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S.E.C. Registration Number

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(Company's Full Name)

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

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Contact Person

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Company Telephone Number

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Month

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Annual Meeting

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Secondary License Type, if Applicable

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Amended Articles Number/Section

Total Amount of Borrowings

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Total No. of Stockholders

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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

Yes [ x ]      No [ ]

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

Philippine Stock Exchange

Common Stock

12. Check whether the issuer:

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

Yes [ x ]      No [ ]

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

Yes [ x ]      No [ ]

13. The aggregate market value of the voting stock held by non -affiliates of the registrant amounted to ₱ 1,108,613,002 (based on closing market price on March 30, 2012 of ₱ 2.65 per share).

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

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## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1 Business**

#### **History and Background**

Euro-Med Laboratories Phil., Inc. (Euro-Med) was incorporated and registered with the Securities and Exchange Commission (SEC) on January 29, 1988. Upon receipt of the licenses and product registration approvals from the Food and Drug Administration Philippines (FDA), Euro-Med began commercial production in 1991. The parent Company (Euro-Med) is engaged in the manufacture of pharmaceutical products such as large and small volume parenterals and other solutions. Large volume parenterals (LVP) are more commonly known as intravenous fluids. Intravenous fluids are defined as any fluid applied directly into the vein. LVP are packaged in containers of more than 100 mL while small volume parenterals (SVP) are injections that are packaged in containers of 100 mL or less. SVP may also be used as a solvent for other drugs. The Company also manufactures sterile water for injection, and other solutions such as ophthalmic, inhalation, irrigation and dialysis. The Company is the largest manufacturer of high quality intravenous fluids in the Philippines. Euro-Med is the parent company of the following three (3) subsidiaries:

1. 102 E. Delos Santos Realty Co., Inc. (102 EDSA/the Subsidiary), a 100% owned firm acquired in May 2000. The subsidiary is engaged in the rental of property. The subsidiary's only real property, a 10,936 square meter lot located at the corner of E. Delos Santos Ave. and Madison Street, Mandaluyong City is being rented to the parent company that expired on June 30, 2011 and was renewed for another one (1) year period ending on June 30, 2012. Consequently, the income of the subsidiary is wholly dependent on the parent company.
2. Hemotek Renal Center, Inc. (Hemotek /the Subsidiary), a 100% owned firm which was incorporated in June 2008 and is engaged as a dialysis center.
3. CafeFrance Corp. ( CafeFrance / the Subsidiary), a 100% owned firm which was newly incorporated in August 2010 and is engaged to operate restaurants, bakeries, food services, catering, food production and other related services incidental thereto.

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

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

#### **Products**

Presently, the company manufactures and distributes a wide range of parenteral products in various sizes ranging from 1mL to 1000mL. Parenteral products are considered unique because they are administered by injection through the skin or mucous membrane into internal body compartments. Parenteral products must be free from microbial contamination and toxic components, and an exceptionally high level of purity of the dosage form must be achieved. For this reason, the preparations of parenteral products have become a highly specialized area in pharmaceutical manufacturing.

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

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

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

### **Large Volume Parenterals**

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

### **Small Volume Parenterals**

SVP apply to injections that are packaged in containers labeled as containing 100mL or less. Euro-Med presently markets products in 20mL, 25mL and 50mL multiple dose plastic vials and 1 mL, 2 mL, 2.5 mL, 3 mL and 5 mL plastic ampoules. Euro-Med's container of plastic vials has a rubber stopper which permits the insertion of a needle from a hypodermic syringe and the withdrawal of part of the solution.

### **Specialty Fluids**

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

### **Other Drug Preparation**

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

### **Medical Devices**

In April 2006, Hospira Philippines Inc. appointed Euro-Med as its exclusive distributor of Hospira Venisystem products such as Venipuncture sets, IV Administration sets, IV Equipment and Receptal Liners in the Philippines. The distribution agreement is valid until the end of March 2008 and is being renewed automatically for one(1) year period.

Euro-Med also sells administration sets for intravenous fluids. The Company has signed a two (2) year agreement with Kawasumi Laboratories, Inc. of Japan to become a distributor of their administration sets intended for adult and pediatric use. The current agreement was signed on October 1, 2001 with automatic renewals thereof.

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

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

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

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

### **Bottled Water**

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

### **Toll Manufacturing**

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

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

### **New Products**

The company has launched new products in the market such as:

- 1.) Benzalkonium chloride 10% Disinfectant, 20L  
.Brand Name: None
- 2.) Nizatidine 150 mg Tablet  
Brand Name: Nolcer

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

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

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

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

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

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

6. Bottled Drinking Water Processor
7. Drug Distributor / Importer

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

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

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

#### **Employees and labor contract**

As of December 31, 2011, Euro-Med (Parent Company) employs a total of 1,279 employees, consisting of 19 Executive Officers, 86 Managerial and 1,174 rank and file and casual personnel. There has not been a strike in the company. In a Certification Election on November 4, 1999 held under the supervision of the Department of Labor and Employment (DOLE) – Region IV, Euro-Med Employees Union won and was subsequently certified on November 15, 1999 as the sole and exclusive bargaining agent of regular rank and file employees of Euro-Med Laboratories Phil., Inc. for purposes of collective bargaining. A new collective bargaining agreement was ratified on March 13, 2009 that would cover the period January 1, 2010 to December 31, 2014. Among others, the CBA provide for the following benefits:

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

Euro-Med is the Parent Company of three (3) subsidiaries:

1. 102 E. De Los Santos Realty Co., Inc., a 100% owned firm acquired in May 2000 which is involved in leasing out investment property. This subsidiary has no employees as of December 31, 2011 as its books of accounts and financial statements are being handled by an employee of the parent Company.
2. Hemotek Renal Center, Inc., a 100% owned firm which was incorporated in June 2008 and is engaged as a dialysis center. This subsidiary has a total of 170 employees as of December 31, 2011.
3. CafeFrance Corp. ( CafeFrance / the Subsidiary), a 100% owned firm which was newly Incorporated in August 2010 and is engaged to operate restaurants, bakeries, food services, catering, food production and other related services incidental thereto. The subsidiary has a total of 463 employees as of December 31, 2011.

#### **Raw Materials**



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

### **Marketing and Distribution**

#### **Industry Data**

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

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

Euro-Med is the leading manufacturer of LVP in the Philippines with about eighty percent (80%) market share in the country (based on Company data). Euro-Med competes with other companies such as Baxter Healthcare Phil., Inc., B. Braun Medical Supplies, Inc., and LVP Philippines Inc. Euro-Med competes in terms of quality, price, availability, delivery service and customer relations. Euro-Med's continued success in the IV Fluids market can be attributed to its high quality products, wide range of product line, competitive price, availability, efficient delivery and dedicated sales team. The Company has a customer base composed of more than 8,000 institutions nationwide. The Company's sales, therefore, are not dependent on one or a few major customers and no customer accounts for more than ten percent (10%) of the Company's sales. Among the Company's customers are hospitals, clinics, drugstores, medical distributors and traders as well as corporate/industrial accounts. Euro-Med's primary customers are hospitals all over the country. Hospitals can be either private or government sub-divided into primary, secondary and tertiary levels, depending on the bed capacity and hospital equipment. In 2011 sales to hospitals and clinics accounted for approximately 67% of total revenues. Sales to drugstores reached 24% while combined revenues from distributors, traders, industrial accounts and laboratories reached approximately 9% of total Company revenues.

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

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

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

#### **Exports**

Euro-Med is presently exporting its intravenous fluids to several countries and will be expanding its international customer base to include markets in other parts of the world. In 2009, 2010 and 2011, export sales contributed approximately 11%, 13% and 15% respectively of total Company sales. The Company expects this figure to rise in the succeeding years. The Company products are imported and distributed by a local distributor(s) in the respective countries. The breakdowns of exports per region for the past three (3) years are as follows:

REGION	2009		2010		2011	
	P('000)	%	P('000)	%	P('000)	%
ASEAN	₱ 306,259	66.1%	₱ 317,903	62.0%	₱ 310,638	63.4%
Other Asia	46,936	10.1%	64,061	12.5%	66,575	13.6%
Africa	49,621	10.7%	58,435	11.4%	53,487	10.9%
Others	60,824	13.1%	72,025	14.1%	59,145	12.1%
Total	<u>₱ 463,640</u>	<u>100%</u>	<u>₱ 512,424</u>	<u>100%</u>	<u>₱ 489,845</u>	<u>100%</u>

### **Research and Development**

Euro-Med is continuously developing additional pharmaceutical products for ophthalmic, inhalation, irrigation and other health care purposes. In 2009, 2010 and 2011, the Research and Development Department of Euro-Med spent ₱ 22.4 million, ₱ 19.6 million and ₱ 16.7 million respectively to develop new products. The funds were used to purchase raw materials and laboratory equipment to test the new formulations.

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

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

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

### **Major business risks**

#### **Raw materials**

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

#### **Product registration**

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

#### **Foreign Exchange**

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

## **Item 2 Properties**

### **Cavite Plant**

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

### **Mandaluyong Plant**

The pharmaceutical manufacturing plant is located on a 10,936 square meter lot located at the corner of Epifanio delos Santos Avenue (EDSA) and Madison Street, Mandaluyong City, Metro Manila. The land is being leased from 102 E. Delos Santos Realty Co., Inc, a 100% owned subsidiary acquired on May 24, 2000. The plant consists of an office building, recreation hall, cafeteria, production facilities, laboratories and warehouse. The buildings, machinery and improvements are wholly owned by the Company and are not subject to any mortgage or lien. There are no existing limitations on its ownership or usage.

### **Bulacan Depot**

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

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

The Company leases the following properties:

- (a) The Company's head office at the PPL Building, United Nations Avenue corner San Marcelino Street, Manila from U. S. Automotive Co., Inc., a majority stockholder of the company. The lease is for a one (1) year period and is being renewed annually subject to mutual agreement of the parties. The rent for the year 2011 amounted to ₱ 13,046,440.
- (b) A 10,936 square meter lot located at the corner of Epifanio delos Santos Avenue and Madison Street, Mandaluyong City from 102 E. Delos Santos Realty Co., Inc., a 100% owned subsidiary. The lease is for one (1) year period and being renewed annually subject to mutual agreement of the parties. The rent for the year 2011 amounted to P 15,633,059.
- (c) The Company's twelve (12) depots which are located strategically in key cities all over the country. The lease contracts are for a one (1) year period and are being renewed annually subject to mutual agreement of the parties. The rent for the year 2011 amounted to ₱ 6,823,518.
- (d) The Company's warehouse located in Silang, Cavite. The lease contract is for 5 year period and is subject to renewal upon mutual agreement of the parties. The rent for the year 2011 amounted to P 13,692,400.

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

### ITEM 3 Legal Proceedings

As of December 31, 2011, Euro-Med had a total of forty-four (44) pending cases, forty one (41) of which were filed by Euro-Med for the collection of various amounts and/or for bouncing checks. The aggregate amount claimed for the same is approximately ₱ 9.6 million. Three (3) of these cases not filed by Euro-Med are Insolvency Proceedings against customers for which Euro-Med have pending claims for payments.

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

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

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

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

#### 1.) Market Information

Euro-Med’s common shares are publicly listed with the Philippine Stock Exchange. The high and low sales prices of the shares are:

2011		High		Low	
1 <sup>st</sup> Quarter	₱	1.77	₱	1.12	
2 <sup>nd</sup> Quarter	₱	1.8	₱	1.11	
3 <sup>rd</sup> Quarter	₱	1.8	₱	1	
4 <sup>th</sup> Quarter	₱	1.72	₱	1.1	
2010		High		Low	
1 <sup>st</sup> Quarter	₱	1.7	₱	1.2	
2 <sup>nd</sup> Quarter	₱	1.76	₱	1.06	
3 <sup>rd</sup> Quarter	₱	1.8	₱	1.5	
4 <sup>th</sup> Quarter	₱	1.75	₱	1.5	

The market price per share of Euro-Med is ₱ 2.65 on March 30, 2012 (the latest practicable trading date before submission of the report).

#### 2.) Holders

As of March 30, 2012, the Company has on record a total of 568 stockholders with a total of 4.112 Billion issued and outstanding shares. The top twenty (20) stockholders are as follows:

	<u>Stockholder's Name</u>	<u>Total Shares</u>	<u>%</u>
1	U.S. AUTOMOTIVE CO., INC.	2,401,747,112	58.41%
2	USAUTO CO., INC.	855,505,147	20.80%
3	PHILIPPINE TRUST COMPANY	231,124,845	5.62%
4	PHILIPPINE TRUST COMPANY (Trust Department)	133,986,446	3.26%
5	EVERGREEN STOCK BROKERAGE	298,725,323	7.26%
6	YAP, ENRIQUE C.	57,384,226	1.40%
7	YAP, JOHNNY C.	36,980,720	0.90%
8	YAP III, EMILIO C.	35,695,668	0.87%
9	YAP, NICHOL C.	35,695,668	0.87%
10	PCD NOMINEE CORP. (FIL.)	7,732,019	0.19%
11	EVIDENTE, GEORGIANA S.	1,285,052	0.03%
12	MARAMBA, TOMAS P.	1,285,052	0.03%
13	YAP, ENRIQUE RAYMOND I.	1,067,839	0.03%
14	COHU, MARSHALL COHU ITF: MARC C. ALLAN	822,430	0.02%
15	COHU, MARSHALL COHU ITF: DANICA MARIE C.	616,823	0.02%
16	COHU, MARSHALL COHU ITF: DIANNE BERNICE C.	616,823	0.02%
17	GOLDCLASS INC.	272,729	0.01%
18	BUESER, ANGELITA B.	261,124	0.01%
19	YAP, MICHAEL VINCENT Y.	257,017	0.01%
20	EMITERIO, JOSE A.	205,610	0.01%

### 3.) Dividends

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

<u>Year</u>	<u>Kind</u>	<u>Amount</u>	<u>Rate</u>	<u>Record Date</u>
2009	none	₱		
2010	Stock	300.00 Million	8.47%	July 21, 2010
2011	Stock	269.00 Million	7.00%	July 08, 2011

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

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

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

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

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

The Company has issued three hundred twenty two million one hundred two thousand (322,102,000) shares on July 14, 2009 as an exempt transaction under Section 10.1(d) of Securities Regulation Code.

The issuance is exempt since the subject securities were distributed to existing stockholders by way of stock dividend pursuant to SEC Resolution No. 122 Series of 2009 dated July 14, 2009.

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

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

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

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

1.) The Company's net sales increased by 0.18 % from ₱ 4,021.6 million in 2010 to ₱ 4,028.7 million in 2011. The domestic sales increased by 0.80% from ₱ 3,509.1 million in 2010 to ₱ 3,538.9 million in 2011, while Export sales decreased by 4.4% from ₱ 512.4 million in 2010 to ₱ 489.8 million in 2010. The increase in sales indicator was chosen by management as it disclosed the level of performance the Company has attained against the targeted growth. The percentage change is computed by dividing the peso increase in sales by the peso sales during the comparable period of previous year.

2.) The gross profit on sales increased by 30.5% from ₱ 1,280.6 million for the year 2010 to ₱ 1,671.8 million for the year 2011. Cost of goods manufactured and sold decreased by 14% from ₱ 2,740.9 million in 2010 to ₱ 2,356.9 million in 2011 due to lower sales of distributed products with high cost ratio. As a percentage of net sales, cost of goods manufactured and sold decreased from 68.2% in 2010 to 58.5% in 2011. The gross profit indicator provides information about product selling prices relative to production costs. The percentage change in gross profit is computed by dividing the peso increase in gross profit by the peso gross profit during the comparable period of previous year

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

4.) Net Finance cost/income (finance income, finance costs and other income) decreased by 10.8% from ₱ 204.6 million in 2010 to ₱ 182.4 million in 2011 due to the decrease in finance cost on loans and in foreign exchange loss in 2011. Changes in net finance costs/income indicator provides information on significant elements of other income and other expenditures from the Company's continuing operations. The percentage change is calculated by dividing the peso increase of net finance costs/income by the peso finance costs/income during the comparable period of previous year.

5.) Provision for income tax decreased by 20.5% from ₱ 127.8 million in 2010 to ₱ 101.6 million in 2011. The net income decreased by 18.8% from ₱ 298.6 million in 2010 to ₱ 242.5 million in 2011.

