



# Euro-Med Laboratories Phil., Inc.

14 May 2013

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

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

Subject : **QUARTERLY REPORT (17-Q) FOR QUARTER ENDING 31 MARCH 2013**

Dear Ms. Encarnacion,

Please find attached EURO-MED LABORATORIES PHIL., INC. Quarterly Report for quarter ending 31 March 2013.

Thank you.

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

By:

  
**JANICE R. ONG**  
Corporate Secretary

# COVER SHEET

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S.E.C. Registration Number

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

(Company's Full Name)

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

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

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

Contact Person

5 2 4 0 0 9 1 - 9 8

Company Telephone Number

0 5 1 5

Month

Day

Fiscal Year

2 0 1 3

1 7 Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended March 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 6.  (SEC Use Only)  
(Province, country or other jurisdiction of Industry Classification Code:  
incorporation or organization)
7. 1000 United Nations Avenue cor. San Marcelino St., Manila 1000  
Address of principal office postal code
8. (632) 524-0091 to 98  
Issuer's telephone number, including area code
9. Not Applicable  
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Stock	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 [ ]

**EURO-MED LABORATORIES PHIL., INC.**  
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## Part I – Financial Information

### Item 1. Financial Statements

See accompanying Interim Financial Statements.

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

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

Pursuant to SEC Circular No. 3 series of 2011 concerning PFRS9 (2009) and PFRS (2010), the Company had conducted in early 2012 another impact evaluation using the outstanding balances of financial statements as of 31 December 2011, and has decided not to early adopt the said PFRS in our 2012 financial reporting.

The company being primarily engaged in a manufacturing business have few financial instruments, such as accounts receivable, accounts payable and notes payable, as distinguished from a financial institution whose assets and liabilities are mostly financial instruments. The company has no complex securities particularly on derivatives.

The financial risk exposures of the company are as follows:

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

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

The Peso/Dollar exchange rate depreciated from about ₱ 41.192/US\$ 1 in January 2013 to about ₱ 40.623/US\$ 1 in March 2013. The company's export sales for the periods ended January to March 2013 and 2012 are 15% and 18% respectively of total sales, which are denominated in foreign currency.

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

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

#### 2. Interest rate risk.

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

The company's loans as of March 31, 2013 that is exposed to interest rate risks are as follows:

Maturing within one (1) year:			
Notes payable	P	1,979,233,332	
Acceptances payable		<u>217,107,922 P</u>	2,196,341,254
Maturing over one (1) year:			
Notes payable			<u>813,733,333</u>
TOTAL	P		<u><u>3,010,074,587</u></u>

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

### 3. Credit risk.

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

The maximum credit exposure of the company as of March 31, 2013 follows :

Cash in banks	P	643,379,300
Trade receivables -net		1,443,355,225
Non-trade receivables		<u>2,586,466</u>
TOTAL	P	<u><u>2,089,320,991</u></u>

To manage credit risk, the company maintains its bank deposits with reputable banks and trades only with recognized and credit-worthy customers. It is the Company's policy that all customers who wish to trade on credit terms are subjected to credit verification process with emphasis on their capacity, character and willingness to pay. Each customer, whether corporate or otherwise, has an approved credit limit. These limits are reviewed regularly by the Treasury Department, and customer balances are monitored on an ongoing basis with the result that the company's exposure to bad debts is not significant. Euro-Med's customers are hospitals, clinics, drugstores, medical distributors and traders as well as corporate/industrial accounts. The company's customer base is composed of more than 8000 institutions nationwide. Hence, the company is not dependent on one or a few major customers and no customer accounts for more than ten percent (10%) of the company's sales and receivables.

### 4. Market risk.

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

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

### 5. Liquidity risk.

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

The Company's financial liabilities as of March 31, 2013 that are exposed to liquidity risk are as follows:

Bank loans:			
	Maturing within one (1) year	₱	1,979,233,332
	Maturing over one (1) year		813,733,333
	Trade accounts payable		318,366,863
	Acceptances payable		217,107,922
	Income tax payable		47,366,428
	Agency payable/accrued expenses		<u>15,082,696</u>
		₱	<u><u>3,390,890,574</u></u>

The company manages this risk (a) by maintaining sufficient cash and cash equivalents with banks to fund the payments of currently maturing liabilities, (b) by securing credit lines from various reputable banks and (c) by maintaining good credit standing with banks and trade suppliers. The Company has Omnibus Credit Lines in the aggregate amount of about P 4.2 Billion on a clean basis from various commercial banks which provided for cash borrowings (Peso or Dollar), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no marginal deposit at opening). These credit lines are obtained and regularly renewed. Liquidity requirements and positions are monitored daily and monthly reports are reviewed by the management.

B. Euro-Med's financial instrument profile as of March 31, 2013 follows:

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

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

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

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

The Company has no complex securities particularly on derivatives.

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

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

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

4.1) On Trade receivables –

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

4.2) Bank loans (Notes payable and Acceptances payable)

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

4.3 Trade accounts payable

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

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

	As of March 31, 2013		As of Dec. 31, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>a) Financial assets</b>				
Cash	₱ 770	₱ 770	₱ 815	₱ 815
Trade & other receivables - net	1,443	1,443	1,485	1,485
Available for sale securities				
Quoted	144	144	144	144
Unquoted	<u>200</u>	<u>200</u>	<u>200</u>	<u>200</u>
<b>Total</b>	<b>₱ <u>2,557</u></b>	<b>₱ <u>2,557</u></b>	<b>₱ <u>2,644</u></b>	<b>₱ <u>2,644</u></b>
<b>b) Financial liabilities</b>				
Trade accounts payable	₱ 318	₱ 318	₱ 305	₱ 305
Notes payable – Current	1,979	1,979	1,890	1,890
Notes payable – Non-current	813	813	813	813
Acceptances payable	217	217	214	214
Other current liabilities	<u>15</u>	<u>15</u>	<u>39</u>	<u>39</u>
<b>Total</b>	<b>₱ <u>3,343</u></b>	<b>₱ <u>3,343</u></b>	<b>₱ <u>3,261</u></b>	<b>₱ <u>3,261</u></b>

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

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

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

1.) The Company's net sales decreased by 8% from P 701.0 million for the first quarter of 2012 to P644.0 million for the first quarter of 2013. The decrease in sales was attributed to the decrease in local sales of distributed products which decreased by 14.4% from P143.8 million in the first quarter of 2012 to P123.1 million in the first quarter of 2013. The decrease in local sales of distributed products was due to the end of some distribution agreements. Export sales decreased by 26.8% from P128.7 million for the first quarter of 2012 to P94.1 million for the first quarter of 2013. The increasea(decrease) in sales indicator was chosen by management as it discloses the level of performance the Company has attained against the forecast. The percentage change is computed by dividing the peso increase (decrease) in sales by the peso sales during the comparable period of previous year.

2.) Gross profit from sales decreased by 4% from P 261.3 million for the first quarter of 2012 to P 251.6 million for the first quarter of 2013. Cost of goods manufactured and sold decreased by 11% from P 439.7 million for the first quarter of 2012 to P 392.5 million for the first quarter of 2013. As a percentage of net sales, cost of goods manufactured and sold decreased from 62.7% for the first quarter of 2012 to 60.9% for the first quarter of 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 (decrease) in gross profit by the peso gross profit during the comparable period of previous year.

3.) Income from operations (income before finance income/cost and miscellaneous income) decreased by 20% from P81.2 million for the first quarter of 2012 to P64.9 million for the first quarter of 2013. Operating expenses (administration, selling and distribution) increased by 3.6% from P180.1 million for the first quarter of 2012 to P186.6 million for the first quarter of 2013. The increase was due to the increase in variable operating expenses, i.e. delivery expenses, transportation and traveling. Operating expenses as a percentage of the Company's net sales increased from 25.7% for the first quarter of 2012 to 29% for the first quarter of 2013. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on selling, distribution and administrative expenses. The percentage change in income from operations is calculated by dividing the peso increase (decrease) in operating income by the peso operating income during the comparable period of previous year. The percentage change in operating expenses is calculated by dividing the peso increase (decrease) in operating expenses by the peso operating expenses during the comparable period of previous year.

