



Euro-Med Laboratories Phil., Inc.

11 November 2014

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 30 SEPTEMBER 2014**

Dear Ms. Encarnacion,

Please find attached **EURO-MED LABORATORIES PHIL., INC.** Quarterly Report for quarter ending 30 September 2014.

Thank you.

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

By:

JANICE R. ONG
Corporate Secretary

COVER SHEET

1 4 8 0 2 2

S.E.C. Registration Number

EURO-MED LABORATORIES PHIL.,
INC.

(Company's Full Name)

1000 UNITED NATION AVENUE COR.
SAN MARCELINO ST. MANILA

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

Sandra Pineda

Contact Person

5240092-98

Company Telephone Number

1 1 1 4
Month Day

Fiscal Year

2 0 1 4

3rd Quarter

1 7 Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2014

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

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

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

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

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

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

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

<u>Title of Each Class</u>	<u>Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding</u>
Common Stock	4,112,140,540 shares

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

Yes No

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

Philippine Stock Exchange

Common Stock

12. Check whether the issuer:

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

Yes No

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

Yes No

EURO-MED LABORATORIES PHIL., INC.
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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.

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 appreciated from about ₱ 44.96/US\$ 1 in January 2014 to about ₱ 44.80/US\$ 1 in September 2014. The company's export sales for the periods ended January to September 2014 and 2013 are 12% and 16% 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 September 30, 2014 that is exposed to interest rate risks are as follows:

Maturing within one (1) year:			
Notes payable	P	2,476,813,833	
Acceptances payable		<u>148,874,317</u>	2,625,688,150
Maturing over one (1) year:			
Notes payable		823,000,000	<u>823,000,000</u>
TOTAL			<u><u>P 3,448,688,150</u></u>

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

3. Credit risk.

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

The maximum credit exposure of the company as of September 30, 2014 follows :

Cash in banks	P	692,841,668
Trade receivables -net		1,596,144,757
Non-trade receivables		<u>3,592,428</u>
TOTAL	P	<u><u>2,292,578,853</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 September 30, 2014 that are exposed to liquidity risk are as follows:

Bank loans:		
Maturing within one (1) year	P	2,476,813,833
Maturing over one (1) year		823,000,000
Trade accounts payable		256,943,409
Acceptances payable		148,874,317
Income tax payable		14,990,351
Agency payable/accrued expenses		<u>16,262,230</u>
	P	<u><u>3,736,884,140</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 September 30, 2014 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

Financial assets (AFS)

– 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 September 30, 2014		As of Dec. 31, 2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
a) Financial assets				
Cash	₱ 692,842	₱ 692,842	₱ 649,012	₱ 649,012
Trade & other receivables - net	1,599,737	1,599,737	1,551,563	1,551,563
Available for sale securities				
Quoted	0	0	144	144
Unquoted	200	200	200	200
Total	₱ 2,292,779	₱ 2,292,779	₱ 2,200,919	₱ 2,200,919
b) Financial liabilities				
Trade accounts payable	₱ 256,943	₱ 256,943	₱ 323,909	₱ 323,909
Notes payable – Current	2,476,813	2,476,813	2,260,700	2,260,700
Notes payable – Non-current	823,000	823,000	655,617	655,617
Acceptances payable	148,874	148,874	307,848	307,848
Other current liabilities	16,262	16,262	62,492	62,492
Other non current liabilities	1,487	1,487	2,700	2,700
Total	₱ 3,723,379	₱ 3,723,379	₱ 3,613,266	₱ 3,613,266

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

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

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

1.) The Company's net sales increased by 8 % from P 2,134.8 million for the first three quarters of 2013 to P2,303.2 million for the first three quarters of 2014. The increase in sales was attributed to the increase in local sales which increased by 13.2% from P1,796.4 million in the first three quarters of 2013 to P 2,033.9. million in the first three quarters of 2014. . Export sales decreased by 20.4% from P338.9 million for the first three quarters of 2013 to P 269.3 million for the first three quarters of 2014. The increase(a)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 increased by 7% from P 721.8 million for the first three quarters of 2013 to P 775.4 million for the first three quarters of 2014. Cost of goods manufactured and sold increased by 8% from P 1,413.0 million for the first three quarters of 2013 to P 1,527.8 million for the first three quarters of 2014. As a percentage of net sales, cost of goods manufactured and sold increased from 66.2% for the first three quarters of 2013 to 66.3% for the first three quarters of 2014. The gross profit indicator provides information about product selling prices relative to production costs. The percentage change in gross profit is computed by dividing the peso increase (decrease) in gross profit by the peso gross profit during the comparable period of previous year.

3.) Income from operations (income before finance income/cost and miscellaneous income) increased by 7% from P 229.5 million for the first three quarters of 2013 to P 245.1 million for the first three quarters of 2014. Operating expenses (administration, selling and distribution) increased by 8% from P492.4 million for the first three quarters of 2013 to P530.3 million for the first three quarters of 2014. The increase was due to the increase in variable operating expenses, i.e. distribution expenses, taxes and licenses, marketing development expense. Operating expenses as a percentage of the Company's net sales decreased from 23.1% for the first three quarters of 2013 to 23.0% for the first three quarters of 2014. 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 increased by 3% from P(110.6) million for the first three quarters of 2013 to P(123.4) million for the first three quarters of 2014. 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 increased by 2% from P35.7 million for the first three quarters of 2013 to P 36.5 million for the first three quarters of 2014. Net income increased by 2% from P 83.2 million for the first three quarters of 2013 to P85.2million for the first three quarters of 2014. 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 decreased by 0.4% from P8.677 billion in 2013 to P8.642 billion in 2014. Current ratio increased from 1.38:1 in 2013 to 1.46:1 in 2014, while Equity ratio increased by 0.4% at 0.47:1 in 2013 to 0.48:1 in 2014.