Changes in net income are indicators of the adequacy of amount to satisfy stockholders' dividend and rate-of-return expectations. The percentage change in net income is calculated by dividing the peso increase in net income by the peso net income during the comparable period of previous year.

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

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

### **Projection**

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

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

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

### **Calendar Year 2010 Compared to Calendar Year 2009**

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

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

1.) The Company's net sales decreased by 8.1 % from ₱ 4,376.6 million in 2009 to ₱ 4,021.6 million in 2010. The decrease in sales was attributed to the decrease in distributed products as the distribution agreement has ended. The decrease from its distribution line has minimal gross profit margin. The do-

mestic sales of distributed products decreased by 33.7% from ₱ 2,036.0 million in 2009 to ₱ 1,348.6 million in 2010, while Export sales increased by 10.5% from ₱ 463.6 million in 2009 to ₱ 512.4 million in 2010. The increase in sales indicator was chosen by management as it disclosed the level of performance the Company has attained against the targeted growth. The percentage change is computed by dividing the peso increase in sales by the peso sales during the comparable period of previous year.

2.) The gross profit on sales increased by 9.2% from ₱ 1,172.7 million for the year 2009 to ₱ 1,280.6 million for the year 2010. Cost of goods manufactured and sold decreased by 14.5% from ₱ 3,203.9 million in 2009 to ₱ 2,740.9 million in 2010 due to higher cost of sales on distributed products. As a percentage of net sales, cost of goods manufactured and sold decreased from 73.2% in 2009 to 68.1% in 2010. The gross profit indicator provides information about product selling prices relative to production costs. The percentage change in gross profit is computed by dividing the peso increase in gross profit by the peso gross profit during the comparable period of previous year

3.) Income from operations (income before finance income/costs and miscellaneous income) increased by 4.0% from ₱ 606.9 million for the year 2009 to ₱ 631.0 million for the year 2010. Operating expenses (administrative selling and distribution) increased by 14.8% from ₱ 565.8 million in 2009 to ₱ 649.6 million in 2009. The increase was due to the increased variable operating expenses i.e. commissions, transportation and travelling, rentals, electricity and taxes. As a percentage of net sales, operating expenses is 12.9% in 2009 and 16.1% in 2010. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on administrative, selling and distribution expenses. The percentage change in income from operations is calculated by dividing the peso increase in operating income by the peso operating income during the comparable period of previous year. The percentage change in operating expenses is calculated by dividing the peso increase in operating expenses by the peso operating expenses during the comparable period of previous year.

4.) Net Finance cost/income (finance income, finance costs and other income) increased by 15.8% from ₱ 176.7 million in 2009 to ₱ 204.6 million in 2010 due to the decrease in foreign exchange gain in 2010. Changes in net finance costs/income indicator provides information on significant elements of other income and other expenditures from the Company's continuing operations. The percentage change is calculated by dividing the peso increase of net finance costs/income by the peso finance costs/income during the comparable period of previous year.

5.) Provision for income tax decreased by 1.9% from ₱ 130.4 million in 2009 to ₱ 127.8 million in 2010. The net income decreased by 0.4% from ₱ 299.8 million in 2009 to ₱ 298.6 million in 2010. Changes in net income are indicators of the adequacy of amount to satisfy stockholders' dividend and rate-of-return expectations. The percentage change in net income is calculated by dividing the peso increase in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 8.8% from ₱ 6,837.0 million in 2009 to ₱ 7,439.9 million in 2010. Current ratio increased by 23.6% from 1.30:1 in 2009 to 1.60:1 in 2010. Debt ratio remain the same at 0.43:1 in 2009 and 2010, while the equity ratio remain the same at 0.57:1 in 2009 and 2010.

The increase in cash and cash equivalents was due to the proceeds of notes payable and collections of advances to subsidiary. The decrease in inventories was due to the decrease in the inventory of distributed products as the distribution agreement had ended. The increase in other current assets and other non-current assets was due to the increase in prepaid marketing development expense, advances to suppliers and deferred tax assets. The decrease in trade accounts payable was due to the payments in purchases of local raw materials and services from suppliers. The increase in acceptances payable was due to the trust receipts on letters of credit for the importation of raw materials and local distributed products. The increase in total Notes Payable was due to the new availments of loans. The total decrease in total installment contract payable was due to payments made during the year. The decrease in other current liabilities was due to the decrease in agency payable. The increase in retirement liability was due to recognition of additional retirement expense for year 2010. The decreased in deferred credits was due to amortization of prepaid rent. The increase in retained earnings was due to the net income earned during 2010.



## **Projection**

The Company expects to decrease its sales in 2011 by about 1% due to decrease in distributed products as the distributed agreement with one of the principals has ended. However, the decrease from its distribution line has minimal gross profit margin. The Company is continuously expanding its present product line to include specialty products for inhalation, ophthalmic, irrigation and other health care purposes. Likewise, the Company expects to open new export markets in other countries and increases the number of products being exported.

The gross profit ratio is expected to increase from 31% of sales in 2010 to about 33% of sales in 2011 due to the increase in gross profit from higher sales of manufactured products. The expected gross profit in 2011 is about P1.3 billion.

The expected net income for 2011 is about P299 million, the same amount as for 2010. As a percentage of sales, the net income ratio is about 7% to 8% of net sales.

## **Calendar Year 2009 Compared to Calendar Year 2008**

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

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

- 1.) The Company's net sales increased by 73.6% from ₱ 2,521 million in 2008 to ₱ 4,376 million in 2009. The growth in sales was attributed to the increase in domestic sales and export sales. The domestic sales increase, which mainly came from distributed products resulted to an increase of 87.9% from ₱ 2,082.4 million in 2008 to ₱ 3,913.0 million in 2009, while Export sales increased by 5.7% from ₱ 438.7 million in 2008 to ₱ 463.6 million in 2009. The increase in sales indicator was chosen by management as it disclosed the level of performance the Company has attained against the targeted growth. The percentage change is computed by dividing the peso increase in sales by the peso sales during the comparable period of previous year.
- 2.) The gross profit on sales increased by 3.9% from ₱ 1,131.4 million for the year 2008 to ₱ 1,175.3 million for the year 2009. Cost of goods manufactured and sold increased by 130.4% from ₱ 1,389.7 million in 2008 to ₱ 3,201.4 million in 2009 due to higher cost of sales on distributed products. As a percentage of net sales, cost of goods manufactured and sold increased from 55.1% in 2008 to 73.1% in 2009. The gross profit indicator provides information about product selling prices relative to production costs. The percentage change in gross profit is computed by dividing the peso increase in gross profit by the peso gross profit during the comparable period of previous year.
- 3.) Income from operations (income before finance income/costs and miscellaneous income) decreased by 1.7% from ₱ 628.1 million for the year 2008 to ₱ 617.6 million for the year 2009. Operating expenses (administrative selling and distribution) increased by 10.8% from ₱ 503.3 million in 2008 to ₱ 557.7 million in 2009. The increase was due to the increased variable operating expenses i.e. commissions, transportation and travelling and product distribution costs related to the increase in product sales. As a percentage of net sales, operating expenses is 20% in 2008 and 13% in 2009. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on administrative, selling and distribution expenses. The percentage change in income from operations is calculated by dividing the peso increase in operating income by the peso operating income during the comparable period of previous year. The percentage change in operating expenses is calculated by dividing the peso increase in operating expenses by the peso operating expenses during the comparable period of previous year.

4.) Net Finance cost/income (finance income, finance costs and other income) decreased by 3.8% from ₱ 183.8 million in 2008 to ₱ 176.7 million in 2009 due to increase of finance income/gain in 2009. Changes in net finance costs/income indicator provides information on significant elements of other income and other expenditures from the Company's continuing operations. The percentage change is calculated by dividing the peso increase of net finance costs/income by the peso finance costs/income during the comparable period of previous year.

5.) Provision for income tax decreased by 15% from ₱ 157.1 million in 2008 to ₱ 133.6 million in 2009 due to lower income tax rate of 30% in 2009 compared to 35% in 2008. The net income increased by 7.0% from ₱ 287.2 million in 2008 to ₱ 307.3 million in 2009. Changes in net income are indicators of the adequacy of amount to satisfy stockholders' dividend and rate-of-return expectations. The percentage change in net income is calculated by dividing the peso increase in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased by 10% from ₱ 6,169.89 million in 2008 to ₱ 6,833.8 million in 2009. Current ratio increased by 16% from 1.12:1 in 2008 to 1.30:1 in 2009. Debt ratio increased by 3% from 0.41:1 in 2008 to 0.43:1 in 2009, while the equity ratio decreased by 3% from 0.59:1 in 2008 to 0.57:1 in 2009.

The increase in cash and cash equivalents was due to collections of receivables. The increase in Trade and other receivable was due to the increase in sales. The increase in Inventories was due to increase in finished goods which are being distributed by the company. The increase in other current assets and other non-current assets was due to the increase in prepaid marketing development expense and deposits to suppliers. The increase in trade accounts payable was due to purchases of local distributed products from suppliers. The decrease in acceptances payable was due to payments made on trust receipts for the importations of raw materials. The decrease in income tax payable was due to lower income tax rate of 30% in 2009 as compared to 35% in 2008. The net decrease in installment contract payable was due to payments made during the year. The increase in notes payable was due to new availments of loans from banks credit lines. The increase in other current liabilities was due to the increase in agency payable. The decreased in deferred credits was due to amortization of prepaid rent. The increase in shareholders' equity was due to the net income earned during 2009.

### **Projection**

The Company expects to increase its sales in 2010 by about 15% from its local and export sales. Majority of the increase, however, would come from its distribution business line with high cost of sales. The Company is continuously expanding its present product line to include specialty products for inhalation, ophthalmic, irrigation and other health care purposes. The Company expects to open new export markets in other countries and increases the number of products being exported.

The gross profit ratio is expected to decrease from 27% of sales in 2009 to about 26% of sales in 2010 due to higher cost of sales on products, which are being distributed by the Company. The expected gross profit in 2010 is about P1,287 million.

The net income for 2010 is expected to increase by about 8%. As a percentage of sales, the net income ratio is expected to remain the same at 7% in 2010 and 2009. The expected net income in 2010 is about P333million.

### **Liquidity and Capital Resources**

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

Capital expenditures for the years 2009, 2010 and 2011 were ₱ 183.5 million, ₱ 180.5 million and P 472.9 million respectively. These capital expenditures related primarily to the expansion programs of the Company for land, buildings, machinery and equipment.

Working capital and capital expenditures for the years 2009, 2010 and 2011 were financed through internally generated funds, and short term and long-term borrowings from various commercial banks.

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

### **Plans of the Company**

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

## **Item 7 Financial Statements**

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

Exhibit II - Audited Consolidated Financial Statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries as of December 31, 2009, 2010 and 2011.

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

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

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

The aggregate fees billed by the Company's external auditors for the years 2010 and 2011 amounted to P 244,000 and P184,000 respectively. These amounts cover the cost of the regular audit of the Company's annual financial statements in connection with statutory and regulatory filings for those covered years. These fees also include consultation on minor accounting matters and minor tax matters, such as queries on new BIR regulations, computation of VAT, etc. Any work that will involve our external auditors to represent the company on cases with the Bureau of Internal Revenue and other regulatory bodies are considered major accounting and tax matters which shall be billed commensurate with the number of hours spent by the auditors working on such consultation.

#### **b.) Tax fees – None**

#### **c.) All other fees – None**

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

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

2.1) The Company's financial statements for the years 2009, 2010 and 2011 were audited by MCJ & Co., CPA's, the audit firm appointed by the stockholders in its meeting held on June 17, 2009, July 21, 2010 and June 15, 2011. There were no disagreements with accountants on any matter of accounting principles or practices, financial statement disclosures, or auditing scope or procedure.

2.2) The company's financial statements for the years ended December 31 2006 to December 31, 2010 were audited and signed by one of MCJ's partner, Mr. Napoleon A. Calderon. In compliance with SEC Rule 68 as amended, the company's financial statements for the year ended December 31, 2011 are audited and signed by another partner of the same auditing firm, Mr. Marcelino A. Mercado.

### PART III – CONTROL AND COMPENSATION INFORMATION

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

Each of the directors and officers serve a term of one (1) year until the election and qualification of their successors. Following are the Company’s board of directors as of December 31, 2011

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>	<u>Previous Term (Yrs.)</u>
Dr. Tomas P. Maramba, Jr. *	78	Filipino	Honorary Chairman Emeritus	17
Dr. William G. Padolina *	65	Filipino	Chairman	12
Mr. Edwin Feist *	63	Australian	Vice Chairman	1
Mrs. Georgiana S. Evidente	50	Filipino	Director	16
Dr. Enrique C. Yap	60	Filipino	Director/Vice Chairman	17
Dr. Evangeline V. Baviera	56	Filipino	Director	15
Mr. Johnny C. Yap	39	Filipino	Director	17
Dr. Teodora D. Tan	74	Filipino	Director	21

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

The following are the Company’s key executive officers as of December 31, 2011:

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Position</u>	<u>Previous Term (yrs.)</u>
Mrs. Georgiana S. Evidente	50	Filipino	President	18
Dr. Enrique C. Yap	60	Filipino	Executive Vice President	17
Dr. Evangeline V. Baviera	56	Filipino	Executive Vice President	15
Mr. Johnny C. Yap	39	Filipino	EVP/Treasurer and Assistant Corporate Secretary	17
Dr. Teodora D. Tan	74	Filipino	Assistant Treasurer	21
Janice R. Ong	41	Filipino	Corporate Secretary	5

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

**Age: 78**

Dr. Tomas P. Maramba, Jr. is a Filipino, married and graduated from the College of Medicine, University of the Philippines, with the degree of Doctor of Medicine in 1956. In 1975, he completed his Master’s Degree in Hospital Administration from the Institute of Public Health of the same university. He took postgraduate training at the Philippine General Hospital in Manila; D.C. General Hospital in Washington D.C.; University of Kansas Medical Center in Kansas City, Kansas; and the Medical College of Georgia in Augusta, Georgia. The American Board of Pathology and the Philippine Board of Pathology have certified him, both in Anatomic Pathology and Clinical Pathology. Dr. Maramba has extensive experience in the field of Medicine in the specialties of Anatomic Pathology and Laboratory Medicine, Public Health, Regulation of Health Services, Hospital Administration and Quality Management in Hospitals and Clinical Laboratories. He was formerly Head of the Departments of Pathology of Rizal Provincial Hospital, Lungsod ng Kabataan and Lung Center of the Philippines. He established and headed the Rizal Cancer Registry and reorganized and headed the Philippine Cancer Society Tumor Registry. In the government, he served as Director of the Bureau of Research and Laboratories, Undersecretary for the Office of Standards and Regulation, Acting Chairman of the Dangerous Drugs Board, Vice-Chairman of the Philippine Council for Health Research and Development, and Program Manager of the National Blood Services Program of the Department of Health. He is a former President of the Philippine Society of Pathologists, Philippine Blood Coordinating Council, Philippine Society of Oncologists, Philippine Society for Quality in Health Care, Asian Network for Clinical Laboratory Standardization and Harmoniza-

tion and Philippine Council for Quality Assurance in Clinical Laboratories. He is a former member of the Board of Governors, Philippine National Red Cross and former Associate Professor and Professorial Lecturer at the Department of Health Policy and Administration, College of Public Health, University of the Philippines, Manila. He is currently President Emeritus of the Philippine Society for Quality in Health Care and President of the Philippine Council for Accreditation of Healthcare Organizations. In the Department of Health, he is Vicechair of the Coordinating Committee of the National Health Laboratory Network and Chair of the Technical Working Group for the Strategic Plan for the National Health Laboratory Network. He is the Chairman of the Department of Pathology and Head of the Quality Management Department at the Dr. Victor R. Potenciano Medical Center and Associate Pathologist and Head of the Blood Bank Section of the United Doctors Medical Center. On 12 May 2010, Dr. Tomas P. Maramba, Jr., retired as Chairman of the Board of Euro-Med Laboratories Phil., Inc. and was thereupon appointed as Honorary Chairman Emeritus.

