



**VITARICH**

12 August 2011

**PHILIPPINE STOCK EXCHANGE INC.**

3<sup>RD</sup> Floor, Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City

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

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Gentlemen:

In compliance with SEC and PSE requirements, we are pleased to transmit herewith a copy of the Quarterly Report ( SEC Form 17-Q) for the second quarter ended June 30, 2011.

Thank you.

Very truly yours,

**JULIETA M. HERRERA**  
Controller

Main Office : Abangan Sur, McArthur Highway, Marilao, Bulacan  
Tel. Nos. : (632) 843-3033 and (044) 711-2829 ( Connecting All Depts. )  
Fax No. : (632) 843-0297 loc. 400 ZIP CODE : 3019

# COVER SHEET

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S.E.C. Registration Number

[illegible]

(Company's Full Name)

[illegible]

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

TERESITA RIMANDO

Contact Person

843-30-33

Company Telephone Number

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Month Day  
Fiscal Year

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FORM TYPE

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Month \_\_\_\_\_ Day \_\_\_\_\_  
Annual Meeting

Last Friday

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Secondary License Type, if Applicable

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Amended Articles Number/Section

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Total No. of Stockholders

### Total Amount of Borrowings

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Domestic

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Foreign

To be accomplished by SEC Personnel concerned

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STAMPS

**SECURITIES AND EXCHANGE COMMISSION**

**SEC Form 17-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES  
REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER**

1. For the quarterly period ended **JUNE 30, 2011**
2. Commission Identification Number **21134**
3. BIR Tax Identification No. **- 000-234-398**
4. Exact name of registrant as specified in its charter **VITARICH CORPORATION**
5. **BULACAN**  
Province, Country or other jurisdiction of incorporation or organization  
**(SEC Use Only)**
6. Industry Classification Code
7. **MC ARTHUR HIGHWAY, ABANGAN SUR, , MARILAO, BULACAN** **3019**  
Address of principal office Postal Code
8. **843-30-33; 843-02-37 to 47 Connecting all departments**  
Registrant's telephone number, including area code
9. **N/A**  
Former name, address and/or former fiscal year if changed since last report.
10. Securities registered pursuant to Sections 4 and 8 of the RSA  

| Title of Each Class                      | Number of Shares of Common Stock<br>Outstanding and Amount of Debt Outstanding |
|--|--|
| <b>Common Stock - Shares outstanding</b> | <b>409,969,764</b>   |
11. Are any or all the securities listed in the Philippine Stock Exchange?  
Yes ( ☒ ) No ( ☐ )
12. Check whether the registrant:  

(a) has filed all reports required to be filed by Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports);  
Yes ☒ No ☐

(b) has been subject to such filing requirements for the past 90 days.  
Yes ☐ No ☒



## PART I - FINANCIAL INFORMATION

### ITEM 1. Financial Statements

#### VITARICH CORPORATION & SUBSIDIARIES CONSOLIDATED STATEMENTS OF INCOME FOR THE SECOND QUARTER ENDED JUNE 30, 2011 AND 2010 ( IN THOUSANDS)

|   | UNAUDITED ( JAN - JUNE ) |          | UNAUDITED ( APR - JUNE ) |          | AUDITED      |
|---|--------------------------|----------|--------------------------|----------|--------------|
|   | 2011                     | 2010     | 2011                     | 2010     | DEC 31, 2010 |
| SALES OF GOODS  | 1,269,552                | 993,356  | 640,892                  | 491,019  | 2,263,868    |
| COST OF GOOD SOLD   | 1,137,888                | 850,426  | 572,388                  | 424,310  | 2,094,722    |
| GROSS PROFIT  | 131,664                  | 142,930  | 68,504                   | 66,709   | 169,146      |
| OTHER OPERATING EXPENSES ( INCOME )                                     |                          |          |                          |          |              |
| Operating Expenses  | 182,144                  | 174,298  | 92,651                   | 87,184   | 325,826      |
| Other Operating Income  | (53,071)                 | (32,281) | (28,994)                 | (21,395) | (149,873)    |
|   | 129,073                  | 142,017  | 63,657                   | 65,789   | 175,953      |
| OPERATING PROFIT ( LOSS)  | 2,591                    | 913      | 4,847                    | 920      | (6,807)      |
| OTHER CHARGES (INCOME)  |                          |          |                          |          |              |
| Finance costs   |                          |          |                          |          | 284,165      |
| Gain on sale of investment property<br>and property and equipment - net |                          |          |                          |          | (31,792)     |
| Finance income  |                          |          |                          |          | (418)        |
|   | -                        | -        | -                        | -        | 251,954      |
| PROFIT ( LOSS) BEFORE TAX   | 2,591                    | 913      | 4,847                    | 920      | (258,761)    |
| TAX EXPENSE ( INCOME )  |                          |          |                          |          | (54,272)     |
| NET INCOME ( LOSS )   | 2,591                    | 913      | 4,847                    | 920      | (204,489)    |

#### EARNING / ( LOSS) PER SHARE WERE COMPUTED AS FOLLOWS:

|   |         |         |         |         |           |
|---|---------|---------|---------|---------|-----------|
| Profit (loss)   | 2,591   | 913     | 4,847   | 920     | (204,489) |
| Divided by the weighted average number of<br>outstanding shares | 409,970 | 409,970 | 409,970 | 409,970 | 409,970   |
| EARNING/ (LOSS) PER SHARE                                       | 0.006   | 0.002   | 0.012   | 0.002   | (0.50)    |



**VITARICH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**FOR THE PERIOD ENDED JUNE 30, 2011 AND THE YEAR ENDED DECEMBER 31, 2010**  
**(IN THOUSANDS)**