The increase in cash and cash equivalents was due to loan availments for additional working capital. The increase in trade and other receivables was due to increase in sales and increase due to extension of credit terms on some customers to improve sales. The decrease in inventories was due to non-production of glass line, as its Mandaluyong plant was closed and transferred to Cavite plant, as a result of the sale to SMDC of our Mandaluyong plant. The licenses of the glass line are still in process. The increase in other-current and other non-current assets was due to advances to subsidiary and prepaid marketing development. The decrease in trade accounts payable was due to payments of various suppliers account. The decrease in acceptances payable was due to trust receipts payments. The increase in total Notes Payable was due to new availments from Omnibus credit lines with banks. The decrease in other current liabilities was due to the decrease in accrued expenses. The amount of income tax payable decreased since the amount as of 31 December, 2013 represents the audited final and adjusted income tax payable as of the end of year 2013, while the amount as of 30 September 2014 includes the unaudited estimated tax on income for quarter ending September 30, 2014. The decrease in deferred credits was due to full offsetting of this amount with accrued rental, including the deferred output VAT balances.

Projection

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



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

SIGNATURES


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

EURO-MED LABORATORIES PHILS., INC.

By:


Georgiana S. Evidente
President 

November 13, 2014


Sandra N. Pineda
Chief Accountant

November 13, 2014

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

		30 September	31 December
	Notes	2014	2013
		(Unaudited)	Audited
ASSETS			
Current			
Cash	5,6,35	P692,841,668	P649,012,562
Trade and other receivables, net	5,7,35	1,599,737,185	1,551,562,532
Inventories	5,8	1,206,166,597	1,382,658,771
Others	5,9,35	678,954,514	552,742,091
		4,177,699,965	4,135,975,956
Non-current			
Investment in subsidiary	4,10	600,000,000	600,000,000
Property, plant and equipment	5,11,15	2,628,282,454	2,722,208,466
Intangible Assets	5,12	224,770,612	224,905,802
Deferred tax assets	5,30	39,847,350	39,847,350
Other noncurrent assets	5,13	971,109,058	954,356,130
		4,464,009,474	4,541,317,749
TOTAL ASSETS		P8,641,709,440	P8,677,293,705
LIABILITIES AND EQUITY			
Current			
Trade accounts payable	14,35	256,943,409	P323,909,068
Notes payable	15,35	2,476,813,833	2,260,700,000
Acceptances payable	16,35	148,874,317	307,848,276
Income tax payable	4,30	14,990,351	40,265,569
Others	17,35	16,262,230	62,491,940
		2,913,884,140	2,995,214,853
Non-current			
Notes payable -net of current portion	15,35	823,000,000	655,616,667
Retirement liability	5,29	93,379,400	93,379,400
Other noncurrent liabilities	18,35	1,487,823	2,700,000
		917,867,223	751,696,067
Equity			
Share Capital	19	4,112,140,539	4,112,140,539
Share Premium	19	66,609,227	66,609,227
Retained earnings	19	652,455,639	772,880,348
Accumulated Actuarial Losses on defined benefit obligation		(21,247,331)	(21,247,331)
		4,809,958,074	4,930,382,783
TOTAL LIABILITIES AND EQUITY		P8,641,709,440	P8,677,293,705

See accompanying Notes to Financial Statements

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

	Notes	2014		2013	
		July- September	Jan. - September	July- September	Jan. - September
NET SALES	21	P867,216,529	P2,303,243,552	P785,530,872	P2,134,848,077
COST OF GOODS					
MANUFACTURED AND SOLD	22	602,637,899	1,527,864,967	544,849,484	1,413,002,213
GROSS PROFIT		264,578,630	775,378,585	240,681,388	721,845,864
OPERATING EXPENSES					
Administrative and selling expenses	24	(91,440,723)	(321,926,477)	(88,394,455)	(304,901,628)
Distribution expenses	23	(77,835,340)	(208,332,484)	(64,266,715)	(187,488,388)
		(169,276,063)	(530,258,961)	(152,661,170)	(492,390,016)
OPERATING INCOME		95,302,568	245,119,625	88,020,218	229,455,848
Other Income (Charges)					
Finance income	25	1,255,131	4,013,905	2,024,919	5,494,752
Finance cost	26	(49,965,499)	(135,684,963)	(44,021,723)	(123,210,310)
Foreign exchange gain (loss)		(591,922)	2,510,325	4,303,336	4,914,495
Net Capital gains from sale of investment		-	-	-	-
Miscellaneous income	27	3,967,557	5,730,133	1,186,935	2,194,872
		(45,334,732)	(123,430,599)	(36,506,533)	(110,606,191)
INCOME BEFORE INCOME TAX		49,967,836	121,689,026	51,513,685	118,849,657
PROVISION FOR INCOME TAX	30	14,990,351	36,506,708	15,454,106	35,654,897
NET INCOME		P34,977,485	P85,182,318	P36,059,579	P83,194,760
EARNINGS PER SHARE					
Basic and Diluted	33	P0.01	P0.02	P0.01	P0.02

See accompanying Notes to Financial Statements

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

	Share Capital (Notes 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Notes 19)	Accumulated Actuarial Losses on Retirement Benefit Plan (Note 29)	September 30, 2014
Balances, 31 December 2013	P 4,112,140,539	P66,609,227	P772,880,348	P(21,247,331) P	P4,930,382,783
Net income -- for the period Jan.- September 2014			85,182,318		85,182,318
Cash Dividends			(205,607,027)		P(205,607,027)
As at September 30, 2014	P 4,112,140,539	66,609,227	652,455,639	(21,247,331) P	4,809,958,074
	Share Capital (Notes 19)	Additional Paid-in Capital (Note 19)	Retained Earnings (Notes 19)	Accumulated Actuarial Losses on Retirement Benefit Plan (Note 29)	September 30, 2013
Balances, 31 December 2012	P 4,112,140,539	P66,609,227	P804,617,659	P- P	P4,983,367,425
Net income -- for the period Jan.- September, 2013			83,194,760		P83,194,760
Cash Dividends			(205,608,055)		P(205,608,055)
As at September 30, 2013	P 4,112,140,539	66,609,227	682,204,364	- P	4,860,954,130