4.) Net Finance and miscellaneous income/cost decreased by 14% from P44.1 million for the first quarter of 2012 to P37.2 million for the first quarter of 2013. Changes in Net finance and miscellaneous income/cost indicator provides information on significant elements of income and other expenditures that did not arise from the Company's continuing operations. The percentage change is calculated by dividing the peso increase(decrease) in Net finance and miscellaneous income/cost by the net finance and miscellaneous income/cost during the comparable period of previous year.

5.) Provision for income tax decreased by 25% from P11.1 million for the first quarter of 2012 to P8.3 million for the first quarter of 2013. Net income decreased by 25% from P 25.9 million for the first quarter of 2012 to P19.4 million for the first quarter of 2013. Changes in net income are indicators of the adequacy of amount to satisfy stockholders' dividend and rate-of- return expectations. The percentage change in net income is calculated by dividing the peso increase/decrease in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 1% from P8.338 billion in 2012 to P8.449 billion in 2013. Current ratio are the same at 1.52:1 in 2012 and 1.52:1 in 2013, while Equity ratio decreased by 1% at 0.60:1 in 2012 to 0.59:1 in 2013.

The decrease in cash and cash equivalents was due to payments of trade accounts payable and income tax payable. The decrease in trade and other receivables was due to better collection effort during the quarter. The increase in inventories was due to finished goods stocking for the expected increase in sales during the second semester. The increase in other current assets was due to advances to subsidiaries. The increase in trade accounts payable was due to bank for maturing loans. The increase in notes payable was due to loan availments. The decrease in other current liabilities was due to the decrease in agency payable. The amount of income tax payable increased since the amount as of 31 December, 2012 represents the audited final and adjusted income tax payable as of the end of year 2012, while the amount as of 31 March 2013 includes the balance as of 31 December 2012 and the unaudited

estimated tax on income for the first quarter of 2013. The amount of tax payable as of 31 December 2012 was paid on April 2013. The increase in other non current liabilities was due to collection of advance rental, The increase in Retained Earnings was due to the net income for the first quarter of 2013.

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.

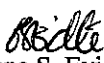
The expected net income for 2013 is about P200 million, which is about 4% to 5% of sales.

SIGNATURES

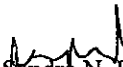
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

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

By:

  
Georgiana S. Evidente  
President

May 14, 2013

  
Sandra N. Pineda  
Chief Accountant

May 14, 2013

# EURO-MED LABORATORIES PHIL., INC.

## STATEMENTS OF FINANCIAL POSITION

		31 March	31 December
	Notes	2013	2012
		(Unaudited)	Audited
<b>ASSETS</b>			
<b>Current</b>			
Cash	5,6,35	P769,752,262	P815,176,519
Trade and other receivables, net	5,7,35	1,443,355,225	1,485,267,703
Inventories	5,8	1,176,355,247	1,052,000,817
Others	5,9,35	521,082,041	434,565,868
		<b>3,910,544,775</b>	<b>3,787,010,907</b>
<b>Non-current</b>			
Investment in subsidiary	4,10	600,000,000	600,000,000
Property, plant and equipment	5,11,15	2,764,736,929	2,776,481,783
Intangible Assets	5,12	225,040,993	225,086,056
Deferred tax assets	5,30	26,532,209	26,532,209
Other noncurrent assets	5,13	922,962,811	923,627,211
		<b>4,539,272,942</b>	<b>4,551,727,259</b>
<b>TOTAL ASSETS</b>		<b>P8,449,817,717</b>	<b>P8,338,738,166</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Trade accounts payable	14,35	318,366,863	304,967,654
Notes payable	15,35	1,979,233,332	1,890,433,332
Acceptances payable	16,35	217,107,922	213,864,708
Income tax payable	4,30	47,366,428	39,046,956
Others	17,35	15,082,696	38,977,140
		<b>2,577,157,241</b>	<b>2,487,289,790</b>
<b>Non-current</b>			
Notes payable -net of current portion	15,35	813,733,333	813,733,333
Retirement liability	5,29	51,647,619	51,647,619
Other noncurrent liabilities	18,35	4,500,000	2,700,000
		<b>869,880,952</b>	<b>868,080,952</b>
<b>Equity</b>			
Share Capital	19	4,112,140,540	4,112,140,540
Share premium		66,609,227	66,609,227
Retained Earnings	19	824,029,758	804,617,657
		<b>5,002,779,525</b>	<b>4,983,367,424</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P8,449,817,717</b>	<b>P8,338,738,166</b>

See accompanying Notes to Financial Statements

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

		<b>For The Quarter Ended March</b>	
		<b>2013</b>	<b>2012</b>
		<b>(Unaudited)</b>	<b>(Unaudited)</b>
	<b>Notes</b>		
<b>NET SALES</b>	21	<b>P644,049,189</b>	<b>P701,006,463</b>
<b>COST OF GOODS</b>			
<b>MANUFACTURED AND</b>			
<b>SOLD</b>	22	<b>392,480,700</b>	<b>439,700,393</b>
<b>GROSS PROFIT</b>		<b>251,568,489</b>	<b>261,306,070</b>
<b>OPERATING EXPENSES</b>			
Administrative and selling expenses	24	<b>(124,124,059)</b>	<b>(121,606,465)</b>
Distribution expenses	23	<b>(62,528,823)</b>	<b>(58,473,393)</b>
		<b>(186,652,882)</b>	<b>(180,079,858)</b>
<b>OPERATING INCOME</b>		<b>64,915,607</b>	<b>81,226,212</b>
<b>Other Income(Charges)</b>			
Finance income	25	<b>2,339,602</b>	<b>281,601</b>
Finance cost	26	<b>(38,068,505)</b>	<b>(44,271,460)</b>
Foreign exchange gain (loss)		<b>(1,951,845)</b>	<b>(354,137)</b>
Miscellaneous income	27	<b>496,711</b>	<b>258,738</b>
		<b>(37,184,037)</b>	<b>(44,085,258)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>27,731,570</b>	<b>37,140,954</b>
<b>PROVISION FOR INCOME TAX</b>	30	<b>8,319,471</b>	<b>11,142,286</b>
<b>NET INCOME</b>		<b>P19,412,099</b>	<b>P25,998,668</b>
<b>OTHER COMPREHENSIVE INCOME</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P19,412,099</b>	<b>P25,998,668</b>
<b>EARNINGS PER SHARE</b>			
Basic and Diluted	33	<b>P0.01</b>	<b>P0.01</b>

*See accompanying Notes to Financial Statements*

# EURO-MED LABORATORIES PHIL., INC.

## STATEMENTS OF CHANGES IN EQUITY

	Share capital (Notes 19)	Share premium reserve	Retained earnings (Notes 19)	March 31, 2013
Balances, 31 December 2012	P 4,112,140,540	P66,609,227	P804,617,659	P4,983,367,426
Net income – for the period Jan.-Mar. 2013			19,412,099	19,412,099
As at March 31, 2013	P 4,112,140,540	66,609,227	824,029,758	P 5,002,779,525
	Share capital (Notes 19)	Share premium reserve	Retained earnings (Notes 19)	March 31, 2012
Balances, 31 December 2011	P 3,843,122,000	P66,609,227	P307,968,181	P4,217,699,408
Net income – for the period Jan.-Mar. 2012			25,998,668	25,998,668
As at March 31, 2012	P 3,843,122,000	66,609,227	333,966,849	P 4,243,698,076