**DR. WILLIAM G. PADOLINA**                      **Age: 65**  
**Chairman of the Board**

Dr. William G. Padolina, a married Filipino, graduated magna cum laude from the University of the Philippines, Los Baños with the degree of Bachelor of Science in Agricultural Chemistry in 1968. Subsequently as a Fulbright-Hays Scholar, he obtained his Ph.D in Botany/Phytochemistry in 1973 from the University of Texas at Austin. Upon his return from studies abroad, he continued teaching at the Institute of Chemistry, University of the Philippines Los Baños where he became a full Professor of Chemistry in 1987. He was a Consultant for Euro-Med Laboratories Phil., Inc. from 1990 to 1992. Dr. Padolina was appointed as an Undersecretary, Acting Secretary and Secretary of Department of Science and Technology from September 1992 to January 1999. Currently, he is A CONSULTANT AT the International Rice Research Institute in Los Baños, Laguna. On 17 May 2010, he was appointed as Chairman of the Board of Euro-Med Laboratories Phil., Inc.

**MRS. GEORGIANA S. EVIDENTE**                      **Age: 50**  
**Director and President**

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

**DR. ENRIQUE C. YAP**                                      **Age: 60**  
**Vice Chairman, Director /Executive Vice President**

Enrique C. Yap, a married Filipino, graduated from De La Salle College in 1972 with the degree of Bachelor of Arts. He has extensive domestic and international business and management experience in the fields of shipping, real estate, publishing and investments. He became a Director and Executive Vice President of Euro-Med in 1994. Currently, he holds the position of Director of the Manila Bulletin Publishing Corporation, Director and Vice President of Usautoco, Inc., Director and Vice President of U.S. Automotive Co., Inc., Director of Phil-Progress Securities Corporation and President of Philtrust Realty, Inc. On September 21, 2007, Angeles University Foundation conferred upon him the degree of Doctor of Business Management, *honoris causa*. On January 01, 2009 Dr. Yap was elected as Vice Chairman of Euro-Med Laboratories Phil., Inc.

**DR. EVANGELINE V. BAVIERA**                      **Age: 56**  
**Director and Executive Vice President**

Dr. Evangeline V. Baviera, a married Filipino, graduated in 1976 from the University of the Philippines with the degree of Bachelor of Science in Pre-Medicine. She completed her course in Medicine at the University of the East Ramon Magsaysay Memorial Medical Center in 1980. After graduation, she took her specialization in Pediatrics in the hospital of the same university. In 1986, she became a faculty member of the Department of Pharmacology. She served as a consultant to the Bureau of Food and

Drugs from 1988 to 1990. She was the Chairman of the Department of Pharmacology, De La Salle University Health Science Campus in Dasmariñas, Cavite from 1990 to 1992. In 1990, she joined Euro-Med as a Medical Consultant and subsequently became the Medical Director. She was promoted to Vice President in 1992 and Senior Vice President in 1997. She became a Director in 1996. Dr. Baviera is the head of all plant operations. She was promoted to Executive Vice President in 2004.

**MR. JOHNNY C. YAP**                      **Age: 39**  
**Director, Executive Vice President, Treasurer and Assistant Corporate Secretary**

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

**DR. TEODORA D. TAN**                      **Age: 74**  
**Director and Assistant Treasurer**

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

**MRS. JANICE R. ONG**                      **Age: 41**  
**Corporate Secretary**

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

**MR. EDWIN FEIST**                      **Age: 63**  
**Vice Chairman**                              **Independent Director since 2010**

Mr. Edwin D. Feist, a married Australian, has over 42 years international experience in the health care industry working in 3 continents: North America, Asia, Australia and New Zealand. Starting out as a sales representative, Mr. Feist progressed to senior executive positions responsible for international markets with Bristol Myers Squibb-Mead Johnson and Abbott Laboratories. He joined Abbott in November 1994 as President and General Manager of Abbott Philippines and is credited with growing and transforming Abbott's business in the Philippines from a predominantly hospital focused business to a diversified business with pediatric and medical nutrition in the Philippines, Australia, New Zealand and other Asian countries. Prior to Abbott, Mr. Feist held several executive management positions with Bristol Myers-Squibb-Mead Johnson, including: Division Manager Pharmaceutical-Nutrition Division, Australia, Vice President Marketing, Bristol Myers Philippines; President and General Manager, Mead Johnson Philippines; Vice President Business Development, Mead Johnson Latin America. As an industry leader, Mr. Feist was President of the Pharmaceutical and Health Care Association of the Philippines (PHAP) for eight consecutive years and also a three-year director of the American Chamber of Commerce in the Philippines. He is currently the President of the American Chamber Foundation of the Philippines. On 17 May 2010, he was appointed as Vice Chairman of Euro-Med Laboratories Phil., Inc.

### **Family Relationship**

Apart from Enrique C. Yap who is related to Johnny C. Yap to the third civil degree, none of the other directors or key executive officers are related to one another by consanguinity or affinity.

### **Significant Employee**

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

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

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

## **Item 10 Executive Compensation**

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

Annual Compensation.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>Other Annual Compensation</u>
<b>Georgiana S. Evidente</b> ) <i>President</i> )				
<b>Enrique C. Yap</b> ) <i>Executive Vice President</i> )				
<b>Evangeline V. Baviera</b> )	2010	9,683,400	3,477,450	1,286,950
<i>Executive Vice President</i> )	2011	9,706,800	2,701,480	1,288,900
<b>Johnny C. Yap</b> )	2012	10,341,600	2,661,680	1,341,800
<i>Executive Vice President/Treasurer</i> )				
<b>Sandra N. Pineda</b> ) <i>Chief Accountant</i> )				
<b>All Officers and Directors as a group unnamed</b> )	2010	19,499,140	6,648,910	3,035,410
	2011	19,593,840	5,400,800	3,192,820
	2012	20,351,520	5,062,210	3,255,960

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

### **b.) Compensation of Directors**

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

## **Item 11**

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

- 1) Security Ownership of Certain Record and Beneficial Owners

As of March 30, 2012 (the latest practicable date prior to the printing of this document), the following shareholders are the sole owners of record owning more than five percent (5%) of the outstanding shares of the common stock in the capital of the Company:

Title of Class	Name and Address of Record owner and relationship with issuer	Name of beneficial owner and relationship with record owner***	Citizenship	Number of shares held	Percent of Class
Common	U.S. Automotive Co., Inc. * United Nations Avenue corner San Marcelino Street Manila / Major stockholder	Yap Family Stockholder/Director Office	Filipino	2,401,747,112 (R)	58.41%
Common	USAUTO CO, Inc. * United Nations Avenue corner San Marcelino Street, Manila / Major stockholder	Yap Family Stockholder/Director Office	Filipino	855,505,147 (R)	20.80%
Common	Philippine Trust company United Nations Avenue corner San Marcelino Street, Manila	Yap Family Stockholder/Director Office	Filipino	365,111,291	8.88%
Common	3. Evergreen Stock Brokerage & Securities, Inc. * 6/F, Tower I Exchange Plaza Ayala Avenue cor. Paseo	various clients	Filipino	298,725,323 (R)	7.26%

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

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

## 2) Security Ownership of Management



Name of beneficial owner	nature of beneficial ownership "R"	Citizenship	Percent of Class
William G. Padolina	20,564	Filipino	0.000%
Georgiana S. Evidente	1,285,052	Filipino	0.031%
Enrique C. Yap	57,384,226	Filipino	1.400%
Evangeline V. Baviera	41,645	Filipino	0.001%
Johnny C. Yap	36,980,720	Filipino	0.900%
Teodora D. Tan	11,607	Filipino	0.001%
Janice R. Ong	51,409	Filipino	0.001%
Edwin Feist	11,606	Australian	0.001%
	<u>95,786,830</u>		

The aggregate number of shares owned of record by all directors and officers as a group as of March 30, 2012 (the latest practicable date prior to the printing of this document) is 95,786,830 common shares or approximately 2.33% of the Company's outstanding capital stock of 4.112 Billion shares.

#### **Item 12 Certain Relationships and Related Transactions**

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

- a) The Company is leasing its office at PPL Building, United Nations Avenue corner San Marcelino Street, Manila from US Automotive Co., Inc., a majority stockholder of the Company. The lease is for one (1) year period and is being renewed annually subject to mutual agreement of the parties. 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 December 2011 and 2010 amounted to P 19,579,440 and P13,046,440 respectively. No outstanding payable as of December 31, 2011. 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., a 100% owned subsidiary. The lease that expired on June 30, 2011 was renewed for a one (1) year period until June 30, 2012. Inasmuch as 102 EDSA Realty Co., Inc. is a wholly owned subsidiary, the Management also considers the market lease rates in the area and the financial requirements of its subsidiary in determining the lease amount. The rent for the period January to December 2011 and 2010 were P15,252,317 and P15,633,059 respectively. There are no outstanding payables as of December 31, 2011. 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 December, 2011 and 2010 amounted to P12,802,409 and P12,468,144 respectively. No outstanding payable as of December 31, 2011. There are no ongoing contractual or other commitments as a result of the arrangement.
- d) The Company has advances to its newly incorporated 100% subsidiary CafeFrance Corp. amounting to P24,500,000 in 2011 and P40,000,000 in 2010. Sales to Hemotek Renal Center Inc. amounted to P32,256,108 for the year 2011 and P16,717,105 for the year 2010, and accounts receivable of P 48,449,156 in 2011 and P11,108,841 in 2010.
- e) The Company engages in regular bank transactions with Philtrust Bank, an affiliated local commercial bank.

- f) The Company avails of advertising services of Manila Bulletin Publishing Corp., an affiliate under common control.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13 Corporate Governance**

The Company's Amended Manual on Corporate Governance was submitted to the Securities and Exchange Commission (SEC) on Feb. 22, 2011. The Board of Directors and Management, (including the officers and staff) of the Company hereby commit to the principles and best practices contained in the Manual and acknowledge that the same may guide the attainment of the Corporate goals. The Company has established evaluation procedure, which determines and measures compliance with this manual. The evaluation system is a self-rating approach whereby each director and top-level management is given a self-assessment form consisting of questionnaires wherein they assessed themselves as to their level of compliance to the Company's Manual and their contribution to the effectiveness of the Board of Directors. The Board is conducting an annual review of this manual and determines if there is a need for amendment to fully comply with leading practices on good corporate governance. Majority of our directors have attended the Corporate Governance seminar conducted by the Institute of Corporate Directors held on February 2008 and 01 April 2008. The Company has submitted its Certificate of Compliance on the provision of its Manual on Corporate Governance for year 2008 on February 17, 2009, for year 2009 on January 21, 2010 and for year 2010 on Jan. 07, 2011. The Company submitted its accomplished 2009 Corporate Governance (CG) Survey on October 14, 2009 and its accomplished 2010 CG Survey on Nov. 11, 2010. The Company has likewise submitted to the Philippine Stock Exchange (PSE) a Corporate Governance Disclosure Survey on January 28, 2011. At present, the Company has no knowledge of any deviation committed by any of its personnel from the Company's manual.

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

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

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

- I** Statement of Management's Responsibility for Financial Statements
- II** Audited Consolidated Financial Statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries as of December 31, 2009, 2010 and 2011.

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

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

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

<u><b>Date Reported</b></u>	<u><b>Items Reported</b></u>
December 13, 2011	Resignation Of Officer
December 01, 2011	Completed The Purchase of Assets
November 22, 2011	Agreement to Purchase Assets
November 9, 2011	Computation of Public Ownership

August 03, 2011	Statement of Changes in Beneficial Ownership
July 20, 2011	Increase of Capital Stock and Paid-Up Capital and Increase in Number of Directors of CafeFrance Corp.
June 15, 2011	2011 Euro-Med Laboratories Phil., Inc. Annual Shareholders' Meeting, Election of Board of Directors for the year 2011-2012, Approval of the 7% Stock Dividend, Appointment of External Auditors  2011 Euro-Med Laboratories Phil., Inc. Organizational Meeting, Election of Corporate Officers For The Year 2011-2012, Appointment of Members of the Audit and Nomination Committee, Record date and Payment Date of Stock Dividend.
May 16, 2011	Lists of Shareholders as of May 16, 2011
April 13, 2011	Annual Meeting of the Shareholders and Record Date Nominees for Election as Members of the Board of Directors 2011-2012, Approval and Authorization for Issuance of the 2010 Audited Financial statements and Declaration of 7% Stock Dividend.
March 28, 2011	Completed the acquisition of the trademarks and licenses.
March 16, 2011	Appointment of Audit and Nomination committee Members for year 2011-2012. Approval of Nomination Committee's Guidelines and Criteria for Nomination.
March 15, 2011	Certification of Independent Directors
March 9, 2011	Statement of Changes in Beneficial Ownership (23-B) of Evergreen Stock Brokrage & Securities, Inc.
March 7, 2011	Changes in Shareholdings and Computation on Public Ownership
Feb. 22, 2011	Revised Manual on Corporate Governance
Jan. 07, 2011	Sworn Certification on the Directors' Attendance in Board Meetings for year 2010, and Sworn Certification on Compliance on the Provisions of Euro-Med's Manual on Corporate Governance for year 2010.

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

**Date Filed**

**Period Covered**

May 15, 2011

Quarter ended March 31, 2011

August 13, 2011

Quarter ended June 30, 2011


November 13, 2011

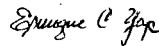
Quarter ended September 30, 2011

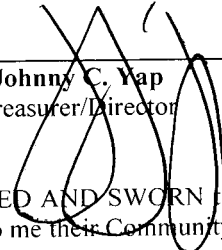
**SIGNATURES**

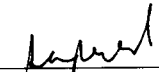
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Makati on \_\_\_\_\_, 2012.


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

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

  
\_\_\_\_\_  
**Enrique C. Yap**  
Vice Chairman, Director/  
Executive Vice President

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

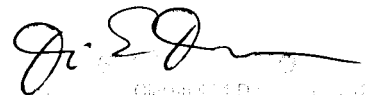
  
\_\_\_\_\_  
**Sandra N. Pineda**  
Chief Accountant

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

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_<sup>th</sup> day of \_\_\_\_\_ 2012 at the City of Makati, affiants exhibiting to me their Community Tax Certificates, as follows:

<u>Names</u>	<u>Community Tax Certificate No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Georgiana S. Evidente	01475656	Jan 12, 2012	Manila
Enrique C. Yap	27219519	Feb 28, 2012	Manila
Johnny C. Yap	17350341	Feb 24, 2012	Manila
Sandra N. Pineda	01471133	Jan 6, 2012	Manila
Janice R. Ong	01467628	Jan 5, 2012	Manila

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Page No. 43  
Book No. 42  
Series of 2012

  
Notary Public  
Office of the Notary Public  
Manila  
IBP LT OR No. 02819  
Roll of Attorneys No. 30904

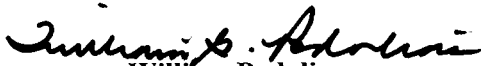
**To The Securities and Exchange Commission**  
 SEC Building, EDSA, Greenhills  
 City of Mandaluyong, Metro Manila

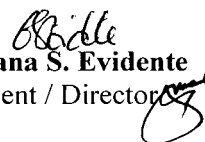
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR  
 FINANCIAL STATEMENTS**

The management of Euro-Med Laboratories Phil., Inc. and subsidiaries are responsible for the preparation and fair presentation of the consolidated financial statements for the years ended December 31, 2009, 2010 and 2011, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors or Trustees reviews and approves the financial statements and submit the same to the stockholders or members.

Mercado, Calderon, Jaravata & Co., CPA's, the independent auditors appointed by the stockholders, has examined the consolidated financial statements of the company in accordance with the Philippine Standards on Auditing, and its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such examination.