See accompanying Notes to Financial Statements

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

		For The Nine Months Ended September 30,	
	Notes	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P 121,689,026	P 118,849,657
Adjustments for:			
Depreciation and amortization	11	135,464,544	135,775,365
Finance Cost	26	135,684,963	123,210,310
Foreign exchange loss (gain)		(2,510,325)	(4,914,495)
Finance Income	25, 27	(5,730,133)	(5,494,752)
Operating income before working capital changes		384,598,075	367,426,085
Changes in assets and liabilities:			
(Increase) Decrease in:			
Trade and other receivables	7	(48,174,653)	21,661,459
Inventories	8	176,492,174	(136,417,666)
Other current assets	9	(126,212,423)	(100,270,917)
Increase (decrease) in:			
Trade accounts payable	14	(66,965,659)	(42,820,622)
Acceptances payable	16	(158,973,959)	(19,870,753)
Other current liabilities	17	(46,229,710)	(21,004,355)
Cash generated from operations		114,533,845	68,703,231
Interest paid	26	(135,684,963)	(123,210,310)
Income tax paid	30	(82,736,418)	(74,701,853)
Interest received	25	5,730,133	5,494,752
Net cash provided by operating activities		(98,157,403)	(123,714,180)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of:			
Property, plant and equipment	11	(36,538,532)	(97,189,379)
Other non-current assets	13	(16,752,927)	(21,841,427)
Net cash used IN investing activities		(53,291,459)	(119,030,806)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from availments of loan	15	383,497,166	126,387,501
Net cash provided by financing activities		383,497,166	126,387,501
NET INCREASE (DECREASE) IN CASH		43,829,106	(302,261,729)
CASH, BEGINNING OF YEAR		649,012,562	815,176,519
CASH END OF THE PERIOD	6	P 692,841,668	P 512,914,790

See accompanying Notes to Financial Statements

EURO-MED LABORATORIES PHIL., INC.

NOTES TO FINANCIAL STATEMENTS

1. Reporting Entity

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

In 2012, the Company sold its investment in shares of stock in 102 EDSA that owns the land where the Company's Mandaluyong plant is located (see Notes 10 and 11).

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

Euro-Med 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

Changes in Accounting Policies and Disclosures

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

The Company applied for the first time IN 2013 the amendments to PAS 19, *Employee Benefits*, which require restatement of previous financial statements.

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

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

- PFRS 7, *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (Amendments). These amendments require an entity to disclose information about rights of set off and related arrangements (such as collateral agreements). The new disclosures are required for all recognized financial instruments that are set off in accordance with PAS 32. These disclosures also apply to recognized financial instruments that are subject to an enforceable master netting arrangements or 'similar agreements', irrespective of whether they are set off in accordance with PAS 32. The amendments require entities to disclose in a tabular format, unless another format is more appropriate, the following minimum quantitative information.

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

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

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

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

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

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

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

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

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

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

- Amendments to PAS 1, *Financial Statements Presentation, Presentation of Items of Other Comprehensive Income (OCI)*, requires that items of OCI must be grouped together into two sections: (1) those that will or may be reclassified into profit or loss; and (2) those that will not. As a result of this amendment, the Company has modified the presentation of items of the OCI in its statement of comprehensive income. Comparative information has been re-presented accordingly. As the amendment only affects presentation, there is no effect on the Company's financial position or performance.

- PAS 19, *Employee Benefits (Revised PAS 19)*. For defined benefit plans, the Revised PAS 19 requires all actuarial gains and losses to be recognized in other comprehensive income and unvested past service costs previously recognized over the average vesting period to be recognized immediately in profit or loss when incurred.

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

The Revised PAS 19 replaced the interest cost and expected return on plan assets with the concept of net interest on defined benefit liability or asset which is calculated by multiplying the net balance sheet defined benefit liability or asset by the discount rate used to measure the employee benefit obligation, each as at the beginning of the annual period.

The Revised PAS 19 also amended the definition of short-term employee benefits and requires employee benefits to be classified as short-term based on expected timing of settlement rather than the employee's entitlement to the benefits. In addition, the Revised PAS 19 modifies the timing of recognition for termination benefits. The modification requires the termination benefits to be recognized at the earlier of when the offer cannot be withdrawn or when the related restructuring costs are recognized.

Changes to definition of short-term employee benefits and timing of recognition for termination benefits do not have any significant impact to the Company's financial position and financial performance.

In 2013 the changes in accounting policies have been applied retrospectively. The effects of the adoption on the financial statements are as follows:

	As at December 31	As at January 1
	2012	2012
Increase (decrease) in		
Statements of financial position		
Deferred tax assets	P 10,237,915	P 18,836,430
Retirement liability	34,126,382	29,406,386
Retained earnings	(4,434,333)	(10,609,956)
Accumulated actuarial losses		
on defined benefit plan	19,454,135	10,002,514

	For the years ended December 31	
	2012	2011
Increase (decrease) in		
Statements of comprehensive income		
Cost of goods sold and manufactured	P (3,940,441)	P (3,335,391)
Distribution expenses	(908,967)	(1,212,558)
Administrative and selling expenses	(3,972,912)	(4,614,907)
Income before income tax	8,822,317	9,162,856
Provision for income tax	2,646,695	2,748,857
Net income	6,175,622	6,413,999
Actuarial losses on defined benefit plan	13,502,315	14,289,306
Income tax effect	(4,050,695)	(4,286,792)
Total comprehensive income	P 15,627,242	16,416,513

The adoption did not have significant impact on the statement of cash flows.

Upon adoption of the Revised PAS 19, the presentation of the statement of comprehensive income was updated to reflect these changes.

The Revised PAS 19 also requires additional disclosures for defined benefit plans. These disclosures, among others, include the following: (a) a description of the risks to which the plan exposes the entity, focused on any unusual, entity-specific or plan-specific risks, and of any significant concentrations of risk; (b) a sensitivity analysis for each significant actuarial assumption including the methods and assumptions used in preparing the sensitivity analysis and any changes and reasons for such changes from the previous period in the methods and assumptions used; (c) a description of any asset-liability matching strategies used by the plan or the entity, including the use of annuities and other techniques, such as longevity swaps, to manage risk; (d) a description of funding arrangements, including the funding policy of the defined benefit plan; (e) expected contributions for the next annual reporting period; and (f) information about the maturity profile of the defined benefit obligation, including but not limited to weighted average duration of the defined benefit obligation.