See accompanying Notes to Financial Statements

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

		For The Quarter Ended March	
	Notes	2013	2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P 27,731,570	P 37,140,954
Adjustments for:			
Depreciation and amortization	11	45,258,455	45,166,758
Finance Cost	26	38,068,505	44,271,460
Foreign exchange loss		1,951,845	354,137
Finance Income	25, 27	(2,836,313)	(540,339)
Operating income before working capital changes		110,174,062	126,392,970
Changes in assets and liabilities:			
(Increase) Decrease in:			
Trade and other receivables	7	41,912,478	70,778,448
Inventories	8	(124,354,430)	(59,522,460)
Other current assets	9	(86,516,173)	(57,581,896)
Increase (decrease) in:			
Trade accounts payable	14	13,399,209	(83,383,431)
Acceptances payable	16	3,243,214	16,258,682
Other current liabilities	17	(23,894,444)	(37,368,118)
Cash generated from operations		(66,036,084)	(24,425,805)
Interest paid	26	(38,068,505)	(44,271,460)
Income tax paid	30	(526,333)	(95,400)
Interest received	25	2,339,602	281,601
Net cash provided by operating activities		(102,291,320)	(68,511,064)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of:			
Investment in subsidiaries	10	-	(208,500,000)
Property, plant and equipment	11	(33,113,601)	(4,321,004)
Intangible assets	12	45,063	39,003
Other non-current assets	13	(664,400)	(10,456,874)
Net cash used IN investing activities		(33,732,938)	(223,238,875)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Net proceeds from availments of loan	15	88,800,000	1,062,499
Increase (decrease) in other non-current liabilities	18	1,800,000	(1,800,000)
Net cash provided by financing activities		90,600,000	(737,501)
<b>NET INCREASE IN CASH</b>		(45,424,258)	(292,487,441)
<b>CASH, BEGINNING OF YEAR</b>		815,176,519	810,825,782
<b>CASH END OF THE PERIOD</b>	6	P 769,752,262	P 518,338,342

See accompanying Notes to Financial Statements

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## EURO-MED LABORATORIES PHIL., INC.

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### NOTES TO FINANCIAL STATEMENTS

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#### 1. Reporting Entity

##### Corporate Information

Euro-Med Laboratories Phil., Inc. (Euro-Med/the Company) 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. The Company is currently the largest manufacturer of high quality intravenous fluids in the Philippines. Euro-Med is the parent company of the following two (2) subsidiaries:

- Hemotek Renal Center, Inc. (Hemotek /the Subsidiary), a 100% owned firm which was incorporated in June 2008 and is engaged as a dialysis center.
- 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, 2012 and was renewed for another one (1) year period ending on June 30, 2013.

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.

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

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

#### 2. Basis of Preparation

##### Basis of Measurement

The financial statements of the company have been prepared under the historical cost convention method except for defined benefit liability which is measured as the net total of the fair value of the plan assets, less unrecognized actuarial (losses) gains and the present value of the defined benefit

obligation. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

#### Statement of Compliance

The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (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.

#### Functional and Presentation Currency

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

### **3. Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the effects of the adoption of the following PAS, Improvements to PAS and Philippine Interpretation that are mandatory for the first time for the financial year beginning January 1, 2011, except as otherwise stated. Adoption of these standards did not have any significant impact on the accounting policies, financial position or performance of the Company.

- Revised PAS 24, *Related Party Disclosures*, (effective for annual periods beginning on or after January 1, 2011). Amends the definition of a related party and modifies certain related party disclosure requirements for government-related entities. The adoption of this revised standard did not have a material effect on the financial statements.
- Prepayments of a Minimum Funding Requirement (Amendments to Philippine Interpretation IFRIC 14: PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction, effective for annual periods beginning on or after January 1, 2011). These amendments remove unintended consequences arising from the treatment of prepayments where there is a minimum funding requirement and result in prepayments of contributions in certain circumstances being recognized as an asset rather than an expense. The adoption of these amendments did not have a material effect on the financial statements.
- PAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statement.
- PFRS 7, Financial Instruments: Disclosures (effective for annual periods beginning on or after January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures and the nature and extent of risks associated with financial instruments.

Amendments to quantitative and credit risk disclosures are as follow:

- a) Clarify that only a financial asset whose carrying amount does not reflect the maximum exposure to credit risk needs to provide further disclosure of the amount that represents the maximum exposure to such risk;
- b) Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);
- c) Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;

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- d) Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and
  - e) Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

Additional disclosures required by the revised standards, amendments to standards and interpretations were included in the financial statements, where applicable.

New or Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these financial statements as none of these are expected to have a significant effect on the financial statements of the Company:

The Company will adopt the following new or revised standards, amendments to standards and interpretations in the respective effective dates:

- PFRS 9, Financial Instrument: Recognition and Measurement ( effective for annual periods beginning on or after January 1, 2015). Pursuant to SEC Circular No. 3 series of 2012 and SEC Circular No. 3 series of 2011 concerning the transition from PAS 39 to PFRS 9, the Company had conducted in early 2012 an impact evaluation using the outstanding balances of the audited financial data as of December 31, 2011, and has decided not to early adopt the said PFRS 9 (2010) in our 2012 financial reporting. The PFRS has no significant effect on the financial statements as the Company, being primarily engaged in a manufacturing business have few financial instruments i.e. accounts receivable, accounts payable and notes payable, as distinguished from a financial institution whose assets and liabilities are mostly financial instruments. Likewise, the Company has no complex securities particularly on derivatives.
- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments Disclosures, effective for annual periods beginning on or after July 1, 2012)*. Requires additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.
- *PAS 12, Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012)*. The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying value amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets are measured using revaluation model in PAS 16 always be measured on a sale basis of the asset.
- *PAS 1, Presentation of Financial Statements - Presentation of Items in Other Comprehensive Income (effective for annual periods beginning on or after January 1, 2012)*. The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no other impact on the Company's financial position and performance.
- *PFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013)*. PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its

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involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008).

- PFRS 11, *Joint Arrangements (effective for annual periods beginning on or after January 1, 2013)*. PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*.
- PFRS 12, *Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1, 2013)*. PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.
- PFRS 13, *Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013)*. PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.
- PAS 19, *Employee Benefits (effective for annual periods beginning on or after January 1, 2013)*. The amended PAS 19 includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under calculated based on the rate used to discount the defined benefit obligation.
- PAS 28, *Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013)*. PAS 28 (2011) supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.
- PFRS 9, *Financial Instruments (effective for annual periods beginning on or after January 1, 2013)*. PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, Reassessment of Embedded Derivatives.

- The new standard represents the completion of the first part of a three-part project of the FRSC to replace PAS 39 with a new standard – PFRS 9, *Financial Instruments*. The second part of the project will address proposals on the impairment methodology for financial assets and the third part, on hedge accounting.

Pursuant to SEC Circular No. 3 series of 2011 concerning PFRS9 (2009) and PFRS (2010), the Company had conducted in early 2012 another impact evaluation using the outstanding balances of financial statements as of 31 December 2011, and has decided not to early adopt the said PFRS in our 2012 financial reporting.

#### 4. Summary of Significant Accounting Policies

##### Financial Assets and Financial Liabilities

###### *Date of recognition*

The Company recognizes a financial asset or financial liability in the 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 Company classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available for sale (AFS) financial assets, and loans and receivables. The Company classifies its financial liabilities as 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 reporting date.

###### *Determination of fair value*

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

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

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

The Company 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 eliminates or significantly reduces an accounting mismatch which would otherwise arise; or
- The asset or liability contains an embedded derivative that significantly modifies the cash flows that would otherwise be required under the contract.

As of March 31, 2013 and 2012, the Company has no financial assets or financial liabilities at FVPL.

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*HTM investments*

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

investment income in the statement of 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 statement of comprehensive income.

As of March 31, 2013 and 2012, the Company has no investments accounted for under this category.

*Loans and receivables*

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

As of March 31, 2013 and 2012, the Company'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 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.

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

*Other financial liabilities*

Other financial liabilities are initially recorded at fair value, less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any issue costs, and any discount or premium on settlement. Gains and losses are recognized in the statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Included in this category are the Company's liabilities arising from its trade or borrowings such as acceptances payable, trade accounts payable and note payable.