|                                     | <b><u>ASSETS</u></b>        |                             | <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b> |                             |
|-------------------------------------|-----------------------------|-----------------------------|--|-----------------------------|
|                                     | (Unaudited)<br>JUNE<br>2011 | ( Audited )<br>DEC.<br>2010 | (Unaudited )<br>JUNE<br>2011                       | ( Audited )<br>DEC.<br>2010 |
| <b>CURRENT ASSETS</b>               |                             |                             | <b>CURRENT LIABILITIES</b>                         |                             |
| Cash                                | 38,274                      | 65,926                      | Interest-bearing loans -net                        | 78,165 78,165               |
| Trade & other receivables-net       | 766,607                     | 714,495                     | Trade & other payables                             | 978,129 939,744             |
| Inventories - net                   | 465,527                     | 437,622                     | Income Tax Payable                                 | - 1,493                     |
| Due from related parties - net      | 102,879                     | 102,203                     | Total Current Liabilities                          | 1,056,294 1,019,401         |
| Other current assets - net          | 28,296                      | 14,364                      |  |                             |
|                                     |                             |                             | <b>NON-CURRENT LIABILITIES</b>                     |                             |
| Total Current assets                | 1,401,584                   | 1,334,610                   | Interest-bearing loans                             | 1,992,387 1,992,387         |
|                                     |                             |                             | Trade & other payables                             | 248,151 248,151             |
|                                     |                             |                             | Deferred tax liabilities - net                     | 154,468 154,468             |
|                                     |                             |                             | Retirement benefit obligation                      | 109,127 105,669             |
|                                     |                             |                             | Cash bond deposits                                 | 18,424 19,971               |
|                                     |                             |                             | Total Non-Current Liabilities                      | 2,522,556 2,520,646         |
| <b>NON-CURRENT ASSETS</b>           |                             |                             | Total Liabilities                                  | 3,578,850 3,540,048         |
| Trade & Other Receivables - net     | 147,867                     | 139,915                     | <b>EQUITY</b>                                      |                             |
| Property, plant and equipment - net | 1,557,654                   | 1,599,867                   | Capital stock                                      | 409,970 409,970             |
| Investment property                 | 718,427                     | 712,707                     | Additional Paid-in capital                         | 913,740 913,740             |
| Other Non-current Assets - net      | 32,453                      | 29,492                      | Revaluation reserve on property                    | 756,430 756,430             |
|                                     |                             |                             | Retained earnings                                  | (1,801,005) (1,803,596)     |
| Total Non - Current assets          | 2,456,401                   | 2,481,981                   | Total Equity                                       | 279,135 276,544             |
|                                     |                             |                             | <b>TOTAL LIABILITIES &amp; EQUITY</b>              |                             |
| <b>TOTAL ASSETS</b>                 | <b>3,857,985</b>            | <b>3,816,591</b>            |  | <b>3,857,985 3,816,591</b>  |
|                                     |                             |                             |  | - -                         |



**VITARICH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010**

|  | ( Unaudited ) |          |              |
|--|---------------|----------|--------------|
|  | JAN-JUNE      | JAN-JUNE | AUDITED      |
|  | 2011          | 2010     | DEC 31, 2010 |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>                                  |               |          |              |
| Profit ( loss) before tax  | 2,591         | 913      | (258,761)    |
| Adjustments to reconcile net income to net cash                              |               |          |              |
| Interest expense   |               |          | 192,640      |
| Impairment loss on trade & other receivables                                 |               |          | 91,520       |
| Depreciation & amortization  | 38,606        | 52,327   | 69,056       |
| Gain on sale of property, plant and equipment-net<br>and investment property |               |          | (31,792)     |
| Impairment loss on property and equipment                                    |               |          | 1,507        |
| Interest income  |               |          | (418)        |
| Sub-Total  | 41,197        | 53,240   | 63,751       |
| Net Changes in Working Capital   |               |          |              |
| Decrease (increase) in:  |               |          |              |
| Trade & other receivables  | (60,064)      | 14,466   | (39,759)     |
| Inventories  | (27,905)      | (15,916) | 47,204       |
| Other Current Assets   | (13,932)      | (27,259) | (7,087)      |
| Net Due from related parties   | (676)         | 843      | 703          |
| Other non-current assets   | (2,961)       | (3,026)  | 867          |
| Increase (decrease) in:  |               |          |              |
| Trade & other payables   | 38,385        | (31,734) | 17,872       |
| Cash bond deposits & other liabilities                                       | (1,548)       | (1,507)  | (2,094)      |
| Retirement Benefit Obligation  | 3,458         | 3,162    | 7,873        |
| Total Changes in Working Capital   | (24,046)      | (7,731)  | 89,331       |
| Interest paid  |               |          |              |
| Interest received  |               |          | 418          |
| Cash paid for income taxes   | (1,493)       | (2,085)  | (2,239)      |
| Net Cash Provided by Operating Activities                                    | (25,539)      | (9,816)  | 87,510       |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>                                  |               |          |              |
| Acquisitions of investment property  | (5,720)       |          | (15,386)     |
| Net acquisitions of property and equipment                                   | 3,607         | (17,916) | (62,680)     |
| Proceeds from sale of property and equipment                                 |               |          | -            |
| Net cash Used in Investing Activities  | (2,113)       | (17,916) | (78,066)     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>                                  |               |          |              |
| Payments of interest-bearing loans   |               |          |              |
| Net Cash Provided by (Used in) Financing Activities                          | -             | -        | -            |
| <b>NET INCREASE(DECREASE) IN CASH</b>  | (27,652)      | (27,732) | 9,444        |
| <b>CASH AT BEGINNING OF YEAR</b>   | 65,926        | 56,482   | 56,482       |
| <b>CASH AT END OF PERIOD</b>   | 38,274        | 28,750   | 65,926       |





**VITARICH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE PERIOD ENDED JUNE 30, 2011 AND 2010**

|  | ( Unaudited ) |             | AUDITED      |
|--|---------------|-------------|--------------|
|  | JUNE          | JUNE        | DEC 31, 2010 |
|  | 2011          | 2010        |              |
| <b>CAPITAL STOCK</b>   | 409,970       | 409,970     | 409,970      |
| <b>ADDITIONAL PAID-IN CAPITAL</b>  | 913,740       | 913,740     | 913,740      |
| <b>REVALUATION RESERVE ON PROPERTY</b>                                   |               |             |              |
| Balance, beginning of year   | 756,430       | 824,682     | 824,682      |
| Transfer to deficit of revaluation reserve absorbed through depreciation | -             | -           | (2,925)      |
| Transfer to deficit of revaluation reserve realized through sale         |               |             | (65,328)     |
| Balance, end of quarter  | 756,430       | 824,682     | 756,430      |
| <b>RETAINED EARNINGS</b>   |               |             |              |
| Balance, beginning of year   | (1,803,596)   | (1,553,749) | (1,553,748)  |
| Prior period adjustments   |               |             | (113,610)    |
| As restated  | (1,803,596)   | (1,553,749) | (1,667,359)  |
| Transfer to deficit of revaluation reserve absorbed through depreciation |               |             | 2,925        |
| Transfer to deficit of revaluation reserve realized through sale         |               |             | 65,328       |
| Net income ( loss )  | 2,591         | 913         | (204,489)    |
| Balance, end of quarter  | (1,801,005)   | (1,552,836) | (1,803,596)  |
| <b>TOTAL EQUITY</b>  | 279,135       | 595,556     | 276,544      |

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SEGMENT INFORMATION**  
**FOR THE SECOND QUARTER ENDED JUNE 30, 2011**  
**( in thousands)**

The Company's operating businesses and those of its subsidiaries are organized and managed separately according to the nature of products and services provided , with each segment representing a strategic business unit that offers different products and serves different markets.