  
**William Padolina**  
 Chairman of the Board


  
**Georgiana S. Evidente**  
 President / Director

  
**Johnny C. Yap**  
 Treasurer/Director

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of \_\_\_\_\_ 2012 at the City of Makati, affiants exhibiting to me their Community Tax Certificates, as follows:

<u>Names</u>	<u>Community Tax Certificate No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
William Padolina	13060353	January 19, 2012	Los Banos ,Laguna
Georgiana S. Evidente	01475656	January 12, 2012	Manila
Johnny C. Yap	17350341	February 12, 2012	Manila

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 Page No. 63  
 Book No. 14  
 Series of 2012

  
 Notary Public for the City of Makati until 31 December 2012  
 1001 EDSA, 2nd Floor, Makati, Manila  
 P.O. Box No. 320370 31 Jan 2012 Makati City  
 RUP LT OR No. 02619  
 Roll of Attorneys No. 36904

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

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2011 and 2010  
and Years Ended December 31, 2011, 2010 and 2009

and

Report of Independent Auditors



**MCJ & Co.**  
Mercado, Calderon, Jaravata & Co.  
Certified Public Accountants  
2109 Cityland 10, Tower 1,  
6815 Ayala Avenue North,  
1226 Makati City, Philippines  
T : (632) 894-5783  
(632) 893-8291  
(632) 893-1509  
F : (632) 894-4793  
E : info@mcjcpas.ph  
W : www.mcjcpas.ph

## **REPORT OF INDEPENDENT AUDITORS**

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

### **Report on the Financial Statements**

We have audited the accompanying consolidated financial statements of Euro-Med Laboratories Phil., Inc. and Subsidiaries, which comprise the consolidated statements of financial position as at December 31, 2011 and 2010, and the related consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

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

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

### **Auditors' Responsibility**

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

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




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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Euro-Med Laboratories Phil., Inc. and Subsidiaries as of December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011, in accordance with Philippine Financial Reporting Standards.

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

  
**MARCELINO A. MERCADO**

*Partner (Signing for the firm)*

CPA License No. 066885

Tax Identification No. 102-921-222

P.T.R. No. 3180101

Issued on January 5, 2012, Makati City

Partner's SEC Accreditation No. 1019-A

Issued on December 9, 2011; Valid until December 9, 2014

BIR Accreditation No. 08-003338-2-2009

Issued on October 27, 2009; Valid until October 27, 2012

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

Firm's SEC Accreditation No. 0208-F (until Dec. 31, 2013)

Makati City

April 11, 2012

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

**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Notes	2011	2010
<b>ASSETS</b>			
<b>Current</b>			
Cash and cash equivalents	3,7,22,37	P 1,057,258,449	P 902,516,291
Trade and other receivables, net	3,8,37	1,344,528,893	1,231,217,212
Inventories	3,9	921,096,486	906,860,384
Other current assets	10	291,924,911	242,429,699
		<b>3,614,808,739</b>	<b>3,283,023,586</b>
<b>Non-current</b>			
Property, plant and equipment	3,11,16	3,884,568,561	3,625,756,158
Investment property	12	207,844,145	207,844,145
Intangible assets	13	257,767,944	34,477,858
Deferred tax assets	32	30,332,369	20,477,631
Other noncurrent assets	14	433,146,474	268,395,367
		<b>4,813,659,493</b>	<b>4,156,951,159</b>
<b>TOTAL ASSETS</b>		<b>P 8,428,468,232</b>	<b>P 7,439,974,745</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current</b>			
Trade payables	15,37	P 369,480,930	P 277,080,196
Current portion of notes payable	11,16,37	2,218,750,000	1,274,149,999
Acceptances payable	17,37	251,661,487	422,065,812
Income tax payable	32	41,778,178	44,577,925
Current portion of installment contract payable	18,37	2,969,610	2,775,337
Other current liabilities	19,37	89,072,358	23,094,752
		<b>2,973,712,563</b>	<b>2,043,744,021</b>
<b>Non-current</b>			
Notes payable-net of current portion	11,16,37	811,300,000	1,008,650,000
Installment contract payable	18,37	138,493,097	141,462,707
Retirement liability	31	39,045,824	25,200,190
Other noncurrent liabilities	20	4,500,000	2,700,000
		<b>993,338,921</b>	<b>1,178,012,897</b>
<b>Equity</b>			
Capital stock	21	4,112,140,540	3,843,122,000
Additional paid-in capital	21	66,609,227	66,609,227
Retained earnings	21	282,666,981	308,486,600
		<b>4,461,416,748</b>	<b>4,218,217,827</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>P 8,428,468,232</b>	<b>P 7,439,974,745</b>

*See Notes to Consolidated Financial Statements.*

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

	Notes	Years Ended December 31		
		2011	2010	2009 (As restated; Note 38)
<b>REVENUES</b>	23	<b>P 4,028,742,417</b>	P 4,021,567,315	P 4,376,656,929
<b>COST OF GOODS</b>				
<b>MANUFACTURED AND SOLD</b>	24	<b>2,356,962,424</b>	2,740,941,013	3,203,969,197
<b>GROSS PROFIT</b>		<b>1,671,779,993</b>	1,280,626,302	1,172,687,732
<b>OPERATING EXPENSES</b>				
Administrative and selling expenses	26	<b>913,522,520</b>	434,573,726	374,518,471
Distribution expenses	25	<b>226,265,433</b>	215,056,128	191,276,651
		<b>1,139,787,953</b>	649,629,854	565,795,122
<b>OPERATING INCOME</b>		<b>531,992,040</b>	630,996,448	606,892,610
<b>OTHER INCOME (CHARGES)</b>				
Finance cost	28	<b>(202,396,733)</b>	(199,350,963)	(196,106,886)
Foreign exchange gain (loss)	4	<b>(2,542,593)</b>	(13,239,701)	12,674,141
Finance income	27	<b>9,332,334</b>	4,325,818	3,188,284
Miscellaneous	29	<b>7,732,630</b>	3,684,400	3,531,118
		<b>(187,874,362)</b>	(204,580,446)	(176,713,343)
<b>INCOME BEFORE INCOME TAX</b>		<b>344,117,678</b>	426,416,002	430,179,267
<b>PROVISION FOR INCOME TAX</b>	32	<b>101,613,578</b>	127,829,551	130,371,371
<b>NET INCOME</b>		<b>242,504,100</b>	298,586,451	299,807,896
<b>OTHER COMPREHENSIVE INCOME</b>		-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P 242,504,100</b>	P 298,586,451	P 299,807,896
<b>EARNINGS PER SHARE</b>				
<b>Basic and diluted</b>		<b>P 0.06</b>	P 0.08	P 0.08

*See Notes to Consolidated Financial Statements.  
Restatement was due to the adoption of PAS 19 - Employee Benefits.*

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

	Share Capital (Note 21)	Additional Paid-in Capital	Total Paid-up Capital	Retained Earnings (As Restated) (Note 38)	Total Equity
Balance, January 1, 2009	P 3,543,122,000	P 66,609,227	P 3,609,731,227	P 10,039,859	P 3,619,771,086
Consolidated net income, 2009	-	-	-	299,807,896	299,807,896
Other comprehensive income	-	-	-	-	-
Balances, December 31, 2009	3,543,122,000	66,609,227	3,609,731,227	309,847,755	3,919,578,982
Prior period error	-	-	-	52,394	52,394
Consolidated net income for 2010	-	-	-	298,586,451	298,586,451
Stock dividends	300,000,000	-	300,000,000	(300,000,000)	-
Other comprehensive income	-	-	-	-	-
Balances, December 31, 2010	3,843,122,000	66,609,227	3,909,731,227	308,486,600	4,218,217,827
Consolidated net income for 2011	-	-	-	242,504,100	242,504,100
Prior period error	-	-	-	694,821	694,821
Stock dividends	269,018,540	-	269,018,540	(269,018,540)	-
Other comprehensive income	-	-	-	-	-
Balance December 31, 2011	P 4,112,140,540	P 66,609,227	P 4,178,749,767	P 282,666,981	P 4,461,416,748

See Notes to Consolidated Financial Statements.  
Restatement was due to the adoption of PAS 19 - Employee Benefits.

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

		Years Ended December 31		
	Notes	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Income before income tax	P	344,117,678	P	426,416,002
Adjustments for:				P
Prior period error		694,821	(52,394)	-
Depreciation and amortization	3,11	211,033,152	183,764,085	170,754,162
Finance costs	28	202,396,733	199,350,963	196,106,886
Provision for impairment loss	3,8	2,404,650	2,097,024	1,735,164
Foreign exchange loss (gain)		2,542,593	13,239,701	(12,674,141)
Finance income	27	(9,332,334)	(4,325,818)	(3,188,284)
Operating income before working capital changes		753,857,293	820,489,563	793,609,430
Changes in assets and liabilities:				
Increase in:				
Trade and other receivables	3,8,37	(115,716,331)	(52,600,191)	(246,407,011)
Inventories	3,9	(14,236,102)	154,692,641	(158,514,292)
Other current assets	10	(49,495,212)	(113,149,807)	(16,892,576)
Increase (decrease) in:				
Trade payables	15,37	92,400,734	(179,585,729)	212,370,551
Acceptances payable	17,37	(170,404,325)	280,870,060	(44,711,178)
Other current liabilities	19,37	65,977,606	(4,944,502)	27,962,254
Cash generated from operations		562,383,663	905,772,035	567,417,178
Interest paid		(202,396,733)	(199,350,963)	(196,113,956)
Income tax paid		(99,950,076)	(165,008,123)	(158,751,039)
Dividend received	27	4,507,550	10,800	1,511,250
Interest received	27	4,824,784	4,315,018	1,677,034
Net cash provided by operating activities		269,369,188	545,738,767	215,740,467
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of:				
Property, plant and equipment	3,11,16	(472,860,501)	(180,672,968)	(183,469,407)
Intangible assets	13	(223,290,086)	-	-
Additions to other noncurrent assets	14	(164,751,107)	(83,884,822)	(38,071,943)
Net cash used in investing activities		(860,901,694)	(264,557,790)	(221,541,350)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from (payments of):				
Availment of notes payable	11,16,37	747,250,001	213,466,667	201,066,667
Payment of installment contract payable	18,37	(2,775,337)	(2,775,337)	(2,424,087)
Addition (deduction) in other noncurrent liability	20,37	1,800,000	(2,700,000)	(1,381,260)
Net cash provided by financing activities		746,274,664	207,991,330	197,261,320
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>				
<b>CASH AND CASH EQUIVALENTS BEGINNING OF YEAR</b>		154,742,158	489,172,307	191,460,437
<b>CASH AND CASH EQUIVALENTS END OF YEAR</b>	3,7,22,37	1,057,258,449	P	902,516,291
		P	P	P
		413,343,984	P	413,343,984

See Notes to Consolidated Financial Statements.

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

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**1. Reporting Entity**

Corporate Information

Euro-Med Laboratories Phil., Inc. (Euro-Med/the Parent/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. Euro-Med is currently the largest manufacturer of high quality intravenous fluids in the Philippines.

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.

The Company is 58.41% owned by its ultimate 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.

Authorization for Issue of the Financial Statements

These consolidated financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 were authorized for issue by the Board of Directors (BOD) on April 10, 2012.

**2. Basis of Preparation**

Basis of Measurement

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

**3. Changes in Accounting Policies**

The accounting policies adopted are consistent with those of the previous financial year except for the effects of the adoption of the following PAS, Improvements to PAS and Philippine Interpretation that are mandatory for the first time for the financial year beginning January 1, 2011, except as otherwise stated.

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

Amendments to quantitative and credit risk disclosures are as follow:

- a) Clarify that only a financial asset whose carrying amount does not reflect the maximum exposure to credit risk needs to provide further disclosure of the amount that represents the maximum exposure to such risk;
- b) Require, for all financial assets, disclosure of the financial effect of collateral held as security and other credit enhancements regarding the amount that best represents the maximum exposure to credit risk (e.g., a description of the extent to which collateral mitigates credit risk);
- c) Remove the disclosure requirement of the collateral held as security, other credit enhancements and an estimate of their fair value for financial assets that are past due but not impaired, and financial assets that are individually determined to be impaired;
- d) Remove the requirement to specifically disclose financial assets renegotiated to avoid becoming past due or impaired; and
- e) Clarify that the additional disclosure required for financial assets obtained by taking possession of collateral or other credit enhancements are only applicable to assets still held at the reporting date.

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

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

A number of new or revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2011, and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group, except for PFRS 9, *Financial Instruments*, which becomes mandatory for the Group's 2015 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the extent of the impact has not been determined.

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

- *Disclosures - Transfers of Financial Assets (Amendments to PFRS 7, Financial Instruments Disclosures, effective for annual periods beginning on or after July 1, 2012).* Requires additional disclosures about transfers of financial assets. The amendments require disclosure of information that enables users of the financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and to evaluate the nature of, and risks associated with, the entity's continuing involvement in derecognized financial assets.
- *PAS 12, Income Taxes (Amendment) - Deferred Taxes: Recovery of Underlying Assets (effective for annual periods beginning on or after January 1, 2012).* The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in PAS 40 should be determined on the basis that its carrying value amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets are measured using revaluation model in PAS 16 will always be measured on a sale basis of the asset.
- *PAS 1, Presentation of Financial Statements - Presentation of Items in Other Comprehensive Income (effective for annual periods beginning on or after January 1, 2012).* The amendments to PAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no other impact on the Group's financial position and performance.
- *PFRS 10, Consolidated Financial Statements (effective for annual periods beginning on or after January 1, 2013).* PFRS 10 introduces a new approach to determining which investees should be consolidated and provides a single model to be applied in the control analysis for all investees. An investor controls an investee when: (a) it is exposed or has rights to variable returns from its involvement with that investee; (b) it has the ability to affect those returns through its power over that investee; and (c) there is a link between power and returns. Control is reassessed as facts and circumstances change. PFRS 10 supersedes PAS 27 (2008).
- *PFRS 11, Joint Arrangements (effective for annual periods beginning on or after January 1, 2013).* PFRS 11 focuses on the rights and obligations of joint arrangements, rather than the legal form (as is currently the case). It (a) distinguishes joint arrangements between joint operations and joint ventures; and (b) always requires the equity method for jointly controlled entities that are now called joint proportionate consolidation. PFRS 11 supersedes PAS 31 and Philippine Interpretation SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*.
- *PFRS 12, Disclosure of Interests in Other Entities (effective for annual periods beginning on or after January 1, 2013).* PFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities, aiming to provide information to enable users to evaluate the nature of, and risks associated with, an entity's interests in other entities; and the effects of those interests on the entity's financial position, financial performance and cash flows.
- *PFRS 13, Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013).* PFRS 13 replaces the fair value measurement guidance contained in individual PFRSs with a single source of fair value measurement guidance. It defines fair value, establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements. It explains how to measure fair value when it is required or permitted by other PFRSs. It does not introduce new



requirements to measure assets or liabilities at fair value nor does it eliminate the practicability exceptions to fair value measurements that currently exist in certain standards.

- PAS 19, *Employee Benefits (effective for annual periods beginning on or after January 1, 2013)*. The amended PAS 19 includes the following requirements: (a) actuarial gains and losses are recognized immediately in other comprehensive income; this change will remove the corridor method and eliminate the ability for entities to recognize all changes in the defined benefit obligation and in plan assets in profit or loss, which is currently allowed under PAS 19; and, (b) expected return on plan assets recognized in profit or loss is calculated based on the rate used to discount the defined benefit obligation.
- PAS 28, *Investments in Associates and Joint Ventures (effective for annual periods beginning on or after January 1, 2013)*. PAS 28 (2011) supersedes PAS 28 (2008). PAS 28 (2011) makes the following amendments: (a) PFRS 5 applies to an investment, or a portion of an investment, in an associate or a joint venture that meets the criteria to be classified as held for sale; and, (b) on cessation of significant influence or joint control, even if an investment in an associate becomes an investment in a joint venture or vice versa, the entity does not remeasure the retained interest. The adoption of the amended or revised standard is required for annual periods beginning on or after January 1, 2013.
- PFRS 9, *Financial Instruments (effective for annual periods beginning on or after January 1, 2015)*. PFRS 9 (2009) is the first standard issued as part of a wider project to replace PAS 39. PFRS 9 (2009) retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The guidance in PAS 39 on impairment of financial assets and hedge accounting continues to apply. Prior periods need not be restated if an entity adopts the standard for reporting periods beginning before January 1, 2012. PFRS 9 (2010) adds the requirements related to the classification and measurement of financial liabilities, and derecognition of financial assets and liabilities to the version issued in November 2009. It also includes those paragraphs of PAS 39 dealing with how to measure fair value and accounting for derivatives embedded in a contract that contains a host that is not a financial asset, as well as the requirements of Philippine Interpretation - IFRIC 9, Reassessment of Embedded Derivatives.

#### 4. Summary of Significant Accounting Policies

##### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Company and the following subsidiaries, which were all incorporated in the Philippines and are registered with the Philippine SEC.