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

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

#### *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 statements of comprehensive income.

#### Impairment of Financial Assets

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

#### *Assets carried at amortized cost*

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

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the 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 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 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 statement of comprehensive income – is removed from the equity and recognized in the statement of comprehensive income. Impairment losses on equity investments are not reversed through the 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 recorded as part of “Investment income” in the 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 statement of comprehensive income, the impairment loss is reversed through the statement of comprehensive income.

#### 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 Company; 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 Company 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 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.

#### 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 Company considers any adjustments necessary for obsolescence.

NRV for raw materials is the current replacement cost.

Investment in Subsidiaries

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

Investments in shares of stock of the following subsidiaries are accounted for under the cost method. Under cost method, investment is carried at cost less impairment losses, if any.

	Beneficial Ownership Interest
102 E. Delos Santos Realty Co., Inc. ( See note 10)	100%
Hemotek Renal Center, Inc.	100%
CafeFrance Corp	100%

The Company recognizes income from investment only to the extent that the Company receives distribution from accumulated profits of the subsidiaries arising after the date of acquisition. Distribution received in excess of such profits is regarded as recovery of investments and are recognized as a reduction of the cost of investment.

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 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 other intangible asset:

Patent/Rights	20 years
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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 Company 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 Company.

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 investment in subsidiaries, 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.

#### Revenue

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

#### Costs and Expenses

Cost and expenses are recognized in the 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 and administrative expenses constitute costs of administering the business. Selling and general and administrative expenses are expensed as incurred.

#### Employee Benefits

##### *Short-term employee benefits*

Wages, salaries, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and childcare services) are recognized as employee benefit expense and accrued when the associated services are rendered by the employee of the Company. Other employee benefits include Social Security System, Philhealth and other contributions.

Post-employment benefits

The Company is covered by a non-contributory defined benefit plan.

The retirement cost of the Company is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period

The liability recognized in the statement of financial position in respect of the defined benefit pension plans is the present value of the defined benefit obligation at the financial position date date minus the fair value of plan assets, together with adjustments for actuarial gains/losses and past service costs. The defined benefit obligation is calculated periodically by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of debt securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity which approximate the terms of the related retirement liability. Gains or losses on the curtailment or settlement of retirement benefit are recognized when the curtailment or settlement occurs. Actuarial gains and losses arising

from experience adjustments and changes in actuarial assumptions are credited to or charged against income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working lives of the employees participating in the plan.

Past service cost, if any, are recognized immediately in the statement of comprehensive income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service cost are amortized on a straight-line basis over the vesting period.

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;
- d.) or 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).

*Company 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 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.

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*Company as a lessor*

Leases where the Company 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 and Translations

Transactions denominated in foreign currencies are recorded using the applicable exchange rate at the date of the transaction. Outstanding monetary assets and monetary liabilities denominated in foreign currencies are retranslated using the applicable rate of exchange at the end of reporting period. Foreign exchange gains or losses are recognized in the statement of comprehensive income.

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.

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.

Taxes

*Current income tax*

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

*Deferred income tax*

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

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 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 and Contingencies

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

Where the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a borrowing cost.

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

A contingent asset is not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

#### Share Capital

##### 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.

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#### 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.

#### Earnings Per Share (EPS)

Basic EPS is computed by dividing net income for the year attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year, excluding capital stock purchased by the Company 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 the net income for the year attributable to ordinary equity holders of the Company (after deducting interest on convertible preferred shares) by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary

The Company does not have diluted potential common shares as of March 31, 2013 and 2012.

#### Dividend Distributions

Cash dividends on common shares are recognized as a liability and deducted from equity when approved by the respective BOD of the Company. 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.

#### 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.

#### Events after the End of Reporting Period

Events after the end of reporting period that provides additional information about the Company'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.

#### Business Segment Information

The Company's properties which are all located in the Philippines is primarily used in manufacturing pharmaceutical products whether for domestic and export sales that constitute the Company's reportable segments, which is consistent with how the Company's management internally disaggregate financial information for the purpose of making internal operating decisions and evaluating performance. The Company has a customer base composed of more than 8,000 institutions nationwide. The company's sales are not dependent on one or a few major customers and no customer accounts for more than ten (10) percent of the Company's sales. Details of the Company's domestic and export sales are shown in Note 21.

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

#### Interim Financial data

The interim financial data as of March 31, 2013 and 2012 are unaudited, however the interim data include all adjustments consisting only of normal recurring adjustments necessary for a fair statements of the results for the interim period.

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

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

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

### Judgments

In the process of applying the Company'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 financial statements:

#### *Classification of financial instruments*

The Company exercises judgment in classifying financial instruments in accordance with PAS 39. The Company 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 Company's statements of financial position.

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

The Company has lease agreements in respect of its depots and office. The Company evaluates whether significant risks and rewards of ownership of the leased properties retained by the lessor (operating lease). The Company 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 31).

Total lease expense arising from operating leases amounted to P25.2 million and P21.8 million, 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 Company'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 Company's inventories carried at cost as of March 31, 2013 and 2012 amounted to P 1,176.3 million and P1,052. million, respectively (see Note 8).

#### *Impairment of loans and receivables*

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

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

The related balances follow (see Note 7):

	March 31, 2013	2012
Receivables	P 1,477,561,837	P 1,523,258,536
Allowance for impairment losses	36,793,078	36,793,078

*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 Company evaluates the financial health of the issuer, among others. In the case of AFS equity instruments, the Company 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 Company'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 of March 31, 2013 and 2012, the carrying value of the Company's AFS financial assets amounted to P.3 million (see Note 13).

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

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

The related balances follow (see Note 11):

	March 31, 2013	2012
Cost	P 5,235,784,849	P 5,202,671,248
Accumulated depreciation and amortization	2,090,097,931	2,045,239,476
Depreciation and amortization	44,858,455	179,937,032
Impairment loss	380,949,989	380,949,989

*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 Company.

*Impairment of trademarks and licenses with indefinite lives*

The Company 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 of March 31, 2013 and December 31, 2012 (see Note 12).

#### *Asset Impairment*

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

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

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell 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 Company is required to make estimates and assumptions that can materially affect the financial statements.

No indications of impairment were noted on the Company's non-financial assets as of March 31, 2013.

#### *Recognition of deferred income tax assets*

The Company 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 Company'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 Company's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Company 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 statement of financial position amounted to P26.5 million as of March 31, 2013 and December 31, 2012. (see Note 30).

#### *Estimation of retirement benefits cost and liability*

The Company's retirement benefits cost and liability is actuarially computed. This entails using certain assumptions with respect to future annual increase in salary, expected annual rate of return on plan assets and discount rate per annum.

Net retirement plan assets as of March 31, 2013 and December 31, 2012 amounted to Net retirement benefits liabilities amounted to P51.6 million, respectively. Retirement benefits costs in 2012 and 2011 amounted to P51.6 million and P38.8 million, respectively (see Note 29).

#### *Provision and contingencies*

The Company is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the

defense on these matters and is based upon an analysis of potential results. The Company currently does not believe these proceedings will have a material effect on the Company'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 of March 31, 2013 and 2012 (see Note 32).

## 6. Cash

This account consists of:

	March 31, 2013	2012
Cash on hand and revolving funds	P 2,725,666	P 2,685,666
Cash in banks	767,026,596	812,490,853
	<b>P 769,752,262</b>	<b>P 815,176,519</b>

Cash in banks earns interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to P2,339,602 and P281,601 respectively. As of March 31, 2013 and 2012, cash in bank includes foreign currency-denominated deposits amounting to \$ 14.7 million and \$14.9 million, respectively (see Note 34).

## 7. Trade and Other Receivables

This account consists of:

	March 31, 2013	2012
Trade	P 1,477,561,837	P 1,523,258,536
Non-trade	2,586,466	2,483,592
	<b>1,480,148,303</b>	<b>1,525,742,128</b>
Less allowance for impairment losses	36,793,078	36,793,078
	<b>P 1,443,355,225</b>	<b>P 1,488,949,050</b>

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

Other receivable pertain to other non-trade receivable.

