

c.) All other fees – None

d.) The above-stated fees are approved by the Company's Audit Committee based on a written engagement letter subject to the mutual agreement of both parties.

**2.) Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.**

The Company's financial statements for the years 2011, 2012 and 2013 were audited by MCJ & Co., CPA's, the audit firm appointed by the stockholders in its meeting held on June 15, 2011, June 20, 2012 and June 19, 2013. The financial statements for the years ended December 31, 2009 to December 31, 2010 were audited and signed by one of MCJ's partner, Mr. Napolen A. Calderon. Mr. Calderon ceased to be the handling partner on December 31, 2010 and was replaced in 2011 by another handling partner of the same audit firm, Mr. Marcelino A. Mercado. The change in handling partner is in compliance with SEC Rule 68 as amended. There were no disagreements with accountants on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

**PART III – CONTROL AND COMPENSATION INFORMATION**

**Item 9 Directors and Executive Officers of the Issuer**

Each of the directors and officers serve a term of one (1) year until the election and qualification of their successors. Following are the Company's board of directors as of December 31, 2013

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>	<u>Previous Term (Yrs.)</u>
Dr. Tomas P. Maramba, Jr. *	81	Filipino	Honorary Chairman Emeritus	19
Dr. William G. Padolina *	67	Filipino	Chairman	14
Mr. Edwin Feist *	65	Australian	Vice Chairman	3
Mrs. Georgiana S. Evidente	53	Filipino	Director	18
Dr. Evangeline V. Baviera	59	Filipino	Director	17
Mr. Johnny C. Yap	41	Filipino	Director	19
Dr. Teodora D. Tan	77	Filipino	Director	23

\*The Company's independent directors as required by Section 38 of Securities Regulation Code.

The following are the Company's key executive officers as of December 31, 2013:

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>	<u>Previous Term (yrs.)</u>
Mrs. Georgiana S. Evidente	53	Filipino	President	20
Dr. Evangeline V. Baviera	59	Filipino	Executive Vice President	17
Mr. Johnny C. Yap	41	Filipino	Vice Chairman EVP/Treasurer and Assistant Corporate Secretary	19
Dr. Teodora D. Tan	77	Filipino	Assistant Treasurer	23
Janice R. Ong	43	Filipino	Corporate Secretary	7

• The company had created the following Board Committees:

a.) Audit Committee:

\* Current membership are:

- a.1) Dr. William G. Padolina – Independent Director (Chariman)
- a.2) Edwin D. Feist - Independent Director
- a.3) Dr. Teodora D. Tan - Director
- a.4) Dr. Evangeline V. Baviera - Director
- b.) Nomination Committee:
  - \* Current membership are:
    - b.1) Dr. Johnny C. Yap – Director
    - b.2) Dr. William G. Padolina – Independent Director
- The company has not yet created Corporate Governance Committee.

**DR. TOMAS P. MARAMBA, JR.**

**Age: 81**

Dr. Tomas P. Maramba, Jr. is a Filipino, married and graduated from the College of Medicine, University of the Philippines, with the degree of Doctor of Medicine in 1956. In 1975, he completed his Master's Degree in Hospital Administration from the Institute of Public Health of the same university. He took postgraduate training at the Philippine General Hospital in Manila; D.C. General Hospital in Washington D.C.; University of Kansas Medical Center in Kansas City, Kansas; and the Medical College of Georgia in Augusta, Georgia. The American Board of Pathology and the Philippine Board of Pathology have certified him, both in Anatomic Pathology and Clinical Pathology. Dr. Maramba has extensive experience in the field of Medicine in the specialties of Anatomic Pathology and Laboratory Medicine, Public Health, Regulation of Health Services, Hospital Administration and Quality Management in Hospitals and Clinical Laboratories. He was formerly Head of the Departments of Pathology of Rizal Provincial Hospital, Lungsod ng Kabataan and Lung Center of the Philippines. He established and headed the Rizal Cancer Registry and reorganized and headed the Philippine Cancer Society Tumor Registry. In the government, he served as Director of the Bureau of Research and Laboratories, Undersecretary for the Office of Standards and Regulation, Acting Chairman of the Dangerous Drugs Board, Vice-Chairman of the Philippine Council for Health Research and Development, and Program Manager of the National Blood Services Program of the Department of Health. He is a former President of the Philippine Society of Pathologists, Philippine Blood Coordinating Council, Philippine Society of Oncology, Philippine Society for Quality in Health Care, Philippine Council for Accreditation of Healthcare Organizations, Asian Network for Clinical Laboratory Standardization and Harmonization and Philippine Council for Quality Assurance in Clinical Laboratories. He is a former member of the Board of Governors, Philippine National Red Cross and former Associate Professor and Professorial Lecturer at the Department of Health Policy and Administration, College of Public Health, University of the Philippines, Manila, former Chairman of the Department of Pathology and former Head of the Quality Management Department at the Dr. Victor R. Potenciano Medical Center. He is currently President Emeritus of the Philippine Society for Quality in Health Care and Immediate Past President of the Philippine Council for Accreditation of Healthcare Organizations. In the Department of Health, he is Chair of the Technical Working Group for the Strategic Plan for the National Health Laboratory Network and Chair of the Committee on Quality Assurance for Laboratory Services. He is the Vice-Chairman of the Department of Pathology at the Dr. Victor R. Potenciano Medical Center and Associate Pathologist and Head of the Blood Bank Section of the United Doctors Medical Center. On 12 May 2010, Dr. Tomas P. Maramba, Jr., retired as Chairman of the Board of Euro-Med Laboratories Phil., Inc. and was thereupon appointed as Honorary Chairman Emeritus.

**DR. WILLIAM G. PADOLINA**

**Age: 67**

**Chairman of the Board**

Dr. William G. Padolina, a married Filipino, graduated magna cum laude from the University of the Philippines, Los Baños with the degree of Bachelor of Science in Agricultural Chemistry in 1968. Subsequently as a Fulbright-Hays Scholar, he obtained his Ph.D in Botany/Phytochemistry in 1973 from the University of Texas at Austin. Upon his return from studies abroad, he continued teaching at the Institute of Chemistry, University of the Philippines Los Baños where he became a full Professor of Chemistry in 1987. He was a Consultant for Euro-Med Laboratories Phil., Inc. from 1990 to 1992. Dr. Padolina was appointed as an Undersecretary, Acting Secretary and Secretary of Department of Science and Technology from September 1992 to January 1999. Currently, he is a senior advisor at the International Rice Research Institute in Los Banos, Laguna, he was appointed as Chairman of the Board of Euro-Med Laboratories Phil., Inc. Currently, he is on contract to assist the Commission on Higher Education to implement the Philippine-California Advance Research Institutes Project. He is also currently a Senior Fellow at the Southeast Asian Center for Graduate Study and Research in

Agriculture. He was elected President of the National Academy of Science and Technology, Philippines in October 2012 for a term of three years.

**MRS. GEORGIANA S. EVIDENTE**      **Age: 53**  
**Director and President**

Georgiana S. Evidente, a married Filipino, holds a Bachelor of Arts degree in Communication Arts from Maryknoll College in Quezon City. She joined the Company in 1990 and assisted in the completion of the Cavite plant. In 1991, she was promoted to Vice President and was responsible for setting up the nationwide marketing and distribution network of the Company. Through her management and marketing efforts, Euro-Med's domestic sales grew to what it is today and export sales were developed. She is the President and Chief Executive Officer of the Company and has over 20 years of marketing and management experience.

**DR. EVANGELINE V. BAVIERA**      **Age: 59**  
**Director and Executive Vice President**

Dr. Evangeline V. Baviera, a married Filipino, graduated in 1976 from the University of the Philippines with the degree of Bachelor of Science in Pre-Medicine. She completed her course in Medicine at the University of the East Ramon Magsaysay Memorial Medical Center in 1980. After graduation, she took her specialization in Pediatrics in the hospital of the same university. In 1986, she became a faculty member of the Department of Pharmacology. She served as a consultant to the Bureau of Food and Drugs from 1988 to 1990. She was the Chairman of the Department of Pharmacology, De La Salle University Health Science Campus in Dasmariñas, Cavite from 1990 to 1992. In 1990, she joined Euro-Med as a Medical Consultant and subsequently became the Medical Director. She was promoted to Vice President in 1992 and Senior Vice President in 1997. She became a Director in 1996. Dr. Baviera is the head of all plant operations. She was promoted to Executive Vice President in 2004.

**MR. JOHNNY C. YAP**      **Age: 41**  
**Vice Chairman, Director, Executive Vice President, Treasurer and Assistant Corporate Secretary**

Johnny C. Yap, a single Filipino, graduated from De La Salle University in 1993 with the degree of Bachelor of Science in Management of Financial Institutions. He was consistently in the Dean's List and was awarded Best in Thesis for his work, "Derivation of the Security of the Market Line". He joined the Company in 1993 and subsequently became a Director, Assistant Treasurer and Assistant Corporate Secretary. At present, he is a Director and the Treasurer of the Company. He is also a Director of Centro Escolar University (CEU). In January 01, 2009, he was promoted to Executive Vice President of Euro-Med Laboratories Phil., Inc. On March 21, 2010 Centro Escolar University, Dasmariñas conferred upon him the degree of Doctor of Humanities. He is currently the Chairman of the Board of CafeFrance Corp., a wholly owned subsidiary of Euro-Med Laboratories Phil., Inc. He was elected as Vice Chairman of the Company on June 20, 2012. He was appointed as Director of Philtrust Bank last 25 April 2012.

**DR. TEODORA D. TAN**      **Age: 76**  
**Director and Assistant Treasurer**

Dr. Teodora D. Tan, a Filipino, graduated from the Manila Central University with a Bachelor's Degree in Liberal Arts. Subsequently, she obtained her degree of Doctor of Medicine from the same university and passed the Board Examination for Medicine in 1959. Since then, she has been a general practitioner and joined Euro-Med in 1990 as a Director. Currently, she also holds the position of Assistant Treasurer.

**MRS. JANICE R. ONG**                      **Age: 43**  
**Corporate Secretary**

Janice R. Ong, a married Filipino, graduated from St. Scholastica's College with a degree of Bachelor of Arts in Mass Communication. After graduation, she joined Banco de Oro. In January 1992, she joined Euro-Med as Secretary to the Executive Vice President. She was promoted to Manager in 1999 and was elected by the Board of Directors as Corporate Secretary on September 01, 2007. She is currently the Assistant Treasurer of Hemotek Renal Center, Inc., a subsidiary of Euro-Med Laboratories Phil., Inc. Mrs. Janice Ong is the spouse of Mr. Arnold D. Ong, a Senior Vice President of the Corporation.

**MR. EDWIN D. FEIST**                      **Age: 65**  
**Independent Director**

Mr. Edwin D. Feist, a married Australian, has over 42 years international experience in the health care industry working in 3 continents: North America, Asia, Australia and New Zealand. Starting out as a sales representative, Mr. Feist progressed to senior executive positions responsible for international markets with Bristol Myers Squibb-Mead Johnson and Abbott Laboratories. He joined Abbott in November 1994 as President and General Manager of Abbott Philippines and is credited with growing and transforming Abbott's business in the Philippines from a predominantly hospital focused business to a diversified business with pediatric and medical nutrition in the Philippines, Australia, New Zealand and other Asian countries. Prior to Abbott, Mr. Feist held several executive management positions with Bristol Myers-Squibb-Mead Johnson, including: Division Manager Pharmaceutical-Nutrition Division, Australia, Vice President Marketing, Bristol Myers Philippines; President and General Manager, Mead Johnson Philippines; Vice President Business Development, Mead Johnson Latin America. As an industry leader, Mr. Feist was President of the Pharmaceutical and Health Care Association of the Philippines (PHAP) for eight consecutive years and also a three-year director of the American Chamber of Commerce in the Philippines. He is currently the President of the American Chamber Foundation of the Philippines.

#### **Family Relationship**

None of the other directors or key executive officers are related to one another by consanguinity or affinity.

The company's Corporate Secretary, Janice R. Ong is the spouse of Arnold D. Ong, Senior Vice President of the company.

#### **Significant Employee**

There is no person who is not an Executive Officer expected by the Company to make a significant contribution to the business.

#### **Involvement of Directors and Officers in Certain Legal Proceedings**

None of the directors and officers was involved in any bankruptcy proceedings during the past five years. Neither have they been convicted by final judgement in any criminal proceeding or being subject to any order, judgement or decree permanently or temporarily enjoining, barring, suspending or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, and not found by any court, the Commission or other self regulatory bodies to have violated a securities or commodities law or regulation.

### **Item 10 Executive Compensation**

#### **a.) Summary Compensation Table**

Annual Compensation.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
<b>Georgiana S. Evidente</b> <i>President</i>	)			
<b>Enrique C. Yap</b> <i>Executive Vice President</i> <i>(Deceased Aug. 08, 2012)</i>	)			
<b>Evangeline V. Baviera</b>	) 2012	9,103,300	2,663,630	1,343,750
<i>Executive Vice President</i>	) 2013	7,360,320	1,916,750	973,360
<b>Johnny C. Yap</b> <i>Vice Chairman, Executive Vice President/Treasurer</i>	) 2014	7,379,040	2,021,800	974,920
<b>Sandra N. Pineda</b> <i>Chief Accountant</i>	)			
<b>All Officers and Directors as a group unnamed</b>	) 2012	18,689,020	5,113,473	3,192,820
	2013	15,353,040	3,918,050	2,719,420
	2014	15,441,960	4,028,950	2,726,830

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.

#### b.) Compensation of Directors

Standard Arrangements. Except for per diems of P30,000 for the Chairman, P20,000 for the Vice Chairman and P10,000 per Director per board meeting, there are no other arrangements pursuant to which directors of the Company are compensated directly or indirectly, for any services provided directly or indirectly to the Company during the Company's last fiscal year and the ensuing year.

### Item 11

#### Security Ownership of Certain Beneficial Owners and Management

##### 1) Security Ownership of Certain Record and Beneficial Owners

As of March 15, 2014 (the latest practicable date prior to the printing of this document), the following shareholders are the sole owners of record owning more than five percent (5%) of the outstanding shares of the common stock in the capital of the Company:

Title of Class	Name and Address of Record owner and relationship with issuer	Name of beneficial owner and relationship with record owner***	Citizenship	Number of shares held	Percent of Class
Common	U.S. Automotive Co., Inc. * United Nations Avenue corner San Marcelino Street Manila / Major stockholder	Yap Family Stockholder/Director Office	Filipino	2,401,747,112 (R)	58.41%
Common	USAUTOOCO, Inc. * United Nations Avenue corner San Marcelino Street, Manila / Major stockholder	Yap Family Stockholder/Director Office	Filipino	855,505,147 (R)	20.80%
Common	Philippine Trust company ** United Nations Avenue corner San Marcelino Street, Manila	Yap Family Stockholder/Director Office	Filipino	365,111,291	8.88%
Common	3. Evergreen Stock Brokerage & Securities, Inc. *	various clients	Filipino	298,725,323 (R)	7.26%

*\*There are no voting trusts or similar agreements among shareholders of these corporations. Furthermore, there are no arrangements among these corporations, which may result in a change in control of the Company. These corporations, however, are expected to issue their respective proxies in favor of Mr. Johnny C. Yap, the Executive Vice President and Treasurer of the Company.*

*\*\*\*Except for the above-stated record owner of shares owning more than five percent (5%) of the outstanding shares of the Company, the management has no knowledge of any person or group of persons to be directly or indirectly the record and/or beneficial owner of more than 5% of any class of the Company's voting securities.*

## 2) Security Ownership of Management

Class	Name of beneficial owner	Amount	Nature	Citizenship	Class
Common	William G. Padolina	20,563	on record	Filipino	0.00%
Common	Georgiana S. Evidente	1,285,052	on record	Filipino	0.03%
Common	Evangelina V. Baviera	41,644	on record	Filipino	0.00%
Common	Johnny C. Yap	36,980,720	on record	Filipino	0.90%
		35,695,668	Beneficial thru Emilio Yap III	Filipino	0.87%
		35,695,668	Beneficial thru Nichol Yap	Filipino	0.87%
Common	YAP, ENRIQUE RAYMOND I.	16,067,839	on record	Filipino	0.39%
Common	YAP, MICHAEL VINCENT Y.	15,257,017	on record	Filipino	0.37%
Common	YAP, JR. ENRIQUE Y.	15,000,000	on record	Filipino	0.36%
Common	Teodora D. Tan	11,606	on record	Filipino	0.00%
Common	Janice R. Ong	51,409	on record	Filipino	0.00%
Common	Edwin D. Feist	11,606	on record	Australian	0.00%
		<u>156,118,793</u>			

The aggregate number of shares owned of record by all directors and officers as a group as of March 15, 2014 (the latest practicable date prior to the printing of this document) is 72,427,352 common shares or approximately 1.76% of the Company's outstanding capital stock of 4.112 Billion shares.