The Company's subsidiaries and their respective nature of business are as follows:

Subsidiary	Nature of Business	Percentage of Ownership
102 E. Delos Santos Realty, Co., Inc.	Leasing	100%
Hemotek Renal Center, Inc.	Dialysis center	100%
CafeFrance Corp.	Food service	100%

The financial statements of the subsidiaries are prepared for the same reporting period as that of the Company using uniform accounting policies. All intra-group balances, transactions, income and expenses, and profits and losses resulting from intra-group transactions and dividends are eliminated in full. However, intra-group losses are also eliminated but are considered an impairment indicator of the assets transferred.

### *Subsidiaries*

Subsidiaries are entities over which the Company has the power to govern the financial and operating policies of the entities, or generally have an interest of more than one-half of the voting rights of the entities. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group or the Company directly or through the holding companies. Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. They are deconsolidated from the date on which control ceases. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

### Financial Assets and Financial Liabilities

#### *Date of recognition*

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

#### *Initial recognition of financial instruments*

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

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

- The assets or liabilities are managed, evaluated and reported internally on a fair value basis;
- The designation 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 December 31, 2011 and 2010, the Group has no financial assets or financial liabilities at FVPL.

*HTM investments*

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

As of December 31, 2011 and 2010, the Group 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 consolidated statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Loans and receivables are included in current assets if maturity is within 12 months from the financial position date.

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

As of December 31, 2011 and 2010, the Group's cash and trade and other receivables are included in this category.

*AFS financial assets*

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

As of December 31, 2011 and 2010, the Group has financial instruments classified as AFS included under non-current assets (see Note 14).

*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 consolidated statement of comprehensive income when the liabilities are derecognized as well as through the amortization process.

Included in this category are the Group's liabilities arising from its trade or borrowings such as acceptances payable, trade accounts payable and notes 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 Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a “pass-through” arrangement; or
- the Group has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

#### *Financial liabilities*

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

### Impairment of Financial Assets

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

#### *Assets carried at amortized cost*

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

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

The present value of the estimated future cash flows is discounted at the financial asset’s original effective interest rate. Time value is generally not considered when the effect of discounting is not material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is

the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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

#### *AFS financial assets*

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

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

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

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

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

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

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

#### Offsetting Financial Instruments

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

### Inventories

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

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 FIFO method.

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 NRV, the Group considers any adjustments necessary for obsolescence.

NRV for raw materials is the current replacement cost.

### Property, Plant and Equipment

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

The initial cost of property 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.

#### Investment Property

Investment property is measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met, and excludes the costs of day-to-day servicing of an investment property. Subsequent to initial recognition, investment property is stated at cost.

Investment property is derecognized when either they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the consolidated statement of comprehensive income in the year of retirement or disposal. Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Construction in-Progress

Construction in-progress is stated at cost. This includes the cost of construction and other direct costs. Borrowing costs that are directly attributable to the construction of property and equipment are capitalized during the construction period. Construction in-progress is not depreciated until such time as the relevant assets are completed and put into operational use.

Construction in-progress are transferred to the related 'Property and equipment' when the construction or installation and related activities necessary to prepare the property and equipment for their intended use are completed, and the property and equipment are ready for service.

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

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

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

#### Impairment of Non-financial Assets

The carrying amounts of investments, 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 Group 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 consolidated statement of comprehensive income when earned in accordance with the term of the lease agreement and on a straight-line basis over the term of the lease.

#### *Dividend income*

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

#### *Interest income*

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

#### *Royalty Fees*

Revenue from royalty fees is recognized based on certain percentages of the franchisees' net sales.

#### *Others*

Revenue is recognized when earned.



### Costs and Expenses

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

#### *Cost of goods manufactured and sold*

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

#### *Selling and general and administrative expenses*

Selling expenses are costs incurred to sell or distribute merchandise, it includes advertising and promotions and freight and handling, among others. General 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 Group. Other employee benefits include Social Security System, Philhealth and other contributions.

#### *Post-employment benefits*

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

The retirement cost of the Group 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 consolidated 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 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 consolidated 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; or
- d) There is a substantial change to the asset.

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

#### *Group as a lessee*

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

#### *Group as a lessor*

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

#### Foreign Currency-denominated Transactions 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 consolidated statement of comprehensive income.

#### Borrowing Costs

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

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

#### Research and Development Costs

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

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

#### Taxes

##### *Current income tax*

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

*Deferred income tax*

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

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

Deferred income tax assets and liabilities, however, are not recognized when the temporary differences arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

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

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

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

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

*Value Added Tax (VAT)*

Revenues, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable.

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

#### Provisions and Contingencies

Provisions are recognized when the Group 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 Group 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 consolidated 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 consolidated 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 consolidated financial statements but disclosed when an inflow of economic benefits is probable.

#### Capital Stock and Additional Paid-in Capital

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

#### 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 Group by the weighted average number of common shares outstanding during the year, excluding capital stock purchased by the Group and treated as treasury shares after giving retroactive effect to stock dividends declared and stock rights exercised during the year, if any.

Diluted EPS amounts are calculated by dividing the net income for the year attributable to ordinary equity holders of the Group (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 Group does not have diluted potential common shares as of December 31, 2011 and 2010.

#### Dividend Distributions

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

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

#### Operating Segments

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

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

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

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

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

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

#### Judgments

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

##### *Classification of financial instruments*

The Group exercises judgment in classifying financial instruments in accordance with PAS 39. The Group classifies a financial instrument, or its components, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the Group's consolidated statements of financial position.

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

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

Total lease expense arising from operating leases amounted to P48.8 million, P60.1 million and P42.7 million in 2011, 2010 and 2009, respectively (see Note 33).

**Estimates and Assumptions**

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

*Measurement of NRV of inventories*

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

The Group's inventories carried at cost as of December 31, 2011 and 2010 amounted to P921.0 million and P906.9 million, respectively (see Note 9).

*Impairment of loans and receivables*

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

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

The related balances follow (see Note 8):

	2011	2010
Trade receivables	P 1,344,528,893	P 1,231,217,212
Allowance for impairment losses	34,386,054	31,981,404
Provision for impairment loss	2,404,650	2,097,024

*Impairment of AFS financial assets*

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

As of December 31, 2011 and 2010, the carrying value of the Group's AFS financial assets amounted to P.3 million (see Note 14).

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

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

The related balances follow (see Note 11):

	2011	2010
Cost	P 5,795,980,187	P 5,326,666,177
Accumulated depreciation and amortization	1,911,411,626	1,700,910,019
Depreciation and amortization	211,033,152	183,764,085

*Estimated useful lives of intangible assets with finite lives*

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

Intangible asset with finite useful lives amounted to P2.0 million and P2.1 million as of December 31, 2011 and 2010, respectively (see Note 13).

*Impairment of trademarks and licenses with indefinite lives*

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

The carrying amounts of trademarks and license with indefinite useful lives amounted to P255.8 million as of December 31, 2011 and P32.4 million as of December 31, 2010 (see Note 13).

*Asset Impairment*

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

- significant underperformance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; 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 Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

No indications of impairment were noted on the Group's non-financial assets as of December 31, 2011 and 2010.

*Recognition of deferred income tax assets*

The Group reviews the carrying amounts of the deferred income tax assets at the end of each reporting period and adjusts the balance of deferred income tax assets to the extent that it is no longer probable that sufficient future taxable profits will be available to allow all or part of the deferred income tax

assets to be utilized. The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the level and timing of forecasted taxable income of the subsequent reporting periods. This forecast is based on the Group's past results and future expectations on revenues and expenses as well as future tax planning strategies. However, there is no assurance that the Group will generate sufficient taxable income to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets recognized in the consolidated statement of financial position amounted to P30.3 million and P20.5 million as of December 31, 2011 and 2010, respectively (see Note 32).

*Estimation of retirement benefits cost and liability*

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

Net retirement plan assets as of December 31, 2011 and 2010 amounted to nil. Net retirement benefits liabilities amounted to P39.0 million and P25.2 million as of December 31, 2011 and 2010, respectively. Retirement benefits costs in 2011 and 2010 amounted to P19.0 million and P17.4 million, respectively (see Note 31).

*Provision and contingencies*

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

No provisions have been recorded as of December 31, 2011 and 2010 (see Note 34).

## 6. Segment Information

Business Segments

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

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

Segment Assets and Liabilities

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



### Inter-segment Transactions

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

The following tables present certain information on revenue, expenses, assets and liabilities and other segment information of the different business segments as of December 31, 2011 and 2010 and for each of the two years in the period ended December 31, 2011:

		2011										
		Manufacturing		Leasing		Service		Food		Elimination		Total
		<i>(amounts in thousands)</i>										
Segment revenue	P	3,193,052	P	15,179	P	255,219	P	613,182		(47,889)	P	4,028,743
Segment expense		2,671,184		11,816		251,523		625,704		(57,979)		3,502,248
Operating income		521,868		3,363		3,696		(12,522)		10,090		526,495
Other income (charges)		(180,283)		4		469		7,522		(10,088)		(182,376)
Income before tax		341,585		3,367		4,165		(5,000)		2		344,119
Provision for (benefit from) income tax		101,121		1,034		1,249		(1,790)		-		101,614
Segment net income (loss)	P	442,706	P	2,333	P	2,916	P	(3,210)	P	2	P	242,505
<b>Assets and Liabilities</b>												
Segment assets	P	7,569,288	P	208,866	P	416,301	P	842,501		(638,820)	P	8,398,136
Deferred tax assets		24,362		-		1,996		3,974		-		30,332
Total assets	P	7,593,650	P	208,866	P	418,297	P	846,475	P	(638,820)	P	8,428,468
Segment liabilities	P	2,493,100	P	68,310	P	167,635	P	381,884		(135,449)	P	2,975,480
Long-term debt		691,300		138,493		-		120,000		-		949,793
Income tax payable		41,086		-		692		-		-		41,778
Total liabilities	P	3,225,486	P	206,803	P	168,327	P	501,884	P	(135,449)	P	3,967,051
<b>Other segment information</b>												
Capital expenditures	P	277,945	P	-	P	41,945	P	376,190	P	-	P	696,080
Depreciation and amortization		177,426		-		14,930		18,677		-		211,033

		2010										
		Manufacturing		Leasing		Service		Food		Elimination		Total
		<i>(amounts in thousands)</i>										
Segment revenue	P	3,868,500	P	15,179	P	153,067	P	613,183		(628,362)	P	4,021,567
Segment expense		3,248,324		11,815		151,785		625,704		(647,057)		3,390,571
Operating income		620,176		3,364		1,282		(12,521)		18,695		630,996
Other income (charges)		(195,292)		3		343		7,522		(17,156)		(204,580)
Income before tax		424,884		3,367		1,625		(4,999)		1,539		426,416
Provision for (benefit from) income tax		127,392		1,034		498		(1,790)		-		127,830
Segment net income (loss)	P	297,492	P	2,333	P	1,127	P	(3,209)	P	1,539	P	298,586
<b>Assets and Liabilities</b>												
Segment assets	P	7,201,461	P	209,302	P	318,321	P	186,954		(496,540)	P	7,419,498
Deferred tax assets		17,984		-		1,338		1,155		-		20,477
Total assets	P	7,219,445	P	209,302	P	319,659	P	188,109	P	(496,540)	P	7,439,975
Segment liabilities	P	1,948,518	P	65,110	P	168,327	P	40,310		(195,199)	P	2,027,066
Long-term debt		1,008,650		141,463		-		-		-		1,150,113
Income tax payable		44,578		-		-		-		-		44,578
Total liabilities	P	3,001,746	P	206,573	P	168,327	P	40,310	P	(195,199)	P	3,221,757
<b>Other segment information</b>												
Capital expenditures	P	55,287	P	-	P	13,137	P	112,249	P	-	P	180,673
Depreciation and amortization		177,426		-		11,287		-		-		188,713

**7. Cash**

This account consists of:

	2011	2010
Cash on hand and revolving funds	P 26,123,841	P 3,373,507
Cash in banks	1,031,134,608	899,142,784
	<b>P 1,057,258,449</b>	<b>P 902,516,291</b>

Cash in banks earns interest at the prevailing bank deposit rates. Interest income earned from cash in banks amounted to P4.8 million, P4.3 million and P1.6 million in 2011, 2010 and 2009, respectively (see Note 27). As of December 31, 2011 and 2010, cash in banks include foreign currency-denominated deposits amounting to \$11.0 million and \$11.5 million, respectively (see Note 36).

**8. Trade and Other Receivables**

This account consists of:

	2011	2010
Trade	P 1,374,384,881	P 1,253,843,735
Others	4,530,066	9,354,881
	<b>1,378,914,947</b>	<b>1,263,198,616</b>
Less: allowance for impairment losses	34,386,054	31,981,404
	<b>P 1,344,528,893</b>	<b>P 1,231,217,212</b>

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

Other receivables pertain to other non-trade receivable.

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

	2011	2010
Balance, January 1	P 31,981,404	P 29,884,380
Provision for the year	2,404,650	2,097,024
	<b>P 34,386,054</b>	<b>P 31,981,404</b>

## 9. Inventories

The account consists of:

	2011	2010
Raw materials	P 238,692,466	P 176,917,297
Finished goods	619,063,506	729,943,087
Food	38,477,243	-
Medical supplies	16,615,861	-
Packaging and supplies	8,247,410	-
	<b>P 921,096,486</b>	<b>P 906,860,384</b>

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

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

The estimated net realizable values of inventories are as follows:

	2011	2010
Raw materials	P 362,239,289	P 239,252,194
Finished goods	766,459,579	984,945,957
	<b>P 1,128,698,868</b>	<b>P 1,224,198,151</b>

## 10. Other Current Assets

This account consists of:

	2011	2010
Input tax (unamortized portion)	P 81,941,281	P 39,450,110
Prepaid marketing development	51,647,030	29,636,875
Advances to suppliers and contractors	36,739,028	2,107,755
Bidders and performance bonds	35,255,547	29,378,530
Prepayments	28,384,006	7,401,513
Advances and deposits	28,241,043	103,636,570
Advances to officers and employees	17,731,724	17,304,217
Creditable withholding VAT and tax	11,882,628	13,292,858
Others	102,624	221,271
	<b>P 291,924,911</b>	<b>P 242,429,699</b>

*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.

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

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

*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.

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

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

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

*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.

## 11. Property, Plant and Equipment

The roll-forward analysis of this account as of December 31, 2011:

### December 31, 2010

		Land and Land improvements		Building and improvements		Machineries and equipment		Transportation equipment		Office furniture and equipment		Total
<b>COST</b>												
At 1 January 2010	P	112,665,962	P	423,961,334	P	4,747,393,975	P	20,601,749	P	22,043,157	P	5,326,666,177
Additions		-		125,646,250		274,526,415		30,984,593		41,703,243		472,860,501
Retirements/disposals		-		-		(64,348)		(3,482,143)		-		(3,546,491)
<b>AT 31 DECEMBER 2010</b>		<b>112,665,962</b>		<b>549,607,584</b>		<b>5,021,856,042</b>		<b>48,104,199</b>		<b>63,746,400</b>		<b>5,795,980,187</b>
<b>ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS</b>												
At 1 January 2010		17,900,436		155,283,618		1,515,891,731		11,325,263		508,971		1,700,910,019
Depreciation and amortization		792,030		23,163,468		180,764,169		1,642,640		4,670,845		211,033,152
Retirements/disposals		-		-		(9,224)		(522,321)		-		(531,545)
<b>AT 31 DECEMBER 2010</b>		<b>18,692,466</b>		<b>178,447,086</b>		<b>1,696,646,676</b>		<b>12,445,582</b>		<b>5,179,816</b>		<b>1,911,411,626</b>
<b>NET BOOK VALUE AS</b>												
<b>OF 31 DECEMBER 2010</b>	<b>P</b>	<b>93,973,496</b>	<b>P</b>	<b>371,160,498</b>	<b>P</b>	<b>3,325,209,366</b>	<b>P</b>	<b>35,658,617</b>	<b>P</b>	<b>58,566,584</b>	<b>P</b>	<b>3,884,568,561</b>

The roll-forward analysis of this account as of December 31, 2010:

**December 31, 2010**

		Land and Land improvements		Building and improvements		Machinery and equipment		Transportation equipment		Office furniture and equipment		Total
<b>COST</b>												
At 1 January 2010	P	82,087,674	P	415,452,389	P	4,634,112,344	P	12,751,749	P	2,549,991	P	5,146,954,147
Additions		30,578,288		8,508,945		113,281,631		8,650,000		19,654,104		180,672,968
Retirements/disposals		-		-		-		(800,000)		(160,938)		(960,938)
<b>AT 31 DECEMBER 2010</b>		<b>112,665,962</b>		<b>423,961,334</b>		<b>4,747,393,975</b>		<b>20,601,749</b>		<b>22,043,157</b>		<b>5,326,666,177</b>
<b>ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS</b>												
At 1 January 2010		13,329,232		145,221,137		1,347,901,865		10,790,601		193,118		1,517,435,953
Depreciation and amortization		4,571,204		10,062,481		167,989,866		781,329		359,205		183,764,085
Retirements/disposals		-		-		-		(246,667)		(43,352)		(290,019)
<b>AT 31 DECEMBER 2010</b>		<b>17,900,436</b>		<b>155,283,618</b>		<b>1,515,891,731</b>		<b>11,325,263</b>		<b>508,971</b>		<b>1,700,910,019</b>
<b>NET BOOK VALUE AS</b>												
<b>OF 31 DECEMBER 2010</b>	P	<b>94,765,526</b>	P	<b>268,677,716</b>	P	<b>3,231,502,244</b>	P	<b>9,276,486</b>	P	<b>21,534,186</b>	P	<b>3,625,756,158</b>

Depreciation and amortization expense charged to operations amounted to P211.0 million and P183.8 for the year ended December 31, 2011 and 2010, respectively, broken down as follows:

		2011		2010		2009
<b>Charged to:</b>						
Factory overhead	P	176,637,614	P	170,184,799	P	161,373,662
Distribution expenses		5,019,837		4,948,592		5,296,650
Administrative and Selling expenses		29,375,701		8,630,694		4,083,850
	P	<b>211,033,152</b>	P	<b>183,764,085</b>	P	<b>170,754,162</b>

The Group has pledged certain real estate and machineries having a carrying amount of approximately P2.02 billion to secure banking facilities granted to the Group (see Note 16).