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

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

- *PFRS 1, First-time Adoption of International Financial Reporting Standards.* The amendments clarify that an entity that has stopped applying PFRS may choose to either: (a) re-apply PFRS 1, even if the entity applied PFRS 1 in a previous reporting period; or (b) apply PFRS retrospectively in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, in order to resume reporting under PFRS. It also clarifies that upon adoption of PFRS, an entity that capitalized borrowing costs in accordance with its previous generally accepted accounting principles may carry-forward, without adjustment, the amount previously capitalized in its opening statement of financial position at the date of transition. Such borrowing costs are then recognized in accordance with PAS 23, *Borrowing Costs*. The amendment has no impact on the Company's financial position or performance, as the Company is not a first-time adopter of PFRS.
- *PAS 1, Presentation of Financial Statements – Clarification of the Requirements for Comparative Information.* The amendments clarify the requirements for comparative information that are disclosed voluntarily and those that are mandatory due to retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond minimum required comparative period. The additional comparative period does not need to contain a complete set of financial statements. On the other hand, supporting notes for the third balance sheet (mandatory when there is a retrospective application of an accounting policy, or retrospective restatement or reclassification of items in the financial statements) are not required. The amendments affect disclosures only and have no impact on the Company's financial position or performance.
- *PAS 16, Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment clarifies that spare parts, stand-by equipment and servicing equipment should be recognized as property, plant and equipment when they meet the definition of property, plant and equipment and should be recognized as an inventory if otherwise. The amendment does not have any significant impact on the Company's financial position or performance.
- *PAS 32, Financial Instruments; Presentation – Tax Effect of Distribution to Holders of Equity Instruments.* The amendment clarifies that income taxes relating to distributions to equity holders and to transaction costs of an equity transaction are accounted for in accordance with PAS 12. The amendment does not have any significant impact on the Company's financial position or performance.
- *PAS 34, Interim Financial Reporting – Interim Financial Reporting and Segment Information for Total Assets and Liabilities.* The amendment clarifies that the total assets and liabilities for a particular reportable segment need to be disclosed only when the amounts are regularly provided to the chief operating decision maker and there has been a material change from the amount disclosed in the entity's previous annual financial statements for that reportable segment. The amendment affects disclosures only and has no impact on the Company's financial position or performance.

Future Changes in Accounting Policies

New Standards, Interpretations and Amendments Not Yet Effective

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

Effective January 1, 2015

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

Annual Improvements to PFRS (2010-2012 cycle)

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

- PFRS 2, *Share-based Payment - Definition of Vesting Condition*, revised the definitions of vesting condition and market condition and added the definitions of performance condition and service condition to clarify various issues. This amendment has no significant impact on the financial position or performance of the Company.
- PFRS 3, *Business Combinations - Accounting for Contingent Consideration in a Business Combination*, clarifies that a contingent consideration that meets the definition of a financial instrument should be classified as a financial liability or as equity in accordance with PAS 32. Contingent consideration that is not classified as equity is subsequently measured at fair value through profit or loss whether or not it falls within the scope of PFRS 9 (or PAS 39, if PFRS 9 is not yet adopted). This amendment has no significant impact on the financial position or performance of the Company.
- PFRS 8, *Operating Segments - Aggregation of Operating Segments and Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets*, requires entities to disclose the judgment made by management in aggregating two or more operating segments. This disclosure should include a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. The amendments also clarify that an entity shall provide reconciliations of the total of the reportable segments' assets to the entity's assets if such amounts are regularly provided to the chief operating decision maker. The amendments affect disclosures only and have no impact on the Company's financial position or performance.
- PFRS 13, *Fair Value Measurement - Short-term Receivables and Payables*, clarifies that short-term receivables and payables with no stated interest rates can be held at invoice amounts when the effect of discounting is immaterial.
- PAS 16, *Property, Plant and Equipment - Revaluation Method - Proportionate Restatement of Accumulated Depreciation*, clarifies that, upon revaluation of an item of property, plant and equipment, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways: (a) the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated depreciation at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses; (b) the accumulated depreciation is eliminated against the gross carrying amount of the asset.

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

- PAS 24, *Related Party Disclosures - Key Management Personnel*, clarifies that an entity is a related party of the reporting entity if the said entity, or any member of a group for which it is a part of, provides key management personnel services to the reporting entity or to the parent company of the reporting entity. The amendments also clarify that a reporting entity that obtains management personnel services from another entity (also referred to as management entity) is not required to disclose the compensation paid or payable by the management entity to its employees or directors. The reporting entity is required to disclose the amounts incurred for the key management personnel services provided by a separate management entity. The amendments are effective for annual periods beginning on or after July 1, 2014 and are applied retrospectively. The amendments affect disclosures only and have no impact on the Company's financial position or performance.

- PAS 38, *Intangible Assets - Revaluation Method - Proportionate Restatement of Accumulated Amortization*, clarifies that upon revaluation of an intangible asset, the carrying amount of the asset shall be adjusted to the revalued amount, and the asset shall be treated in one of the following ways:
 - a. The gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount of the asset. The accumulated amortization at the date of revaluation is adjusted to equal the difference between the gross carrying amount and the carrying amount of the asset after taking into account any accumulated impairment losses.

 - b. The accumulated amortization is eliminated against the gross carrying amount of the asset.

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

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

Annual Improvements to PFRS (2011-2013 cycle)

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

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

- PFRS 3, *Business Combinations - Scope Exceptions for Joint Arrangements*, clarifies that PFRS 3 does not apply to the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

- PFRS 13, *Fair Value Measurement - Portfolio Exception*, clarifies that the portfolio exception in PFRS 13 can be applied to financial assets, financial liabilities and other contracts. The amendment is effective for annual periods beginning on or after July 1, 2014 and is applied prospectively. The amendment has no significant impact on the Company's financial position or performance.