#### Item 12 Certain Relationships and Related Transactions

- In the normal course of business, transactions with related parties consist mainly of the following:

a) 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. The rent charged by management is based on the lease rates charged to the other tenants in the building and in the vicinity. The rent for the period January to December 2013 and 2012 amounted to P 19,822,440 and P19,822,440 respectively. No outstanding payable as of December 31, 2013. There are no other ongoing contractual or other commitments as a result of the arrangement.

b) 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., previously a subsidiary (See Item 1). The lease that expired on June 30, 2013 was renewed for a one (1) year period until June 30, 2014. In pricing rental rate, the Management take into account that (i) 102 EDSA Realty Co., Inc. was previously a subsidiary and (ii) the market lease rates in the area. The rent for the period January to December 2013 and 2012 were P15,765,374 and P15,765,374 respectively. There are no outstanding payables as of December 31, 2013. There are no other ongoing contractual or other commitments as a result of the arrangement.

c) 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 competitiveness of prices submitted/quoted by various suppliers. Purchases for the period January to December, 2013 and 2012 amounted to P16.9 million and P15.8 million respectively. No outstanding payable as of December 31, 2013. There are no ongoing contractual or other commitments as a result of the arrangement.

d) The Company has advances to its 100% subsidiary, Hemotek Renal Center, Inc. amounting to P30 million in 2013 and P36.2 million in 2012 and to its 100% subsidiary CafeFrance Corp. amounting to P 312.4 million in 2013 and P210.1 million in 2012. Sales to Hemotek Renal Center, Inc. amounted to P48.6 million for the year 2013 and P47.7 million for the year 2012, and accounts

receivable of P131.4 million in 2013 and P96.1 million in 2012. The sales prices charged to Hemotek are competitive as those charge to other regular customers. There are no ongoing contractual or other commitments as a result of the arrangement

e) The Company engages in regular bank transactions with Philtrust Bank, an affiliated local commercial bank. Transactions are for deposits and withdrawals requirements of the company. Deposit balances as of December 31, 2013 and 2012 amounted to P15.9 million and P4.2 million respectively. There are no ongoing contractual or other commitments as a result of the arrangement.

f) The Company avails of advertising services of Manila Bulletin Publishing Corp., an affiliate under common control. Advertising rates charged are the same as charged to other regular customers. Total services purchased for January to December 2013 and 2012 amounted to P10.4 million and P 11.8 million respectively. There are no ongoing contractual or other commitments as a result of the arrangement

g) The Company avails of hotel services of Manila Hotel, an affiliate under common control. Hotel charges are the same as charged to other regular customers. Total services purchased for January to December 31, 2013 and 2012 amounted to P 0.4 million and P 4.07 million respectively. There are no ongoing contractual or other commitments as a result of the arrangement

- The Company has no material transactions (that may not be available from others) with other parties falling outside the definition of “related parties”.

#### **PART IV – MINIMUM PUBLIC OWNERSHIP (MPO)**

As of March 15, 2014 ( the latest practicable date prior to issuance of this annual report) the level of the Company's public float is 13.43%.

#### **PART V – EXHIBITS AND SCHEDULES**

##### **Item 14 Exhibits and Reports on SEC Form 17-C**

###### **a.) Exhibits**

- I** Statement of Management’s Responsibility for Financial Statements
- II** Audited Consolidated Financial Statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries as of December 31, 2011, 2012 and 2013.

###### **b.) Material Contracts**

The Company enters into a large number of contracts relating to its operations and finances on an annual basis. In the opinion of the Directors, these contracts are entered into in the ordinary course of business and the reproduction of copies of all such documents would not be feasible and might be prejudicial to its operations.

###### **c.) Reports on SEC Form 17-C**

<u>Date Filed</u>	
January 04, 2013	Sworn Certification of the Director's Attendance in Board meeting for year 2012
January 04, 2013	Revised Sworn Certification on Compliance on the Provisions of Euro-Med's Revised Manual On Corporate Governance for year 2012
February 18, 2013	Demise of An Officer
March 20, 2013	Certification of Independent Director
March 20, 2013	Annual Meeting of The Shareholders and Record Date Appoitment of the Membership of the Audit committee for year 2013-2014 Appoitment of the Membership of the Nomination Committee 2013-2014 Approval of the Nomination Committee's Guidelines and Criteria for Nomination
April 10, 2013	Nominees for Election as Members of the Board of Director 2013-2014 Approval and Authorization for Issuance of the 2012 Audited Financial Statements
May 22, 2013	Certificate of Attendance of Corporate Governance Seminar
May 22, 2013	Declaration of Cash Dividend
June 19, 2013	2013 General Information Sheet
June 19, 2013	2013 Annual Shareholders' Meeting Election of Board of Directors for the year 2013-2014 Appoitment of External Auditors 2013 Organizational Meeting Election of Corporate Officers for the year 2013-2014

**a.) Financial Statements filed under SEC Form 17-Q**


<u>Date Filed</u>	<u>Period Covered</u>
May 15, 2013	Quarter ended March 31, 2013
Aug 14, 2013	Quarter ended June 30, 2013
Nov 14, 2013	Quarter ended September 30, 2013


**SIGNATURES**

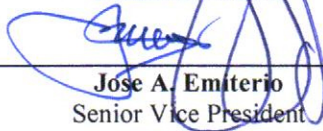
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on \_\_\_\_\_, 2014.


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


By:

  
 \_\_\_\_\_  
**Georgiana S. Evidente**  
 President/Director

  
 \_\_\_\_\_  
**Johnny C. Yap**  
 Treasurer/Director

  
 \_\_\_\_\_  
**Jose A. Emitterio**  
 Senior Vice President

  
 \_\_\_\_\_  
**Sandra N. Pineda**  
 Chief Accountant


  
 \_\_\_\_\_  
**Janice R. Ong**  
 Corporate Secretary

APR 08 2014

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_<sup>th</sup> day of \_\_\_\_\_ 2014 at the City of Makati, affiants exhibiting to me their Passport number, as follows:

<u>Names</u>	<u>Passport Number</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Georgiana S. Evidente	EB4155571	Nov 25, 2011	DFA, Manila
Johnny C. Yap	EB6364635	Sept. 18, 2012	DFA, Manila
Jose A. Emitterio	XX4989881	Nov 18, 2009	DFA, Manila
Sandra N. Pineda	EA0005651	Nov 9, 2012	DFA, Manila
Janice R. Ong	EB2319859	May 3, 2011	DFA, Manila

Doc. No. 196  
 Page No. 41  
 Book No. 111  
 Series of 2014

  
**ATTY. E. GUILLERMO**  
 Commission No. M 222  
 Notary Public for Makati City Until 31 December 2014  
 Unit 200 Herrera Tower, V.A. Rufino cor. Valero Sts.  
 Sincido Village, Makati City  
 PTR iMKT No. 4233362 08 Jan 2014  
 IBP/LT OR No. 02619; Roll of Attorneys No. 36904  
 MCLE Compliance No. IV-0021380, 22 July 2013



**STATEMENT OF MANAGEMENT RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The Securities and Exchange Commission  
SEC Building, EDSA Greenhills  
Mandaluyong City

The management of Euro-Med Laboratories Phil., Inc. and Subsidiaries are responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2013 and 2012, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting estimates that are reasonable in the circumstances.

The Board of Directors (BOD) reviews and approves the consolidated financial statements and submits the same to the stockholders.

**MERCADO CALDERON JARAVATA & CO. CPAs**, the independent auditors appointed by the BOD has examined the consolidated financial statements of the Company in accordance with Philippine Standards on Auditing, and its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

William Padolina  
Chairman of the Board

Georgiana S. Evidente  
President / Director

Johnny C. Yap  
Treasurer/Director

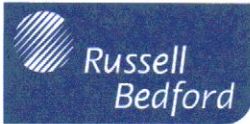
APR 08 2014

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2014 at the City of Makati, affiants exhibiting to me their Passport Number, as follows:

<u>Names</u>	<u>Passport Number</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
William Padolina	EB7351369	02/11/13	DFA, Manila
Georgiana S. Evidente	EB47155571	Nov 25, 2011	DFA, Manila
Johnny C. Yap	EB6364635	Sept. 18, 2012	DFA, Manila

Doc. No. 195  
Page No. 40  
Book No. 13  
Series of 2014

**J. D. GUILLERMO**  
Commission No. M 222  
Notary Public for Makati City Until 31 December 2014  
Unit 2420 Herrera Tower, V.A. Rufino cor. Valero Sts.  
Salcedo Village, Makati City  
PTR Mkt No. 423362 08 Jan 2014  
IBP LT OR No. 02619; Roll of Attorneys No. 36904  
MCLE Compliance No. IV-0021320, 22 July 2013



## MCJ & Co.

Mercado, Calderon, Jaravata & Co.

Certified Public Accountants

2109 Cityland 10, Tower 1,  
6815 Ayala Avenue North,  
1226 Makati City, Philippines

T : (632) 894-5783

(632) 893-8291

(632) 893-1509

F : (632) 894-4793

E : info@mcjcpas.ph

W : www.mcjcpas.ph

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and the Stockholders  
Euro-Med Laboratories Phil., Inc.  
PPL Building, United Nations Avenue, cor.  
San Marcelino St., Manila

### Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2013 and 2012, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2013, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### Auditors' Responsibility

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


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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Euro-Med Laboratories Phil., Inc. and Subsidiaries as at December 31, 2013 and 2012, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2013, in accordance with Philippine Financial Reporting Standards.

**MERCADO, CALDERON, JARAVATA & CO.**



**MARCELINO A. MERCADO**

*Partner (Signing for the firm)*

CPA License No. 066885

SEC Accreditation No. 1019-A (Group A),

December 9, 2011, valid until December 9, 2014

Tax Identification No. 102-921-222

BIR Accreditation No. 08-003338-2-2012,

October 23, 2012, valid until October 27, 2015

P.T.R. No. 4232659, January 6, 2014, Makati City

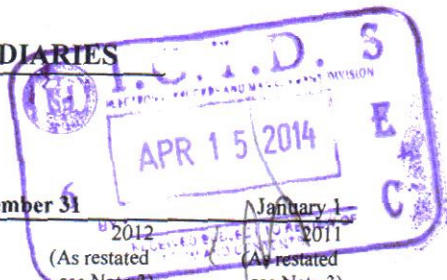
Firm's BOA/PRC Cert of Reg. No. 2209 (valid until Dec. 31, 2014)

Firm's SEC Accreditation No. 0290-F (valid until February 19, 2017)

Makati City

April 10, 2014

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**



		December 31		January 1	
	Notes	2012		2011	
		(As restated see Note 3)		(As restated see Note 3)	
<b>ASSETS</b>					
<b>Current</b>					
Cash	7,20,35	P 825,485,867	P 960,447,635	P 1,057,258,449	
Trade and other receivables, net	5,8,35	1,600,673,362	1,612,392,924	1,344,528,893	
Inventories	5,9	1,505,255,559	1,139,679,123	921,096,486	
Other current assets	10,35	344,498,489	320,247,793	291,924,911	
		4,275,913,277	4,032,767,475	3,614,808,739	
<b>Non-current</b>					
Property, plant and equipment	5,11,15	3,739,174,779	3,644,072,344	3,884,568,561	
Investment property		-	-	207,844,145	
Intangible assets	5,12	224,905,802	225,086,056	257,767,944	
Deferred tax assets	3,5,30	47,697,524	41,727,692	30,332,369	
Other noncurrent assets	13,35	1,055,030,098	1,080,350,509	433,146,474	
		5,066,808,203	4,991,236,601	4,813,659,493	
<b>TOTAL ASSETS</b>		<b>P 9,342,721,480</b>	<b>P 9,024,004,076</b>	<b>P 8,428,468,232</b>	
<b>LIABILITIES AND EQUITY</b>					
<b>Current</b>					
Trade payables	14,35	P 505,059,285	P 485,393,700	P 369,480,930	
Acceptances payable	16,35	307,848,276	213,864,708	251,661,487	
Notes payable	15,11,35	2,547,700,000	2,120,533,332	2,969,610	
Current portion of long-term loans	11,15,35	163,000,000	214,900,000	2,218,750,000	
Income tax payable		41,476,534	39,046,956	41,778,178	
Other current liabilities	17,35	78,270,430	83,279,843	89,072,358	
		3,643,354,525	3,157,018,539	2,973,712,563	
<b>Non-current</b>					
Long-term loans-net of current portion	11,15,35	657,409,950	815,526,615	811,300,000	
Installment contract payable		-	-	138,493,097	
Retirement benefit obligation	3,29	95,344,910	88,048,550	39,045,824	
Other noncurrent liabilities	18,35	2,700,000	2,700,000	4,500,000	
		755,454,860	906,275,165	993,338,921	
<b>Equity</b>					
Capital stock	19	4,112,140,540	4,112,140,540	4,112,140,540	
Additional paid-in capital	19	66,609,227	66,609,227	66,609,227	
Retained earnings	3,19	765,162,328	801,663,227	282,666,981	
Accumulated actuarial losses on defined benefit plan	3	(20,209,447)	(19,702,622)	-	
		4,943,912,095	4,960,710,372	4,461,416,748	
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 9,342,721,480</b>	<b>P 9,024,004,076</b>	<b>P 8,428,468,232</b>	

See Notes to Consolidated Financial Statements.

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Notes	Years Ended December 31		
		2013	2012 (As restated see Note 2)	2011 (As restated see Note 2)
<b>REVENUES</b>	21 P	4,566,888,124 P	4,498,962,414 P	4,028,742,417
<b>COST OF GOODS MANUFACTURED AND SOLD</b>	22	3,221,801,357	3,156,386,387	2,677,778,884
<b>GROSS PROFIT</b>		1,345,086,767	1,342,576,027	1,350,963,533
<b>OPERATING EXPENSES</b>				
Administrative and selling expenses	23	676,774,966	649,084,111	590,868,560
Distribution expenses	24	245,167,355	231,184,371	226,265,433
		921,942,321	880,268,482	817,133,993
<b>OPERATING INCOME</b>		423,144,446	462,307,545	533,829,540
<b>OTHER INCOME (CHARGES)</b>				
Interest expense	26	(182,412,278)	(187,006,419)	(204,234,233)
Foreign exchange loss		8,280,501	(11,619,868)	(2,542,593)
Net gain on disposal of investment in subsidiary	1,11	-	851,261,419	-
Provision for impairment loss on property, plant and equipment		-	(380,949,989)	-
Loss on disposal of property, plant and equipment	1,11	(115,461)	(123,761)	-
Finance income	25	9,659,185	8,406,216	9,332,334
Miscellaneous	27	13,864,205	7,535,421	7,732,630
		(150,723,848)	287,503,019	(189,711,862)
<b>INCOME BEFORE INCOME TAX</b>		272,420,598	749,810,564	344,117,678
<b>PROVISION FOR INCOME TAX</b>	30	83,699,399	88,190,479	101,613,578
<b>NET INCOME</b>		188,721,199	661,620,085	242,504,100
<b>OTHER COMPREHENSIVE INCOME</b>				-
<b>Items that will not be reclassified to profit and loss</b>				
Remeasurement losses on defined benefit plan		(724,034)	(13,857,296)	-
Income tax effect	29	217,210	4,157,189	-
		(506,824)	(9,700,107)	-
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY*</b>		P 188,214,375 P	651,919,978 P	242,504,100
<b>Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company</b>	33 P	0.05 P	0.16 P	0.06

See Notes to Consolidated Financial Statements.

\*There is no NCI since all the subsidiaries are wholly-owned.

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

For the Year Ended December 31, 2013						
Notes	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Notes 3, 19)	Accumulated Actuarial losses on Retirement Benefit Plan (Note 29)	Total	
As at January 1, 2013, as previously presented	P 4,112,140,540	P 66,609,227	P 806,313,362	P -	P 4,985,063,129	
Effect of adoption of amendments to PAS 19	3	-	(24,265,206)	(19,702,622)	(43,967,828)	
As at January 1, 2013, as restated	4,112,140,540	66,609,227	782,048,156	(19,702,622)	4,941,095,301	
Total comprehensive income:						
Net income	-	-	188,721,199	-	188,721,199	
Other comprehensive loss						
Actuarial losses on retirement benefit plan	3	-	-	(506,825)	(506,825)	
Cash dividend	3,19	-	(205,607,027)	-	(205,607,027)	
<b>As at December 31, 2013,</b>	<b>P 4,112,140,540</b>	<b>P 66,609,227</b>	<b>P 765,162,328</b>	<b>P (20,209,447)</b>	<b>P 4,923,702,648</b>	

For the Year Ended December 31, 2012						
Notes	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Notes 3, 19)	Accumulated Actuarial losses on Retirement Benefit Plan (Note 29)	Total	
As at January 1, 2012, as previously presented	P 4,112,140,540	P 66,609,227	P 282,666,981	P -	P 4,461,416,748	
Prior period adjustment			8,433,859	-	8,433,859	
Effect of adoption of amendments to PAS 19	3	-	(27,693,477)	(10,002,514)	(37,695,991)	
As at January 1, 2012, as restated	4,112,140,540	66,609,227	263,407,363	(10,002,514)	4,432,154,616	
Total comprehensive income:						
Net income	-	-	661,620,085	-	661,620,085	
Other comprehensive loss						
Actuarial losses on retirement benefit plan	3	-	-	(9,700,108)	(9,700,108)	
Cash dividend	3,19	-	(123,364,221)	-	(123,364,221)	
<b>As at December 31, 2012, as restated</b>	<b>P 4,112,140,540</b>	<b>P 66,609,227</b>	<b>P 801,663,227</b>	<b>P (19,702,622)</b>	<b>P 4,960,710,372</b>	

For the Year Ended December 31, 2011						
Notes	Capital Stock (Note 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Notes 3, 19)	Accumulated Actuarial losses on Retirement Benefit Plan (Note 29)	Total	
As at January 1, 2011, as previously presented	P 3,843,122,000	P 66,609,227	P 308,486,600	P -	P 4,218,217,827	
Prior period adjustment			694,821	-	694,821	
Effect of Adoption of PAS 19			-	-	-	
As restated	3,843,122,000	66,609,227	309,181,421	-	4,218,912,648	
Total comprehensive income:						
Net income	-	-	242,504,100	-	242,504,100	
Other comprehensive loss						
Actuarial losses on retirement benefit plan	3	-	-	-	-	
Stock dividend	3,19	269,018,540	(269,018,540)	-	-	
<b>As at December 31, 2011,</b>	<b>P 4,112,140,540</b>	<b>P 66,609,227</b>	<b>P 282,666,981</b>	<b>P -</b>	<b>P 4,461,416,748</b>	

See Notes to Consolidated Financial Statements.