The costs of fully depreciated property and equipment that are still being used in the operations amounted to P66.5 million and P66.2 million as of December 31, 2011 and 2010, respectively.

## 12. Investment Property

Investment property is accounted for under the cost model. The fair value of the property, which has been determined based on recent market valuation for similar properties in the same location as that of the Company's investment property as of November 30, 2010 exceeds its carrying cost. The fair value represents the amount at which the assets could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction at the date of valuation. The fair value as of the date of appraisal amounted to P437,440,000.

### 13. Intangible Assets

This account consists of:

	2011	2010
Trademarks and licenses	P 223,399,836	P -
Goodwill	32,356,940	32,356,940
Patents and rights	2,011,168	2,120,918
	<b>P 257,767,944</b>	<b>P 34,477,858</b>

*Patents and rights* are carried at acquisition cost and being amortized over a period of twenty (20) years. The Group 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 years December 31 2011 and 2010 are as follows:

	2011	2010
Beginning balance	P 2,120,918	P 765,307
Additions during the year	70,504	1,466,550
Amortization during the period	(180,254)	(110,939)
	<b>P 2,011,168</b>	<b>P 2,120,918</b>

In 2011, the Group acquired the international trademarks "Lidex®", "Lidemol®", "Synelar®", owned by and registered under the name of Stiefel Laboratories, Inc., (Stiefel US) and "Dobutrex®", owned and registered under the name of Glaxosmithkline Philippines, Inc. (GSKPI) and all registered intellectual property rights associated with these trademarks, through the assignment by Stiefel US and GSKPI of the subject trademarks to the Group for the total purchase price of Two Hundred Twenty Three Million Three Hundred Ninety-Nine Thousand Eight Hundred Thirty-Six Pesos (P223,399,836).

### 14. Other Noncurrent Assets

This account consists of:

	2011	2010
Prepaid marketing and development expense	P 293,967,121	P 190,526,458
Refundable and security deposits	76,920,808	3,721,681
Construction in progress	32,885,842	-
Advances and deposits, housing and car loans (realizable beyond the next 12-month period)	28,138,330	73,764,706
Available for sale financial assets	344,000	344,000
Others	890,373	38,522
	<b>P 433,146,474</b>	<b>P 268,395,367</b>

*Prepaid marketing development expenses* refer to the amount stipulated in the Group'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.

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

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

*Advances and deposits* pertain to advances to suppliers for Group 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 Group's investment in Philippine Long Distance Corporation (PLDT) shares and Casino Español de Manila. Details are as follow:

	2011		2010	
PLDT	P	144,000	P	144,000
Casino Espanol de Manila		200,000		200,000
	P	<b>344,000</b>	P	<b>344,000</b>

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

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

#### 15. Trade Payables

Trade payable mainly includes unpaid billings from the Group'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 P369.5 million and P277.0 million for 2011 and 2010, respectively.

#### 16. Notes Payable

This account consists of:

	2011		2010	
Current	P	2,218,750,000	P	1,274,149,999
Noncurrent		811,300,000		1,008,650,000
	P	<b>3,030,050,000</b>	P	<b>2,282,799,999</b>

*Current portion of notes payable* represents the Group's net availments from the Omnibus Credit lines granted by various local banks in the aggregate principal amount of P2.2 billion and P1.3 billion in 2011 and 2010 respectively. The proceeds of the loans were used for working capital requirements. Credit lines are available in peso or dollar availments of up to 360 days term. Interest is payable / renewable monthly or every 60 to 90 days in arrears at prevailing bank loan rate. Also included in this account is the current maturing portion of long-term loan amounting to P345.8 million in 2011 and P127.0 million in 2010.

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

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

	<b>2011</b>	<b>2010</b>
Long-term loans	P 1,157,050,000	P 1,135,600,000
Current portion of long-term loans	345,750,000	126,950,000
	<b>P 811,300,000</b>	<b>P 1,008,650,000</b>

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

The Group has Omnibus Credit lines in the aggregate amount of about P4.0 billion on a clean basis from various commercial banks. These credit lines provide for cash borrowings (Peso or Dollars), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no marginal deposit at opening). Availments are for a period of 180 to 360 days, with interest payable/reviewable monthly or every 60 to 90 days in arrears at prevailing bank loan rates.

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	
	<b>P 2,022,364,000</b>	

The titles of real estate properties were not restricted.

#### 17. Acceptances Payable

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

Credit lines provide for (a) no margin deposits at opening of letters of credit; (b) foreign exchange conversion at prevailing bank rate; and (c) usance and trust receipts available up to 180 days with interest payable / reviewable monthly or every 30 to 90 days in arrears at prevailing bank loan rate. As of financial position date, the balance amount to P251.6 million and P422.0 million for 2011 and 2010, respectively.

#### 18. Installment Contract Payable

This account pertains to a 15-year installment agreement in relation with the cancellation of the long-term lease contract. The obligation will mature on 15 November 2015.



The following is the movement of this account:

	2011		2010	
Balance beginning of the year	P	141,462,707	P	144,238,044
Payments		2,775,337		2,775,337
	P	138,687,370	P	141,462,707

At year end, the balances of the current and long-term portion of the installment payable are presented as follows:

	2011		2010	
Installment contract payable	P	141,462,707	P	144,238,044
Less: Current portion of debt		2,969,610		2,775,337
Long-term portion of debt	P	138,493,097	P	141,462,707

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

Interest expense on this installment contract payable for the years 2011 and 2010 amounts to P10.0 million and P10.3 million, respectively. Interest is computed at a fixed rate of 7% based on the outstanding balance.

#### 19. Other Current Liabilities

This account consists of:

	2011		2010	
Agency payable	P	50,946,221	P	19,859,587
Accrued expenses		36,109,474		2,080,427
Others		2,016,663		1,154,738
	P	89,072,358	P	23,094,752

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

Agency payable account consists of:

	2011		2010	
SSS/Pagibig/philhealth premiums and loans	P	10,741,896	P	3,213,469
BIR withholding taxes and VAT payable		40,204,325		16,646,118
	P	50,946,221	P	19,859,587

#### 20. Other Noncurrent Liabilities

This represents advance rental and refundable deposits amounting to P4.5 million in 2011, and P2.7 million in 2010.

## 21. Equity

### Capital stock

Authorized and issued capital stock of the Group as of December 31, 2011 and 2010 are as follows:

	2011	2010
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	3,843,122,000
Amount	P 4,112,140,540	P 3,843,122,000

### Additional Paid in Capital

Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as APIC. As of December 31, 2011 and 2010, APIC amounted to P66.6 million.

### Retained Earnings and Dividends

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

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

The above stated board resolutions were approved by:

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

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

The stock dividend of three hundred million (300,000,000) shares is equivalent to 8.46710895% based on the issued and outstanding capital stock of the corporation of Three Billion Five Hundred Forty Three Million One Hundred Twenty Two Thousand (3,543,122,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- The stockholders during the annual stockholders' meeting held on July 21, 2010.
- The Securities and Exchange Commission (SEC) on September 29, 2010.
- The Philippine Stock Exchange, Inc., (PSE) on September 29, 2010 and was listed on that same date.

## 22. Related Party Transactions

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

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

- a) The Group is leasing its office at PPL Building, United Nations Avenue corner San Marcelino Street, Manila from US Automotive Co., Inc., the ultimate parent of the Group. 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 December 2011 and 2010 amounted to P 19,579,440 and P13,046,440 respectively. No outstanding payable as of December 31, 2011. There are no other ongoing contractual or other commitments as a result of the arrangement.
- b) The Group purchased labels from Philippine Label Pack Corp., a corporation wherein some major stockholders are family members of one (1) of the Group's directors/executive officers. These transactions are made substantially on the same terms and conditions as transactions with other suppliers of the Group. The purchase price depends on the prices submitted/quoted by various suppliers. Purchases for the period January to December, 2011 and 2010 amounted to P12,802,409 and P12,468,144 respectively. No outstanding payable as of December 31, 2011. There are no ongoing contractual or other commitments as a result of the arrangement.
- c) The Group engages in regular bank transactions with Philtrust Bank, an affiliated local commercial bank.
- d) The Group avails of advertising services of Manila Bulletin Publishing Corporation, an affiliate under common control.

### Compensation of Key Management Personnel

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

	2011		2010	
Short-term employee benefits	P	14,410,480	P	14,447,800
Post-employment benefits		7,201,030		6,350,122
	P	21,611,510	P	20,797,922

There are no agreements between the Group and any of its directors and key officers providing for

benefits upon termination of employment, except for such benefits to which they may be entitled under the Group's retirement plans.

### 23. Revenues

This account consist of

	2011	2010	2009
Local sales	P 3,283,676,782	P 3,356,076,132	P 3,878,181,481
Export sales			
ASEAN	310,638,710	317,903,511	306,259,485
Other Asian countries	66,575,774	64,061,210	46,935,600
Africa	53,487,470	58,435,097	49,620,901
Others	59,145,113	72,024,488	60,823,907
	<b>489,847,067</b>	<b>512,424,306</b>	<b>463,639,893</b>
Total net sales	<b>3,773,523,849</b>	<b>3,868,500,438</b>	<b>4,341,821,374</b>
Service income	<b>255,218,568</b>	<b>153,066,877</b>	<b>34,835,555</b>
	<b>P 4,028,742,417</b>	<b>P 4,021,567,315</b>	<b>P 4,376,656,929</b>

The amount above is net of sales returns and sales discounts for prompt payments and volume discounts which the Group is extending to customers in its ordinary course of business amounting to P37.2 million, P70.1 million and P37.5 million in 2011, 2010 and 2009, respectively.

### 24. Cost of Goods Manufactured and Sold

This account consists of:

	2011	2010	2009
Raw materials and supplies	P 948,099,819	P 764,424,382	P 648,977,356
Direct labor	113,211,811	95,797,266	74,007,155
Manufacturing overhead	723,891,019	697,371,104	633,643,062
Cost of goods manufactured	<b>1,785,202,649</b>	<b>1,557,592,752</b>	<b>1,356,627,573</b>
Finished goods			
Beginning of year	721,381,240	855,135,887	691,389,793
Purchases	469,442,041	1,049,593,613	2,011,087,718
End of year	(619,063,506)	(721,381,239)	(855,135,887)
	<b>P 2,356,962,424</b>	<b>P 2,740,941,013</b>	<b>P 3,203,969,197</b>

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

	2011	2010	2009
Beginning of year	P 176,917,297	P 206,417,137	P 211,648,940
Purchases	<b>1,133,421,811</b>	<b>734,924,542</b>	<b>643,745,553</b>
Raw materials and supplies available for use	<b>1,310,339,108</b>	<b>941,341,679</b>	<b>855,394,493</b>
End of year	<b>(362,239,289)</b>	<b>(176,917,297)</b>	<b>(206,417,137)</b>
	<b>P 948,099,819</b>	<b>P 764,424,382</b>	<b>P 648,977,356</b>

## 25. Distribution Expenses

This account consists of:

	2011	2010	2009
Delivery expense	P 137,737,078	P 128,200,433	P 123,160,238
Salaries and wages	24,215,725	22,690,944	17,972,980
Rentals	22,333,882	22,679,815	19,213,478
Taxes and licenses	16,770,337	18,563,644	11,147,384
Depreciation	5,019,837	4,948,592	5,296,650
Office/warehouse supplies	4,106,681	3,667,481	3,701,303
Light and water	3,244,496	3,024,678	1,701,449
Repairs and maintenance	3,181,199	2,778,333	2,769,715
Postage and telephone	1,819,653	1,670,733	1,379,350
SSS/Medical/ECC/HDMF	1,467,434	1,254,519	973,709
Transportation and travelling	1,112,440	834,711	374,191
Representation and entertainment	890,803	678,527	532,505
Insurance	848,234	664,399	340,455
Miscellaneous	3,517,634	3,399,319	2,713,245
	<b>P 226,265,433</b>	<b>P 215,056,128</b>	<b>P 191,276,651</b>

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

## 26. Administrative and Selling Expenses

This account consists of:

	2011	2010	2009
Salaries and commissions	P 312,154,491	P 123,755,412	P 110,577,440
Marketing and development expense	141,229,886	132,932,034	128,271,612
Rentals	108,787,232	22,184,041	8,279,211
Light and water	74,559,831	11,172,948	3,764,543
Transportation and travelling	52,056,448	33,759,609	32,381,176
Depreciation	29,375,701	8,630,694	4,083,850
Office supplies	28,817,895	5,189,814	6,496,401
Taxes and licenses	27,476,251	17,724,894	13,598,879
Representation and entertainment	18,675,628	16,830,450	10,904,031
Senior citizen and disability discount	30,707,163	8,002,240	-
Professional fees	18,138,303	14,024,133	11,346,555
SSS/Medical/ECC/HDMF	12,700,049	4,676,456	3,825,160
Repairs and maintenance	7,985,980	1,919,445	1,339,289
Gas and oil	7,873,512	5,674,557	3,878,691
Training and seminars	5,832,551	154,371	291,484
Postage and telephone	5,686,507	5,444,432	5,006,873
Insurance	2,805,128	1,559,268	1,746,199
Provision for impairment losses	2,404,650	2,097,023	1,735,164
Subscription and dues	624,368	632,962	622,900
Amortization	180,254	110,939	110,939
Miscellaneous	25,450,692	18,098,004	26,258,074
	<b>P 913,522,520</b>	<b>P 434,573,726</b>	<b>P 374,518,471</b>

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

## 27. Finance Income

This account consists of:

	2011		2010		2009	
Interest income	P	4,824,784	P	4,315,018	P	1,677,034
Dividends		4,507,550		10,800		1,511,250
	P	9,332,334	P	4,325,818	P	3,188,284

## 28. Interest Expense

This account consists of interests on loans as follows:

	2011		2010		2009	
Short-term loans	P	147,425,274	P	129,977,540	P	137,492,901
Long-term loans		54,971,459		69,373,423		58,613,985
	P	202,396,733	P	199,350,963	P	196,106,886

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

## 29. Miscellaneous Income

This account consists of:

	2011		2010		2009	
Royalty income	P	2,886,158	P	-	P	-
Meralco refund		1,568,872		1,907,616		1,904,687
Interest on car/housing loan		380,938		1,360,805		1,608,320
Others		2,896,662		415,979		18,111
	P	7,732,630	P	3,684,400	P	3,531,118

Others pertain to scrap sales.

## 30. 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 P16.7million, P19.6 million and P22.4 million in 2011, 2010 and 2009, respectively.

## 31. Retirement Liability

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

one month average basic salary for each year of service rendered. The latest actuarial valuation was made on December 31, 2010.