- (a) The Food segment is engaged in the growing, production and distribution of chicken broilers, either as live or dressed . Its products are distributed to wet markets and supermarkets.
- (b) The Feeds segment caters to the feed requirement of the poultry growers industry. It is engaged in the manufacture and distribution of animal and aqua feeds, animal health and nutritional products, and feed supplements.
- (c) The Farms segment is involved in the production of day-old chicks and pullets.
- (d) The Corporate and Others segment includes general and corporate income and expense items which are not specifically identifiable to a particular segment.

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

The Group generally accounts for intersegment sales and transfers at cost.

The following table presents revenue and profit information regarding business segments for the second quarter ended June 30, 2011, and certain asset and liability information regarding business segments at June 30, 2011.  
(in thousand pesos)

|   | <u><b>Foods</b></u> | <u><b>Feeds</b></u> | <u><b>Farms</b></u> | <u><b>Corporate<br/>&amp; Others</b></u> | <u><b>Eliminations</b></u> | <u><b>Consolidated</b></u> |
|---|---------------------|---------------------|---------------------|--|----------------------------|----------------------------|
| <b>TOTAL REVENUES</b>                                     |                     |                     |                     |  |                            |                            |
| Net Sales   |                     |                     |                     |  |                            |                            |
| External Sales  | 189,065             | 431,597             | 20,230              |  |                            | 640,892                    |
| Inter-segment sales                                       |                     | 11,098              |                     |  | (11,098)                   | -                          |
|   | <u>189,065</u>      | <u>442,695</u>      | <u>20,230</u>       | <u>-</u>                                 | <u>(11,098)</u>            | <u>640,892</u>             |
| <b>RESULTS</b>  |                     |                     |                     |  |                            |                            |
| Segment Results   | <u>1,720</u>        | <u>29,211</u>       | <u>1,237</u>        | <u>(27,321)</u>                          |                            | <u>4,847</u>               |
| Interest Expense  |                     |                     |                     |  |                            | -                          |
| Minority Interest   |                     |                     |                     |  |                            |                            |
| Income ( Loss) before taxes                               |                     |                     |                     |  |                            | <u>4,847</u>               |
| Income taxes  |                     |                     |                     |  |                            |                            |
| Net Income ( Loss)  |                     |                     |                     |  |                            | <u>4,847</u>               |
| <b>OTHER INFORMATION</b>                                  |                     |                     |                     |  |                            |                            |
| Segment assets  | 1,160,072           | 1,965,985           | 533,340             | 287,634                                  | (89,046)                   | 3,857,985                  |
| Investment in and advances to subsidiaries and associates |                     |                     |                     |  |                            | -                          |
| Consolidated total assets                                 | <u>1,160,072</u>    | <u>1,965,985</u>    | <u>533,340</u>      | <u>287,634</u>                           |                            | <u>3,857,985</u>           |
| Segment liabilities                                       | 692,914             | 644,644             | 9,520               | 778,439                                  | (617,219)                  | 1,508,298                  |
| Interest-bearing loans                                    |                     |                     |                     | 2,070,552                                |                            | <u>2,070,552</u>           |
| Consolidated total liabilities                            | <u>692,914</u>      | <u>644,644</u>      | <u>9,520</u>        | <u>2,848,991</u>                         |                            | <u>3,578,850</u>           |



## TRADE RECEIVABLES

|                                  | TOTAL          | CURRENT        | 1-30          | 31-60        | 61-90        | 91-120       | OVER 120       |
|----------------------------------|----------------|----------------|---------------|--------------|--------------|--------------|----------------|
| FEEDS                            | 343,285        | 310,990        | 16,157        | 4,010        | 3,361        | 1,982        | 6,786          |
| FARMS                            | 17,361         | 10,254         | 7             | -            | -            | -            | 7,100          |
| FOODS                            | 165,039        | 29,354         | 72            | -            | -            | -            | 135,613        |
| <b>TOTAL</b>                     | <b>525,684</b> | <b>350,598</b> | <b>16,235</b> | <b>4,010</b> | <b>3,361</b> | <b>1,982</b> | <b>149,499</b> |
| Less: Allowance for Bad Debts    | 157,518        | 16,853         | 1,622         | 1,245        | 1,486        | 280          | 136,031        |
| <b>NET TRADE RECEIVABLES</b>     | <b>368,166</b> | <b>333,745</b> | <b>14,613</b> | <b>2,765</b> | <b>1,874</b> | <b>1,702</b> | <b>13,468</b>  |
| OTHER RECEIVABLES                | 526,759        | 189,430        | -             | -            | -            | -            | 337,329        |
| Less: Allowance for Bad Debts    | 128,318        | 37,044         | -             | -            | -            | -            | 91,274         |
| <b>NET NON-TRADE RECEIVABLES</b> | <b>398,441</b> | <b>152,386</b> | <b>-</b>      | <b>-</b>     | <b>-</b>     | <b>-</b>     | <b>246,055</b> |
| <b>NET RECEIVABLES</b>           | <b>766,607</b> | <b>486,130</b> | <b>14,613</b> | <b>2,765</b> | <b>1,874</b> | <b>1,702</b> | <b>259,522</b> |



**VITARICH CORPORATION & SUBSIDIARIES**  
**SELECTED NOTES TO CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

***There has been no changes in the presentation and treatment of the accounts and these has been previously reported. Any changes made from the previous report represents the transaction covering the second quarter of 2011.***

Vitarich Corporation (the Company or parent company) was registered with the Securities and Exchange Commission (SEC) on July 31, 1962. Its shares of stock are registered with the Philippine Stock Exchange. The Company holds 100% interests in Gromax, Inc. (Gromax) and Philippines' Favorite Chicken, Inc. (PFCI), which are both domestic corporations. PFCI ceased commercial operations in 2005

The Company is presently engaged in the manufacture and distribution of various poultry products such as live and dressed chicken, day-old chicks, animal and aqua feeds, while Gromax is engaged in the manufacture and distribution of animal health and nutritional products.