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account. Allowance for impairment losses relates to trade receivables. No allowance was provided on other receivables.

The movement in the allowance for impairment losses follows:

	March 31, 2013	2012
Balance, January 1	P 36,793,078	P 34,386,054
Provision for the period	-	2,407,024
	<b>P 36,793,078</b>	<b>P 36,793,078</b>

## 8. Inventories

The account consists of:

	March 31, 2013	2012
Raw materials	P 221,502,616	P 195,566,482
Finished goods	954,852,631	856,434,335
	<b>P 1,176,355,247</b>	<b>P 1,052,000,817</b>

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:

	March 31, 2013	2012
Raw materials	P 370,539,302	P 315,799,957
Finished goods	1,173,999,137	1,080,424,853
	<b>P 1,544,538,439</b>	<b>P 1,396,224,810</b>

#### 9. Other Current Assets

This account consists of:

	March 31, 2013	2012
Advances and deposits	P 42,946,615	P 39,502,245
Advances to related party	322,404,104	247,269,419
Prepaid marketing development	65,479,796	66,234,251
Bidders and performance bonds	42,713,219	39,608,089
Input tax (unamortized portion)	11,018,175	8,811,645
Creditable withholding VAT and tax	12,703,137	11,075,405
Advances to officers and employees	23,816,995	22,067,814
	<b>P 521,082,041</b>	<b>P 434,568,867</b>

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

*Advances to related party* refer to advances made by the Company to its wholly owned subsidiaries, Hemotek Renal Center, Inc. and CafeFrance Corp.

*Prepaid marketing development* refers to the amount stipulated in the Company's sales contracts, which are to be amortized 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.

*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.

*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 company 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.

#### 10. Investment in Subsidiaries

The details of investment in subsidiaries are as follows:

	March 31, 2013	2012
Acquisition costs:		
Balance at beginning of year	P 600,000,000	P 682,356,940
Additional investments	-	168,094,275
Disposal	-	(250,451,215)
	<b>P 600,000,000</b>	<b>P 600,000,000</b>

The individual balances of investment in subsidiaries follow:

	March 31, 2013	2012
102 E. Delos Santos Realty Co., Inc.(102 EDSA)	-	-
Hemotek Renal Center, Inc. ( Hemotek)	250,000,000	250,000,000
Café France Corp. ( CafeFrance)	350,000,000	350,000,000
	<b>P 600,000,000</b>	<b>P 600,000,000</b>

On May 9, 2012, the Company 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.

102 EDSA also owns a land consisting of about 10,936 square meters located at 102 E. De Los Santos Avenue, Mandaluyong City on which the Company's Mandaluyong plant is located.

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.

Net capital gains from sale of Investment in shares of stocks in 102 EDSA amounting to P 472.7 million is the excess of the total selling price over its cost, the related taxes, the related selling expenses, and the recognition of impairment loss on the related property to be demolished.

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.

At a separate meetings held on March 6, 2012, the Board of Directors, by a majority vote, and stockholders representing at least two-thirds (2/3) of the outstanding capital, approved the increase in the authorized capital stock of 102 E. De Los Santos Realty Co., Inc. from One million five hundred thousand pesos (P1,500,000) to two hundred twenty million pesos (P220,000,000). Out of the increase, at least twenty five percent (25%) thereof has been subscribed and the amount of two hundred eight million five hundred thousand pesos (P208,500,000) has been received by the corporation by way of fresh infusion of cash in full payment of said subscription. The increase in capital was approved by Securities and Exchange Commission ( SEC) on April 11, 2012.

At a meeting held on July 12, 2011, the Board of Directors by majority vote, and the stockholders by affirmative vote of at least two-thirds(2/3) of the outstanding capital stock, approved the increase in capital stock of CafeFrance Corp. from Five hundred million pesos (P500,000,000) to One billion pesos (P1,000,000,000). Out of the increase, Two hundred million pesos (200,000,000) have been subscribed and the amount has been fully paid by way of conversion of its advances into equity. The increase in capital stock was approved by Securities and Exchange Commission ( SEC) on December 19, 2011.

## 11. Property, Plant and Equipment

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

	Land and land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
<b>Cost:</b>					
January 1, 2013	P40,540,718	P456,113,131	P4,680,621,006	P25,396,393	P5,202,671,248
Additions		714,286	32,799,315		33,513,601
Disposals	-	-	-	(400,000)	(400,000)
March 31, 2013	40,540,718	456,827,417	4,713,420,321	24,996,393	5,235,784,849
<b>Accumulated Depreciation/Impairment Loss</b>					
January 1, 2013	15,036,934	182,670,256	1,835,047,777	12,484,509	2,045,239,476
Additions	198,008	3,450,300	41,423,449	(213,301)	44,858,455
Impairment Loss	-	62,924,584	318,025,405	-	380,949,989
March 31, 2013	15,234,942	123,195,972	1,558,445,821	12,271,208	2,471,047,920
<b>Net Book Value</b>					
March 31, 2013	P25,305,777	P333,631,445	P3,154,974,500	P12,725,185	P2,764,736,929

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

	Land and land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
<b>Cost:</b>					
January 1, 2012	P40,540,718	P428,332,373	P4,637,023,033	P25,396,393	P5,131,292,517
Additions		27,780,758	43,597,973	-	71,378,731
<b>December 31, 2012</b>	<b>40,540,718</b>	<b>456,113,131</b>	<b>4,680,621,006</b>	<b>25,396,393</b>	<b>5,202,671,248</b>
<b>Accumulated Depreciation:</b>					
January 1, 2012	14,244,904	168,895,082	1,670,424,744	11,737,714	1,865,302,443
Additions	792,030	13,775,174	164,623,033	746,795	179,937,033
Impairment loss		62,924,584	318,025,405		380,949,989
<b>December 31, 2012</b>	<b>15,036,934</b>	<b>245,594,840</b>	<b>2,153,073,182</b>	<b>12,484,509</b>	<b>2,426,189,465</b>
<b>Net Book Value</b>					
<b>December 31, 2012</b>	<b>P25,503,784</b>	<b>P210,518,291</b>	<b>P2,527,547,824</b>	<b>P12,911,884</b>	<b>P2,776,481,783</b>

In 2012, the impairment loss of P380.9 million represented the writedown of certain property, plant and equipment. The impairment loss is computed as the excess of the property's carrying value over its recoverable amount. The said impairment loss is recognized in the statement of comprehensive income under the line item "Net Capital Gains from Sale of Investment" from the sale of all shares of stocks in 102 E. Delos Santos Realty Co., Inc. (102 EDSA). 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 company's Mandaluyong Plant which are to be demolished at the end of the thirty-sixth (36<sup>th</sup>) 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 (see note 10).

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

**Gross Margins** - 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** – The Company uses the weighted-average cost of capital as the discount rate, 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.

Depreciation and amortization expense charged to operations amounted to P 45.3 million and P179.9 million for the period ended March 31, 2013 and 2012, respectively, broken down as follows:

	March 31, 2013	2012
Charged to:		
Cost of goods manufactured and sold	P 42,699,817	P 169,997,649
Administrative and selling expenses	1,407,462	5,403,000
Distribution expenses	1,151,176	4,536,383
	<b>P 45,258,455</b>	<b>P 179,937,032</b>

The Company has pledged certain real estate and machineries having a carrying amount of approximately P2.02 billion to secure banking facilities granted to the Company (see Note 15).

The costs of fully depreciated property and equipment that are still being used in the operations amounted to P66.5 million as of March 31, 2013 and December 31, 2012.