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

*Retirement benefit expense*

	2011		2010	
Current service cost	P	5,115,000	P	4,295,600
Interest cost		4,672,937		4,494,080
Amortization of transitional liability		7,578,540		7,578,540
Actuarial loss		1,584,317		1,032,518
	P	18,950,794	P	17,400,738

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

	2011		2010	
Included under salaries and wages				
Cost of goods sold and manufactured	P	7,633,295	P	7,168,843
Distribution expenses		1,810,297		1,612,368
Administrative and selling expenses		9,507,202		8,619,527
	P	18,950,794	P	17,400,738

*Retirement liability*

	2011		2010	
Defined benefit obligation	P	68,500,050	P	63,817,273
Fair value of the plan assets				-
Unfunded obligation		68,500,050		63,817,273
Unrecognized actuarial losses		(14,297,146)		(15,881,460)
Unamortized transitional liability		(15,157,080)		(22,735,623)
	P	39,045,824	P	25,200,190

*Define benefit obligation*

	2011		2010	
At January 1	P	63,817,273	P	51,296,727
Current service cost		5,115,000		4,295,600
Interest cost		4,672,937		4,494,080
Actuarial loss/(gain)				
Experience adjustments		-		(38,449)
Change in assumptions		-		6,666,239
Benefits paid		(5,105,160)		(2,896,924)
	P	68,500,050	P	63,817,273

The roll-forward analysis of unrecognized actuarial losses follows:

	2011	2010
Balance at beginning of year	P 15,881,460	P 10,286,191
Limit of corridor	6,367,720	5,123,600
Actuarial loss outside corridor	9,513,740	5,162,591
Average expected future service years	5	5
Actuarial loss recognized	(1,584,314)	(1,024,681)
Actuarial loss due to PVO	-	6,619,950
	P 14,297,146	P 15,881,460

The Group has no retirement contribution for the year ended December 31, 2011. The Group does not expect to contribute to the plan in 2012.

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

	2011	2010
Discount rate	7.32%	7.32%
Salary discount rate		
Non-rank and file	3.00%	3.00%
Rank and file	Per CBA	Per CBA

### 32. Income Taxes

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

	2011	2010	2009 (As restated; Note 38)
Corporate income tax	P 108,111,615	P 133,654,723	P 132,822,162
Final tax	1,541,685	739,118	321,479
Deferred	(8,039,722)	(6,564,290)	(3,729,462)
Effect of changes in tax rate	-	-	957,192
	P 101,613,578	P 127,829,551	P 130,371,371

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.



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

	2011		2010		2009
Statutory income tax	P 103,235,303	P	127,829,551	P	130,371,371
Income subject to lower tax rates	(1,984,789)		(1,170,939)		321,479
Tax effect of timing difference	6,861,101		902,431		1,172,120
Effect of changes in tax rate	-		6,093,680		957,192
	<b>P 108,111,615</b>	P	<b>133,654,723</b>	P	<b>132,822,162</b>

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

		2011		2010
Unfunded retirement liability	P	14,074,703	P	7,560,057
Allowance for impairment on receivable		10,315,817		8,389,465
NOLCO		5,941,849		4,528,109
	P	<b>30,332,369</b>	P	<b>20,477,631</b>

### 33. Lease Commitments

*Operating lease commitments-Group as a lessee*

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

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

		2011		2010
Within one year	P	256,607,544	P	22,690,944
After one year but not more than five years		135,298,338		13,046,440
	P	<b>391,905,882</b>	P	<b>35,737,384</b>

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

		2011		2010		2009
Cost of goods sold	P	15,633,059	P	15,252,318	P	15,233,517
Distribution expense		22,333,882		22,679,815		19,213,478
Administrative and selling expense		10,878,723		22,184,041		8,279,211
	P	<b>48,845,664</b>	P	<b>60,116,174</b>	P	<b>42,726,206</b>

### 34. Provisions and Contingencies

As of December 31, 2011, the Group had a total of forty four (44) pending cases, forty one (41) of which were filed for the collection of various amounts for bouncing checks. The aggregate amount claimed for the same is approximately P9.6 million. Three (3) of these cases not filed by the Group are Insolvency Proceedings against customers for which the Group have pending claims for payments.

The Group's unused letters of credit amounted to approximately P265.2 million in 2011 and P286.1 million in 2010.

**35. Earnings Per Share (EPS)**

Computation of basic and diluted EPS is shown below:

	2011		2010	
Net income	P	242,504,100	P	297,491,493
Divided by the weighted average number of shares		3,977,631,270		3,843,122,000
	P	0.06	P	0.08

There were no potential dilutive shares in 2011 and 2010.

**36. Financial Risk Management Objectives and Policies**

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

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

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

Credit Risk

To manage credit risk, the Group trades only with recognized and credit-worthy customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification process with emphasis on their capacity, character and willingness to pay. Each customer, whether corporate or otherwise, has an approved maximum credit limit. These limits are reviewed regularly by the Treasury Department. Trade receivable balance is monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

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

The table below shows the gross maximum exposure to credit risk of the Group as of December 31, 2011 and 2010, without considering the effects of collaterals and other credit risk mitigation techniques.

	2011	2010
Cash in banks	P 1,031,134,608	P 899,142,784
Receivables		
Trade	1,374,384,881	1,253,843,735
Non-trade	4,530,066	9,354,881
Others		
Advances to suppliers and contractors	36,739,028	2,107,755
Advances and deposits	28,241,043	103,636,570
Advances to officers and employees	45,870,054	91,068,923
	<b>P 2,520,899,680</b>	<b>P 2,359,154,648</b>

The Group has no significant exposure to credit risk.

The table below shows the credit quality by class of financial assets as of December 31, 2011 and 2010, gross of allowance for credit and impairment losses.

December 31, 2011	Neither Past Due Nor Impaired				Past Due But Not Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
<i>(amounts in thousands)</i>						
Loans and Receivable						
Cash in banks	P 1,031,135	P -	P -	P -	P -	P 1,031,135
Receivables						
Trade	903,559	-	-	470,826	-	1,374,385
Non-trade	4,530	-	-	-	-	4,530
Others						
Advances to suppliers and contractors	36,739	-	-	-	-	36,739
Advances and deposits	28,241	-	-	-	-	28,241
Advances to officers and employees	45,870	-	-	-	-	45,870
	<b>P 2,050,074</b>	<b>P -</b>	<b>P -</b>	<b>P 470,826</b>	<b>P -</b>	<b>P 2,520,900</b>

December 31, 2010	Neither Past Due Nor Impaired				Past Due But Not Impaired	Total
	High Grade	Standard Grade	Substandard Grade			
<i>(amounts in thousands)</i>						
Loans and Receivable						
Cash in banks	P 899,143	P -	P -	P -	P -	P 899,143
Receivables						
Trade	714,454	-	-	539,390	-	1,253,844
Non-trade	9,355	-	-	-	-	9,355
Others						
Advances to suppliers and contractors	2,108	-	-	-	-	2,108
Advances and deposits	103,637	-	-	-	-	103,637
Advances to officers and employees	91,069	-	-	-	-	91,069
	<b>P 1,819,766</b>	<b>P -</b>	<b>P -</b>	<b>P 539,390</b>	<b>P -</b>	<b>P 2,359,156</b>

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

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

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

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

As of December 31, 2011 and 2010, the aging analysis per class of financial assets that were past due but not impaired is as follows:

December 31, 2011		Total	Neither past due nor impaired	Past due but not impaired		Past due or individually impaired	Past Due But Not Impaired	
				0-60 days	over 60 days			
<i>(amounts in thousands)</i>								
Loans and Receivable								
Cash in banks	P	1,031,135	P	1,031,135	P	-	P	-
Receivables								
Trade		1,374,385		499,995		349,756		524,634
Non-trade		4,530		4,530		-		-
Others								
Advances to suppliers and contractors		36,739		36,739		-		-
Advances and deposits		28,241		28,241		-		-
Advances to officers and employees		45,870		45,870		-		-
	P	2,520,900	P	1,646,510	P	349,756	P	524,634

December 31, 2010		Total	Neither past due nor impaired	Past due but not impaired		Past due or individually impaired	Past Due But Not Impaired	
				0-60 days	over 60 days			
<i>(amounts in thousands)</i>								
Loans and Receivable								
Cash in banks	P	899,143	P	899,143	P	-	P	-
Receivables								
Trade		1,253,844		714,454		405,378		134,012
Non-trade		9,355		9,355		-		-
Others								
Advances to suppliers and contractors		2,108		2,108		-		-
Advances and deposits		103,637		103,637		-		-
Advances to officers and employees		91,069		91,069		-		-
	P	2,359,156	P	1,819,766	P	405,378	P	134,012

### Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities as well as securing credit lines from other banks. Liquidity requirements and positions are monitored daily and monthly reports are reviewed by the management. Sufficient credit lines with various local banks are obtained and regularly renewed.

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2011 and 2010 based on contractual undiscounted payments (principal and interest).

December 31, 2011	Total Carrying Value	Contractual undiscounted payments			
		On demand	Less than 1 year	1 to 5 years	> 5 years
<i>(amounts in thousands)</i>					
Trade accounts payable	P 369,481	P -	P 369,481	P -	P -
Notes payable (including current portion)	3,030,050	-	2,282,750	191,300	556,000
Acceptances payable	251,661	-	251,661	-	-
Installment contract payable (including current portion)	141,463	-	2,970	138,493	-
Other current liabilities					
Agency payable	50,946	-	50,946	-	-
Accrued expense	36,109	-	36,109	-	-
	P 3,651,192	P -	P 2,903,892	P 191,300	P 556,000

December 31, 2010	Total Carrying Value	Contractual undiscounted payments			
		On demand	Less than 1 year	1 to 5 years	> 5 years
<i>(amounts in thousands)</i>					
Trade accounts payable	P 277,080	P -	P 277,080	P -	P -
Notes payable (including current portion)	2,282,800	-	1,274,150	528,850	479,800
Acceptances payable	422,066	-	422,066	-	-
Installment contract payable (including current portion)	144,238	-	2,775	141,463	-
Other current liabilities					
Agency payable	19,860	-	19,860	-	-
Accrued expense	1,659	-	1,659	-	-
	P 2,981,946	P -	P 1,973,296	P 528,850	P 479,800

#### Interest Rate Risk

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

The Group's exposure to interest rate risk relates primarily to the Group's short-term and long-term debt obligations. The Group 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 Group's loans that is exposed to interest rate risk:

	2011	2010
<i>(amounts in thousands)</i>		
Notes Payable		
Within one (1) year	P 2,218,750	P 1,274,150
Over one (1) year	811,300	1,008,650
Acceptances Payable		
Within one (1) year	251,661	422,066
	P 3,281,711	P 2,704,866

As of December 31, 2011 and 2010, the Group 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 Group is exposed to price risk because of the nature of its business. This is managed by maintaining good business relations with customers, producing a wide-range of products and providing prompt, courteous and efficient marketing and delivery service. Likewise, for valued customers, prices are contracted for a long-term period.

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

**Foreign Exchange Risk**

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

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

	2011		2010	
	Foreign currency	Peso Conversion	Foreign currency	Peso Conversion
US Dollar	10,565,186	P 461,973,330	10,763,566	P 472,412,912
Euro	97,787	5,589,435	65,773	4,176,596
Singapore Dollar	37,842	1,277,737	172,641	5,793,844
ZAR	2,054,797	11,048,645	528,004	3,263,062
	<b>12,755,612</b>	<b>P 479,889,147</b>	<b>11,529,984</b>	<b>P 485,646,414</b>

The Group also has transactional currency exposures. Such exposures arise from sales and purchases in currencies other than the Group's functional currency. For years 2011 and 2010, approximately 12% and 13%, respectively of the Group's total sales are denominated in currencies other than the functional currency.

**Capital Management**

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

The Group monitors its use of capital structure using a debt-to-equity ratio which is gross debt divided by total capital. The Group includes within gross debt all loans and borrowings, while equity represents total equity. Following is the computation of the Group's debt-to-equity ratio as of December 31, 2011 and 2010:

	2011	2010
<b>Short-term debts</b>		
Current portion of notes payable	2,218,750,000	1,274,149,999
Current portion of installment contract payable	2,969,610	2,775,337
Acceptances payable	251,661,487	422,065,812
	<b>2,473,381,097</b>	<b>1,698,991,148</b>
<b>Long-term debts</b>		
Notes payable-net of current portion	811,300,000	1,008,650,000
Installment contract payable	138,493,097	141,462,707
<b>Total debt (a)</b>	<b>P 3,423,174,194</b>	<b>P 2,849,103,855</b>
<b>Equity (b)</b>	<b>P 4,461,416,748</b>	<b>P 4,218,217,827</b>
<b>Debt-to-capital ratio (a/b)</b>	<b>0.77</b>	<b>0.68</b>

The Group is not subject to externally imposed capital requirements.

### 37. Financial Assets and Liabilities

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

	2011		2010	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<i>(amounts in thousands)</i>				
<b>Financial Assets:</b>				
Cash	P 1,057,258	P 1,057,258	P 902,516	P 902,516
Trade and other receivables				
Trade-net	1,339,999	1,339,999	1,221,862	1,221,862
Non-trade	4,530	4,530	9,355	9,355
	<b>2,401,787</b>	<b>2,401,787</b>	<b>2,133,733</b>	<b>2,133,733</b>
<b>Available-for-sale financial assets</b>				
Quoted	144	144	144	144
Unquoted	200	200	200	200
	<b>344</b>	<b>344</b>	<b>344</b>	<b>344</b>
	<b>P 2,402,131</b>	<b>P 2,402,131</b>	<b>P 2,134,077</b>	<b>P 2,134,077</b>
<b>Financial Liabilities:</b>				
Trade accounts payable	P 369,481	P 369,481	P 277,080	P 277,080
Notes payable	3,030,050	3,030,050	2,282,800	2,282,800
Acceptances payable	251,661	251,661	422,066	422,066
Installment contract payables	141,463	141,463	144,238	144,238
Other current liabilities	89,072	89,072	23,095	23,095
	<b>P 3,881,727</b>	<b>P 3,881,727</b>	<b>P 3,149,279</b>	<b>P 3,149,279</b>

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

*Short-term financial instruments*

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

*Available-for-sale financial assets*

The Group'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 Group 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.

As of December 31, 2011 and 2010, the Group's has no financial instrument measured at fair value.

### 38. Other Matters

Reclassifications

In 2011, the Group made certain reclassification on its 2010 consolidated statements of financial position to conform with the 2011 presentation and classification and to provide more relevant information for the understanding of the consolidated financial statements. The Group did not present a consolidated statement of financial position as at the beginning of the earliest comparative period since the reclassifications made were minimal and would not have an impact on the net income of the Group.

Restatement

As a result of the adoption of PAS 19 – *Employees Benefits*, the following adjustments were made to the 2009 consolidated financial information as of and for the year ended December 31, 2009:

Increase in deferred tax assets	P	3,208,913
Increase in liabilities		10,696,376
Decrease in retained earnings		7,487,463
Increase in cost of goods manufactured and sold		2,598,976
Increase in administrative and selling expenses		6,808,110
Increase in distribution expense		1,289,290
Decrease in provision for income tax		3,208,913
Decrease in net income		7,487,463



The restatement did not have any effect on the Group's consolidated statements of cash flows.

Disclosure Requirements by SRC Rule 68

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

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



## M CJ & Co.

Mercado, Calderon, Jaravata & Co.

Certified Public Accountants

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### INDEPENDENT AUDITORS' REPORT

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

We have audited the parent company financial statements of Euro-Med Laboratories Phil., Inc. (the Company) for the year ended December 31, 2011, on which we have rendered the attached report dated April 11, 2012.

In compliance with Securities Regulation Code Rule 68, we are stating that the Company has five hundred sixty eight (568) stockholders owning one hundred (100) or more shares each.

### MERCADO, CALDERON, JARAVATA & CO.

  
**MARCELINO A. MERCADO**

*Partner (Signing for the firm)*

CPA License No. 066885

Tax Identification No. 102-921-222

P.T.R. No. 3180101

Issued on January 5, 2012, Makati City

Partner's SEC Accreditation No. 1019-A

Issued on December 9, 2011; Valid until December 9, 2014

BIR Accreditation No. 08-003338-2-2009

Issued on October 27, 2009; Valid until October 27, 2012

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

Firm's SEC Accreditation No. 0208-F (until Dec. 31, 2013)

Makati City  
April 11, 2012



## MCJ & Co.

Mercado, Calderon, Jaravata & Co.