The consolidated financial statements comprise the accounts of Vitarich Corporation, the parent company, and its wholly owned subsidiaries, PFCI and Gromax, after the elimination of material intercompany transactions.

The accounting policies and methods of computation have been consistently applied by the Company and its subsidiaries in the preparation of interim financial statement as compared with the most recent annual audited financial statements.

The consolidated financial statements have been prepared in accordance with PFRS. PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board.

**Trade and Other Receivables**

Trade receivables are usually due within 30 to 90 days and do not bear any interest.

Advances to officers and employees are unsecured, noninterest-bearing and subject to liquidation for a specified period of time of about one year.

Other receivables comprised mainly of unsecured, noninterest-bearing advances to suppliers and other third parties, insurance claims receivables arising from claims for typhoon and other damages and outstanding receivables arising from incidental income of the Group such as tolling and rentals.

The non-current portion of Trade Receivables pertains to receivables that are long-outstanding and have already been referred to the Group's lawyers for collection. These accounts are the subject of the foreclosure proceedings on the land collaterals from the customers.

The current and non-current portions of trade and other receivables are composed of the following:

|                                    | <b>Unaudited<br/>June, 2011</b> | <b>Audited<br/>2010</b> |
|------------------------------------|---------------------------------|-------------------------|
| Current:                           |                                 |                         |
| Trade receivables                  | P 525,684                       | P 513,286               |
| Advances to officers and employees | 6,073                           | 6,960                   |
| Others                             | <u>520,686</u>                  | <u>474,163</u>          |

|                          |                  |                  |
|--------------------------|------------------|------------------|
|                          | 1,052,443        | 994,409          |
| Allowance for impairment | ( 285,836)       | ( 279,913)       |
|                          | <u>P 766,607</u> | <u>P 714,495</u> |
| Non-current              |                  |                  |
| Trade receivables        | P 571,153        | P 563,201        |
| Allowance for impairment | ( 423,286 )      | ( 423,286)       |
|                          | <u>P 147,867</u> | <u>P 139,915</u> |

## Inventories

Inventories are valued at the lower of cost and net realizable value. Costs incurred in bringing each product to its present location are accounted for as follows:

*Finished feeds, factory stocks and supplies and other livestock inventories* – first in, first out method. Finished goods include the cost of raw materials, direct labor and a proportion of manufacturing overheads based on normal operating capacity.

*Raw materials, animal health products and feeds supplements* – weighted average method. All costs directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities are included as part of costs of these inventories.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion of production and the estimated costs necessary to make the sale. Net realizable value of raw materials is the current replacement cost.

The details of inventories at the end of the period of June 30, 2011 and the year-ended December 31, 2010 are shown below:

|   | <b>Unaudited<br/>June, 2011</b> | <b>Audited<br/>2010</b> |
|---|---------------------------------|-------------------------|
| Feeds:  |                                 |                         |
| Finished Goods                                      | 53,855                          | P 61,942                |
| Raw materials and feeds supplements                 | 172,301                         | 139,902                 |
| Livestock   | 100,950                         | 90,473                  |
| Factory stocks and supplies                         | 157,806                         | 163,397                 |
| Supplies & animal health products                   | 33,628                          | 32,949                  |
| Materials in transit                                | --                              | 1,406                   |
|   | <u>518,540</u>                  | <u>490,069</u>          |
| Less: allowance for obsolescence & decline in value | ( 53,013)                       | ( 52,447)               |
|   | <u>P 465,527</u>                | <u>P 437,622</u>        |

## Property, Plant and Equipment

Property, plant and equipment (except for transportation equipment which are stated at cost less accumulated depreciation, amortization and any impairment in value) are stated at appraised values as determined by an independent firm of appraisers less accumulated depreciation and amortization, and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for major additions, improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation, amortization and any impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Subsequent to initial recognition at cost, property, plant and equipment (except for transportation equipment) are carried at revalued amounts, as determined by independent appraisers, less any subsequent accumulated depreciation, amortization and any accumulated impairment losses. Fair market value is determined based on appraisals made by external professional valuers by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any revaluation reserve is credited to Revaluation Reserve on Property account presented under the equity section of the consolidated statement of financial position. Any revaluation deficit directly offsetting a previous surplus in the same asset is charged to other comprehensive income to the extent of any revaluation surplus in equity relating to this asset and the remaining deficit, if any, is recognized in the consolidated profit or loss. Annually, an amount from the Revaluation Reserve on Property is transferred to Deficit for the depreciation relating to the revaluation reserve, net of related taxes. Upon disposal, any revaluation reserve relating to the particular asset sold is transferred to Deficit. Revaluations are performed with sufficient regularity ensuring that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets. The depreciation and amortization periods for property, plant and equipment, based on the above policies, are as follows:

|  |                |
|--|----------------|
| Buildings                                | 20 years       |
| Machinery and equipment                  | 10 to 20 years |
| Office furniture, fixtures and equipment | 3 to 10 years  |
| Transportation equipment                 | 4 to 5 years   |
| Leasehold and land improvements          | 2 to 5 years   |

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount .

The residual values and estimated useful lives of property, plant and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. 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 item) is included in consolidated profit or loss in the year the item is derecognized.

## **NON-CURRENT ASSETS FOR FUTURE DISPOSAL**

In July 2009, the BOD approved the disposal of several non-core property, plant and equipment and investment property with a combined carrying value of P975.0 million. These property, plant and equipment and investment property are included in the assets used as collaterals for the Company's restructured long-term debt. Consequently, in December 2009, the Company filed a petition to the Court for the approval of the disposal of the aforementioned assets. The approval was obtained in February 2010, after which, some of those assets amounting P191.6 million were published for public bidding.

The sale of non-core property, plant and equipment and investment property was formally approved by the Court on an order issued on March 1, 2011. However, in the opinion of the Company and its legal counsel, the sale of assets to Kormansinc was consummated and became binding on November 30, 2010 when the Company, through its BOD, approved the sale of the assets through dacion en pago to Kormansinc. Hence, the Company recognized the sale on November 30, 2010 in the Groups's 2010 consolidated financial statements.