## 12. Intangible Assets

This account consists of:

	March 31, 2013	2012
Trademarks and licenses	P 223,399,836	P 223,399,836
Patents and rights	1,641,157	1,686,220
	<b>P 225,040,993</b>	<b>P 225,086,056</b>

*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 for the period March 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	(45,063)	(180,254)
	<b>P 1,641,157</b>	<b>P 1,686,220</b>

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 for the total purchase price of Two Hundred Twenty Three Million Three Hundred Ninety-Nine Thousand Eight Hundred Thirty-Six Pesos (P223,399,836).

## 13. Other Noncurrent Assets

This account consists of:

	March 31, 2013	2012
Prepaid marketing and development expense	P 261,919,185	P 264,937,002
Advances and deposits, housing and car loans (realizable beyond the next 12-month period)	35,699,625	33,346,209
Available for sale financial assets	344,000	344,000
Other receivable	625,000,000	625,000,000
	<b>P 922,962,811</b>	<b>P 923,627,211</b>

*Prepaid marketing development expenses* refer to the amount stipulated in the Company's sales contracts which are to be amortized for more than twelve months. The amount presented is net of current portion reported under other current assets.

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

*Available-for-sale financial assets* are the Company's investment in Philippine Long Distance Cotporation (PLDT) shares and Casino Español de Manila. As of March 31, 2013, the fair value of the said investments equals its year-end book value.

*Other receivable* refers to the receivable from the sale of investment in shares of stocks in 102 EDSA (see note 10).

The account consists of:

	March 31, 2013	2012
PLDT	P 144,000	P 144,000
Casino Espanol de Manila	200,000	200,000
	<b>P 344,000</b>	<b>P 344,000</b>

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

*Other receivable* refers to the receivable from the sale of investment in shares of stocks in 102 EDSA (see note 10).

#### 14. Trade Accounts Payables

Trade accounts payable mainly includes unpaid billings from the Company's suppliers of raw materials, distributed products and other services. These are normally settled within one (1) year. As of financial position date, the balances amount to P318.4 million and P304.9 million for 2013 and 2012, respectively.

#### 15. Notes Payable

This account consists of:

	March 31, 2013	2012
Current	P 1,979,233,332	P 1,890,433,332
Noncurrent	813,733,333	813,733,333
	P 2,792,966,665	P 2,704,166,665

*Current portion of notes payable* represents the Company's net availments from the Omnibus Credit lines granted by various local banks in the aggregate principal amount of P1,448,637,500 and P1,888,750,000 in 2013 and 2012 respectively. The proceeds of the loans were used for working capital and investment to company subsidiaries. Credit lines are available in peso or dollar availments of up to 360 days term. Interest is payable / renewable monthly or every 60 to 90 days in arrears at prevailing bank loan rate. Also included in this account is the current maturing portion of long-term loan amounting to P228.7 million in 2013 and P298.2 million in December 2012.

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

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

	March 31, 2013	2012
Long-term loans	P 1,042,433,333	P 1,111,966,666
Current portion of long-term loans	228,700,000	298,233,333
	P 813,733,333	P 813,733,333

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

The Company has Omnibus Credit lines in the aggregate amount of about P4.2 billion on a clean basis from various commercial banks. These credit lines provide for cash borrowings (Peso or Dollars), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no marginal deposit at opening). Availments are for a period of 180 to 360 days, with interest payable/reviewable monthly or every 60 to 90 days in arrears at prevailing bank loan rates.

The details of property, plant and equipment pledged as security to liabilities based on fair market value as at financial position date follows:

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.

## 16. Acceptances Payable

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

Credit lines provide for (a) no margin 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 of financial position date, the balance amount to P217.1 million and P213.8 million for 2013 and 2012, respectively.

## 17. Other Current Liabilities

This account consists of:

	March 31, 2013	2012
Accrued expenses	P 2,339,508	P 28,670,740
Agency payable	12,743,188	10,306,401
	<b>P 15,082,696</b>	<b>P 38,977,140</b>

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

Agency payable account consists of:

	March 31, 2013	2012
SSS/Pag-big/Philhealth premiums and loans	P 2,147,968	P 2,355,742
BIR withholding taxes and VAT payable	10,595,220	7,950,659
	<b>P 12,743,188</b>	<b>P 10,306,401</b>

## 18. Other Non Current Liabilities

This represents advance rental and refundable deposits amounting to P4,500,000 for 2013, and P 2,700,000 for 2012.

## 19. Equity

### Capital stock

Authorized and issued capital stock of the Company as of March 31, 2013 and 2012 are as follows:

	March 31, 2013	2012
Authorized capital stock, common with P1 par value		
Number of shares	5,000,000,000	5,000,000,000
Amount	P 5,000,000,000	P 5,000,000,000
Issued capital stock, common with P1 par value		
Number of shares	4,112,140,540	4,112,140,540
Amount	P 4,112,140,540	P 4,112,140,540

### Retained Earnings and Dividends

In a meeting held on June 11, 2012, the Board of Directors 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 Board of Directors unanimously approved the declaration of a Two Hundred Sixty-Nine Million Eighteen Thousand Five Hundred Forty Pesos (P269,018,540) stock dividend to be taken from the unrestricted retained earnings of the Corporation 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 corporation 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.

In a special meeting held on May 14, 2010, the Board of Directors unanimously approved the declaration of a Three Hundred Million Pesos (P300,000,000) stock dividend to be taken from the unrestricted retained earnings of the Corporation as of December 31, 2009 subject to the approval of shareholders at the annual shareholders' meeting to be held on July 21, 2010. The Board further approved to increase the authorized capital stock of the Corporation from Three Billion Eight Hundred Million Pesos (P3,800,000,000) to Five Billion Pesos (P 5,000,000,000) and to apply the stock dividend in support of the increase. In furtherance thereof, the Board also approved the issuance of Three Hundred Million (300,000,000) shares with a par value of one peso (P1.00) per share from its authorized and unissued capital stock. The application for the increase in the authorized share capital was approved by the Securities and Exchange Commission on September 29, 2010.

The stock dividend of three hundred million (300,000,000) shares is equivalent to 8.46710895% based on the issued and outstanding capital stock of the corporation of Three Billion Five Hundred Forty Three Million One Hundred Twenty Two Thousand (3,543,122,000) 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 July 21, 2010.
- The Securities and Exchange Commission (SEC) on September 29, 2010.
- The Philippine Stock Exchange, Inc., (PSE) on September 29, 2010 and was listed on that same date.

### **20. Related Party Transactions**

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 can be an individual or corporate entity. Key management personnel and post employment retirement plan are considered related parties.

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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. In renewal, the Management considers the lease rates charged to the other tenants in the building and in the vicinity. The rent for the period January to March 2013 and 2012 are the same amounting to P 4.9 million. No outstanding payable as of March 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, 2012 was renewed for a one (1) year period until June 30, 2013. 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 March 2013 and 2012 is the same amounting to P3.4 million. There are no outstanding payables as of March 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 prices submitted/quoted by various suppliers. Purchases for the period January to March, 2013 and 2012 amounted to P2.5 million and P 6.3 million respectively. No outstanding payable as of March 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 P41,329,154 million in 2013 and P36,194,469 in 2012 and to its 100% subsidiary CafeFrance Corp. amounting to P 281,074,949 in 2013 and P211,074,949 in 2012. Sales to Hemotek RenalCenter, Inc. amounted to P12.6 million for the period Jan.-March 2013 and P8.8 million for the period Jan.-March 2012, and accounts receivable of P108.7 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 March 31, 2013 and 2012 amounted to P12.4 million and P 15.9 million respectively.
- 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 March 2013 and 2012 amounted to P4.5 million and P 8.9 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 March 31, 2013 and 2012 amounted to P 0.1 million and P 4.04 million respectively. There are no ongoing contractual or other commitments as a result of the arrangement.
- h) The Company has no material transactions (that may not be available from others) with other parties falling outside the definition of "related parties".

Compensation of Key Management Personnel

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

	2012	2011
Short-term employee benefits	P 18,689,020	P 14,410,480
Post-employment benefits	5,113,473	7,201,030
	<b>P 23,802,493</b>	<b>P 21,611,510</b>

There are no agreements between the Company 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 Company's retirement plans.