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Notes	Years Ended December 31		
		2013	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax		P 272,420,598	P 740,988,245	P 344,117,678
Adjustments for:				
Prior period adjustments	3	(24,265,206)	(8,433,859)	694,821
Depreciation and amortization	11,23,24	281,540,279	256,244,897	211,033,152
Interest expense	26	182,412,278	187,006,419	204,234,233
Net gain on disposal of investment in subsidiary	1	-	(851,261,419)	-
Provision for impairment on property and equipment	11	-	380,949,989	-
Provision for impairment losses	3,8	2,652,019	2,407,024	2,404,650
Foreign exchange (gain) loss		(8,280,501)	11,619,868	2,542,593
Interest income	25	(9,659,185)	(8,406,216)	(9,332,334)
Operating income before working capital changes		696,820,282	711,114,948	755,694,793
Changes in assets and liabilities:				
Increase in:				
Trade and other receivables	5,8,35	11,719,562	(267,864,031)	(115,716,331)
Inventories	5,9	(365,576,436)	(218,582,637)	(14,236,102)
Other current assets	10,35	(24,250,696)	(28,322,882)	(49,495,212)
Other noncurrent assets	3,7	25,320,411	(647,204,035)	(164,751,107)
Increase (decrease) in:				
Trade payables	15,37	19,665,585	115,912,770	92,400,734
Acceptances payable	17,37	93,983,568	(37,796,779)	(170,404,325)
Other current liabilities	19,37	(5,009,413)	(5,792,516)	65,977,606
Other noncurrent liability		-	(1,800,000)	1,800,000
Cash generated from operations		452,672,863	(380,335,162)	401,270,056
Interest paid	26	(182,412,278)	(155,388,474)	(202,396,733)
Income tax paid		(253,795,093)	(246,306,559)	(99,950,076)
Dividend received	25	-	8,100	4,507,550
Interest received	25	9,659,185	8,406,216	9,332,334
Net cash provided by (used in) operating activities		26,124,677	(773,615,879)	112,763,131
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisitions of:				
Property, plant and equipment	3,11,16	(378,230,388)	(397,305,859)	(472,860,501)
Intangible assets	13	(6,060)	(6,060)	(223,290,086)
Proceeds from sale of investment in subsidiary	1	-	1,101,720,734	-
Net cash provided by (used in) investing activities		(378,236,448)	57,204,780	(860,901,694)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from availments of notes payable	15,11,35	217,150,003	120,909,948	747,250,001
Payment of installment contract payable		-	(141,462,707)	(2,775,337)
Net cash provided by (used in) financing activities		217,150,003	(22,352,759)	746,274,664
<b>NET INCREASE (DECREASE) IN CASH</b>		<b>(134,961,768)</b>	<b>(96,810,814)</b>	<b>154,742,158</b>
<b>CASH, BEGINNING OF YEAR</b>		<b>960,447,635</b>	<b>1,057,258,449</b>	<b>902,516,291</b>
<b>CASH, END OF YEAR</b>	7,20,35	P <b>825,485,867</b>	P <b>960,447,635</b>	P <b>1,057,258,449</b>

See Notes to Consolidated Financial Statements.

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Reporting Entity**

Corporate Structure

Euro-Med Laboratories Phil., Inc. (the "Parent", or the "Company" or "Euro-Med") is a subsidiary of U.S Automotive, Inc. The Parent Company and its subsidiaries (collectively hereinafter referred to as the "Group"), were separately incorporated and registered with the Philippine Securities and Exchange Commission (SEC). Below are the Parent Company's ownership interests in its subsidiaries:

	Percentage of Ownership			
	December 31, 2013		December 31, 2012	
	Direct	Indirect	Direct	Indirect
Hemotek Renal Center, Inc. (Hemotek)	100.00	-	100.00	-
CafeFrance Corp. (CafeFrance)	100.00	-	100.00	-

On May 9, 2012, the Euro-Med entered into a Share Purchase Agreement ("the Agreement") with SM Development Corporation (SMDC) and sold all its shares of stock in 102 EDSA for a total consideration of P1.25 billion. A 50% down payment of the total consideration, equivalent to P625.0 million, was received on May 9, 2012 and the remaining balance of P625.0 million will be paid at the end of the thirty-sixth (36th) month from the signing of the Agreement or any other date as the parties may agree in writing. 102 EDSA owns a land consisting of about 10,936 square meters located at 102 E. De Los Santos Avenue, Mandaluyong City on which the Euro-Med's Mandaluyong plant is located.

Euro-Med recognized a net capital gain of P851.3 million from the disposal of its investment in shares of stocks in 102 EDSA. The capital gain is net of: a) the cost of investment amounting to P250.4 million; b) broker's commission of P50 million; c) legal and professional fees of P2.4 million; and d) capital gains tax of P95.9 million.

Transfer of the shares to SMDC is expected to occur at the agreed closing date and turn-over of 102 EDSA's land devoid of Euro-Med's Mandaluyong plant and all improvements therein. In relation to the sale of investment in 102 EDSA, the Euro-Med recognized an impairment loss of P380.9 million on the plant assets which will be demolished upon turn-over of land to SMDC. The computation of the impairment loss and the assumptions used are disclosed in Note 11.

The sale of all the shares of 102 EDSA to SMDC was authorized, approved and ratified by the stockholders during the annual shareholders' meeting held on June 20, 2012.

Corporate Information

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.

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

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

Subsidiaries

*Hemotek Renal Center, Inc.*

Hemotek is a Company incorporated on June 11, 2008 which is principally involved in operating medical centers that provide renal and other health care services.

*CafeFrance Corp.*

CafeFrance is a Company incorporated on August 24, 2010 and is primarily involved in the development and operation of Quick Service Restaurants (QSRs).

Corporate Address

Its registered office address is at PPL Building, United Nations Avenue corner San Marcelino St., Manila.

Authorization for Issue of the Financial Statements

These consolidated financial statements as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013 were authorized for issue by the Board of Directors (BOD) on April 10, 2014.

**2. Basis of Preparation**

The accompanying consolidated financial statements of the Group have been prepared under the historical cost convention method. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All financial information is rounded off to the nearest peso, except when otherwise indicated.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in consolidated financial statements. An additional consolidated statement of financial position as at January 1, 2012 is presented in these consolidated financial statements due to retrospective application of amendments to PAS 19, *Employee Benefits* (see Note 3).

Statement of Compliance

The consolidated financial statements have been prepared in compliance with PFRS. The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC pronouncements.

**3. Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following new and amended standards effective January 1, 2013.

The Group applied for the first time the amendments to PAS 19, *Employee Benefits*, which require restatement of previous consolidated financial statements.

Several other new standards and amendments apply for the first time in 2013. However, they do not significantly impact the consolidated financial statements of the Group.

The nature and effect of each new standard, interpretation and amendment adopted by the Group is detailed below:

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments). These amendments require an entity to disclose information about

rights of set off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangements or 'similar agreements', irrespective of whether they are set off in accordance with PAS 32. The amendments require entities to disclose in a tabular format, unless another format is more appropriate, the following minimum quantitative information.

This is presented separately for financial assets and financial liabilities recognized at the end of the reporting period:

- a) The gross amounts of those recognized financial assets and recognized financial liabilities;
- b) The amounts that are set off in accordance with the criteria in PAS 32 when determining the net amounts presented in the statement of financial position;
- c) The amounts presented in the statement of financial position;
- d) The amounts subject to an enforceable master netting arrangement or similar agreement that are not otherwise included in (b) above, including:
  - i. Amounts related to recognized financial instruments that do not meet some or all of the offsetting criteria in PAS 32; and
  - ii. Amounts related to financial collateral (including cash collateral); and
- e) The net amount after deducting the amounts in (d) from the amounts in (c) above.

As the Group does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

- PFRS 10, *Consolidated Financial Statements*, replaces the part of PAS 27, *Consolidated and Separate Financial Statements*, related to consolidated financial statements and replaces SIC 12 Consolidation — *Special Purpose Entities*. PFRS 10 changes the definition of control such that an investor has control over an investee when (a) it has power over the investee; (b) it is exposed, or has rights, to variable returns from its involvement with the investee, and (c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in PFRS 10 to explain when an investor has control over an investee.

The Group has concluded that after the adoption of PFRS 10: (a) all existing subsidiaries shall remain to be fully consolidated with the Group's consolidated financial statements as management control over these entities remain the same; and (b) no new unconsolidated entity that will have to be consolidated.

- PFRS 11, *Joint Arrangements*, replaces PAS 31, *Interests in Joint Ventures* and SIC 13 *Jointly Controlled Entities — Non-Monetary Contributions by Venturers*. PFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified or accounted for. Under PFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under PFRS 11 is determined based on the rights and obligation of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint venturers) have the rights to the net assets of the arrangement. Previously, PAS 31 contemplated three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under PAS 31 was primarily determined on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was accounted for as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations is different. Investments in joint ventures are accounted for using the equity method (proportional

consolidation is no longer allowed). Investments in joint operation are accounted for such that each joint operator recognizes its assets (including its share of any assets jointly held), its liabilities (including its liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenue and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

As the Group does not have any investments in joint arrangements, the application of the amendments has had no material impact on the disclosures or on the amounts recognized in the consolidated financial statements.

- PFRS 12, *Disclosure of Interests in Other Entities*. PFRS 12 includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in PAS 31 and PAS 28, *Investments in Associates*. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. The adoption of the revised standard has no significant impact on the consolidated financial statements. The impact of the adoption affects disclosures only.
- PFRS 13, *Fair Value Measurement*, establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The Standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. The scope of PFRS 13 is broad; it applies to both financial instrument items and non-financial instrument items for which other PFRSs require or permit fair value measurements and disclosures about fair value measurements, except in specified circumstances. In general, the disclosure requirements in PFRS 13 are more extensive than those required in the current standards.

Other than the additional disclosures, the application of PFRS 13 has not had any material impact on the amounts recognized in the consolidated financial statements. Additional disclosures required are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in *Note 35 – Financial Assets and Liabilities*. In addition, PFRS 13 is to be applied prospectively and therefore comparative disclosures have not been presented.

- Amendments to PAS 1, *Financial Statements Presentation, Presentation of Items of Other Comprehensive Income (OCI)*, requires that items of OCI must be grouped together into two sections: (1) those that will or may be reclassified into profit or loss; and (2) those that will not. As a result of this amendment, the Group has modified the presentation of items of the OCI in its statement of comprehensive income. Comparative information has been re-presented accordingly. As the amendment only affects presentation, there is no effect on the Group's financial position or performance.
- PAS 19, *Employee Benefits (Revised PAS 19)*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

Prior to adoption of the Revised PAS 19, the Group recognized actuarial gains and losses as income or expense when the net cumulative unrecognized gains and losses for each individual plan at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of the plan assets and recognized unvested past service costs as an expense on a straight-line basis over the average vesting period until the benefits become vested. Upon adoption of the Revised PAS 19, the Group changed its accounting policy to recognize all actuarial gains and losses in other comprehensive income and all past service costs in profit or loss in the period they occur.



and of any significant concentrations of risk; (b) a sensitivity analysis for each significant actuarial assumption including the methods and assumptions used in preparing the sensitivity analysis and any changes and reasons for such changes from the previous period in the methods and assumptions used; (c) a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk; (d) a description of funding arrangements, including the funding policy of the defined benefit plan; (e) expected contributions for the next annual reporting period; and (f) information about the maturity profile of the defined benefit obligation, including but not limited to weighted average duration of the defined benefit obligation.

- PAS 27, *Separate Financial Statements* (As revised in 2011). As a consequence of the new PFRS 10, *Consolidated Financial Statements*, and PFRS 12, *Disclosure of interest in Other Entities*, what remains of PAS 27 is limited to accounting of subsidiaries, jointly-controlled entities, and associates in separate financial statements. The amendment has no impact on the Group's financial position or performance.
- PAS 28, *Investments in Associates and Joint Ventures*, prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Under PAS 28, an entity shall account for an investment, or a portion of an investment, in an associate or a joint venture as held for sale if it meets the relevant criteria. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale shall be accounted for using the equity method until disposal of the portion that is classified as held for sale takes place. The amendment has no impact on the Group's financial position or performance.
- PFRS 1, *First-time Adoption of International Financial Reporting Standards – Government Loans* (Amendments). The amendments to PFRS 1 require first time adopters to apply the requirements of PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, prospectively to government loans existing at the date of transition to PFRS. However, entities may choose to apply the requirements of PAS 20 to government loans retrospectively if the information needed to do so have been obtained at the time of initial accounting of these loans. These amendments are not relevant to the Group.

*Annual Improvements to PFRSs (2009-2011 cycle)* contain non-urgent but necessary amendments to PFRSs. The amendments are to be applied retrospectively. Earlier application is permitted. Except as otherwise stated, the adoption of these improvements have no significant impact on the consolidated financial statements.

- PFRS 1, *First-time Adoption of International Financial Reporting Standards*. The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply PFRS 1, even if the entity applied PFRS 1 in a previous reporting period; or (b) apply PFRS retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in order to resume reporting under PFRS. It also clarifies that upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles may carry-forward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Such borrowing costs are then recognized in accordance with PAS 23, *Borrowing Costs*. The amendment has no impact on the Group's financial position or performance, as the Group is not a first-time adopter of PFRS.
- PAS 1, *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond minimum required

comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Group's financial position or performance.

- PAS 16, *Property, Plant and Equipment – Classification of Servicing Equipment*, The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as an inventory if otherwise. The amendment does not have any significant impact on the Group's financial position or performance.
- PAS 32, *Financial Instruments; Presentation – Tax Effect of Distribution to Holders of Equity Instruments*. The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The amendment does not have any significant impact on the Group's financial position or performance.
- PAS 34, *Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities*. The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Group's financial position or performance.

#### Future Changes in Accounting Policies

##### *New Standards, Interpretations and Amendments Not Yet Effective*

The following new standards, interpretations and amendments, which are not yet effective and have not been adopted early in these consolidated financial statements, will or may have an effect on the Group's future consolidated financial statements:

##### *Effective January 1, 2014*

- PAS 36 (Amendment), *Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets*, remove the unintended consequences of PFRS 13 on the disclosures required under PAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which impairment loss has been recognized or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after January 1, 2014 with earlier application permitted, provided PFRS 13 is also applied. The amendments affect disclosures only and have no impact on Group's financial position or performance.
- *Investment Entities* (Amendments to PFRS 10, PFRS 12 and PAS 27), provides an exception to the consolidation requirement for entities that meet the definition of an investment entity under PFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group since none of the entities in the Group would qualify to be an investment entity under PFRS 10.
- Philippine Interpretation IFRIC 21, *Levies*, clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. The Group does not expect that IFRIC 21 will have material financial impact in the consolidated financial statements.

- PAS 32 (Amendment), *Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities*, clarifies the meaning of “currently has a legally enforceable right to set-off” and also clarify the application of the PAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The amendments affect presentation only and have no impact on the Group’s financial position or performance.
- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement - Novation of Derivatives and Continuation of Hedge Accounting*, provides relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendment does not have any significant impact on the Group’s financial position or performance.

*Effective January 1, 2015*

- PAS 19 (Amendment), *Employee Benefits - Defined Benefit Plans: Employee Contributions*, apply to contributions from employees or third parties to defined benefit plans. Contributions that are set out in the formal terms of the plan shall be accounted for as reductions to current service costs if they are linked to service or as part of the remeasurements of the net defined benefit asset or liability if they are not linked to service. Contributions that are discretionary shall be accounted for as reductions of current service cost upon payment of these contributions to the plans.

*Annual Improvements to PFRS (2010-2012 cycle)*

The Annual Improvements to PFRS (2010-2012 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment has no significant impact on the financial position or performance of the Group.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). This amendment has no significant impact on the financial position or performance of the Group.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments’ Assets to the Entity’s Assets*, requires entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments’ assets to the entity’s assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Group’s financial position or performance.
- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.

- PAS 16, *Property, Plant and Equipment - Revaluation Method – Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

The amendment shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendment has no impact on the Group's financial position or performance.

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarifies that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent Group of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Group's financial position or performance.
- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarifies that upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
  - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.
  - b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

The amendments also clarify that the amount of the adjustment of the accumulated amortization should form part of the increase or decrease in the carrying amount accounted for in accordance with the standard.

The amendments are effective for annual periods beginning on or after July 1, 2014. The amendments shall apply to all revaluations recognized in annual periods beginning on or after the date of initial application of this amendment and in the immediately preceding annual period. The amendments have no impact on the Group's financial position or performance.

*Annual Improvements to PFRS (2011-2013 cycle)*

The Annual Improvements to PFRS (2011-2013 cycle) contain non-urgent but necessary amendments to the following standards:

- PFRS 1, *First Time Adoption of Philippine Financial Reporting Standards – Meaning of Effective PFRSs*. The amendment clarifies that an entity may choose to apply either a current standard or a new standard that is not yet mandatory but permits early application, provided either standard is applied consistently throughout the periods presented in the entity's first

PFRS financial statements. This amendment is not applicable to the Group as it is not a first-time adopter of PFRS.