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

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

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

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

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 September 30, 2014 and 2013, the Company has no financial assets or financial liabilities at FVPL.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which management has the positive intention and ability to hold to maturity. Where the 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 September 30, 2014 and 2013, 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 September 30, 2014 and 2013, 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 September 30, 2014 and 2013 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.

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.

Income taxes

The tax expense for the current quarter are estimated and unaudited. The income tax for the financial year is being computed and credited by the Company's external auditors at the end of the year.

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.

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

Retained Earnings

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 September 30, 2014 and 2013.

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 September 30, 2014 and 2013 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. The income tax for the period ended September 30, 2014 and 2013 were unaudited. The annual income tax is computed at year end by the company's external auditors.

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 for the period ended September 30, 2014 and 2013 amounted to P43.0 million and P34.7 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 September 30, 2014 and 2013 amounted to P 1,206.2 million and P1,382.7 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):

	September 30, 2014	2013
Receivables	P 1,635,589,854	P 1,588,218,270
Allowance for impairment losses	39,445,097	39,445,097

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 September 30, 2014 and 2013, 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):

	September 30, 2014	2013
Cost	P 5,364,829,138	P 5,328,323,606
Accumulated depreciation and amortization	2,736,646,684	2,606,082,140
Depreciation and amortization	130,464,544	179,892,675
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 September 30, 2014 and December 31, 2013 (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 September 30, 2014.

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 P39.8 million as of September 30, 2014 and December 31, 2013. (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 benefits liabilities amounted to P93.4 million in 2013 and 2014 respectively.

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 September 30, 2014 and 2013 (see Note 32).

6. Cash

This account consists of:

	September 30, 2014	2013
Cash on hand and revolving funds	P 25,861,486	P 33,068,567
Cash in banks	666,980,182	615,943,995
	P 692,841,668	P 649,012,562

Cash in banks earns interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to P4,013,905 and P3,469,833 for the period ended September 30, 2014 and 2013 respectively. As of September 30, 2014 and 2013, cash in bank includes foreign currency-denominated deposits amounting to \$ 8.2 million and \$11.3 million, respectively (see Note 34).

7. Trade and Other Receivables

This account consists of:

	September 30, 2014	2013
Trade	P 1,635,589,854	P 1,588,218,270
Non-trade	3,592,428	2,789,359
	1,639,182,283	1,591,007,629
Less allowance for impairment losses	39,445,097	39,445,097
	P 1,599,737,185	P 1,551,562,532

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:

	September 30, 2014	2013
Balance, January 1	P 39,445,097	P 36,793,078
Provision for the period	-	2,652,019
	P 39,445,097	P 39,445,097

8. Inventories

The account consists of:

	September 30, 2014	2013
Raw materials	P 241,521,964	P 321,280,040
Finished goods	964,644,633	1,061,378,731
	P 1,206,166,597	P 1,382,658,771

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:

	September 30, 2014	2013
Raw materials	P 355,878,955	P 517,714,847
Finished goods	1,183,882,049	1,359,891,498
	P 1,539,761,004	P 1,877,606,345

9. Other Current Assets

This account consists of:

	September 30, 2014	2013
Advances to related party	437,185,115	P 344,685,115
Advances and deposits	42,798,147	40,842,929
Prepaid marketing development	94,989,785	72,903,624
Bidders and performance bonds	45,483,012	42,441,392
Input tax (unamortized portion)	22,470,679	17,374,193
Creditable withholding VAT and tax	13,271,817	11,072,405
Advances to officers and employees	22,755,959	23,422,433
	P 678,954,514	P 552,742,091

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 includes advances for company expenses which are subject to liquidation by concerned officers/employees within the next twelve (12) month period and housing, car loans, salary 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:

	September 30, 2014	2013
Acquisition costs:		
Balance at beginning of year	P 600,000,000	P 682,356,940
Additional investments	-	168,094,275
Disposal	-	(250,451,215)
	P 600,000,000	P 600,000,000

The individual balances of investment in subsidiaries follow:

	September 30, 2014	2013
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
	P 600,000,000	P 600,000,000

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 (36th) 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 September 30, 2014:

	Land and land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
Cost:					
January 1, 2014	P40,540,718	P484,125,026	P4,778,504,267	P25,120,589	P5,328,290,606
Additions		19,694,147	16,467,561	376,824	36,538,532
September 30, 2014	40,540,718	503,819,173	4,794,971,828	25,497,413	5,364,829,137
Accumulated Depreciation:					
January 1, 2014	15,828,966	133,546,871	2,063,666,155	12,090,159	2,225,132,151
Additions	587,013	10,768,994	118,509,126	599,411	130,464,544
Impairment loss		62,924,584	318,025,405		380,949,989
September 30, 2014	16,415,979	207,240,449	2,500,200,686	12,689,570	2,736,546,683
Net Book Value					
September 30, 2014	P24,124,739	P296,578,725	P2,294,771,142	P12,807,843	P2,628,282,455

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

	2013				
	Land and Improvements	Building and Improvements	Machineries and Equipment	Transportation Equipment	Total
Cost					
At beginning of year	P 40,540,723	P 456,113,132	P 4,680,621,001	P 25,396,392	P 5,202,671,248
Additions	-	28,011,894	97,883,266	1,693,840	127,589,000
Disposal of assets				(1,969,643)	(1,969,643)
At end of year	40,540,723	484,125,026	4,778,504,267	27,090,232	5,328,290,605
Accumulated depreciation and amortization					
At beginning of year	15,036,936	182,670,256	1,835,047,775	12,484,509	2,045,239,476
Depreciation and amortization:	792,030	13,801,199	165,693,796	746,795	181,033,820
Disposal of assets				(1,141,146)	(1,141,146)
Accumulated impairment losses	-	62,924,584	318,025,405	-	380,949,989
At end of year	15,828,966	259,396,039	2,318,766,976	12,090,158	2,606,082,140
Net Book Value	P 24,711,757	P 224,728,987	P 2,459,737,291	P 15,000,074	P 2,722,208,466

Impairment losses recognized in 2012

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 (36th) month from the signing of the contract on May 09, 2012 relating to the sale of the investment of shares of stocks in 102 EDSA (see note 10).