## 21. Net Sales

This account consist of:

	March 31, 2013	March 31, 2012
Local sales	P 549,902,801	P 572,301,129
Export sales		
ASEAN	67,827,818	80,067,529
Other Asian countries	3,127,905	7,075,434
Africa	10,539,684	24,325,759
Others	12,648,866	17,236,612
	<b>94,144,272</b>	<b>128,705,334</b>
	<b>P 644,047,073</b>	<b>P 701,006,463</b>

The amount above is net of sales returns and sales discounts for prompt payments and volume discounts which the company is extending to customers in its ordinary course of business amounting to P10.6 million and P 6.3 million in 2013 and 2012, respectively.

## 22. Cost of Goods Manufactured and Sold

This account consists of:

	March 31, 2013	March 31, 2012
Raw materials used	176,212,063	P 196,883,295
Direct labor	25,558,364	25,305,014
Manufacturing overhead	179,246,407	185,487,500
Cost of goods manufactured	<b>381,016,834</b>	<b>407,675,809</b>
Finished goods		
Beginning of year	856,434,337	619,063,506
Purchases	109,882,160	99,430,615
End of the period	(954,852,630)	(686,469,536)
	<b>P 392,480,700</b>	<b>P 439,700,394</b>

The details of raw materials used are as follow:

	March 31, 2013	March 31, 2012
Beginning inventory	195,566,481	209,958,295
Purchases	202,148,198	217,733,896
Raw materials available for use	397,714,679	427,692,191
Ending inventory	(221,502,616)	(230,808,896)
Raw materials available for use	<u>176,212,063</u>	<u>196,883,295</u>

### 23. Distribution Expenses

This account consists of:

	March 31, 2013	March 31, 2012
Delivery expense	P 43,367,906	P 39,274,438
Salaries and wages	4,363,004	5,430,121
Rentals	6,583,292	5,530,108
Taxes and licenses	2,939,849	3,118,569
Depreciation	1,151,176	1,134,096
Office/warehouse supplies	394,644	600,592
Light and water	758,993	898,752
Repairs and maintenance	543,940	415,768
Insurance	376,809	368,754
Postage and telephone	379,257	348,826
SSS/Medical/ECC/HDMF	260,787	273,273
Transportation and travelling	392,925	325,032
Representation and entertainment	45,266	119,783
Miscellaneous	970,975	635,280
	<u>P 62,528,823</u>	<u>P 58,473,392</u>

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

### 24. Administrative and Selling Expenses

This account consists of:

	March 31, 2013	March 31, 2012
Salaries and commissions	P 35,838,560	P 34,332,305
Marketing and development expense	43,680,976	39,690,664
Transportation and travelling	14,168,334	11,572,557
Rentals	4,955,610	4,955,610
Representation and entertainment	4,560,160	5,194,987
Professional fees	3,032,720	3,977,864
Taxes and licenses	2,874,543	2,499,330
Gas and oil	2,027,752	2,160,938
Light and water	1,660,614	1,670,710
Contractual services	915,490	1,254,361
SSS/Medical/ECC/HDMF	1,381,955	1,370,476
Postage and telephone	1,125,550	1,373,595
Depreciation	1,407,462	1,533,250
Office supplies	1,060,784	764,720
Training and seminars	3,449,520	3,902,583
Insurance	373,851	956,342
Repairs and maintenance	635,252	383,422
Subscriptions and dues	740,185	19,600
Amortization	45,064	45,064
Donations/charitable contribution	0	200,000
Miscellaneous	189,678	3,748,088
	<b>P 124,124,059</b>	<b>P 121,606,466</b>

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:

	March 31, 2013	March 31, 2012
Interest	P 2,339,602	P 281,601
Dividend	-	-
	<b>P 2,339,602</b>	<b>P 281,601</b>

## 26. Finance Cost

This account consists of interests on loans as follows:

	March 31, 2013	March 31, 2012
Short-term loans	P 32,413,105	P 37,694,558
Long-term loans	5,655,400	6,576,902
	<b>P 38,068,505</b>	<b>P 44,271,460</b>

No amounts of interest were capitalized for each of the period covered.

### 27. Miscellaneous Income

This account consists of:

	March 31, 2013	Mar 31, 2012
Interest on car/housing loans	P 459,030	P 254,887
Others	37,682	3,851
	<b>P 496,711</b>	<b>P 258,738</b>

### 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 P3.7 million and P 4.8 million for the periods ended March 31 2013 and 2012, respectively.

### 29. Retirement Liability

The Company 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 Company. 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, 2010.

The following tables summarize the components of retirement benefit expense (included in salaries and wages account) recognized in the statement of comprehensive income and the funded status and amounts recognized in the statement of financial position for the plan:

#### *Retirement benefit expense*

	2012	2011
Current service cost	P 5,020,400	P 5,033,100
Interest cost	4,784,820	4,661,171
Amortization of transitional liability	7,578,540	7,578,540
Actuarial loss	1,243,779	1,584,317
	<b>P 18,627,539</b>	<b>P 18,857,128</b>

The retirement benefit cost is recognized in the following line items in profit or loss:

	2012	2011
Included under salaries and wages		
Cost of goods sold and manufactured	P 8,287,534	P 7,633,295
Distribution expenses	1,513,546	1,810,297
Administrative and selling expenses	8,826,459	9,413,536
	<b>P 18,627,539</b>	<b>P 18,857,128</b>

*Retirement liability*

	2012	2011
Defined benefit obligation	P 85,774,000	P 68,266,311
Fair value of the plan assets	-	-
Unfunded obligation	85,774,000	68,266,311
Unrecognized actuarial losses	(26,547,842)	(14,289,306)
Unamortized transitional liability	(7,578,540)	(15,157,080)
	<b>P 51,647,618</b>	<b>P 38,819,925</b>

*Define benefit obligation*

	2012	2011
At January 1	P 68,266,311	P 63,677,200
Current service cost	5,020,400	5,033,100
Interest cost	4,784,820	4,661,171
Actuarial loss/(gain)		
Experience adjustments	16,215	-
Change in assumptions	13,486,100	-
Benefits paid	(5,799,846)	(5,105,160)
	<b>P 85,774,000</b>	<b>P 68,266,311</b>

The roll-forward analysis of unrecognized actuarial losses follows:

	2012	2011
Balance at beginning of year	P 14,289,306	P 15,873,623
Limit of corridor	6,826,631	6,367,720
Actuarial loss outside corridor	7,462,675	9,505,903
Average expected future service years	6.00	5.00
Actuarial loss recognized	(1,243,779)	(1,584,317)
Actuarial loss due to PVO	13,502,315	-
	<b>P 26,547,842</b>	<b>P 14,289,306</b>

The Company has no retirement contribution for the year ended December 31, 2012. The Company does not expect to contribute to the plan in 2013.

As of the beginning of the year, the principal actuarial assumptions used to determine retirement benefit obligations are:

	2012	2011
Discount rate	5.17%	7.32%
Salary discount rate		
Non-rank and file	3.00%	3.00%
Rank and file	Per CBA	Per CBA

### 30. Income Taxes

The Company'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.

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 income tax for the period ended March 31, 2013 and 2012 were estimates and unaudited. The final tax for the year is recomputed and audited by the external auditor of the Company.

### 31. Lease Commitments

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

The Company 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:

	March 31, 2013	March 31, 2012
Within one year	P 6,546,496	P 6,261,414
After one year but not more than five years	4,992,406	4,775,000
	<b>P 11,538,902</b>	<b>P 11,036,414</b>

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

	March 31, 2013	March 31, 2012
Cost of goods manufactured and sold	P 680,343	P 1,837,486
Distribution expense	6,583,292	5,530,108
Administrative and selling expense	4,955,610	4,955,610
	<b>P 12,219,245</b>	<b>P 12,323,204</b>

### 32. Provisions and Contingencies

As of December 31, 2012, the Company had a total of forty-four (44) 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. The aggregate amount claimed for these 41 collection cases is approximately P 9.6 million which is less than 1% of the group's current assets.