## Trade & Other Payables

This account consists of:

|                            | <b>Unaudited<br/>June, 2011</b> | <b>Audited<br/>2010</b> |
|----------------------------|---------------------------------|-------------------------|
| Trade & non-trade payables | P 823,067                       | P 790,800               |
| Accrued interest           | 224,741                         | 224,741                 |
| Accrued expenses           | 64,743                          | 54,606                  |
| Provisions                 | 25,812                          | 25,812                  |
| Customers' deposits        | 65,043                          | 60,042                  |
| Others                     | <u>22,874</u>                   | <u>31,894</u>           |
|                            | P1,226,280                      | P1,187,895              |
| Less non-current portion   | <u>248,151</u>                  | <u>248,151</u>          |
| Current portion            | <u>P 978,129</u>                | <u>P 939,744</u>        |

Non-trade payables primarily consist of liabilities arising from purchases of goods, other than raw materials, and various services giving rise to expenses such as trucking fees, utilities, security services and inspection fees, among others.

Provisions pertain to obligations incurred by PFCI on the closure of Texas Manok's chain of restaurants. It included the estimated liability amounting to P10.4 million relating to a legal case, where PFCI is a defendant, arising from non-payment of rentals in connection with the lease of a parcel of land from a third party during the period starting from February 2000 until the time it vacated the leased property. On May 17, 2004, a court rendered an unfavourable decision against PFCI and ordered the payment of the unpaid rentals including interest. PFCI subsequently appealed the decision before the Court of Appeals and is waiting for the final decision on the case.

Other payables consist of short-term customer deposits, SSS, Pag-ibig and Philhealth premiums payable and withholding taxes payable, among others.

The items included in the non-current portion of Trade and Other Payables, which are outstanding as of the date of the Company's filing of petition for corporate rehabilitation, were held for payment following the Court-directed Stay Order. Following the approval of the Company's Rehabilitation Plan in 2007, these payables are to be held for payment in the same manner as the interest-bearing loans. However, the actual terms and conditions with regard to these liabilities are yet to be released by the Court. In the absence of clear payment terms and conditions, the Company recorded these financial liabilities at nominal values while presenting the same as non-current liabilities.

## Revenue and Cost Recognition

Revenue comprises revenue from the sale of goods and the rendering of services measured by reference to the fair value of consideration received or receivable by the Group for goods sold and services rendered, excluding value-added tax (VAT) and trade discounts.

Revenue is recognized to the extent that the revenue can be reliably measured, it is probable that the economic benefits will flow to the Group, and the costs incurred or to be incurred can be measured reliably. The following specific recognition criteria must also be met before revenue is recognized:

*Sale of goods* – Revenue is recognized when the risk and rewards of ownership of

the goods have passed to the buyer. This is generally when the customer has taken undisputed delivery of goods.

*Tolling* – Revenue is recognized when the performance of contractually agreed tasks have been substantially rendered.

*Rental* – Revenue from operating leases is recognized on a straight-line basis over the lease term.

*Interest* – Income is recognized as the interest accrues taking into account the effective yield on the assets. When a receivable is discounted, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as finance income.

Costs and expenses are recognized in the consolidated profit or loss upon consumption of goods, utilization of the services or at the date they are incurred. Finance costs are reported on an accrual basis and are recognized using the effective interest rate.

#### **Issuances, repurchases, and repayments of debt & equity securities;**

There were no issuances, repurchases, and repayments of debt and equity securities made for the second quarter of the year.

#### **Dividends**

In 1995, the Corporation declared cash dividend of P0.10/share. For 1996 up to second quarter of 2011, the Corporation did not declare any dividend because of the losses suffered by it.

#### **Cash Bond Deposits**

Cash bond deposits substantially consist of interest-bearing surety bond deposits obtained from contract growers, contract breeders, customers and salesmen.

The carrying amounts of the cash bond deposits are regarded as its amortized value since timing of the refund of the deposits could not be reasonably estimated.

#### **Equity**

Capital stock is determined using the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Revaluation reserve on property pertains to appreciation in value of assets due to the revaluation at appraised values of property, plant and equipment.

Deficit includes all current and prior period results as reported in the consolidated income statement.

The share capital of the Company consists only of common stock. All shares are equally eligible to receive dividends and repayment of capital and each share is entitled to one vote at the shareholders' meeting of the Company.

As of June 30, 2011 and December 2010, capital stock consists of:

(in thousands pesos)

|   | <u>Shares</u>      | <u>Amount</u>    |
|---|--------------------|------------------|
| Authorized – 500 million shares,<br>P 1 par value |                    |                  |
| Issued and outstanding                            | <u>409,969,764</u> | <u>P 409,970</u> |

### **Earnings(Loss) Per Share ( EPS)**

Basic earnings (loss) per share is determined by dividing net profit (loss) by the weighted average number of issued and outstanding shares subscribed and issued during the year after retroactive effect for any stock dividend, stock split or reverse stock split during the current year, if any.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares to assume conversion of dilutive potential shares.

Currently, the Group does not have dilutive potential shares, hence, diluted earnings (loss) per share is equal to the basic earnings per share.

### **INTEREST-BEARING LOANS**

#### ***Omnibus Agreement***

On July 1, 1998, the Company entered into an Omnibus Agreement with various local creditor banks where its existing debt amounting to P3.176 billion was restructured into a Revolving Credit Line in the amount of P503.0 million, a 7-year Term Loan amounting to P1.668 billion and 10-year Convertible Notes amounting to P1.005 billion.

#### ***First Amendment to Omnibus Agreement – 2001***

On November 14, 2001, the Omnibus Agreement was amended (First Amendment) by restructuring the Convertible Notes amounting to P1.005 billion as follows:

(a) P500 million was made part of the existing Revolving Credit Line Facility in addition to the existing Revolving Credit Line Facility, and (b) P505 million, together with the accrued interest of P150 million, was converted into a term loan (Term Loan 2) to mature on September 30, 2007.

The interest rates under the Omnibus Agreement and First Amendment were still at market rates as the loans bear the interest rates of the original loans prior to their restructuring.

#### ***Second Amendment to Omnibus Agreement – 2004***

On March 19, 2004, the Omnibus Agreement was further amended (Second Amendment) where the existing debt was reclassified into Serviceable Debt and Non-Serviceable Debt. The Second Amendment took effect retroactively on January 2, 2003 upon fulfillment of all conditions precedent as stated in the agreement. Under this agreement, the Company's P3.198 billion loans were classified into two major components, as follows:

- a. Serviceable Debt - P1.040 billion; and
- b. Non-serviceable Debt - P2.158 billion.

The Second Amendment provides for a re-examination of the terms and conditions of the Second Amendment six months before January 1, 2006, with the end in view of entering into another



Amendment to the Omnibus Agreement which takes into account the prevailing financial condition of the Company and economic environment in the Philippines.