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.
- PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.
- PAS 40, *Investment Property*, clarifies the interrelationship between PFRS 3 and PAS 40 when classifying property as investment property or owner-occupied property. The amendment stated that judgment is needed when determining whether the acquisition of investment property is the acquisition of an asset or a group of assets or a business combination within the scope of PFRS 3. This judgment is based on the guidance of PFRS 3. This amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Group's financial position or performance.
- PFRS 9, *Financial Instruments*, reflects the first and third phases of the project to replace PAS 39 and applies to the classification and measurement of financial assets and liabilities and hedge accounting, respectively. Work on the second phase, which relate to impairment of financial instruments, and the limited amendments to the classification and measurement model is still ongoing, with a view to replace PAS 39 in its entirety. PFRS 9 requires all financial assets to be measured at fair value at initial recognition. A debt financial asset may, if the fair value option (FVO) is not invoked, be subsequently measured at amortized cost if it is held within a business model that has the objective to hold the assets to collect the contractual cash flows and its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal outstanding. All other debt instruments are subsequently measured at fair value through profit or loss. All equity financial assets are measured at fair value either through other comprehensive income (OCI) or profit or loss. Equity financial assets held for trading must be measured at fair value through profit or loss. For liabilities designated as at FVPL using the fair value option, the amount of change in the fair value of a liability that is attributable to changes in credit risk must be presented in OCI. The remainder of the change in fair value is presented in profit or loss, unless presentation of the fair value change relating to the entity's own credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. All other PAS 39 classification and measurement requirements for financial liabilities have been carried forward to PFRS 9, including the embedded derivative bifurcation rules and the criteria for using the FVO.

On hedge accounting, PFRS 9 replaces the rules-based hedge accounting model of PAS 39 with a more principles-based approach. Changes include replacing the rules-based hedge effectiveness test with an objectives-based test that focuses on the economic relationship between the hedged item and the hedging instrument, and the effect of credit risk on that economic relationship; allowing risk components to be designated as the hedged item, not only for financial items, but also for non-financial items, provided that the risk component is separately identifiable and reliably measurable; and allowing the time value of an option, the forward element of a forward contract and any foreign currency basis spread to be excluded from the designation of a financial instrument as the hedging instrument and accounted for as costs of hedging. PFRS 9 also requires more extensive disclosures for hedge accounting.

PFRS 9 currently has no mandatory effective date. The Group is yet to assess PFRS 9's full impact. The Group will also consider the impact of the remaining phases of PFRS 9 when completed by the Financial Reporting Standard Council (FRSC).

- Philippine Interpretation IFRIC 15, *Agreements for the Construction of Real Estate*. This Interpretation covers accounting for revenue and associated expenses by entities that undertake the construction of real estate directly or through subcontractors. This interpretation requires that revenue on construction of real estate be recognized only upon completion, except when such contract qualifies as construction contract be accounted for under PAS 11, *Construction Contracts*, or involves rendering of services in which case revenue is recognized based on stage of completion. Contracts involving provision of services with the construction materials, and where the risk and rewards of ownership are transferred to the buyer on a continuous basis, will also be accounted for based on the stage of completion. The SEC and the FRSC have deferred the effectivity of this interpretation until the final Revenue standard against the practices of the Philippine real estate industry is completed. This will not have any impact on the Group's consolidated financial statements.

#### 4. Summary of Significant Accounting Policies

##### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns, through its power over the investee. Specifically, the Company controls an investee if and only if the Company has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its investment with the investee; and
- The ability to use its power over the investee to affect its return.

Where the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Company and to the NCI, even if this results in the NCI having a deficit balance. When necessary, adjustments are made to the financial statements of the subsidiaries to bring their accounting policies into line with the Company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Company are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Company loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the amount of any NCI
- Derecognizes the cumulative translation difference recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or retained earnings, as appropriate, as would be required if the Company had directly disposed of the related assets and liabilities.

#### Cash

Cash includes cash on hand and in banks which are stated at face value.

#### Financial Assets and Financial Liabilities

##### *Date of recognition*

The Group recognizes a financial asset or financial liability in the consolidated statement of financial position when it becomes a party to the contractual provision of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date.

##### *Initial recognition of financial instruments*

Financial instruments are recognized initially at fair value. Except for financial instruments at fair value through profit or loss (FVPL), the initial measurement of financial assets and liabilities includes transaction cost.

The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available for sale (AFS) financial assets, and loans and receivables. The Group classifies its financial liabilities as other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. Management determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every financial reporting date.

##### *Financial assets or financial liabilities at FVPL*

The Group has designated financial assets and liabilities at FVPL when either:

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gain or loss on them on a different basis; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As at December 31, 2013 and 2012, the Group has no financial assets or financial liabilities at FVPL.

##### *HTM investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the Group sells other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. Moreover the Group would be prohibited to classify any financial assets as HTM investments for the following two (2) years. After initial measurement, these investments are subsequently measured at amortized cost using the effective interest rate method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. The amortization is included in the investment income in the consolidated statement of comprehensive

income. Gains and losses are amortized in income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the consolidated statement of comprehensive income.

As at December 31, 2013 and 2012, the Group has no investment under this category.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest 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. Gains and losses are recognized in the consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the financial position date.

These are considered as noncurrent asset if maturity is more than one year from the financial position date.

As at December 31, 2013 and 2012, the Group's 'cash' and 'trade and other receivables' are included in this category.

#### *AFS financial assets*

AFS investments are those non-derivative financial assets that are either designated in this category or not classified in any of the other categories. After initial recognition, AFS investments are measured at fair value with unrealized gains or losses being recognized in the consolidated statements of comprehensive income. When the investment is disposed of, the cumulative gains or losses previously recognized as other comprehensive income is recognized in other income. Interest earned or paid on the investment is reported as interest income or expense using the effective interest rate.

AFS investments are classified as current, if these investments are expected to be realized within twelve (12) months from the financial position date. Otherwise, AFS investments are classified as noncurrent.

As at December 31, 2013 and 2012, the Group has financial instruments classified as AFS included under non-current assets (see Note 13).

#### *Other financial liabilities*

This classification relates to financial liabilities that are not held for trading or not designated as FVPL upon the inception of the liability. These are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, other financial liabilities are recognized at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

Other financial liabilities pertain to "Trade payables", "Notes payable – including current portion", "other current liabilities" and "other noncurrent liabilities".

Other financial liabilities include interest bearing loans and borrowings. All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

Gains and losses are recognized under the "other income (charges)" account in the consolidated statement of comprehensive income when the liabilities are derecognized or impaired, as well as through amortization process.

### Fair Value Measurement

The Group measures financial instruments, such as AFS investments at fair value at each reporting date. Also, fair values of financial instruments measured at amortized cost.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets and liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

### Derecognition of Financial Assets and Liabilities

#### *Financial assets*

A financial asset is derecognized when:

- the rights to receive cash flows from the assets have expired;
- the Group 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 Group 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 Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

#### *Financial liabilities*

A financial liability is derecognized when the obligation under the liability is discharged, cancelled, or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive income.

#### Impairment of Financial Assets

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

#### *Loans and receivables*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, continues to be, recognized are not included in a collective assessment for impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of the estimated future cash flows. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. Loans and receivables, together with the associated allowance account, are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

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

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

#### *AFS financial assets*

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

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

#### *HTM investments*

For HTM investments, the Group assesses whether there is objective evidence of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets’ carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through use of an allowance account and the amount of loss is charged to the consolidated statement of comprehensive income. Interest income continues to be recognized based on the original effective interest rate of the asset. If subsequently, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, any amount formerly charged are credited to the ‘Provision for impairment losses’ in the consolidated statements of comprehensive income and the allowance account, reduced. The HTM investments, together with the associated allowance accounts, are written off when there is no realistic prospect of future recovery and all collateral has been realized.

#### Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities with another equity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

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

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

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the

liability simultaneously. This is not generally the case with master netting agreements, and any related assets and liabilities are presented at gross amounts in the consolidated statements of financial position.

Inventories

Finished goods and raw materials are valued at the lower of cost and net realizable value.

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

*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.

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

NRV 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 Group considers any adjustments necessary for obsolescence.

NRV for raw materials is the current replacement cost.

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, if any.

The initial cost of property, plant 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.

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

Land improvements	20 years
Building and improvements	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.

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.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation and amortization are recognized in profit or loss.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit and loss in the period the asset is derecognized.

#### Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Subsequently, intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortization and accumulated impairment losses, if any. Amortization is computed on a straight-line basis over their estimated useful life of 20 years.

The estimated useful lives and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The Group assessed the useful life of trademarks and license to be indefinite. Based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate cash inflows for the Group.

Trademarks and licenses with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life from indefinite to finite is made on a prospective basis.

An intangible asset is derocognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derocognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the assets, are recognized in profit or loss when the asset is derecognized.

#### Impairment of Non-financial Assets

The carrying amounts of property, plant and equipment and intangible assets with finite useful lives are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Trademarks and licenses with indefinite useful lives are tested annually either individually or at the cash-generating unit level. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash generating units are written down to estimated recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses of continuing operations are recognized in profit or loss in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such a reversal, the depreciation and amortization charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

## Taxes

### *Current income tax*

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

### *Deferred income tax*

Deferred income tax is provided using the balance sheet liability method on temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

Deferred income tax assets and liabilities, however, are not recognized when the temporary differences arise from the initial recognition of goodwill or 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 or loss nor taxable profit or loss.

Deferred income tax assets and liabilities are not provided on non-taxable or nondeductible temporary differences associated with investments in domestic subsidiaries, associates and interest in joint ventures. With respect to investments in other subsidiaries, associates and interests in joint ventures, deferred income tax assets and liabilities are recognized except when the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that sufficient future taxable profits will allow the deferred income tax assets to be recovered. It is probable that sufficient future taxable profits will be available against which a deductible temporary difference can be utilized when there are sufficient taxable temporary difference relating to the same taxation authority and the same taxable entity which are expected to reverse in the same period as the expected reversal of the deductible temporary difference. In such circumstances, the deferred income tax asset is recognized in the period in which the deductible temporary difference arises.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of reporting period.

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

### *Value Added Tax (VAT)*

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in

which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

The net amount of VAT recoverable from, or payable to, the taxation authority is included as part of "Other current assets" or "Agency payable", included under other current liabilities in the statement of financial position.

#### Provisions

Provisions are recognized when: (a) the Group has 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. Provisions are reviewed every end of the reporting period and adjusted to reflect the current best estimate. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in consolidated statement of comprehensive income.

#### Dividend Distributions

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Group. Stock dividends are treated as transfers from retained earnings to capital stock. Dividends for the year that are approved after the end of reporting period are dealt with as a non-adjusting event after the end of reporting period.

#### Equity

##### *Common shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

##### *Additional paid-in capital*

Additional paid in capital includes any premium received in excess of par value on the issuance of capital stock.

##### *Retained earnings*

Retained earnings represent the cumulative balance of net income or loss, dividend distributions, prior period adjustments, effects of the changes in accounting policy and other capital adjustments.

##### *Other comprehensive income*

OCI are items of income and expense that are not recognized in the profit or loss for the year in accordance with PFRS.

#### Revenue

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be measured reliably. 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 consolidated statement of comprehensive income 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. When 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 Group taking into account the effective yield on the asset and is presented gross of applicable tax withheld by the banks.

*Royalty Fees*

Revenue is recognized as the royalty accrues based on certain percentages of the franchisees' net sales.

*Other income*

Revenue is recognized when earned.

Costs and Expenses

Cost and expenses are recognized in the consolidated statement of comprehensive income when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

*Cost of goods manufactured and sold*

Cost of goods manufactured and sold is recognized as expense when the related goods are sold.

*Selling and general and administrative expenses*

Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General, selling and administrative expenses are charged against current operations as incurred.

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.

Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method. Defined benefit costs comprise service cost, net interest on the net defined benefit liability or asset and remeasurements of net defined benefit liability or asset. Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying

the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### Borrowing Costs

Borrowing costs are generally expensed as incurred. Interest and other finance costs incurred during the construction period on borrowings used to finance property development are capitalized to the appropriate asset accounts.

The capitalization of borrowing costs commences when the activities to prepare the asset are in-progress and expenditures and borrowing cost are being incurred. The capitalization of these borrowings costs ceases when substantially all activities necessary to prepare the asset for sale or its intended use are complete. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

#### Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at inception date, and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies;

- a) There is a change in contractual terms, other than a renewal or extension of the arrangement;
- b) A renewal option is exercised or an extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d) There is a substantial change to the asset.

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

#### *Group as a lessee*

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Indirect costs incurred in negotiating an operating lease are added to the carrying value of the leased asset and recognized over the lease term on the same bases as the lease income. Minimum lease payments are recognized on a straight-line basis while the variable rent is recognized as an expense based on the terms of the leased contract.

*Group as a lessor*

Leases where the Group retains substantially all the risk and benefits of ownership of the assets are classified as operating leases. Contingent rents are recognized as revenue in the period in which they are earned.

Foreign Currency-denominated Transactions

The functional and presentation currency of the Group is the Philippine Peso. Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Outstanding monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of reporting period.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction and are not subsequently restated. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rate at the date when the fair value was determined. All foreign exchange differences are taken to profit or loss, except where it relates to equity securities where gains or losses are recognized directly in other OCI.

Earnings per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Group by the weighted average number of common shares outstanding during the year, excluding capital stock purchased by the Group and treated as treasury shares after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS amounts are calculated by dividing net income by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares outstanding that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares.

The Group does not have any dilutive potential common shares, thus, diluted EPS is the same as basic EPS.

Related Party Relationships and Transactions

Related party relationship exists when the party has the ability to control, directly or indirectly, through one or more intermediaries, or exercise significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting entity and its key management personnel, directors or stockholders. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

Operating Segments

The Group's operating segments are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 6 to the consolidated financial statements. The Chief Executive Officer (the chief operating decision maker) reviews management reports on a regular basis.

The measurement policies the Group uses for segment reporting under PFRS 8 are the same as those used in its consolidated financial statements. There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss. All inter-segment transfers are carried out at arm's length prices.

Segment revenues, expenses and performance include sales and purchase between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation.

### Contingencies

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

### Events after the End of Reporting Period

Events after the end of reporting period that provides additional information about the Group's position at the end of reporting period (adjusting event) are reflected in the financial statements. Events after the end of reporting period that are not adjusting events, if any, are disclosed when material to the financial statements.

## **5. Management's Use of Significant Judgments, Accounting Estimates and Assumptions**

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

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

### Judgments

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

#### *Functional currency*

The Parent Company's transactions are denominated or settled in different currencies in United States Dollar (US \$), South African Rand (ZAR) and Russian Ruble (RUB). The Parent Company has determined that its functional currency is the Philippine Peso, which is the currency that most faithfully represents the economic substance of its underlying transactions, events and conditions.

#### *Classification of financial instruments*

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, 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 Group's consolidated statements of financial position.

#### *Determination of type of lease - operating lease*

The Group has lease agreements in respect of its depots and office. The Group evaluates whether significant risks and rewards of ownership of the leased properties retained by the lessor (operating lease). The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that all significant risk and rewards of ownership over the leased properties are retained by the lessor. The leases are, therefore, accounted for as operating leases (see Note 33).

Total lease expense arising from operating leases amounted to P77.4 million, P67.8 million and P62.3 million in 2013, 2013 and 2012, respectively (see Note 31).

Estimates and Assumptions

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

*Measurement of NRV of inventories*

The Group's estimates of the NRV of inventories are based on the most reliable evidence available at the time the estimates are made, of the amount that the inventories are expected to be realized. These estimates consider the fluctuations of price or cost directly relating to events occurring after the end of the period to the extent that such events confirm conditions existing at the end of the period. A new assessment is made of NRV in each subsequent period. When the circumstances that previously caused inventories to be written down below cost no longer exist or when there is a clear evidence of an increase in NRV because of change in economic circumstances, the amount of the write-down is reversed so that the new carrying amount is the lower of the cost and the revised NRV.

The Group's inventories carried at cost as at December 31, 2013 and 2012 amounted to P1.5 billion and P1.1 billion, respectively (see Note 9).

*Impairment of loans and receivables*

The Group 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 Group 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.

The related balances follow (see Note 8):

	2013	2012
Trade receivables	P 1,635,532,261	P 1,570,043,248
Allowance for doubtful accounts	39,445,097	36,793,078
Provision for impairment loss	2,652,019	2,407,024

*Impairment of AFS financial assets*

The computation for the impairment of AFS financial assets requires an estimation of the present value of the expected future cash flows and the selection of an appropriate discount rate. An impairment issue arises when there is an objective evidence of impairment, which involves significant judgment. In making this judgment, the Group evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Group expands its analysis to consider changes in the issuer's industry performance, legal and regulatory framework, and other factors that affect the recoverability of the Group's investments. Further, the impairment assessment would include an analysis of the significant or prolonged decline in fair value of the investments below its cost.

As at December 31, 2013 and 2012, the carrying value of the Group's AFS financial assets amounted to P.3 million (see Note 13).

*Estimation of useful lives of property, plant and equipment*

The Group 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 related balances follow (see Note 11):

	2013	2012
Cost	P 6,567,890,819	P 6,192,578,653
Accumulated depreciation and amortization and impairment losses	2,572,571,341	2,548,506,309
Depreciation and amortization	281,540,279	256,244,897

*Estimated useful lives of intangible assets with finite lives*

The useful lives of intangible assets are assessed at the individual level as having either a finite or indefinite life. Intangible assets are regarded to have an indefinite useful life when, based on analysis of all the relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflow for the Group.