The remaining three (3) cases are:

- A case filed by the Company against Rolando Cargullo, a former sales representative, for falsification and estafa amounting to about P 30,000 in the procecutor's office of Camarines Norte and Naga City on March 1999. The case is archived as the dependant cannot be located.

- A case filed by a customer, Anna Lyn's Inc., for insolvency /rehabilitation, in RTC Branch 258 of Paranaqueo n Februry 2002. The rehabilitation plan was approved and Euro-Med's claim of about P33,000 is pursued with the receiver.

- A case filed by a customer, Nanette Cledera, for voluntary insolvency in RTC branch 58 of San Jose, Camarines Sur on March 2003. Euro-Med's claim of about P17,000 is awaiting action on motion to withdraw stocks.

The Company's unused letters of credit amounted to approximately P217.1 million in 2013 and P214.8 million in 2012.

### 33. Earnings Per Share (EPS)

Computation of basic and diluted EPS is shown below:

	March 31, 2013	March 31, 2012
Net income	P 19,412,099	P 25,998,668
Divided by the weighted average number of shares	4,112,140,540	4,112,140,540
	<b>P 0.01</b>	<b>P 0.01</b>

There were no potential dilutive shares in 2013 and 2012.

### 34. Financial Risk Management Objectives and Policies

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

#### Credit Risk

To manage credit risk, the Company trades only with recognized and credit-worthy customers. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification

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

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

The table below shows the gross maximum exposure to credit risk of the Company as of March 31, 2013 and 2012, without considering the effects of collaterals and other credit risk mitigation techniques.

The Company has no significant exposure to credit risk.

#### 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 (ie. certain loan commitments, if any)

	March 31, 2013	2012
Cash in banks	P 643,379,300	P 778,905,253
Receivables		
Trade	1,440,768,759	1,486,465,458
Non-trade	2,586,466	2,483,592
Others		
Advances to related party	322,404,104	247,269,419
Advances and deposits	51,956,785	72,848,454
Advances to officers and employees	23,816,995	22,067,814
Long-term receivables	625,000,000	625,000,000
	<b>P 3,109,912,409</b>	<b>P 3,235,039,990</b>

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

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

	2013	2012
Notes Payable		
Within one (1) year	1,979,233,332	P 1,890,433,332
Over one (1) year	813,733,333	813,733,333
Acceptances Payable		
Within one (1) year	217,107,922	213,864,708
	<b>P 3,010,074,587</b>	<b>P 2,918,031,373</b>

As of March 31, 2013 and 2012, the Company has no financial assets and liabilities subject to change in market interest rate. All other financial assets and liabilities have fixed rates.

Price Risk

The Company is exposed to price risk because of the nature of its business. This is managed by maintaining good business relations with customers, producing a wide-range of products and providing prompt, courteous and efficient marketing and delivery service. Likewise, for valued customers, prices are contracted for a long-term period.

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

Foreign Exchange Risk

The Company 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 Company holds foreign currency-denominated deposits amounting to P598.2 million or US\$14.7 million as of March 31, 2013 and P626.6 million or US\$14.9 million as of December 31, 2012, which can be affected by fluctuations of foreign currency exchange.

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

	2013		2012	
	Foreign currency	Peso Conversion	Foreign currency	Peso Conversion
US Dollar	11,908,576	P 483,762,101	12,479,189	P 523,127,614
Euro	104,230	5,467,061	34,448	1,878,466
Singapor Dollar	17,756	582,715	17,756	582,715
ZAR	24,568,932	108,378,471	22,023,798	101,650,840
	<b>36,599,494</b>	<b>P 598,190,348</b>	34,555,192	P 627,239,635

The Company also has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Company's functional currency. For first quarter 2013 and 2012, approximately 15 and 18% of the Company's total sales are denominated in currencies other than the functional currency.

Capital Management

The Company 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 Company's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value. The Company 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 Company 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 Company monitors its use of capital structure using a debt-to-equity ratio which is gross debt divided by total capital. The Company includes within gross debt all loans and borrowings, while equity represents total equity. Following is the computation of the Company's debt-to-equity ratio as of March 31, 2013 and 2012:

	2013	2012
<b>Short-term debts</b>		
Trade and other payables	P 318,366,863	P 304,967,654
Current portion of notes payable	1,979,233,332	1,890,433,332
Acceptances payable	217,107,922	213,864,708
Others	15,082,696	38,977,140
	<b>2,529,790,813</b>	<b>2,448,242,834</b>
<b>Long-term debts</b>		
Notes payable-net of current portion	813,733,333	813,733,333
Deferred credits	4,500,000	2,700,000
<b>Total debt (a)</b>	<b>P 3,348,024,146</b>	<b>P 3,264,676,167</b>
<b>Equity (b)</b>	<b>P 4,902,774,050</b>	<b>P 4,995,838,574</b>
<b>Debt-to-capital ratio (a/b)</b>	<b>0.68</b>	<b>0.65</b>

The Company 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>				
Cash in banks	P 643,379,300	P 643,379,300	P 778,905,253	P 778,905,253
Trade and other receivables				
Trade-net	1,440,768,759	1,440,768,759	1,482,784,111	1,482,784,111
Non-trade	2,586,466	2,586,466	2,483,592	2,483,592
	<b>2,086,734,525</b>	<b>2,086,734,525</b>	<b>2,264,172,956</b>	<b>2,264,172,956</b>
<b>Available-for-sale financial assets</b>				
Quoted	144,000	144,000	144,000	144,000
Unquoted	200,000	200,000	200,000	200,000
	<b>344,000</b>	<b>344,000</b>	<b>344,000</b>	<b>344,000</b>
	<b>P 2,087,078,525</b>	<b>P 2,087,078,525</b>	<b>P 2,264,516,956</b>	<b>P 2,264,516,956</b>
<b>Financial Liabilities:</b>				
Trade accounts payable	P 318,366,863	P 318,366,863	P 304,967,654	P 304,967,654
Notes payable	1,979,233,332	1,979,233,332	1,890,433,332	1,890,433,332
Acceptances payable	217,107,922	217,107,922	213,864,708	213,864,708
Other current liabilities	15,082,696	15,082,696	38,977,140	38,977,140
	<b>P 2,529,790,813</b>	<b>P 2,529,790,813</b>	<b>P 2,448,242,834</b>	<b>P 2,448,242,834</b>

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

#### *Short-term financial instruments*

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

*Available-for-sale financial assets*

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

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

*Long-term debt*

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

Fair Value Hierarchy

The Company uses the following hierarchy for determining the fair value of financial instruments:

Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities

Level 2: other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly

Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The Company's available-for-sale financial assets as of March 31, 2013, and 2012 are classified under Level 1 and Level 3. There are no financial instruments that fall under Level 2.

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

		<u>March 31, 2013</u>
0 – 30 days	p	276,645,262
31-60 days		221,477,612
61-90 days		275,987,022
Over 90 days		684,670,472
under litigation		<u>18,781,470</u>
	p	<u>1,477,561,837</u>

37. The financial soundness indicators in two(2) comparative periods are as follows:

	<u>Mar. 31, 2013</u>	<u>Dec. 31, 2012</u>
<b>CURRENT RATIO</b>	<b>1.52</b>	1.52
<b>DEBT-TO-EQUITY RATIO</b>	<b>0.69</b>	0.67
<b>ASSET TO EQUITY RATIO</b>	<b>1.69</b>	1.67
<b>INTEREST RATE COVERAGE RATIO</b>	<b>0.73</b>	5.32
<b>PROFIT MARGIN</b>	<b>0.03</b>	0.21
<b>RETURN ON ASSETS</b>	<b>0.00</b>	0.08
<b>RETURN ON EQUITY</b>	<b>0.00</b>	0.13

**38. Other Matters**

Under the following disclosure requirements by Securities Regulation Code (SRC) Rule 68, the Company 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