There is no additional impairment lossess recognized in respect of property and equipment during the period.

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 P130.5 million and P181.0 million for the period ended September 30, 2014 and 2013, respectively, broken down as follows:

	September 30, 2014	2013
Charged to:		
Cost of goods manufactured and sold	P 122,864,565	P 170,799,268
Administrative and selling expenses	4,157,998	5,629,847
Distribution expenses	3,441,981	4,604,705
	P 130,464,544	P 181,033,820

The costs of fully depreciated property and equipment that are still being used in the operations amounted to P72.8 million as of September 30, 2014 and December 31, 2013.

12. Intangible Assets

This account consists of:

	September 30, 2014	2013
Trademarks and licenses	P 223,399,836	P 223,399,836
Patents and rights	1,370,777	1,505,966
	P 224,770,612	P 224,905,802

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 September 30, 2014 and 2013 are as follows:

	September 30, 2014	2013
Beginning balance	P 1,505,966	P 1,686,220
Additions during the year	-	-
Amortization during the period	(135,189)	(180,254)
	P 1,370,777	P 1,505,966

Trademarks and licenses pertain to the international trademarks Lidex®, Lidemol®, Synelar® and Dobutrex®, which the company acquired from Stiefel Laboratories, Inc., (Stiefel US) and Glaxosmithkline Philippines, Inc. (GSKPI) in 2011.

13. Other Noncurrent Assets

This account consists of:

	September 30, 2014	2013
Prepaid marketing and development expense	P 309,224,563	P 291,614,498
Advances and deposits, housing and car loans (realizable beyond the next 12-month period)	36,684,494	37,397,632
Available for sale financial assets	200,000	344,000
Other receivable	625,000,000	625,000,000
	P 971,109,058	P 954,356,130

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 Corporation (PLDT) shares and Casino Español de Manila. As of September 30, 2014, the fair value of the said investments equals its year-end book value.

The account consists of:

	September 30, 2014	2013
PLDT	-	P 144,000
Casino Espanol de Manila	200,000	200,000
	P 200,000	P 344,000

The PLDT shares represents stocks held by the Company under the investee's Subscribers Investment Plan. This is in connection with the various telephone lines acquired by the Company. These shares were redeemed on June 2014. 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 P256.9 million and P323.9 million for 2014 and 2013, respectively.

15. Notes Payable and Long-term Loans

Notes Payable (current) consist of short-term, unsecured peso denominated promissory notes from local banks for working capital requirements amounting to 2.6 billion; which bears interest ranging from 4.00% to 6.00% and P2.3 billion which bears interest ranging from 2.83% to 6.00% as at September 30, 2014 and December 31, 2013 respectively.

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.

Long-term loan consists of:

	September 30, 2014	2013
Long-term loans	P 904,770,833	P 818,616,667
Current portion of long-term loans	81,770,833	163,000,000
	P 823,000,000	P 655,616,667

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

The details of property, plant and equipment pledged as security to 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 which bears interest ranging from 4.50% to 6.00%. This is part of the availments from Omnibus Credit lines of various commercial banks. As at September 30, 2014 and December 31, 2013 acceptances payable amounted to P148.8 million and P307.8 million, respectively.

17. Other Current Liabilities

This account consists of:

	September 30, 2014	2013
Accrued expenses	P 5,148,933	P 50,804,623
Agency payable	11,113,447	11,687,317
	P 16,262,380	P 62,491,940

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

Agency payable account consists of:

	September 30, 2014	2013
SSS/Pag-big/Philhealth premiums and loans	P 2,288,961	P 2,269,922
BIR withholding taxes and VAT payable	8,824,485	9,417,395
	P 11,113,446	P 11,687,317

18. Other Non Current Liabilities

This represents deferred output VAT as of September 30, 2014 and advance rental and refundable deposits amounting to P 2.7 million in 2013.

19. Equity

Capital stock

Authorized and issued capital stock of the Company as of September 30, 2014 and 2013 are as follows:

	September 30, 2014	2013
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

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

Retained Earnings and Dividends

In a meeting held on May 22, 2014, the BOD unanimously approved the declaration of cash dividend of P0.05 per share to be taken from the unrestricted retained earnings of the Company as of December 31, 2013, to all stockholders of record as of June 18, 2014 and payable on July 11, 2014.

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

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

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 individuals (being members of key management personnel, significant shareholders and/or their close family members) or entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plan which are for the benefit of employees of the Group or any entity that is related party of the Group.

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 September 2014 and 2013 are the same amounted to P 14.9 million. No outstanding payable as of September 30, 2014. There are no other ongoing contractual or other commitments as a result of the arrangement.
- b) The Company is leasing a 10,936 square meter lot located at the corner of Epifanio Delos Santos Avenue and Madison Street, Mandaluyong City from 102 E. Delos Santos Realty Co., Inc., previously a subsidiary (See Item 1). The lease that expired on June 30, 2013 was renewed until Nov. 30, 2014. In pricing rental rate, the Management take into account that (i) 102 EDSA Realty Co., Inc. was previously a subsidiary and (ii) the market lease rates in the area. The rent for the period January to Feb. 2014 and Jan -September 2013 is P 1.8 million and P10.8 million respectively. There are no outstanding payables as of September 30, 2014. 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 September 30, 2014 and 2013 amounted to P 9.1 million and P 8.3 million respectively. No outstanding payable as of September 30, 2014. 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 P32.6 million in 2014 and 2013 and to its 100% subsidiary CafeFrance Corp. amounting to P 404.5 million in 2014 and 2013. Sales to Hemotek Renal Center, Inc. amounted to P32.7 million for the period Jan.-September 2014 and P37.5 million for the period Jan.- September 2013, and accounts receivable of P138.3 million in 2014 and P128.1 million in 2013. 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 September 30, 2014 and 2013 amounted to P 49.4 million and P 23.4 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 September 2014 and 2013 amounted to P7.7 million and P 12.1 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 September 30, 2014 and 2013 amounted to P 0.181 million and P 0.25 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:

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

There are no agreements between the 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:

	September 30, 2014	September 30, 2013
Local sales	P 2,033,934,524	P 1,796,455,010
Export sales		
ASEAN	207,641,319	204,620,764
Other Asian countries	14,013,455	17,539,588
Africa	35,940,789	88,029,082
Others	11,713,466	28,203,633
	269,309,028	338,393,067
	P 2,303,243,552	P 2,134,848,077

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 P28.1 million and P 30.3 million in 2014 and 2013, respectively.