Intangible asset with finite useful lives amounted to P1.5 million and P1.7 million as at December 31, 2013 and 2012, respectively (see Note 12).

*Impairment of trademarks and licenses with indefinite lives*

The Group determines whether trademarks and licenses are impaired at least annually. This requires the estimation of the value in use of the trademarks and licenses. Estimating value in use require management to make an estimate of the expected future cash flows from the cash –generating unit and from the trademarks and license and to choose a suitable discount rate to calculate the present value of those cash flows.

The carrying amounts of trademarks and license with indefinite useful lives amounted to P223.4 million as at December 31, 2013 and 2012 (see Note 12).

*Asset Impairment*

The Group 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 Group 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;
- significant negative industry or economic trends; and
- significant changes with an adverse effect on the Group during the period, or are expected to take place in the future, in the extent to which, or manner in which, an asset is used or is expected to be used.

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 and value in use. 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 Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

The Group recognized an impairment loss on property, plant and equipment amounting to nil in 2013 and P380.9 million in 2012 (see Note 11).

*Recognition of deferred income tax assets*

The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets recognized in the consolidated statement of financial position amounted to P47.7 million and P41.7 million as at December 31, 2013 and 2012, respectively (see Note 30).

*Estimation of retirement benefits cost and liability*

The cost of defined benefit retirement plans and as well as the present value of the retirement obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and expected return on plan assets. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rates for males and females and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

The retirement liability as at December 31, 2013 and 2012 amounted to P95.3 million and P88.0 million, respectively. Further details are provided in Note 29.

*Provision and contingencies*

The Group 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 outside counsel handling the defense on these matters and is based upon an analysis of potential results. The Group currently does not believe these proceedings will have a material effect on the Group's financial position. It is possible, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

No provisions have been recorded as at December 31, 2013 and 2012 (see Note 32).

## 6. Segment Information

Business Segments

The Group's operating businesses are organized and managed separately according to the nature of the products and service provided, with each segment representing a strategic business unit that offers different products and serve different markets.

- The manufacturing segment is involved in the manufacture of pharmaceutical products.
- The service segment is involved in operating a dialysis center.
- The food service segment which is involved in the operations of quick service restaurant (QSR), catering, food production and other related services.

**Segment Assets and Liabilities**

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories and property, plant and equipment, net of allowances and impairment. Segment liabilities include all operating liabilities and consist principally of accounts payable, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred taxes.

**Inter-segment Transactions**

Segment revenues, expenses and performance include sales and purchases between operating segments. Transfer prices between operating segments are set on an arm's length basis in a manner similar to transactions with third parties. Such transfers are eliminated in consolidation.

The following tables present certain information on revenue, expenses, assets and liabilities and other segment information of the different business segments as at December 31, 2013 and 2012 and for each of the two years in the period ended December 31, 2013:

	2013						Total
	Manufacturing	Service	Food	Elimination			
	<i>(amounts in thousands)</i>						
Segment revenue	P 3,000,915	P 326,430	P 1,288,191	(48,648)	P		4,566,888
Segment expense	2,590,508	318,164	1,283,720	(48,648)			4,143,744
Operating income	410,407	8,266	4,471	-			423,144
Other income (charges)	(152,415)	(279)	1,975	-			(150,719)
Income before tax	257,992	7,987	6,446	-			272,425
Provision for income tax	79,683	2,394	1,622	-			83,699
Segment net income	P 178,309	P 5,593	P 4,824	P	-	P	188,726
<b>Assets and Liabilities</b>							
Segment assets	P 8,632,446	P 605,555	P 1,129,931	P (1,072,908)	P		9,295,024
Deferred tax assets	39,847	230	7,620	-			47,697
Total assets	P 8,672,293	P 605,785	P 1,137,551	P (1,072,908)	P		9,342,721
Segment liabilities	P 2,041,029	P 345,144	P 781,660	(1,121,147)	P		2,046,686
Long-term debt	66,562	-	1,210	-			67,772
Income tax payable	40,265	-	1,793	-			42,058
Total liabilities	P 2,147,856	P 345,144	P 784,663	P (1,121,147)	P		2,156,516
<b>Other segment information</b>							
Capital expenditures	P 71,379	P 22,643	P 157,906	P	-	P	251,928
Depreciation and amortization	179,937	92,702	283,372	-			556,011

	2012									
	Manufacturing		Service		Food		Elimination		Total	
	(amounts in thousands)									
Segment revenue	P	3,032,192	P	310,838	P	1,203,614	(47,682)	P	4,498,962	
Segment expense		2,588,400		300,906		1,202,082	(47,682)		4,043,706	
Operating income		443,792		9,932		1,532	-		455,256	
Other income (charges)		296,730		(3,314)		1,138	-		294,554	
Income before tax		740,522		6,618		2,670	-		749,810	
Provision for income tax		85,778		1,985		427	-		88,190	
Segment net income	P	654,744	P	4,633	P	2,243	P	-	661,620	
<b>Assets and Liabilities</b>										
Segment assets	P	8,312,206	P	605,555	P	1,050,826	P	(936,631)	P	9,031,956
Deferred tax assets		36,770		230		4,818		-		41,818
Total assets	P	8,348,976	P	605,785	P	1,055,644	P	(936,631)	P	9,073,774
Segment liabilities	P	1,634,510	P	345,144	P	707,770	(336,631)	P	2,350,793	
Long-term debt		813,733		-		1,793	-		815,526	
Income tax payable		39,047		-		-	-		39,047	
Total liabilities	P	2,487,290	P	345,144	P	709,563	P	(336,631)	P	3,205,366
<b>Other segment information</b>										
Capital expenditures	P	71,379	P	42,554	P	283,373	P	-	P	397,306
Depreciation and amortization		179,937		17,855		58,452		-		256,244

## 7. Cash

This account consists of:

	2013		2012	
Cash on hand and revolving funds	P	40,934,381	P	44,043,579
Cash in banks		784,551,486		916,404,056
	P	825,485,867	P	960,447,635

Cash in banks earns interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to P9.7 million, P8.4 million and P9.3 million in 2013, 2012 and 2011, respectively (see Note 25).

As at December 31, 2013 and 2012, cash in bank includes foreign currency-denominated deposits amounting to \$8.7 million and \$14.0 million, respectively (see Note 34).

## 8. Trade and Other Receivables

This account consists of:

	2013		2012	
Trade	P	1,635,532,261	P	1,570,043,248
Others		4,586,198		5,556,598
		<u>1,640,118,459</u>		<u>1,575,599,846</u>
Less allowance for for impairment losses		(39,445,097)		(36,793,078)
	P	<u>1,600,673,362</u>	P	<u>1,612,392,924</u>

Trade receivables are non-interest bearing and are generally on a 30-120 day credit term.

As at December 31, 2013 and 2012, trade receivables of P1,152.0 million and P1,134.4 million, respectively, were past due but not impaired. These relates to a number of customers for whom there is no history of defaults (see Note 34 on aging analysis).

Other receivables consist mainly of advances to contractors and suppliers. Other receivables do not contain any impaired assets.

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account. Allowance for impairment losses relates to trade receivables. No allowance was provided on other receivables. Changes in the allowance for impairment losses for the years ended December 31, 2013 and 2012 are as follows:

	2013		2012	
Balance, January 1	P	36,793,078	P	34,386,054
Provision for the year		2,652,019		2,407,024
	P	<u>39,445,097</u>	P	<u>36,793,078</u>

As at December 31, 2013 and 2012, the creation of provision for impaired receivables have been included in the 'administrative and selling expenses' in the consolidated statement of comprehensive income (Note 23).

## 9. Inventories

The account consists of:

	2013		2012	
Raw materials and supplies				
Raw materials	P	321,280,040	P	195,566,482
Foods		47,685,421		49,985,648
Medical supplies		68,004,952		25,503,372
Packaging and supplies		6,906,415		12,189,286
Total		<u>443,876,828</u>		<u>283,244,788</u>
Finished goods		1,061,378,731		856,434,335
	P	<u>1,505,255,559</u>	P	<u>1,139,679,123</u>

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

- Declines subsequent to financial position 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 non-cancellable commitments for the future purchase of inventory items should, if material, be recognized in the accounts and separately disclosed in statements of comprehensive income);
- The amount of any substantial and unusual write downs.

The estimated net realizable values of inventories are as follows:

	2013	2012
Raw materials	P 517,714,847	P 315,799,957
Finished goods	1,359,891,498	1,080,424,853
Medicines and medical supplies	71,405,200	29,305,422
	<b>P 1,949,011,545</b>	<b>P 1,425,530,232</b>

The cost of inventories recognized as expense in the consolidated statement of comprehensive income amounted to P1.3 billion, P1.3 billion and P0.9 billion for the years ended December 31, 2013, 2012 and 2011, respectively (see Note 22).

#### 10. Other Current Assets

This account consists of:

	2013	2012
Prepaid marketing development	P 72,903,624	P 66,234,251
Prepayments	71,907,815	44,849,309
Advances and deposits	43,453,095	39,502,245
Bidders and performance bonds	42,441,392	39,608,089
Creditable withholding VAT and tax	42,183,278	12,959,622
Advances to officers and employees	23,422,433	27,133,480
Input tax (unamortized portion)	17,374,193	46,704,685
Advances to suppliers and contractors	30,744,973	42,737,627
Others	67,686	518,485
	<b>P 344,498,489</b>	<b>P 320,247,793</b>

*Prepaid marketing development* refers to the amount stipulated in the Group's sales contracts, which are to be amortized within the next twelve (12) month period.

*Prepayments* consist of advance payment for advertising, rentals, insurance and other miscellaneous expenses. Prepayments are charged to operations as the related expense is incurred.

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

*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.

*Creditable withholding* 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.

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

*Input tax* refers to the 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.

*Advances to suppliers* represent various partial payments for the purchase orders of materials and packaging supplies. *Advances to contractors* pertain to payment of partial cost of contract to renovate leased stores and branches.

## 11. Property, Plant and Equipment

The roll-forward analysis of this account as at December 31, 2013:

	Land and Land improvements		Building and improvements		Machineries and equipment		Transportation equipment		Office furniture and equipment		Total	
<b>Cost</b>												
At 1 January 2013	P	445,739,699	P	456,113,132	P	5,132,334,697	P	47,915,394	P	110,475,736	P	5,795,980,187
Additions		204,354,940		28,044,895		125,184,791		1,693,840		18,951,922		378,230,388
Retirements/disposals		-		-		(12,869)		(2,905,358)		-		(2,918,227)
At December 31, 2013		650,094,639		484,158,027		5,257,506,619		46,703,876		129,427,658		6,567,890,819
<b>Accumulated depreciation, amortization and impairment loss</b>												
At 1 January 2013		54,461,728		182,670,256		1,901,811,204		15,430,975		13,182,162		1,911,411,626
Depreciation and amortization		41,130,623		13,801,199		211,487,449		2,960,394		12,160,614		281,540,279
Retirements/disposals		-		-		(4,075)		(1,326,478)		-		(1,330,553)
Impairment loss		-		62,924,584		318,025,405		-		-		380,949,989
At December 31, 2013		95,592,351		259,396,039		2,431,319,983		17,064,891		25,342,776		2,572,571,341
<b>Net book value</b>	<b>P</b>	<b>554,502,288</b>	<b>P</b>	<b>224,761,988</b>	<b>P</b>	<b>2,826,186,636</b>	<b>P</b>	<b>29,638,985</b>	<b>P</b>	<b>104,084,882</b>	<b>P</b>	<b>3,739,174,779</b>

The roll-forward analysis of this account as at December 31, 2012:

	Land and Land improvements		Building and improvements		Machineries and equipment		Transportation equipment		Office furniture and equipment		Total
<b>Cost</b>											
At 1 January 2012	P	112,665,962	P	549,607,584	P	5,021,856,042	P	48,104,199	P	63,746,400	P 5,795,980,187
Additions		211,798,523		27,780,759		110,736,047		261,195		46,729,335	397,305,859
Retirements/disposals		-		-		(257,393)		(450,000)		-	(707,393)
At December 31, 2012		324,464,485		577,388,343		5,132,334,696		47,915,394		110,475,735	6,192,578,653
<b>Accumulated depreciation amortization and impairment loss</b>											
At 1 January 2012		18,692,466		178,447,086		1,696,646,676		12,445,582		5,179,816	1,911,411,626
Depreciation and amortization		26,190,253		13,775,174		202,946,631		5,330,493		8,002,346	256,244,897
Retirements/disposals		-		-		(62,703)		(37,500)		-	(100,203)
Impairment loss		-		62,924,584		318,025,405		-		-	380,949,989
At December 31, 2012		44,882,719		255,146,844		2,217,556,009		17,738,575		13,182,162	2,548,506,309
<b>Net book value</b>	P	279,581,766	P	322,241,499	P	2,914,778,687	P	30,176,819	P	97,293,573	P 3,644,072,344

Depreciation and amortization expense charged to operations amounted to P281.5 million, P256.2 million and P194.6 for the years ended December 31, 2013, 2012 and 2011, respectively, broken down as follows:

	2013		2012		2011	
<b>Charged to:</b>						
Factory overhead		P 250,960,654	P 235,119,202	P 176,637,614		
Distribution expenses		4,604,705	4,536,383	5,019,837		
Administrative and selling expenses		25,974,920	16,589,312	12,927,464		
		P 281,540,279	P 256,244,897	P 194,584,915		

In 2012, the Euro-Med sold its investment in shares of stock in 102 EDSA that owns the land where the Group's Mandaluyong plant is located. In relation to the sale, the Group recognized impairment losses on property, plant and equipment amounting to P380.9 million which is recognized in the consolidated statement of comprehensive income under 'other income (charges)'. The impairment loss is computed as the excess of the property's carrying value over its recoverable amount. The recoverable amount was based on value in use calculation using cash flow projections for the remaining years that the related property, plant and equipment are available for use and was determined at the level of the cash-generating unit (CGU). The CGU consisted of various property, plant and equipment, primarily building improvements and machinery equipment, related to the Group's Mandaluyong Plant which are to be demolished at the end of the thirty-sixth (36th) month from the signing of the contract on May 09, 2012 relating to the sale of the investment of shares of stocks in 102 EDSA.

The following assumptions were used in the calculation of value in use:

*Gross margins* are based on average values achieved in the periods immediately before the budget period. There are increases over the budget periods for anticipated efficiency improvements. Values assigned to key assumptions reflect past experience, except for efficiency improvement.

*Discount rates* used are the weighted-average cost of capital, which reflects the management's estimate of the risk specific to the assets. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

The total cost of fully depreciated property, plant and equipment which are still used amounted to P69.6 million and P68.8 million as at December 31, 2013 and 2012, respectively.

Property, plant and equipment with an aggregate value of approximately P2.0 billion have been pledged as security for long-term debts as at December 31, 2013 and 2012 (see Note 15).

## 12. Intangible Assets

This account consists of:

	2013		2012	
Trademarks and licenses	P	223,399,836	P	223,399,836
Patents and rights		1,505,966		1,686,220
	P	224,905,802	P	225,086,056

*Trademarks and licenses* pertain to the international trademarks (a) Lidex®; (b) Lidemol®; (c) Synelar®; and (d) Dobutrex® which the Company acquired from Stiefel Laboratories, Inc., and Glaxosmithkline Philippines, Inc. in 2011.

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

Movement in patents rights account as at December 31 2013 and 2012 are as follows:

	2013		2012	
Beginning balance	P	1,686,220	P	1,860,414
Additions during the year		-		6,060
Amortization during the period		(180,254)		(180,254)
	P	1,505,966	P	1,686,220

No impairment loss on intangible assets was recognized in 2013 and 2012.

## 13. Other Noncurrent Assets

This account consists of:

	2013		2012	
Receivable from SMDC	P	625,000,000	P	625,000,000
Prepaid marketing and development expense (net of current portion)		291,614,498		264,937,002
Refundable and security deposits		98,368,003		91,105,127
Advances and deposits, housing and car loans (net of current portion)		37,397,632		33,346,209
Construction in progress		2,206,969		63,696,508
Available for sale financial assets		344,000		344,000
Others		98,996		1,921,663
	P	1,055,030,098	P	1,080,350,509

*Receivable from SMDC* refers to the 50% balance from the sale of investment in shares of stocks in 102 EDSA (see Note 1).

*Refundable and security deposits* represent deposits made on lease contracts of various branches and commissary which are recoverable at the end of lease terms.

*Construction in progress* refers to buildings that are currently under construction. This includes the cost of construction and other direct costs.

*Available-for-sale financial assets* are the Group's investment in Philippine Long Distance Corporation (PLDT) shares and Casino Español de Manila. Details are as follow:

		2013		2012
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 Group under the investee's Subscribers Investment Plan. This is in connection with the various telephone lines acquired by the Group. Investment in Casino Español de Manila represents corporate proprietary shares.

*Others* include construction bonds which represent contractor's guaranty monies against defects in workmanship on materials delivered for a specified period following the completion of the contract.

#### 14. Trade Payables

Trade payable mainly includes unpaid billings from the Group's suppliers of raw materials, distributed products and other services. These are non-interest-bearing and normally settled within one (1) year. As at December 31, 2013 and 2012, trade payables amounted to P505.1 million and P485.4 million, respectively.

#### 15. Notes Payable and Long-term Loans

Notes payable consist of short-term, unsecured peso denominated promissory notes from local banks for working capital requirements amounting to P2.5 billion; which bears interest ranging from 4.00% to 6.00% and P2.1 billion which bears interest ranging from 2.83% to 6.00% as at December 31, 2013 and 2012 respectively.

The Group has Omnibus Credit lines in the aggregate amount of about P4.0 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.