***Amendment to the Second Amendment Agreement – 2006***

Based on the Company's assessment of its financial capability, as well as the prospects of the poultry and feed mills industry in the Philippines, the Company renegotiated for another amendment to the Second Amendment. The proposed amendment calls for a more permanent restructuring agreement and therefore the rescheduling of the repayment of the debt over a longer period subject to acceleration in case the Company's financial condition significantly improves.

While the renegotiations were on going for the amendment of the terms and conditions of the Second Amendment, several creditor banks transferred their respective rights, titles and interests over the loan obligations of the Company (amounting to P1.458 billion) to various asset management companies or Special Purpose Asset Vehicle (SPAV) companies (collectively referred to as assignees). While the Company and the SPAV were resolving some pending issues, on March 30, 2006, the Company and certain local creditor banks (holding loan balance of P1.810 billion) agreed to enter into an Amendment to the Second Amendment Agreement.

Under this Amendment, the principal obligation to the local creditor banks is divided into three equal tranches as follows:

- (a) Tranche 1 Debt – P603 million
- (b) Tranche 2 Debt – P603 million
- (c) Tranche 3 Debt – P603 million

The Amendment to the Second Amendment Agreement with the local creditor banks was not signed by all the local creditor banks. The creditor banks which did not sign were given the option to be a party to the said Agreement through an Accession Agreement where such creditor banks are deemed, for all intent and purposes, to be original parties to the Amendment to the Second Amendment Agreement.

As mentioned in the earlier paragraphs of this Note, several creditor banks transferred their respective rights, titles and interests over the loan obligation of the Company (amounting to P1.458 billion) to various assignees. These assignees have not yet entered into any amendment agreement with the Company. However, the remaining local creditor banks stipulated in a Supplemental Agreement to the Amendment to the Second Amendment Agreement that the Company will not grant more favorable terms to the assignees of the other creditor banks without the written consent of the former. Improvements on the terms or conditions given to the assignees of the other creditors without such written consent will automatically be granted to the local creditor banks or will result in an event of default.

**Excess of the Face Value over the Fair Value of Interest-bearing Loans**

The Second Amendment and also the Amendment to the Second Amendment agreement of the Omnibus Agreement include provisions under which portions of the interest-bearing loans are not subject to interest for a certain period of time. The remaining portion of the loans carried interest at 9.0%. The computation of the amortized cost of the loans based on the future cash flows commenced from the Second Amendment and concluded at the end of the repayment term of the Amendment to the Second Amendment Agreement. The absence of interest on portions of the loans for certain period of time brought the nominal interest rate to about 3.5% overall for the total restructured loans of P3.268 billion.

The use of 3.5% effective interest rate indicates that the fair value of the Company's interest-bearing loans is below the amount that would have been contractually payable by the Company. To compute for the fair value of the interest-bearing loans, the Company used 9.0% discount rate determined by reference to the renegotiated interest rate of the financial instrument as indicated in the Second Amendment and the Amendment to the Second Amendment Agreement (the loan agreements existing as of the transition date to PFRS). The difference between the amount of interest-bearing loans and its fair value at the date of Amendment to the Second Amendment agreement amounted to P1.2 billion, recognized as excess of face value over the fair value of interest-bearing loans at Company's transition to PFRS. Subsequently, these loans are measured at amortized cost using effective interest method. This amount, net of impairment losses and valuation allowances, recognized as a result of the change in the Company's credit risk was accounted for as an adjustment to the beginning deficit as of January 1, 2005 reducing the deficit balance by P777.5 million as of that date.

The excess of the face value over the fair value of the interest-bearing loans at the initial date of recognition is being amortized over the terms of the loans. Such amortizations which increased the carrying value of interest-bearing loans by P97.7 million, P176.7 million and P162.1 million as of December 31, 2010, 2009 and 2008, respectively, as restated (see Note 22.2), are recognized as part of Finance Costs for the years then ended (see Note 12.7).

### ***Corporate Rehabilitation – 2006***

On September 15, 2006, the Company filed a petition for corporate rehabilitation before the Court and proposed several strategies in order to effect a viable rehabilitation such that within the proposed period, the Company will not only be able to pay-off its liabilities to creditors but at the termination of the rehabilitation will have an ample supply of cash to support its operations.

On September 19, 2006, the Court has issued a Stay Order pending the approval of the petition for corporate rehabilitation.

Based on such Court-directed Stay Order, the Company suspended payments of its interest-bearing loans and trade payables and stopped accruing interest on such loans or recognizing the interest following the effective interest method starting on the month-end immediately preceding the date of issuance of the Stay Order. The Company's management believed that the Court's order to stay the enforcement of claims included the non-recognition of interest expense from the date of the issuance of the Stay Order, including the amortization of the excess of the face value over the fair value of the interest-bearing loans. The Company's position was based on the opinion of its legal counsel that the Stay Order also covers the non-accrual of interest. The accrued interest as well as amortization of excess of face value over the fair value of the interest-bearing loans not recognized amounted to P72.6 million in 2006 and remained unrecognized until the remeasurement of the amortized cost of interest-bearing loans in 2010 (see Note 12.6).

On February 14, 2007, the Court gave due course to the petition for corporate rehabilitation where it referred the petition to a rehabilitation receiver for evaluation. On April 27, 2007, the Court-appointed rehabilitation receiver submitted its recommendation with regard to the Company's proposed rehabilitation plans and in its order dated May 7, 2007, the Court gave the Company, its creditors and other interested parties 15 days from the publication of the said order, to comment on the Receiver's Report. The Court received no comment on the Receiver's Report.

### **Court Approval on May 31, 2007 of the Rehabilitation Plan**

On May 31, 2007, the Court acted favorably on the petition of the Company and issued its decision for the approval of the rehabilitation plan (Approved Rehabilitation Plan) of the Company as submitted by the Court-appointed receiver. The Approved Rehabilitation Plan of the Company provides, among others, the following salient points:

- (a) a modified debt restructuring scheme for a period not exceeding 15 years (which the Company's management believes should take effect immediately on the date of Court's approval of the rehabilitation plan);
- (b) payment of interest to all the Company's creditors on the following basis:
  - (i) Years 1 to 3 – at 1% per annum to be accrued on Year 4,
  - (ii) Years 4 to 6 – at 2% per annum,
  - (iii) Years 7 to 9 – at 3% per annum, and,
  - (iv) Years 10 to 15 – at 4% per annum;
- (c) implementation of certain programs as indicated in the Receiver's Report, particularly the change in the feeds distribution system by adopting the Farmers Enterprise System;
- (d) implementation of the rehabilitation plan will be reviewed on the 5th year to determine whether the effects of the Farmers Enterprise System are favorable and whether at that time, the finances of the Company could already sustain payments of increased interest rates from Year 6 onwards;
- (e) also on the Year 5, the creditors may be given the option to avail of Receiver's Payment and Capital Note so that 50% of the debt will be paid on a graduated scale as set out under the rehabilitation plan, without interest, but payment may be accelerated so that the debt can be paid in 5 years at the rate of 20% per year, and the remaining 50% thereof may be converted into 40% of the outstanding capital stock of the Company.