22. Cost of Goods Manufactured and Sold

This account consists of:

	September 30, 2014	September 30, 2013
Raw materials used	591,173,634	551,218,271
Direct labor	103,522,997	95,869,711
Manufacturing overhead	527,473,546	525,516,186
Cost of goods manufactured	1,222,170,178	1,172,604,168
Finished goods		
Beginning of year	1,061,378,729	856,434,337
Purchases	208,960,693	325,931,326
End of the period	(964,644,633)	(941,967,608)
	P 1,527,864,967	P 1,413,002,222

The details of raw materials used are as follow:

	September 30, 2014	September 30, 2013
Beginning inventory	321,280,042	195,566,481
Purchases	511,415,556	602,102,665
Raw materials available for use	832,695,598	797,669,146
Ending inventory	(241,521,964)	(246,450,875)
Raw materials available for use	591,173,634	551,218,271

23. Distribution Expenses

This account consists of:

	September 30, 2014	September 30, 2013
Delivery expense	P 138,075,325	P 128,182,290
Salaries and wages	13,365,112	12,663,363
Rentals	28,196,496	19,866,494
Taxes and licenses	11,618,006	10,149,908
Depreciation	3,441,981	3,453,529
Office/warehouse supplies	1,116,260	1,059,652
Light and water	2,821,952	2,844,800
Repairs and maintenance	2,421,982	1,534,325
Insurance	696,488	1,078,628
Postage and telephone	1,065,981	1,230,174
SSS/Medical/ECC/HDMF	773,269	744,279
Transportation and travelling	1,330,600	1,247,712
Representation and entertainment	258,208	196,283
Miscellaneous	3,150,823	3,236,950
	P 208,332,484	P 187,488,388

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:

	September 30, 2014	September 30, 2013
Marketing and Development	105,150,576	107,956,385
Salaries, Wages and commissions	87,644,176	85,846,601
Transportation and travelling	35,871,935	37,048,830
Taxes and licenses	13,006,899	8,304,736
Rental	14,866,830	14,866,830
Representation and Entertainment	13,227,731	11,124,221
Professional Fee	8,064,913	7,414,340
Light and Water	5,143,357	4,693,410
Depreciation	4,157,998	4,222,386
SSS/Med/ECC/HDMF	4,118,394	4,084,750
Gas and Oil	4,117,801	4,690,880
Training and Seminar	3,269,961	3,847,775
Postage, Telephone	3,612,889	3,693,152
Contractual Services	2,772,785	2,886,608
Office and warehouse supplies	2,697,729	2,986,281
Insurance	1,581,707	857,867
Repairs and maintenance	1,338,006	1,189,855
Subscription and dues	894,473	756,350
Amortization of Patents	135,191	135,191
Donation	300,000	-
Miscellaneous	9,953,126	8,295,180
	P 321,926,477	P 314,901,628

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:

	September 30, 2014	September 30, 2013
Interest	P 4,013,905	P 5,494,752
	P 4,013,905	P 5,494,752

26. Finance Cost

This account consists of interests on loans as follows:

	September 30, 2014	September 30, 2013
Short-term loans	P 101,748,829	P 102,609,641
Long-term loans	33,936,134	20,600,669
	P 135,684,963	P 123,210,310

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

27. Miscellaneous Income

This account consists of:

	September 30, 2014	September 30, 2014
Interest on car/housing loans	P 1,702,291	P 1,506,498
Others	4,027,842	688,373
	P 5,730,133	P 2,194,871

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 P 13.1 million and P 14.5 million for the periods ended September 30, 2014 and 2013, 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, 2013.

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

Retirement benefit expense

	2013	2012
		(As restated see note 3)
Current service cost	P 6,423,468	P 5,020,400
Interest cost	4,257,654	4,784,820
	P 10,681,122	P 9,805,220

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

	2013	2012 (As restated see note 3)
Included under salaries and wages		
Cost of goods sold and manufactured	P 4,735,420	P 4,347,093
Distribution expenses	658,586	604,579
Administrative and selling expenses	5,287,116	4,853,548
	P 10,681,122	P 9,805,220

	2013	2012 (As restated see note 3)
Present value of benefit obligation	P 93,379,400	P 85,774,000
Fair value of the plan assets	-	-
	93,379,400	85,774,000
Liabilities recognized in the statements of financial position	P 93,379,400	P 85,774,000

Retirement liability

Define benefit obligation

	2013	2012 (As restated see note 3))
At January 1	P 85,774,000	P 68,266,311
Current service cost	6,423,468	5,020,400
Interest cost	4,257,654	4,784,820
Actuarial loss/(gain)		
Experience adjustments	(2,419,290)	16,215
Change in demographic assumptions	-	97,900
Changes in financial assumptions	4,981,000	13,388,200
Benefits paid	(5,637,432)	(5,799,846)
	P 93,379,400	P 85,774,000

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

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

	2013	2012 (As restated, see Note 3)
Balance at beginning of year	P 85,774,000	P 68,266,311
Total retirement expense	10,681,122	9,805,220
Total amount recognized in OCI	2,561,710	13,502,315
Actual contributions	-	-
Benefits paid from Company operating funds	(5,637,432)	(5,799,846)
Balance at end of year	P 93,379,400	P 85,774,000

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

Plan Year	Expected Benefit Payments
Less than 1 year	P 7,617,205
More than 1 year to 5 years	56,009,873
More than 5 years to 10 years	68,788,437
More than 10 year to 15 years	57,462,262
More than 15 year to 20 years	59,470,727
More than 20 years	72,045,110

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

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

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

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

	Increase (decrease)	Impact on defined benefit
		obligation Increase (decrease)
Discount rates	+1.00%	P 86,177,300
	-1.00%	101,673,100
Salary increase rate	1.00%	P 97,825,500
	-1.00%	89,545,400
Turnover rate	1.00%	P 92,562,200
	-1.00%	94,254,000

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

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 September 30, 2014 and 2013 were estimates and unaudited. The final tax for the year is recomputed and audited by the external auditor of the Company.