Long-term loan consists of:

		2013		2012
Term loans	P	820,409,950	P	1,030,426,615
Less current portion		163,000,000		214,900,000
Noncurrent portion	P	657,409,950	P	815,526,615

Long term-loans pertain 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.

The details of property, plant and equipment pledged as security to these loans follow:

	Amount
Land	P 152,519,000
Building and improvements	200,792,000
Machineries and equipment	1,669,053,000
	P 2,022,364,000

The titles of real estate properties were not restricted.

Long term loans mature until 2019 and bear interest rates ranging from 2.72%-8.50% in 2013 and 2.82%-6.00% in 2012. The maturities of long-term loan at nominal values as at December 31, 2013 follow:

			2013			
Description	Interest rates	Within 1 year	1 year but less than 3 years	More than 3 years	Total	
Term loans	2.72%-8.5%	P 163,000,000	P 359,243,283	P 298,166,667	P 820,409,950	

Total interest expenses recognized amounted to P182.4 million, P187.0 million and P204.2 in 2013, 2012 and 2011, respectively.

#### 16. Acceptances Payable

This account represents trust receipts on letters of credit obtained from various local banks for the importation of various raw materials which bears interest ranging from 4.50% to 6.00% and 3.25% to 6.00% as at December 31, 2013 and 2012 respectively. This is part of the availments from Omnibus Credit lines of various commercial banks.

Credit lines provide for (a) no margin deposits at opening of letters of credit; (b) foreign exchange conversion at prevailing bank rate; and (c) usance and trust receipts available up to 180 days with interest payable / reviewable monthly or every 30 to 90 days in arrears at prevailing bank loan rate. As at December 31, 2013 and 2012, acceptances payable amounted to P307.8 million and P213.9 million, respectively.

#### 17. Other Current Liabilities

This account consists of:

	2013		2012	
Accrued expenses	P	53,718,362	P	16,193,060
Agency payable		16,138,901		61,630,545
Others		8,413,167		5,456,238
	P	78,270,430	P	83,279,843

*Accrued expenses* represent accrual for purchases of finished goods inventories, raw materials, and services and various fixed operating expenses which statements of accounts were not yet received before the close of the taxable year.

Agency payable account consists of:

	2013	2012
SSS/Pagibig/Philhealth premiums and loans	P 3,099,970	P 12,994,662
BIR withholding taxes and VAT payable	13,038,931	48,635,883
	P 16,138,901	P 61,630,545

*Others* include deferred revenue and advances from customers.

#### 18. Other Noncurrent Liabilities

This account consists of advance rental and refundable deposits amounting to P2,700,000 and in both 2013 and 2012, respectively.

#### 19. Equity

##### Capital stock

The movement in the number of shares follows:

	2013	2012
Authorized - P1 par value	5,000,000,000	5,000,000,000
Issued and outstanding	P 4,112,140,540	P 4,112,140,540

##### Additional Paid-in Capital

Additional paid-in capital (APIC) is the difference between the proceeds and the par value when the shares are sold at a premium. Contributions received from shareholders are recorded at the fair value of the items received with the credit going to share capital and any excess to APIC.

##### Retained Earnings and Dividends

In a meeting held on May 22, 2013, the BOD unanimously approved the declaration of cash dividend of P0.05 per share to be taken from the unrestricted retained earnings of the Company as of December 31, 2012, to all stockholders of record as of June 20, 2013 and payable on July 12, 2013.

In a meeting held on June 11, 2012, the BOD unanimously approved the declaration of cash dividend of P0.03 per share to be taken from the unrestricted retained earnings of the Company as of December 31, 2011, to all stockholders of record as of July 10, 2012 and payable on August 03, 2012.

In a special meeting held on April 12, 2011 and June 15, 2011, the BOD unanimously approved the declaration of a P269.0 million stock dividend to be taken from the unrestricted retained earnings of the Company as of December 31, 2010 subject to the approval of shareholders at the annual shareholders' meeting to be held on June 15, 2011. Moreover, the Board also approved the issuance of Two Hundred Sixty-Nine Million Eighteen Thousand Five Hundred Forty (269,018,540) shares with a par value of one peso (P1.00) per share from its authorized and unissued capital stock.

The stock dividend of two hundred sixty-nine million, eighteen thousand five hundred forty (269,018,540) shares is equivalent to 7% based on the issued and outstanding capital stock of the Company of Three Billion Eight Hundred Forty Three Million One Hundred Twenty Two Thousand (3,843,122,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- The stockholders during the annual stockholders' meeting held on June 15, 2011.
- The Securities and Exchange Commission (SEC) on June 29, 2011.
- The Philippine Stock Exchange, Inc., (PSE) on July 12, 2011 and was listed on that same date.

## 20. Related Party Transactions

The Group has transactions within and among the consolidated entities and related parties. A related party is an entity that has the ability to control or exercise significant influence, directly or indirectly, over the other party in making financial and operating decisions. Transactions between members of the Group and the related balances are eliminated at consolidation and are no longer included in the disclosures.

Parties are considered to be related if one party 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 subject to common control or common significant influence. Related parties may be individuals or corporate entities. The Group's related parties include:

- Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members; and
- Subsidiaries, affiliates and other related parties.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially on same terms with as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The amounts and balances arising from the foregoing significant related party transactions of the Group are as follows:

Related Party	Nature of Transactions	2013	
		Amount/ Volume	Terms and Conditions
<b>Parent</b>			
U.S Automotive Co., Inc.	Operating lease	<b>P19.8 Million</b>	Lease term is for one (1) year period and renewable annually upon mutual agreement of the parties
<b>Affiliates</b> <i>(Entities under common control)</i>			
Manila Bulletin Publishing Corp.	Advertising services	<b>11.5 Million</b>	Advertising rates charged are the same as charged to regular customers; Unsecured and will be settled in cash
Manila Hotel	Hotel services	<b>0.4 Million</b>	Hotel charges are the same as charged to other regular customers; Unsecured and will be settled in cash
Philtrust Bank	Savings and current deposits	<b>30 Million</b>	Earn interest at the prevailing bank deposit rates; unimpaired; and unrestricted as to withdrawals
<b>Other related party</b>			
Philippine Label Park Corp.	Purchases of labels	<b>16.9 Million</b>	Same terms and conditions as transactions with other suppliers of the Company. Purchase price depends on the prices submitted by various suppliers

Related Party	Nature of Transactions	2012	
		Amount/ Volume	Terms and Conditions
<b>Parent</b>			
U.S Automotive Co., Inc.	Operating lease	P20.4 Million	Lease term is for one (1) year period and renewable annually upon mutual agreement of the parties
<b>Affiliates</b> (Entities under common control)			
Manila Bulletin Publishing Corp.	Advertising services	11.8 Million	Advertising rates charged are the same as charged to regular customers; Unsecured and will be settled in cash
Manila Hotel	Hotel services	4.1 Million	Hotel charges are the same as charged to other regular customers; Unsecured and will be settled in cash
Philtrust Bank	Savings and current deposits	58.1 Million	Earn interest at the prevailing bank deposit rates; unimpaired; and unrestricted as to withdrawals
<b>Other related party</b>			
Philippine Label Park Corp.	Purchases of labels	15.8 Million	Same terms and conditions as transactions with other suppliers of the Company. Purchase price depends on the prices submitted by various suppliers

**Compensation of Key Management Personnel**

The Group's executive officers receive a fixed basic salary on a monthly basis. The Group 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. The compensation of the Group's key management personnel by benefit type follows:

	2013		2012	
Short-term employee benefits	P	18,072,460	P	18,689,020
Post-employment benefits		3,918,050		5,113,473
	P	21,990,510	P	23,802,493

There are no agreements between the Group and any of its directors and key officers providing for benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plans.

## 21. Revenues

This account consist of

	2013	2012	2011
Local sales	P 3,795,594,277	P 3,975,377,068	P 3,283,676,782
Export sales			
ASEAN	308,439,929	32,223,803	310,638,710
Other Asian countries	23,417,077	69,693,372	66,575,774
Africa	65,072,576	67,000,719	53,487,470
Others	47,933,908	43,829,067	59,145,113
	<u>444,863,490</u>	<u>212,746,961</u>	<u>489,847,067</u>
Total net sales	4,240,457,767	4,188,124,029	3,773,523,849
Service income	326,430,357	310,838,385	255,218,568
	<u>P 4,566,888,124</u>	<u>P 4,498,962,414</u>	<u>P 4,028,742,417</u>

The amount above is net of sales returns and sales discounts for prompt payments and volume discounts which the Group is extending to customers in its ordinary course of business amounting to P37.8 million, P32.2 million and P37.2 million in 2013, 2012 and 2011, respectively.

## 22. Cost of Goods Manufactured and Sold

This account consists of:

	2013	2012	2011
Raw materials and supplies	P 1,330,087,647	P 1,306,353,587	P 932,343,517
Direct labor	381,625,495	292,254,675	230,602,372
Manufacturing overhead	1,213,870,129	1,088,336,084	943,073,222
Cost of goods manufactured	<u>2,925,583,271</u>	<u>2,686,944,346</u>	<u>2,106,019,111</u>
Finished goods			
Beginning of year	856,434,335	619,063,506	721,381,239
Purchases	501,162,481	706,812,870	469,442,040
End of year	(1,061,378,730)	(856,434,335)	(619,063,506)
	<u>P 3,221,801,357</u>	<u>P 3,156,386,387</u>	<u>P 2,677,778,884</u>

The details of raw materials and supplies used at December 31 are as follow:

	2013	2012	2011
Beginning of year	P 283,244,788	P 302,032,980	P 176,917,297
Purchases	1,490,719,687	1,287,565,395	1,057,459,200
Raw materials and supplies available for use	1,773,964,475	1,589,598,375	1,234,376,497
End of year	<u>(443,876,828)</u>	<u>(283,244,788)</u>	<u>(302,032,980)</u>
	<u>P 1,330,087,647</u>	<u>P 1,306,353,587</u>	<u>P 932,343,517</u>

### 23. Administrative and Selling Expenses

This account consists of:

	2013	2012	2011
Salaries and commissions	P 193,653,013	P 200,877,005	P 185,161,224
Marketing and development expense	150,273,218	156,601,912	165,988,579
Transportation and travelling	62,306,867	61,114,916	52,056,448
Senior citizen and disability discount	42,676,752	33,925,124	5,948,517
Rentals (Note 31)	30,947,129	28,275,254	24,355,574
Taxes and licenses	29,833,701	26,649,854	26,339,474
Depreciation and amortization (Note 11)	25,974,920	16,589,312	12,927,464
Professional fees	24,279,158	22,460,096	18,114,303
Representation and entertainment	17,533,030	20,616,601	18,675,628
Light and water	10,982,749	15,493,008	11,835,861
Office supplies	10,842,906	5,031,600	6,383,599
Service fee	8,263,371	-	10,760,544
Repairs and maintenance	7,892,459	2,484,822	3,113,388
Gas and oil	6,103,819	7,214,021	7,873,512
Training and seminars	5,596,584	5,303,305	5,832,551
SSS/Medical/ECC/HDMF	5,438,290	5,513,973	5,722,834
Postage and telephone	4,955,407	5,702,899	5,686,507
Insurance	3,776,628	3,404,256	2,445,480
Provision for credit losses	2,652,019	2,407,024	2,404,650
Miscellaneous	32,792,946	29,419,129	19,242,423
	P 676,774,966	P 649,084,111	P 590,868,560

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

### 24. Distribution Expenses

This account consists of:

	2013	2012	2011
Delivery expense	P 163,082,990	P 151,226,483	P 137,737,078
Rentals (Note 31)	28,611,984	23,412,494	22,333,882
Salaries and wages	18,610,585	20,319,122	24,215,725
Taxes and licenses	13,528,050	14,027,198	16,770,337
Depreciation and amortization (Note 11)	4,604,705	4,536,383	5,019,837
Light and water	3,981,501	3,736,411	3,244,496
Repairs and maintenance	1,950,555	3,506,900	3,181,199
Office/warehouse supplies	1,374,863	2,361,929	4,106,681
Postage and telephone	1,568,157	1,394,457	1,819,653
Transportation and travelling	1,585,699	1,103,429	1,112,440
SSS/Medical/ECC/HDMF	997,398	1,094,906	1,467,434
Insurance	898,903	1,011,041	848,234
Representation and entertainment	286,943	170,039	890,803
Miscellaneous	4,085,022	3,283,579	3,517,634
	P 245,167,355	P 231,184,371	P 226,265,433

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

**25. Finance Income**

This account consists of:

		2013		2012		2011
Interest income	P	9,659,185	P	8,398,116	P	4,824,784
Dividends		-		8,100		4,507,550
	P	9,659,185	P	8,406,216	P	9,332,334

**26. Interest Expense**

This account consists of interests on loans as follows:

		2013		2012		2011
Short-term loans	P	148,316,976	P	137,488,197	P	149,262,774
Long-term loans		34,095,302		49,518,222		54,971,459
	P	182,412,278	P	187,006,419	P	204,234,233

**27. Miscellaneous Income**

This account consists of:

		2013		2012		2011
Royalty income	P	3,321,663	P	3,598,844	P	2,886,158
Meralco refund		-		-		1,568,872
Interest on car/housing loan		1,703,557		3,712,684		2,634,420
Others		8,838,985		223,893		643,180
	P	13,864,205	P	7,535,421	P	7,732,630

*Others* pertain to income from sale of boxes, stability testing, labeling and rebates from Coca-Cola vending machines located in the Mandaluyong plant.

**28. Research and Development Cost**

Research and development (R&D) expenditures recognized as an expense during the period consist of materials, research cost, laboratory supplies and salary of R&D staff which amounted to P19.2 million, P21.1 million and P19.6 million in 2013, 2012 and 2011, respectively.

**29. Retirement Liability**

The Group has an unfunded, non-contributory defined benefit retirement plan which covers substantially all of its regular employees. The benefits are based on years of service and compensation on the last year of employment. Under the Plan, the normal retirement age is 60 or after completion of at least 25 years of continuous service but a participant may opt to retire after completion of ten (10) years of continuous service to the Group. Retirement benefit for both normal and early retirement is equivalent to one month average basic salary for each year of service rendered. The latest actuarial valuation was made on December 31, 2013.

Under the existing regulatory framework, Republic Act 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The components of retirement expense in the consolidated statements of comprehensive income are as follows:

		2013		2012 (As restated, see Note 3)		2011 (As restated, see Note 3)
Current service cost	P	7,817,447	P	6,039,526	P	5,033,100
Net interest cost		4,392,309		4,845,426		4,661,171
	P	12,209,756	P	10,884,952	P	9,694,271

The retirement expense (included in 'salaries and wages') is recognized in the following line items in profit or loss:

		2013		2012 (As restated, see Note 3)		2011 (As restated, see Note 3)
Cost of goods manufactured and sold	P	5,336,959	P	4,383,306	P	4,798,628
Administrative and marketing expense		6,214,211		5,897,066		4,297,904
Distribution expense		658,586		604,580		597,739
	P	12,209,756	P	10,884,952	P	9,694,271

Liability recognized in the consolidated statement of financial position:

		2013		2012 (As restated, see Note 3)
Present value of benefit obligation	P	95,344,910	P	88,048,550
Fair value of plan assets		-		-
Retirement benefit obligation	P	95,344,910	P	88,048,550

The changes in the present value of defined benefit obligation are as follow:

	2013		2012 (As restated, see Note 3)	
Balance at beginning of year	P	88,048,550	P	69,106,147
Current service cost		7,817,447		6,039,526
Net interest cost		4,392,309		4,845,426
Benefits paid		(5,637,432)		(5,799,846)
Actuarial loss/(gain) due to:				
Experience adjustments		(4,230,721)		70,269
Change in demographic assumptions				98,739
Changes in financial assumptions		4,954,757		13,688,289
Balance at end of year	P	95,344,910	P	88,048,550

The Group does not maintain a fund for its retirement benefit obligation.

The movement in the net liability recognized in the statement of financial position is as follow:

	2013		2012 (As restated, see Note 3)	
Balance at beginning of year	P	88,048,550	P	69,106,147
Total retirement expense		12,209,756		10,884,952
Total amount recognized in OCI		724,036		13,857,297
Actual contribution		-		-
Benefits paid		(5,637,432)		(5,799,846)
Balance at end of year	P	95,344,910	P	88,048,550

Shown below is the maturity profile of the undiscounted benefit payments:

Plan Year	Expected Benefit Payments
Less than 1 year	P 7,833,302
More than 1 year to 5 years	56,519,506
More than 5 years to 10 years	70,970,098
More than 10 year to 15 years	60,591,564
More than 15 year to 20 years	66,290,301
More than 20 years	90,759,792

The assumptions used to determine retirement benefits of the Company are as follows:

	2013	2012
Discount rate	4.49%	5.17%
Salary increase rate	3.00%	3.00%
Turnover rate	24.91%	21.85%

The assumptions regarding future mortality rates are based on the 1994 Group Annuity Mortality Table developed by the Society of Actuaries, which provides separate rate for males and females.

In 2013 and 2012, Company applied a single weighted average discount rate that reflects the estimated timing and amount of benefit payments.

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2013, assuming if all other assumptions were held constant:

Description	Increase/decrease in basis points	Impact on defined benefit obligation Increase (decrease)
Discount rates	+1.00%	P 87,918,537
	-1.00%	(103,909,591)
Salary increase rate	+1.00%	100,058,702
	-1.00%	(90,312,013)
Turnover rate	+1.00%	93,273,172
	-1.00%	(95,088,605)

The average duration of the defined benefit obligation at the end of the reporting period is 13.4 years.