Certified Public Accountants

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

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Euro-Med Laboratories Phil., Inc. and its subsidiaries (the Group) as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, included in this Form 17-A, and have issued our report thereon dated April 11, 2012. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management and is not part of the basic financial statements. These schedules are presented for purposes of complying with Securities and Regulation Code Rule 68, As Amended (2011) and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, fairly stated, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

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

**MARCELINO A. MERCADO**

*Partner (Signing for the firm)*

CPA License No. 066885

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Makati City  
April 11, 2012

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

**SCHEDULE A - Financial Assets**

**DECEMBER 31, 2011**

<i>Name of issuing entity and association of each issue (1)</i>	<i>Number of shares or principal amount of bonds and notes</i>	<i>Amount shown in the balance sheet*(2)</i>	<i>Value based on market quotation at balance sheet date (3)</i>	<i>Income received and accrued</i>
1) Accounts Receivable-trade ( various - non trade (various)		P 1,345,215,980		
2.) Available for Sale (AFS)		2,292,492		
2.1) Philippine Long Distance Telephone Company		144,000		7,550
2.2) Casino Espanol		200,000		
Total AFS		344,000		

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

**SCHEDULE B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders  
DECEMBER 31, 2011**

DEDUCTIONS

<i>Name and Designation of debtor (1)</i>	<i>Balance at beginning of period Jan. 01, 2011</i>	<i>Additions</i>	<i>Amount collected (2)</i>	<i>Amount written off (3)</i>	<i>Current</i>	<i>Not Current</i>	<i>Balance at end of period Dec. 31, 2011</i>
Advances to Officers/Employees							
Salary loan	3,079,371	2,656,358	3,520,627	-	2,215,102	-	2,215,102
Cash advance (for liquidation)	17,754,769	33,403,961	20,159,466	-	30,999,264	-	30,999,264
Car/Housing	14,011,135	5,683,248	5,771,425		13,922,958		13,922,958
<b>TOTAL ==&gt;&gt;&gt;&gt;</b>	<b>34,845,275</b>	<b>41,743,566</b>	<b>29,451,518</b>	<b>-</b>	<b>47,137,324</b>	<b>-</b>	<b>47,137,324</b>

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

**SCHEDULE C - Amounts Receivable from Related Parties which are Eliminated during the**

**Consolidation of the Financial Statements**

**DECEMBER 31, 2011**

<i>Name of and Designation of debtor</i>	<i>Balance of Beginning of period Jan. 01, 2011</i>	<i>Additions</i>	<i>Amounts Collected</i>	<i>Amounts written off</i>	<i>Current</i>	<i>Not Current</i>	<i>Balance at end of period Dec. 31, 2011</i>
1.) 102 E. Delos Santos Realty Co., Inc.	58,000,000	4,500,000			62,500,000		P 62,500,000
2.) Hemotek Renal Center, Inc.	0						0
3.) CafeFrance Corp.	40,000,000	209,500,000	225,000,000		24,500,000		24,500,000
<b>Total</b>	<b>58,000,000</b>	<b>P 214,000,000</b>	<b>-</b>				<b>0 P 87,000,000</b>

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

**SCHEDULE D - Intangible Assets**

**DECEMBER 31, 2011**

<i>Description (1)</i>	<i>Beginning balance Jan. 1, 2011</i>	<i>Additions at cost (2)</i>	<i>Charged to cost &amp; exp. (3)</i>	<i>Charged to other accounts</i>	<i>Other charges- additions/(deductions)</i>	<i>Ending balance Dec. 31, 2011</i>
1.) Trademarks and Licenses	0	223,399,836				223,399,836
2.) Goodwill	32,356,940					32,356,940
3.) Patents/Rights	2,120,918	70,504	180,254			2,011,168
TOTAL	P 34,477,858.00	223,470,340	P 180,254.00	P -	P -	P 257,767,944.00

(2) The addition is stated at cost

(3) Deduction represents amount charged to operations.

Amortization is credited directly to patents/rights account.

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

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

**SCHEDULE E - Long Term Debt**

**DECEMBER 31, 2011**

<i>Title of issue and type of obligation (1)</i>	<i>Amount authorized by indenture</i>	<i>Amount shown under caption "Current portion of long-term" in related balance sheet</i>	<i>Amount shown under caption "Long-term Debt" in related balance sheet (3)</i>
Promissory Note	P 3,030,050,000	P 2,218,750,000	P 811,300,000

\*

\* Interest rates are based on T-bills plus spread.

\* Payable quarterly in Three(3) to seven (7) years.



**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**SCHEDULE F - Indebtedness to Affiliates and Related Parties (Long-term Loans from Related Companies)**  
**DECEMBER 31, 2011**

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

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

**SCHEDULE G - Guarantees of Securities of Other Issuers**

**DECEMBER 31, 2011**

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

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

**SCHEDULE H - Capital stock**

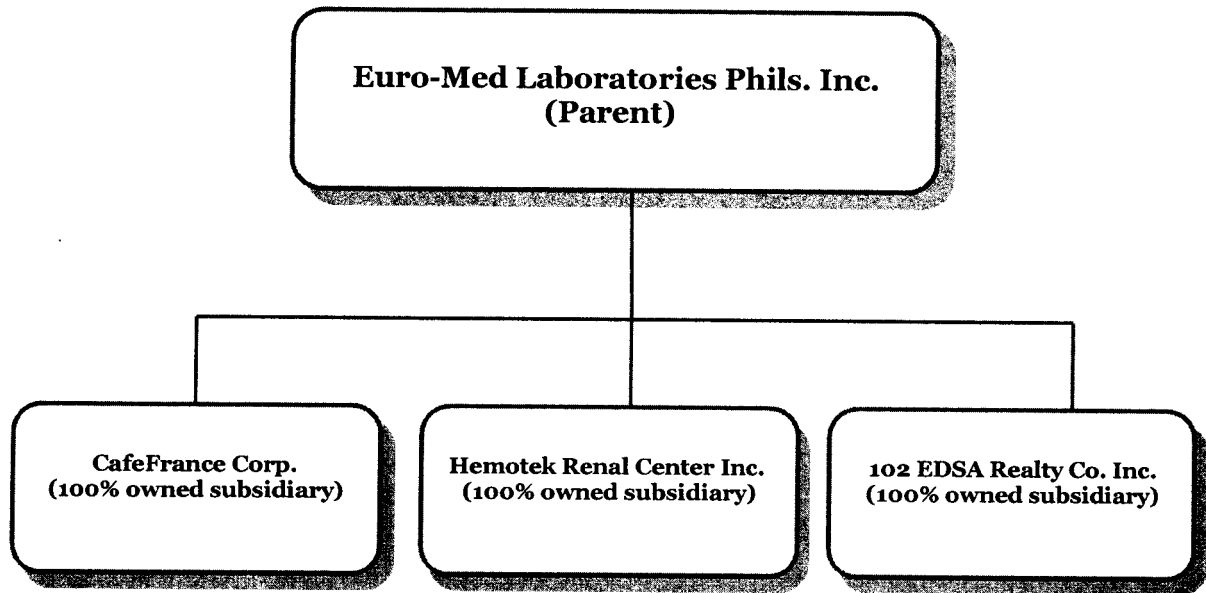
**DECEMBER 31, 2011**

Title of issue (2)	Number of shares authorized	Number of shares issued and outstanding shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion & other rights	Number of shares held by related parties	Directors, Officers and Employees'	Others
Common	5,000,000,000	Issued <u>4,112,140,540</u>	NONE	-3 3,693,796,011	99,104,156	319,240,373

**EURO-MED LABORATORIES PHIL., INC.**  
**SCHEDULE I - Reconciliation of Retained Earnings Available for Dividend Declaration**  
**DECEMBER 31, 2011**

Unappropriated Retained Earnings, as adjusted to available for dividend distribution, beginning	P 307,968,181
<b>Add: Net Income actually earned/ realized during the period</b>	
Net Income during the period closed to Retained Earnings	240,463,598
Less: Non-actual/unrealized income net of tax	
Equity in net income of associate/joint venture	-
Unrealized foreign exchange gain-net(except those attributable to cash and cash equivalents)	-
Unrealized actuarial gain	-
Fair value adjustment (M2M gains)	-
Fair value adjustment of Investment property resulting to gain	-
Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	-
<b>Sub-total</b>	<b>240,463,598</b>
<b>Add: Non-actual losses</b>	
Depreciation on revaluation increment(after tax)	-
Adjustment due to deviation from PFRS/GAAP-loss	-
Loss on fair value adjustment of investment property (after tax)	-
	-
<b>Net Income actually earned during the period</b>	<b>548,431,779</b>
<b>Add (Less)</b>	
Dividend declarations during the period	269,018,540
Appropriations of Retained earnings during the period.	-
Reversals of appropriations	-
Effects of prior periods errors	-
Treasury shares	-
	269,018,540
<b>TOTAL RETAINED EARNINGS, END</b>	
<b>December 31, 2011 AVAILABLE FOR DIVIDEND</b>	<b>P 279,413,239</b>

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**SCHEDULE J - Relationship between and among the Group and its Parent**  
**December 31, 2011**



**EURO-MED LABORATORIES, PHIL., INC. AND SUBSIDIARIES**  
**SCHEDULE K - List of all Effective Standards and Interpretations under the**  
**Philippine Financial Reporting Standard (PFRS) effective as of**  
**December 31, 2011**

<b>PFRSs</b>	<b>Adopted/Not adopted/ Not applicable</b>
PFRS 1, <i>First- time Adoption of Philippine Financial Reporting Standards</i>	Not applicable
PFRS 2, <i>Share-based Payment</i>	Not applicable
PFRS 3, <i>Business Combinations</i>	Not applicable
PFRS 4, <i>Insurance Contracts</i>	Not applicable
PFRS 5, <i>Non- current Assets Held for Sale and Discontinued Operations</i>	Not applicable
PFRS 6, <i>Exploration for and evaluation of mineral Resources</i>	Not applicable
PFRS 7, <i>Financial Instruments: Disclosures</i>	Adopted
PFRS 8, <i>Operating Segments</i>	Not applicable
PFRS 9, <i>Financial Instruments</i>	Not yet adopted
PAS 1, <i>Presentation of Financial Statements</i>	Adopted
PAS 2, <i>Inventories</i>	Adopted
PAS 7, <i>Statement of Cash Flows</i>	Adopted
PAS 8, <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>	Adopted
PAS 10, <i>Events after the Reporting Period</i>	Adopted
PAS 11, <i>Construction Contracts</i>	Not applicable
PAS 12, <i>Income Taxes</i>	Adopted
PAS 16, <i>Property, Plant and Equipment</i>	Adopted
PAS 17, <i>Leases</i>	Adopted
PAS 18, <i>Revenue</i>	Adopted
PAS 19, <i>Employee Benefits</i>	Adopted
PAS 20, <i>Accounting for Government Grants and Disclosures of Government Assistance</i>	Not applicable
PAS 21, <i>The effect of Changes in Foreign Exchange Rates</i>	Adopted
PAS 23, <i>Borrowing Costs</i>	Not applicable
PAS 24, <i>Related Party Disclosures</i>	Adopted
PAS 26, <i>Accounting and Reporting by Retirement Benefit Plans</i>	Not applicable
PAS 27, <i>Consolidated and Separate Financial Statement</i>	Adopted
PAS 28, <i>Investment in Associates</i>	Not applicable
PAS 29, <i>Financial Reporting in Hyperinflationary Economies</i>	Not applicable
PAS 31, <i>Interests in Joint Ventures</i>	Not applicable
PAS 32, <i>Financial Instruments: Presentation</i>	Adopted
PAS 33, <i>Earnings Per Share</i>	Adopted
PAS 34, <i>Interim Financial Reporting</i>	Not applicable
PAS 36, <i>Impairment of Assets</i>	Adopted
PAS 37, <i>Provisions, Contingent Liabilities and Contingent Assets</i>	Adopted
PAS 38, <i>Intangible Assets</i>	Adopted
PAS 39, <i>Financial Instruments: Recognition and Measurement</i>	Adopted
PAS 40, <i>Investment Property</i>	Not applicable
PAS 41, <i>Agriculture</i>	Not applicable
Philippine interpretation IFRIC- 1, <i>Changes in Existing Decommissioning Restoration and Similar Liabilities</i>	Not applicable

Philippine interpretation IFRIC- 2, <i>Members' Shares in Co-operative Entities and Similar Instruments</i>	Not applicable
Philippine interpretation IFRIC- 4, <i>Determining whether an Arrangement contains a Lease</i>	Adopted
Philippine interpretation IFRIC- 5, <i>Rights to Interests arising from the Decommissioning Restoration and Environmental Rehabilitation Funds</i>	Not applicable
Philippine interpretation IFRIC- 6, <i>Liabilities arising from participating in Specific Market - Waste Electrical and Electronic Equipment</i>	Not applicable
Philippine interpretation IFRIC- 7, <i>Applying the Restatement approach under PAS 29 Financial Reporting in Hyperinflationary Economies</i>	Not applicable
Philippine interpretation IFRIC- 9, <i>Reassessment of Embedded Derivatives</i>	Not applicable
Philippine interpretation IFRIC- 10, <i>Interim Financial Reporting and Impairment</i>	Not applicable
Philippine interpretation IFRIC- 12, <i>Service Concession Arrangements</i>	Not applicable
Philippine interpretation IFRIC- 13, <i>Customer Loyalty Programmes</i>	Not applicable
Philippine interpretation IFRIC- 14, <i>PAS 19 – The limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction</i>	Adopted
Philippine interpretation IFRIC- 16, <i>Hedges of a Net Investment in a Foreign Operation</i>	Not applicable
Philippine interpretation IFRIC- 17, <i>Distributions of Non - cash Assets to owners</i>	Not applicable
Philippine interpretation IFRIC- 18, <i>Transfers of Assets from Customers</i>	Not applicable
Philippine interpretation IFRIC- 19, <i>Extinguishing Financial Liabilities with Equity Instruments</i>	Not applicable
Philippine interpretation SIC-7, <i>Introduction of the Euro</i>	Not applicable
Philippine interpretation SIC-10, <i>Government Assistance – No Specific Relation to Operating Activities</i>	Not applicable
Philippine interpretation SIC-12, <i>Consolidation – Special Purpose Entities</i>	Not applicable
Philippine interpretation SIC-13, <i>Jointly Controlled Entities- Non-Monetary Contributions by Ventures</i>	Not applicable
Philippine interpretation SIC-15, <i>Operating Leases- Incentives</i>	Adopted
Philippine interpretation SIC-21, <i>Income Taxes- Recovery of Revalued Non-Depreciable Assets</i>	Not applicable
Philippine interpretation SIC-25, <i>Income Taxes- Changes in the Tax Status of an Entity or its Shareholders</i>	Not applicable
Philippine interpretation SIC-27, <i>Evaluating the Substance of Transaction involving the Legal Form of a Lease</i>	Not applicable
Philippine interpretation SIC-29, <i>Service Concession Arrangement: Disclosures</i>	Not applicable
Philippine interpretation SIC-31, <i>Revenue - Barter Transactions Involving Advertising Services</i>	Not applicable
Philippine interpretation SIC-32, <i>Intangible Assets – Website Costs</i>	Not applicable

**EURO-MED LABORATORIES PHIL., INC. AND SUBSIDIARIES**  
**ADDITIONAL EXHIBIT - Other Documents to be Filed with**  
**the Consolidated Financial Statements**  
**DECEMBER 31, 2011**

**FINANCIAL SOUNDNESS INDICATORS**

	<u>2011</u>	<u>2010</u>
<b>CURRENT RATIO</b>	<b>1.22</b>	1.61
<b>DEBT-TO-EQUITY RATIO</b>	<b>0.89</b>	0.76
<b>ASSET TO EQUITY RATIO</b>	<b>1.89</b>	1.76
<b>INTEREST RATE COVERAGE RATIO</b>	<b>2.70</b>	3.14
<b>PROFITABILITY RATIOS:</b>		
<b>PROFIT MARGIN</b>	<b>0.06</b>	0.07
<b>RETURN ON ASSETS</b>	<b>0.03</b>	0.04
<b>RETURN ON EQUITY</b>	<b>0.05</b>	0.07