The Approved Rehabilitation Plan covers the liabilities previously transferred to the SPAV companies, i.e., such loans are to be treated in the same manner as the original creditors and repayment of the obligation assigned to them are to be in accordance with the repayment scheme under the Approved Rehabilitation Plan.

As of December 31, 2010, 2009 and 2008, the loans (at face value) are due to the following:

|                | <u>2010</u>                   |   | <u>2009</u>          | <u>2008</u>           |
|----------------|-------------------------------|---|----------------------|-----------------------|
| Creditor banks | <b>P 1,546,458,088</b>        | P | 1,554,215,097        | P1,554,215,097        |
| SPAV companies | <b><u>1,540,294,464</u></b>   |   | <u>1,700,151,924</u> | <u>1,700,151,924</u>  |
|                | <b><u>P 3,086,752,552</u></b> | P | <u>3,254,367,021</u> | <u>P3,254,367,021</u> |

#### Revised Amortized Cost of Interest-bearing Loan as of May 31, 2007

The Approved Rehabilitation Plan has effectively resulted in the restructuring of the terms of the loans under the Amendment to the Second Amendment Agreement as the Approved Rehabilitation Plan includes extension of payment terms to 15 years and the reduction in interest rates. Consequently, the interest-bearing loans were remeasured at fair value (subsequently at amortized cost) using as a basis the terms of the approved rehabilitation plan effective immediately on the date of Court's Approval of the Rehabilitation Plan, which is on May 31, 2007. The new amortized cost of the loans amounted to P1.610 billion as of the date of approval of the rehabilitation plan

#### Adjustment in 2007 of Existing Amortized Cost

On the other hand, the amortized cost of interest-bearing loans under the Amendment to the Second Amendment agreement was adjusted to recognize the amortization of the excess of face

value over the fair value of the interest-bearing loans not accrued in 2006 and the amortization of the excess of face value over the fair value of the interest-bearing loans from January 1, 2007 up until the effective date of the Approved Rehabilitation Plan. In 2010, the Company retrospectively recognized those previously unrecorded amounts (see Note 22.2).

#### Income Recognized in 2007 Arising from the Approval of the Rehabilitation Plan

The difference between the amortized cost of interest-bearing loans under the approved rehabilitation plan and the terms under the Amendment to the Second Amendment computed as at May 31, 2007 (date of approval of the rehabilitation plan) amounting to P859.7 million was recognized as income arising from the Court's approval of rehabilitation plan. This income was the result of the longer loan repayment period and of the further decrease in the effective interest rate.

#### ***Corporate Rehabilitation – 2010***

#### Motion for Modification of Approved Rehabilitation Plan and Creditors' Motion to Terminate Rehabilitation Proceedings

In July 8, 2010, the Company filed a motion for modification of the Approved Rehabilitation Plan dated May 31, 2007. The proposed modification consisted of two categories. The first category pertains to the payment of the loans through the basic and essential rehabilitation plan with sources which are as follows:

- (a) P21.0 million which was ordered to be returned to the Company by the Court;
- (b) the proceeds from sale through dacion en pago of the non-core assets of the Company;
- (c) the proceeds from the sale in cash or through offsetting of non-moving accounts receivables of the Company of P100.0 million; and,
- (d) the disposition of other non-core assets of the Company projected to raise at least P1.200 billion.

The second category consisted of payment through sources such as the following:

- (a) Moringa Oleifera Plan;
- (b) the P300.0 million insurance claim;
- (c) the deferred "white knight" plan;
- (d) the debt to equity conversion; and,
- (e) the eventual conversion of the Marilao Plant into a mixed-use residential/commercial development.

As of December 31, 2010, the approval of the motion for the modification of the Approved Rehabilitation Plan is still pending. However, on February 18, 2011, the Court denied the Company's petition on the ground that the nature of the proposed Moringa Oleifera Plan does not inspire belief in its soundness as an investment proposition, considering that it is in dire financial strait and that it is in no position to infuse its resources in such an investment.

On the other hand, the Company's creditors filed the same motions on August 18, 2010, August 27, 2010 and September 1, 2010, respectively. On October 26, 2010, a creditor bank filed a manifestation adopting a motion to terminate proceedings filed by another creditor bank. The creditors argued that the Company is in default of its obligations due to them, referring to the first payment of the loans for the year, which they argue, is due to them in June 2010, as well as on

the ground that the Company was not able to achieve the desired targets set forth in the Approved Rehabilitation Plan, dated May 31, 2007 (see Note 12.5).

As of December 31, 2010, the Court has no decision yet on the motions filed by the Company's creditor banks. However, also on February 18, 2011, the Court decided in favor of the Company, denying the motion of the creditors to terminate the rehabilitation proceedings, agreeing to the Receiver's stand that the Company is not in default in its obligation as the Approved Rehabilitation Plan states that the payment is due in Year 4 which starts in June 1, 2010, and that when the law speaks of years, it shall be understood that years are of 365 days each; thus, in so saying, the Company has until the end of Year 4, which falls on May 31, 2011, to perform its obligation to the creditors. The Receiver also argued that the Company was doing good until 'Ondoy' destroyed the Company's finished products, raw material inventories, buildings, plants, machineries and equipments. The Court also stated that the call for termination of the rehabilitation proceedings is premature, and that the Court finds it just and in accordance with the Approved Rehabilitation Plan to give the Company the opportunity to comply with its payment obligation in accordance with the schedule specified in the Approved Rehabilitation Plan.

#### Revised Amortized Cost of Interest-bearing Loans in 2010

Based on the opinion provided by the Company's legal counsel dated April 18, 2011, the terms of payment of the Company's existing debt is on an annual basis, contrary to the previous assumptions used, that is on a quarterly basis. This was further affirmed in the Rehabilitation Court's order dated February 18, 2011, which denied the motion to terminate the rehabilitation proceedings filed by some creditors.