### 30. Income Taxes

The Group's provision for income tax includes the regular corporate income tax (RCIT), minimum corporate income tax (MCIT) and final tax paid at the rate of 20% for peso deposits and 7.50% for foreign currency deposits which are final withholding tax on gross interest income. These income taxes as well as the deferred tax provisions are presented for income tax in the statement of comprehensive income. Details follow:

	2013		2012		2011	
Corporate income tax	P	83,267,049	P	85,403,713	P	108,111,615
Final tax		3,199,653		2,981,725		1,541,685
Deferred		(2,767,303)		(194,959)		(8,039,722)
	P	83,699,399	P	88,190,479	P	101,613,578

Under Republic Act No. 9337 – Income tax amendments, the corporate income tax rate applicable from January 1 to October 31, 2005 of 32% in 2005 was increased to 35% effective November 1, 2005, decreasing to 30% effective on January 1, 2009. Because of the change in the corporate income tax rate, the allowable deduction for interest expense in Section 34(B)(1) is reduced by 42% (from 38%) of interest income subject to final tax and 33% (from 42%) upon the effectivity of the 30% corporate tax rate on January 1, 2009.

The components of the Group's deferred income tax assets are as follows:

	2013		2012	
Unfunded retirement liability	P	28,603,473	P	23,212,579
Allowance for impairment on receivable		11,833,530		11,037,924
NOLCO		7,260,521		7,477,189
	P	47,697,524	P	41,727,692

The movements of the deferred income tax assets are as follows:

	2013			
	Balance at beginning of year <i>(As restated)</i>	Charged to income	Charged to equity	Balance at end of year
Unfunded retirement liability	P 23,212,579	P 4,579,307	P 811,587	P 28,603,473
Allowance for impairment losses	11,037,924	795,606	-	11,833,530
NOLCO	7,477,189	(216,668)		7,260,521
	P 41,727,692	P 5,158,245	P 811,587	P 47,697,524

	2012			
	Balance at beginning of year <i>(As restated)</i>	Charged to income	Charged to equity	Balance at end of year
Unfunded retirement liability	P 19,373,529	P (245,201)	P 4,084,251	P 23,212,579
Allowance for impairment losses	10,315,817	722,107	-	11,037,924
NOLCO	5,941,849	1,535,340		7,477,189
	P 35,631,195	P 2,012,246	P 4,084,251	P 41,727,692

Reconciliation of statutory income tax rate to the effective income tax rate follows:

	2013		2012		2011	
Statutory income tax	P	81,726,179	P	219,708,489	P	103,235,303
Income subject to lower tax rates		(3,894,254)		(1,681,243)		(1,984,789)
Tax effect of timing difference		410,384		7,918,110		6,861,101
Non-deductible expenses		5,024,740		(140,541,643)		-
	P	83,267,049	P	85,403,713	P	108,111,615

### 31. Commitment

#### *Unused letters of credit*

The Group's unused letters of credit amounted to approximately P226.1 million in 2013 and P214.80 million in 2012.

#### *Operating lease commitments-Group as a lessee*

The Group leases a number of branch and warehouses under operating leases. The leases typically run for a period of 1 to 5 years, with the option to renew the lease after that date.

Future minimum rental payables under non-cancellable operating leases are as follows:

	2013		2012	
Within one year	P	339,363,477	P	295,098,676
After one year but not more than five years		178,932,052		155,593,089
	P	518,295,529	P	450,691,764

Rental expense is recognized in the following line items in profit or loss:

	2013		2012		2011
Cost of goods sold	P 17,888,972	P	16,102,051	P	15,633,059
Distribution expense	28,611,984		23,412,494		22,333,882
Administrative and selling expense	30,947,129		28,275,254		24,355,574
	<b>P 77,448,085</b>	P	<b>67,789,799</b>	P	<b>62,322,515</b>

### 32. Contingencies

As at December 31, 2013, the Group had a total of forty-five (45) pending cases, forty-one (41) of which were filed by the Group in various dates and courts in the Philippines against its customers for the collection of various amounts and/or bouncing checks and a case filed by a former employee in the Labor Relation Commission. The aggregate amount claimed for these forty-two (42) collection cases and labor is approximately P11.7 million which is less than one percent (1%) of the Group's current assets. The remaining other cases are insolvency cases by clients where the Group has pending accountabilities.

### 33. Earnings Per Share (EPS)

Computation of basic and diluted EPS is shown below:

	2013		2012
Net income attributable to ordinary equity holders of the parent for basic earnings	P 188,721,199	P	661,620,085
Divided by the weighted average number of shares	4,112,140,540		4,112,140,540
	<b>P 0.05</b>	P	<b>0.16</b>

The Group does not have diluted potential common shares as at December 31, 2013 and 2012.

### 34. Financial Risk Management Objectives and Policies

The principal financial instruments of the Group comprise of cash and cash equivalents, notes payable, acceptances payable, and amounts owed to affiliates. The main purpose of these financial instruments is to raise fund for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are foreign currency market risk, liquidity risk, interest rate risk and credit risk. The BOD reviews and approves policies for managing each of these risks and they are summarized below, together with the related risk management structure.

The Group's overall risk management program focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the Group's financial performance.

#### Credit Risk

To manage credit risk, the Group trades only with recognized and credit-worthy customers. It is the Group'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 Group's exposure to bad debts is not significant. The maximum exposure of trade receivables is equal to its carrying amount.

With respect to credit risk arising from other financial assets of the Group, which consist of cash with banks and refundable deposits, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments before taking into account any collateral and other credit enhancements.

The maximum credit risk exposure of the Group's financial assets, which is equal to the carrying amounts in the consolidated statement of financial position, is shown below:

	2013		2012	
Cash in banks	P	784,551,486	P	916,404,056
Trade and other receivables		1,600,673,362		1,612,392,924
Other current assets				
Advances and deposits		43,453,095		39,502,245
Advances to officers and employees		23,422,433		27,133,480
Other noncurrent assets				
Receivable from SMDC		625,000,000		625,000,000
Refundable and security deposits		98,368,003		91,105,127
Advances and deposits, housing and car loans		37,397,632		33,346,209
Advances to suppliers and contractors		30,744,973		42,737,627
Available for sale financial assets		344,000		344,000
	P	3,243,954,984	P	3,387,965,668

There are no collaterals held as security or other credit enhancements attached to the Group's financial assets.

The table below shows the credit quality by class of financial assets as of December 31, 2013 and 2012, gross of allowance for credit and impairment losses.

	2013					Total
	Neither Past Due Nor Impaired				Past Due But Not Impaired	
	High Grade	Standard Grade	Substandard Grade			
Loans and Receivable						
Cash in banks	P	784,551,486	P	-	P	-
Trade and other receivables		1,082,478,183		-		557,640,276
Other current assets						
Advances and deposits		43,453,095		-		-
Advances to officers and employees		23,422,433		-		-
Other noncurrent assets						
Receivable from SMDC		625,000,000		-		-
Refundable and security deposits		98,368,003		-		-
Advances and deposits, housing and car loans		37,397,632		-		-
Advances to suppliers and contractors		30,744,973		-		-
	P	2,725,415,805	P	-	P	557,640,276
			P	-		P 3,283,056,081

		2012						
		Neither Past Due Nor Impaired						
		High Grade	Standard Grade	Substandard Grade	Past Due But Not Impaired		Total	
<b>Loans and Receivable</b>								
Cash in banks	P	916,404,056	P -	P -	P -	P -	916,404,056	
Trade and other receivables		1,008,383,901	-	-	567,215,945		1,575,599,846	
<b>Other current assets</b>								
Advances and deposits		39,502,245	-	-	-		39,502,245	
Advances to officers and employees		27,133,480	-	-	-		27,133,480	
<b>Other noncurrent assets</b>								
Receivable from SMDC		625,000,000	-	-	-		625,000,000	
Refundable and security deposits		91,105,127	-	-	-		91,105,127	
Advances and deposits, housing and car loans		33,346,209	-	-	-		33,346,209	
Advances to suppliers and contractors		42,473,627						42,473,627
		P 2,783,348,645	P -	P -	P 567,215,945		P 3,350,564,590	

The Group's bases in grading its receivables are as follows:

High grade – These are receivables which have high probability of collections.

Standard – These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but have been outstanding for a long period of time.

Substandard – These are receivables where the counterparty may not be capable of honoring its financial obligation.

As at December 31, 2013 and 2012, the aging analysis per class of financial assets is as follows:

		2013					
		Neither past due nor impaired		Past due but not impaired		Past due or individually impaired	Past due but not impaired
		Total	Total	0-60 days	over 60 days	Total	Total
<b>Loans and Receivables</b>							
Cash in banks	P	784,551,486	P 784,551,486	P -	P -	P -	P -
Trade and other receivables		1,600,673,362	448,188,541	480,202,009	672,282,812	-	-
<b>Other current assets</b>							
Advances and deposits		43,453,095	43,453,095	-	-	-	-
Advances to officers and employees		23,422,433	23,422,433	-	-	-	-
<b>Other noncurrent assets</b>							
Receivable from SMDC		625,000,000	625,000,000	-	-	-	-
Refundable and security deposits		98,368,003	98,368,003	-	-	-	-
Advances and deposits housing and car loans		37,397,632	37,397,632	-	-	-	-
		P 3,212,866,011	P 2,060,381,190	P 480,202,009	P 672,282,812	P -	P -

	2012									
	Total		Neither past due nor impaired	Past due but not impaired		Past due or individually impaired	Past due but not impaired			
				0-60 days	over 60 days					
<b>Loans and Receivables</b>										
Cash in banks	P	916,404,056	P	916,404,056	P	-	P	-	P	-
Trade and other receivables		1,575,599,846		441,167,957		472,679,954		661,751,935		-
Other current assets										
Advances and deposits		39,502,245		39,502,245		-		-		-
Advances to officers and employees		27,133,480		27,133,480		-		-		-
Other noncurrent assets										
Receivable from SMDC		625,000,000		625,000,000		-		-		-
Refundable and security deposits		91,105,127		91,105,127		-		-		-
Advances and deposits housing and car loans		33,346,209		33,346,209		-		-		-
	P	3,308,090,963	P	2,173,659,074	P	472,679,954	P	661,751,935	P	-

### 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.

The table below summarizes the maturity profile of the Company's financial liabilities as of December 31, 2013 and 2012 based on contractual undiscounted payments (principal and interest)

	2013									
	Total Carrying Value		Contractual undiscounted payments							
			On demand	Less than 1 year	1 to 5 years	> 5 years				
Trade payables	P	505,059,285	P	-	P	505,059,285	P	-	P	-
Notes payable and long-term (including current portion)		3,368,109,950		-		2,710,700,000		453,409,950		204,000,000
Acceptances payable		307,848,276		-		307,848,276		-		-
	P	4,181,017,511	P	-	P	3,523,607,561	P	453,409,950	P	204,000,000

	2012									
	Total Carrying Value		Contractual undiscounted payments							
			On demand	Less than 1 year	1 to 5 years	> 5 years				
Trade payables	P	485,393,700	P	-	P	485,393,700	P	-	P	-
Notes payable and long-term (including current portion)		3,150,959,947		-		2,335,433,332		578,526,615		237,000,000
Acceptances payable		213,864,708		-		213,864,708		-		-
	P	3,850,218,355	P	-	P	3,034,691,740	P	578,526,615	P	237,000,000

### Interest Rate Risk

Interest rate risk arises on interest-bearing financial instruments recognized in the statement of financial position and on some financial instruments not recognized in the financial position (i.e. certain loan commitments, if any)

As at December 31, 2013 and 2012, the Company's exposure to interest rate risk pertains to the fluctuations in interest rates of its interest bearing loans and borrowings. 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.

The following tables show comparative information about the Company's financial instruments as at December 31 that are exposed to interest rate risk and presented by maturity profile for the next five years from December 31 figures (in thousands):

Description	Interest rates	2013					
		Within 1 year	More than 1 year but less than 3 years	More than 3 years	Total		
Notes payable	4.0%-6.0%	2,547,700	-	-	2,547,700		
Acceptances payable	4.5%-6.0%	307,848	-	-	307,848		
Long-term loans	2.7%-8.5%	163,000	359,243	298,167	820,410		
		P 3,018,548	P 359,243	P 298,167	P 3,675,958		

Description	Interest rates	2012					
		Within 1 year	More than 1 year but less than 3 years	More than 3 years	Total		
Notes payable	2.8%-6.0%	2,120,533	-	-	2,120,533		
Acceptances payable	3.3%-6.0%	213,865	-	-	213,865		
Long-term loans	2.8%-6.0%	214,900	578,527	237,000	1,030,427		
		P 2,549,298	P 578,527	P 237,000	P 3,364,825		

The following tables demonstrate the sensitivity of income before tax to a reasonably possible change in interest rates, with all other variables held constant.

Description	2013		
	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
Long term loans	+100bps	(P45,603)	(P31,922)
	-100bps	45,603	31,922

Description	2012		
	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
Long term loans	+100bps	(P56,102)	(P39,271)
	-100bps	56,102	39,271

#### Price Risk

The Group 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 Group 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 Group reviews its outlook for market prices regularly in considering the need for active financial risk management.

#### Foreign Exchange Risk

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

The Group holds foreign currency-denominated deposits amounting to P388,204,895 or \$8,741,385 as at December 31, 2013 and P626,656,920 or \$14,948,877 as at December 31, 2012, which can be affected by fluctuations of foreign currency exchange.

Information on the Group's foreign currency-denominated deposits and their Philippine Peso equivalents follows:

	2013		2012	
	Foreign currency	Peso Conversion	Foreign currency	Peso Conversion
US Dollar	4,366,858	P 193,932,148	12,479,189	P 523,127,614
Euro	71,526	4,349,472	234,448	1,878,466
Singapore Dollar	17,321	606,059	-	-
ZAR	38,763,951	167,460,268	2,235,240	101,650,840
RUB	16,684,694	21,856,950		
	59,904,350	P 388,204,897	14,948,877	P 626,656,920

The Group also has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Group's functional currency. For years 2013 and 2012, approximately 15% and 17%, respectively of the Group's total sales are denominated in currencies other than the functional currency.

The table below summarizes the Group's exposure to foreign exchange risk as of December 31:

	2013		2012	
	USD	Peso Equivalent	USD	Peso Equivalent
Cash in banks	\$8,741,385	P 388,204,895	\$15,254,550	P 626,656,920
Exchange rate		44.41		41.08

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar rate, with all variables held constant, of the Group's profit before tax:

Description	2013		
	Increase/decrease in basis points	Effect on income before income tax Increase (decrease)	Effect on equity Increase (decrease)
2013	+10%	P53,829	P37,680
	-10%	(53,829)	(37,680)
2012	+10%	P48,935	P34,255
	-10%	(48,935)	(34,255)

**Capital Management**

The Group adopted the financial concept of capital which comprises all components of equity, i.e. share capital, share premium retained earnings, etc. The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Group manages its capital structure and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities. No changes have been made in the objective, policies and processes as they have been applied in previous years.

The Group monitors its use of capital structure using a debt-to-equity ratio which is gross debt divided by total capital. The Group includes within gross debt all loans and borrowings, while equity represents total equity. Following is the computation of the Group's debt-to-equity ratio as at December 31, 2013 and 2012:

	2013	2012
<b>Short-term debts</b>		
Trade payables	P 505,059,285	P 485,393,700
Acceptances payable	307,848,276	213,864,708
Notes payable	2,547,700,000	2,120,533,332
Current portion of long-term loans	163,000,000	214,900,000
Other current liabilities	78,270,430	83,279,843
	<b>3,601,877,991</b>	<b>3,117,971,583</b>
<b>Long-term debts</b>		
Long-term loans-net of current portion	657,409,950	815,526,615
Other noncurrent liabilities	2,700,000	2,700,000
<b>Total debt (a)</b>	<b>P 4,261,987,941</b>	<b>P 3,936,198,198</b>
<b>Equity (b)</b>	<b>P 4,943,912,095</b>	<b>P 4,960,710,372</b>
<b>Debt-to-equity ratio (a/b)</b>	<b>0.86</b>	<b>0.79</b>

The Group is not subject to externally imposed capital requirements.

### 35. Financial Assets and Liabilities

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

	2013		2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Assets:</b>				
<i>Loans and receivables</i>				
Cash in banks	784,551,486	784,551,486	916,404,056	916,404,056
Trade and other receivables	1,600,673,362	1,600,673,362	1,575,599,846	1,575,599,846
<i>Other current assets</i>				
Advances and deposits	43,453,095	43,453,095	39,502,245	39,502,245
Advances to officers and employees	23,422,433	23,422,433	27,133,480	27,133,480
<i>Other noncurrent assets</i>				
Receivable from SMDC	625,000,000	625,000,000	625,000,000	625,000,000
Refundable and security deposits	98,368,003	98,368,003	91,105,127	91,105,127
Advances and deposits, housing and car loans	37,397,632	37,397,632	33,346,209	33,346,209
Advances to suppliers and contractors	30,744,973	30,744,973	42,737,627	42,737,627
Available-for-sale financial asset	344,000	344,000	344,000	344,000
	<b>P 3,243,954,984</b>	<b>P 3,243,954,984</b>	<b>P 3,351,172,590</b>	<b>P 3,351,172,590</b>
<b>Financial Liabilities:</b>				
<i>Other financial liabilities</i>				
Trade payables	P 505,059,285	P 505,059,285	P 485,393,700	P 485,393,700
Notes payable	2,547,700,000	2,547,700,000	2,120,533,332	2,120,533,332
Acceptances payable	307,848,276	307,848,276	213,864,708	213,864,708
Long-term loans	820,409,950	812,205,851	1,030,426,615	1,020,122,349
Other noncurrent liabilities	2,700,000	2,700,000	2,700,000	2,700,000
	<b>P 4,183,717,511</b>	<b>P 4,175,513,412</b>	<b>P 3,852,918,355</b>	<b>P 3,842,614,089</b>

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

The fair values of cash in banks, AFS financial assets, trade and other receivables subscriber advances and deposits, advances to related parties, advances to officers and employees, trade payable and acceptances payables are approximately equal to their carrying amounts considering the short-term maturities of these financial instruments.