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

	2013	2012
Unfunded retirement liability	P 28,013,820	P 25,732,200
Allowance for impairment of receivables	11,833,530	11,037,924
	P 39,847,350	P 36,770,124

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:

	September 30, 2014	September 30, 2013
Within one year	P 46,958,078	P 23,938,153
After one year but not more than five years	15,652,693	12,889,774
	P 62,610,771	P 36,827,927

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

	September 30, 2014	September 30, 2013
Cost of goods manufactured and sold	P 19,547,445	P 2,094,602
Distribution expense	28,196,496	19,866,495
Administrative and selling expense	14,866,830	14,866,830
	P 62,610,771	P 36,827,927

32. Provisions and Contingencies

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

As of June 30, 2014, the Company had a total of forty-five (45) pending cases, forty-one (41) of which were filed by Euro-Med in various dates and courts in the Philippines against its customers for the collection of various amounts and/or bouncing checks and a case filed by a former employee in the labor Relations Commission. The aggregate amount claimed for these 42 collection cases and labor is approximately P 11.7 million which is less than 1% of the group's current assets.

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

The Company's unused letters of credit amounted to approximately P184.1 million in 2014 and P226.1 million in 2013.

33. Earnings Per Share (EPS)

Computation of basic and diluted EPS is shown below:

	September 30, 2014	September 30, 2013
Net income	P 85,182,318	P 83,194,760
Divided by the weighted average number of shares	4,112,140,540	4,112,140,540
	<u>.02</u>	<u>.02</u>

There were no potential dilutive shares in 2014 and 2013.

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 June 30, 2014 and 2013, 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)

	September 30, 2014	2013
Cash in banks and cash equivalents	P 692,841,668	P 649,012,562
Receivables		
Trade	1,596,144,757	1,588,218,267
Non-trade	3,592,428	2,789,359
Others		
Advances to related party	437,185,115	344,685,115
Advances and deposits	42,798,147	36,799,271
Advances to officers and employees	22,755,959	23,422,433
Advances and deposits, housing and car loans	36,684,494	37,397,632
Available for sale financial assets	200,000	344,000
Receivable from SMDC	625,000,000	625,000,000
	P 3,457,202,569	P 3,307,668,639

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:

	2014	2013
Notes Payable		
Within one (1) year	2,433,243,000	P 2,260,700,000
Over one (1) year	866,570,833	655,616,667
Acceptances Payable		
Within one (1) year	148,874,317	307,848,276

As of September 30, 2014 and 2013, 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 P369.1 million or US\$ 8.2 million as of September 30, 2014 and P388.2 million or US\$8.7 million as of December 31, 2013, 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:

	2014		2013	
	Foreign currency	Peso Conversion	Foreign currency	Peso Conversion
US Dollar	4,037,494	P 181,525,730	4,366,858	P 193,932,148
Euro	20,351	1,156,535	71,526	4,349,472
Singapor Dollar	16,591	583,502	17,321	606,059
ZAR	40,945,521	163,577,356	38,763,951	167,460,268
RUB	16,999,594	22,269,469	16,684,694	21,856,950
		P 369,112,591		P 388,204,897

The Company also has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Company's functional currency. For the period Jan.- Sept. 2014 and 2013, approximately 10 % and 15% 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 September 30, 2014 and 2013:

	2014	2013
Short-term debts		
Trade and other payables	P 256,943,409	P 323,909,068
Current portion of notes payable	2,476,813,833	2,260,700,000
Acceptances payable	148,874,317	307,848,276
Others	16,262,230	62,491,940
	2,898,893,789	2,954,949,284
Long-term debts		
Notes payable-net of current portion	823,000,000	655,616,667
Deferred credits	1,487,823	2,700,000
Total debt (a)	P 3,723,381,612	P 3,613,265,951
Equity (b)	P 4,809,958,074	P 4,930,382,783
Debt-to-capital ratio (a/b)	0.77	0.73

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.

	2014		2013	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Financial Assets:				
Cash in banks	P 661,214,283	P 661,214,283	P 615,943,995	P 615,943,995
Trade and other receivables				
Trade-net	1,596,144,757	1,596,144,757	1,548,773,173	1,548,773,173
Non-trade	3,592,428	3,592,428	2,789,359	2,789,359
	2,260,951,468	2,260,951,468	2,167,506,527	2,167,506,527
Available-for-sale financial assets				
Quoted		-	144,000	144,000
Unquoted	200,000	200,000	200,000	200,000
	200,000	200,000	344,000	344,000
	P 2,261,151,468	P 2,261,151,468	P 2,167,850,527	P 2,167,850,527
Financial Liabilities:				
Trade accounts payable	P 256,943,409	P 256,943,409	P 323,909,068	P 323,909,068
Notes payable	2,476,813,833	2,476,813,833	2,260,700,000	2,260,700,000
Acceptances payable	148,874,317	148,874,317	307,848,276	307,848,276
Other current liabilities	16,262,230	16,262,230	62,491,940	62,491,940
	P 2,898,893,789	P 2,898,893,789	P 2,954,949,284	P 2,954,949,284

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 September 30, 2014, and 2013 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

		September 30, 2014
0 – 30 days	p	290,241,435
31-60 days		217,703,403
61-90 days		171,345,963
Over 90 days		937,517,583
under litigation		18,781,470
	p	1,635,589,854

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

Financial Soundness Indicators	September 30, 2014	Dec. 31, 2013
Current Ratio	1.46	1.38
Debt to equity ratio	0.8	0.76
Asset to equity ratio	1.8	1.76
Interest rate coverage ratio	0.9	1.5
Profitability Ratio:		
Profit Margin	0.04	0.06
Return on Assets	0.01	0.02
Return on equity	0.02	0.04

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