Unquoted AFS equity securities are carried at cost, subject to impairment.

For noncurrent portion of advances and other noncurrent assets, the fair value is based on the discounted values of future cash flows using the applicable zero coupon rates.

For variable rate financial instruments that reprice every three months (i.e. notes payable), the carrying value approximates the fair value because of recent and regular repricing based on current market rates.

For fixed rates obligations, the fair value is estimated as the present value of all future cash flows discounted using the prevailing market rate of interest for similar instruments.

For other noncurrent liabilities, the fair value is estimated on the discounted values of future cash flows using the applicable zero coupon rates.

**Fair Value Measurement Hierarchy**

The following table provide the fair value measurement hierarchy of the Group's assets and liabilities:

	December 31, 2013			Total
	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Liabilities for which fair values are disclosed:</b>				
<b>Long-term loans</b>	P	-	P 812,205,851	P 812,205,851

	December 31, 2013			Total
	Fair value measurement using			
	Quoted prices in active markets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	
<b>Liabilities for which fair values are disclosed:</b>				
<b>Long-term loans</b>	P	-	P 1,020,122,349	P 1,020,122,349

As at December 31, 2013 and 2012, the Group has no financial instruments measured under Levels 1 and 3.

**36. Other Matters**

**Disclosure Requirements by SRC Rule 68**

Under the following disclosure requirements by Securities Regulation Code (SRC) Rule 68, the Group has neither an existing plan nor a transaction involving the following:

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



## MCJ & Co.

Mercado, Calderon, Jaravata & Co.  
Certified Public Accountants

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### SUPPLEMENTAL STATEMENT OF INDEPENDENT AUDITORS' REPORT

*The Stockholders and the Board of Directors*  
Euro-Med Laboratories Phil., Inc.  
PPL Building, United Nations Avenue, cor.  
San Marcelino St. Manila

We have audited the consolidated financial statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries ('the Group') as at and for the year ended December 31, 2013, on which we have rendered the attached report dated April 10, 2014.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has five hundred thirty eight (538) stockholders owning one hundred (100) or more shares each.

#### MERCADO, CALDERON, JARAVATA & CO.

**MARCELINO A. MERCADO**

*Partner (Signing for the firm)*

CPA License No. 066885

SEC Accreditation No. 1019-A (Group A),  
December 9, 2011, valid until December 9, 2014

Tax Identification No. 102-921-222

BIR Accreditation No. 08-003338-2-2012,  
October 23, 2012, valid until October 27, 2015

P.T.R. No. 4232659, January 6, 2014, Makati City

Firm's BOA/PRC Cert of Reg. No. 2209 (valid until Dec. 31, 2014)

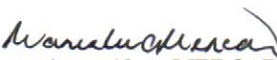
Firm's SEC Accreditation No. 0290-F (valid until February 19, 2017)

Makati City  
April 10, 2014

## **INDEPENDENT AUDITORS' REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Euro-Med Laboratories Phil., Inc.  
PPL Building United Nations Avenue, cor.  
San Marcelino St. Manila

We have audited in accordance with Philippine Standards of Auditing, the consolidated financial statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries (the "Group") as at December 31, 2013 and 2012 and for each of the three years in the period ended December 31, 2013, included in this Form 17-A, and have issued our report thereon dated April 10, 2014. Our audits were made for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for purposes of complying with Securities Regulation Code Rule 68, As Amended (2011) and are not part of the consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the consolidated financial statements taken as a whole.

  
**MARCELINO A. MERCADO**  
*Partner (Signing for the firm)*

CPA License No. 066885

SEC Accreditation No. 1019-A (Group A),  
December 9, 2011, valid until December 9, 2014

Tax Identification No. 102-921-222

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Makati City  
April 10, 2014

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**Index to the Consolidated Financial Statements and Supplementary Schedules**

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Schedule 1 - Schedule of all the effective standards and interpretation as at December 31, 2013

Schedule 2 - Reconciliation of retained earnings available for dividend declaration

Schedule 3 - Map of the relationships of the Companies within the Group

Schedule 4 - Financial soundness indicators

Schedule 5 - Supplementary schedules required by Annex 68-E

**Schedule 1**

**SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATION UNDER THE PHILIPPINE FINANCIAL REPORTING STANDARDS (PFRS) AT DECEMBER 31, 2013**

PFRSs AND INTERPRETATIONS Effective as at December 31, 2013		Adopted	Not Adopted	Not Applicable
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and quantitative characteristics		✓		
<b>PFRSs Practice Statement Management Commentary</b>			✓	
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendments to PFRS 1: Limited Exemption from Comparatives PFRS 7 Disclosures for First Time Adopter			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
<b>PFRS 2</b>	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions			✓
<b>PFRS 3 (Revised)</b>	Business Combinations			✓
<b>PFRS 4</b>	Insurance Contracts			✓
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued Operations			✓
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosure about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfer of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9</b>	Financial Instruments			✓
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures			✓
<b>PFRS 10</b>	Consolidated Financial Statements	✓		

<b>PFRSs AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as at December 31, 2013</b>				
<b>PFRS 11</b>	Joint Arrangements			✓
<b>PFRS 12</b>	Disclosure of Interest in Other Entities			✓
	Amendment to PFRS 10: Investment Entities			✓
<b>PFRS 13</b>	Fair Value Measurement	✓		
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Capital Disclosures			✓
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
<b>PAS 2</b>	Inventories	✓		
<b>PAS 7</b>	Statements of Cash Flows	✓		
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events After the Balance Sheet Date	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Assets			✓
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures			✓
<b>PAS 19 (Amended)</b>	Employee Benefits	✓		
	Amendments to PAS 19: Defined Benefit Plans: Employee Contributions			✓
<b>PAS 20</b>	Accounting for Government Grants and Disclosures of Government Assistance			✓
<b>PAS 21</b>	The Effect of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation			✓
<b>PAS 23 (Revised)</b>	Borrowing Cost	✓		
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27 (Amended)</b>	Separate Financial Statements	✓		
<b>PAS 28 (Amended)</b>	Investments in Associates and Joint Ventures			✓
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures			✓
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendment to PAS 32: Classification of Rights Issues			✓
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities			✓
<b>PAS 33</b>	Earnings per Share	✓		

<b>PFRSs AND INTERPRETATIONS</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Effective as at December 31, 2013</b>				
<b>PAS 34</b>	Interim Financial Statements	✓		
<b>PAS 36</b>	Impairment of Nonfinancial Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingents Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement			
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities			✓
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions			✓
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets			✓
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
	Amendments to PAS 39: Eligible Hedged Items			✓
	Amendments to PAS 39: Novation of Derivatives and Continuation of Hedged Accounting			✓
<b>PAS 40</b>	Investment Property			✓
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar Instruments			✓
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease			✓
<b>IFRIC 5</b>	Rights to Interest Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market-Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting under Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of IFRS 2			✓
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC - 9 and PAS 39: Embedded Derivatives			✓
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment			✓
<b>IFRIC 11</b>	PFRS 2 - Group and Treasury Shares Transactions			✓
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes			✓
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction			✓
	Amendments to Philippine Interpretations IFRIC-14, Prepayments of a Minimum Funding requirement.			✓
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operations			✓
<b>IFRIC 17</b>	Distributions of Non-Cas Assets to Owners			✓
<b>IFRIC 18</b>	Transfer of Assets to Customers			✓
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments			✓
<b>IFRIC 20</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>IFRIC 21</b>	Levies			✓

<b>PFRSs AND INTERPRETATIONS</b> <b>Effective as at December 31, 2013</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Interpretations</b>				
<b>IFRIC 21</b>	Levies			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions by Ventures			✓
<b>SIC-15</b>	Operating Leases - Incentives			✓
<b>SIC-21</b>	Income Taxes - Recovery of Revalued Non-Depreciable Assets			✓
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
<b>SIC-27</b>	Evaluating the Substance of Transactions involving the Legal form of a Lease			✓
<b>SIC-29</b>	Service Concession Arrangements			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC 32</b>	Intangible Assets - Website Costs	✓		

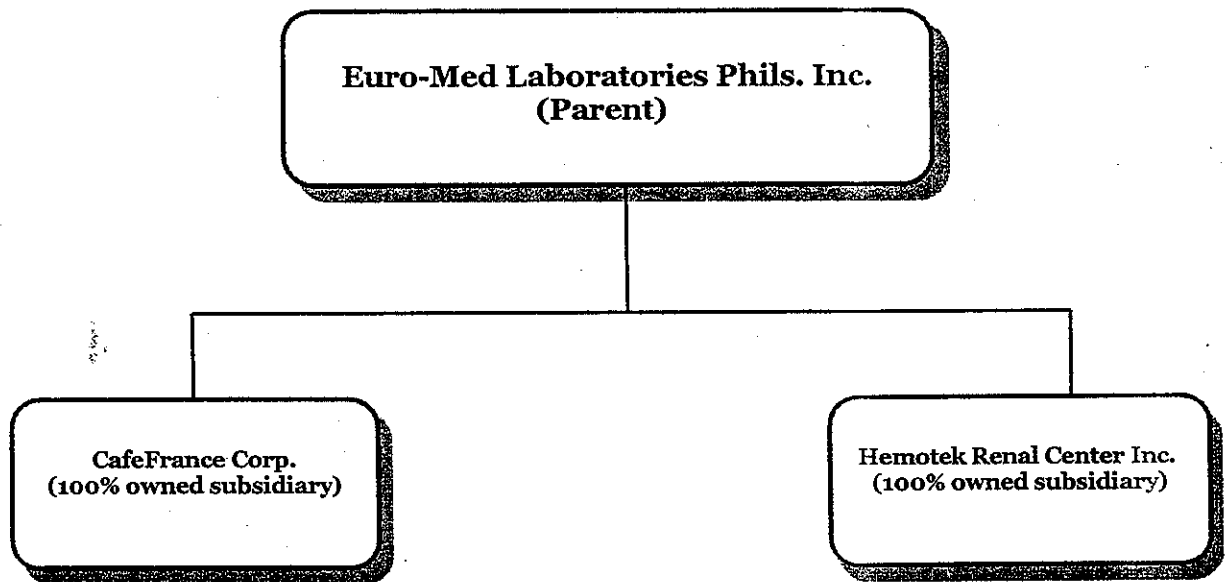
Schedule 2

**RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND  
DECLARATION  
AS AT DECEMBER 31, 2013**

<b>Unappropriated Retained Earnings, beginning</b>	P	804,617,657
<b>Adjustment</b>		
Adjustments in prior years		(4,434,333)
<b>Unappropriated Retained Earnings, as adjusted, beginning</b>		<b>800,183,324</b>
Net income based on the face of AFS		178,304,051
<b>Less: Non-actual/unrealized income net of tax</b>		
Recognized deferred income tax assets		(39,847,350)
Unrealized foreign exchange gain		-
Fair value adjustment		-
Fair value adjustment of investment property resulting to gain		-
Adjustment due to deviation from PFRS/GAAP - gain		-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS		-
<b>Add: Non-actual losses</b>		
Depreciation on revaluation increment (after tax)		-
Adjustment due to deviation from PFRS/GAAP - loss		-
Fair value adjustment of investment property resulting to loss		-
<b>Net Income Actual/Realized</b>		<b>938,640,025</b>
<b>Less: Non-actual/unrealized income net of tax</b>		
Dividends declared		(205,607,027)
Effects of prior period adjustments		-
Appropriation during the year		-
<b>Unappropriated Retained Earnings, as adjusted, ending</b>	P	<b>733,032,998</b>

**Schedule 3**

**MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP  
AS AT DECEMBER 31, 2013**



**Schedule 4**

**FINANCIAL SOUNDNES INDICATORS  
AS AT DECEMBER 31, 2013 AND 2012**

	<b>2013</b>	<b>2012</b>
<b>CURRENT RATIO</b>	<b>1.17</b>	<b>1.28</b>
<b>DEBT-TO-EQUITY RATIO</b>	<b>0.89</b>	<b>0.82</b>
<b>ASSET TO EQUITY RATIO</b>	<b>1.89</b>	<b>1.68</b>
<b>INTEREST RATE COVERAGE RATIO</b>	<b>2.49</b>	<b>5.01</b>
<b>RETURN ON ASSETS</b>	<b>0.02</b>	<b>0.08</b>
<b>RETURN ON EQUITY</b>	<b>0.04</b>	<b>0.13</b>

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**

**Schedule A FINANCIAL ASSETS**  
As of December 31, 2013

<i>Name of issuing entity and association of each issue (1)</i>	<i>Number of shares or principal amount of bonds and notes</i>	<i>Amount shown in the balance sheet*(2)</i>	<i>Value based on market quotation at balance sheet date (3)</i>	<i>Income received and accrued</i>
1) Accounts Receivable-trade ( various) - non trade ( various)				
2.) Available for Sale (AFS)		144,000		
2.1) Philippine Long Distance Telephone Company		200,000		
2.2) Casino Espanol		344,000		
Total AFS				

**ESPHIL NEURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**

**Schedule B** Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders  
 ( Other than Related Parties )  
 As of December 31, 2013

Name and Designation of debtor (1)	Balance at beginning of period Jan. 01, 2013	Additions	DEDUCTIONS			Balance at end of period Dec. 31, 2013
			Amount collected (2)	Amount written off (3)	Current	
Advances to Officers/Employees						
Salary loan	3,160,055	6,127,989	5,484,512		-	3,803,532
Cash advance (for liquidation)	24,270,672	10,281,110	11,020,827		-	23,530,955
Car/Housing	18,407,718	7,277,021	1,965,888			23,718,851
<b>TOTAL</b> >>>>	45,838,445	23,686,120	18,471,227	-	0	51,053,338

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**

**Schedule C** Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements  
As of December 31, 2013

Name of and Designation of debtor	Balance of Beginning of period Jan. 01, 2013	Additions	Amounts Collected	Amounts written off	Current	Not Current	Balance at end of period Dec. 31, 2013
1.) 102 E. Delos Santos Realty Co., Inc.	62,500,000				0		P-
2.) Hemotek Renal Center, Inc.	36,194,470	5,000,000	-11,194,470		30,000,000		30,000,000
3.) CafeFrance Corp.	211,074,949	101,000,000			312,074,949		312,074,949
Total	62,500,000	P106,000,000	(11,194,470)			0	P342,074,949

**EURO MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**

**Schedule D INTANGIBLE ASSETS - OTHER ASSETS**  
As of December 31, 2013

<i>Description (1)</i>	<i>Beginning balance Jan. 1, 2013</i>	<i>Additions at cost (2)</i>	<i>Charged to cost &amp; exp.(3)</i>	<i>Charged to other accounts</i>	<i>Other charges- additions/(deductions)</i>	<i>Ending balance Dec. 31, 2013</i>
1.) Trademarks and Licenses	223,399,836					223,399,836
2.) Patents/Rights	1,686,220		180,254			1,505,966
<b>TOTAL</b>	<b>P225,086,056.00</b>	<b>0</b>	<b>P180,254.00</b>	<b>P-</b>	<b>P-</b>	<b>P224,905,802.00</b>

(2) The addition is stated at cost

(3) Deduction represents amount charged to operations.

Amortization is credited directly to patents/rights account.

Amortization is over a period of 20 years using straight line method.

# EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES

## Schedule E LONG TERM DEBT As of December 31, 2013

<i>Title of issue and type of obligation (1)</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term" in related balance sheet</i>	<i>Amount shown under caption "Long-term Debt" in related balance sheet (3)</i>
Promissory Note			<p style="text-align: center;">*</p> <p style="text-align: center;">P655,616,667</p> <p>* Interest rates are based on T-bills plus spread. * Payable quarterly in Three(3) to seven (7) years.</p>

# EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES

## **Schedule F** Indebtedness to Affiliates and Related Parties (Long-term Loans from Related Companies) As of December 31, 2013

<i>Name of Related Party (1)</i>	<i>Balance at beginning of period</i>	<i>Balance at the end of the period (2)</i>
NONE	NONE	NONE

# EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES

## Schedule G GUARANTEES OF SECURITIES OF OTHER ISSUERS (1) As of December 31, 2013

<i>Name of Issuing entity of securities guaranteed by the company for which this statement is filed</i>	<i>Title of issue of each class of securities guaranteed</i>	<i>Total amount guaranteed and outstanding (2)</i>	<i>Amount owned by person for which statement is filed</i>	<i>Nature of guarantee(3)</i>
NONE	NONE	NONE	NONE	NONE

**GENEVA PHARM EURO-MED-LABORATORIES PHIL., INC. AND SUBSIDIARIES**

**Schedule H CAPITAL STOCK**  
As of December 31, 2013

Title of issue (2)	Number of shares authorized	Number of shares issued and outstanding shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion & other rights	Number of shares held by related parties -3	Directors, Officers and Employees'	Others
Common	5,000,000,000	Issued <u>4,112,140,540</u>	NONE	3,718,754,886	72,427,352	320,958,301