Furthermore, as mentioned in Note 11, the Company's sale of its non-core assets through dacion en pago in 2010 reduced the principal amount of its interest-bearing loan payable to Kormansinc. The Company and its legal counsel believe that the remaining principal of the Company's loan obligation to Kormansinc will be settled annually within the remaining term of the loan.

Based on the revised computation applying the aforementioned factors, the new amortized cost of the interest-bearing loans at the beginning of 2010 amounted to P2.140 billion. The Company revised the computation of the existing amortization of its interest-bearing loans based on the opinion provided by the Company's legal counsel, which resulted in a prior period adjustment to decrease the previously recognized excess of face value over the fair value of the loans in June 2007 and increase the amortization of the excess of face value over the fair value of the interest-bearing loan from June 1, 2007 to December 31, 2009 amounting to P113.6 million.

#### **Interest Expense on Interest-bearing Loans**

( in thousand pesos)

Interest expense computed on interest-bearing loans shown in profit or loss in the statements of comprehensive income is broken down as follows:

|  | Unaudited<br><u>June 2011</u> | Audited<br><u>2010</u>    |
|--|-------------------------------|---------------------------|
| Amortization of excess of face value over the fair value of the interest-bearing loans | P -                           | P 97,725                  |
| Nominal interest payable to creditor banks   | <u>-</u><br>P -               | <u>94,914</u><br>P192,639 |

#### **Other Matters**

- There were no contingent asset or liability since the last annual balance sheet date.
- There were no material commitments for capital expenditures.

- There were no material off-balance sheet transactions, arrangements, obligations ( including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.

**Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation**

Under the Second Amendment dated March 19, 2003, entered into by the Corporation with the creditor banks, if the Corporation defaults in its obligation under it, it shall be considered as an event of default under the Omnibus Agreement, and will result to an adverse financial liability of the Corporation.

However, with the approval of the Rehabilitation Plan, all the terms of the Second Amendment shall be subject to the decision of the Rehabilitation Court.

## **RISK MANAGEMENT OBJECTIVES AND POLICIES**

The Group is exposed to a variety of financial risks which result from its operating, financing and investing activities. The Group's overall risk management program focuses on the unpredictability of the markets and seeks to minimize potential adverse effects on the Group's performance.

The Group does not engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks which the Group is exposed to are described below and in the succeeding pages.

### ***Foreign Currency Sensitivity***

To a certain extent, the Group has an exposure to foreign currency risks as some of its raw materials purchases are sourced outside the Philippines and are therefore denominated in foreign currencies. However, the Group has not yet experienced significant losses due to the effect of foreign currency fluctuations since purchases denominated in foreign currency are kept at a minimum.

### ***Interest Rate Sensitivity***

As of June 30, 2011, the Group has no significant floating rate financial assets or liabilities. The Group's operating cash flows are substantially independent of changes in market interest rates.

The Court's Approved Rehabilitation Plan allowed the Group to defer the payment of its interest-bearing loans and their related interest charges and certain trade payables for a period of three years from the date of approval of the rehabilitation plan .

The Group has no borrowings that carry variable interest rates which released the Group to cash flow interest rate risk.

### ***Credit Risk***

Generally, the maximum credit risk exposure of the financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position

The Group continuously monitors defaults of counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. Where available at a reasonable cost, external credit ratings and/or reports on counterparties are obtained and used. The Group's policy is to deal only with creditworthy counterparties.

The Group's trade and other receivables are not exposed to a concentration of credit risk as the Group deals with a number of customers. The Trade and Other Receivables are actively monitored and assessed and where necessary an adequate level of provision is maintained. In addition, to minimize credit risk, the Group requires collateral, generally land real estate, from its customers.

The Group's management considers that trade and other receivables that are not impaired or past due for each reporting periods are of good credit quality.

### ***Liquidity Risk***

The Group's petition for corporate rehabilitation, which resulted in the eventual approval of its rehabilitation plan, has significantly assisted in addressing the liquidity issue of the Group as the rehabilitation plan provides for deferment of borrowing repayments for a period of three years. Nevertheless, the Group manages its liquidity profile to be able to service its long-term debt as they will fall due in the near future by maintaining sufficient cash from operations.

The Group maintains cash to meet its liquidity requirements for up to 30-day periods.



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

On a consolidated basis, Vitarich Corporation and its subsidiaries recorded a 31% or P149.9 million increase in sales revenue for the second quarter of 2011 as compared to P 491.0 million of the same period last year. As of June, total sales reached P1.3 billion, 28% higher over last year's sales of P993.4 million. Revenue growth was attributed to the improvement in sales volume and better selling prices of the Company's core business segments, especially from dressed chicken where the Company has entered into major distribution with one of the leading fast food chain in the country. Likewise, the increased revenue was also due to sustained marketing activities of the company. Feeds business accounted for 65% of the total sales while poultry & dory business contributed 33% & 2% respectively. Cost of goods sold correspondingly increased by 35% with the growth in consolidated revenues and the continued effects of major raw material price increase as well as product mix. The Company will continue to focus on instituting measures to boost revenues and minimize expenses. Similarly, alternate sourcing of raw materials to produce competitive cost of finished products was continuously implemented. In view of this, the Company undertook a program to substitute traditional grains with materials considered as by-products by other sectors. It aims to increase the volume of raw materials considered as by-products in order to counter the unstoppable increase in prices of commodities. Gross profit rate declined to 10% from 14% versus last year level. As a result, net income for the first semester reached P2.6 million, better than the same period last year's income of P913K. The increment was also attributed to the increase in other operating income by P20.8 million to P53.1 million from same period last year of P32.3 million.

Meanwhile, consolidated operating expenses went up by almost 5% for the six months period ended as against last year on account of variable product related cost. The company shall focus on increasing production efficiency and seek new methods to bring down its cost. However, the Company's commitment for quality, consistent and safe products was strengthened. In order to continuously push revenue growth, steps are underway for product/brand awareness and intensification of marketing programs.

As the Company is under corporate rehabilitation, management is continuously instituting certain measures to address these conditions such as the following:

- adopting a program for corporate branding and image rebuilding;
- launching new products in the market;
- expanding the Company's sales and distribution networks by conducting series of seminars in various areas related to new product lines, providing ample advertisements relative to existing product lines and implementing various programs;
- strengthening business ties with trading partners, local and abroad; and,
- continuously improving product quality including rehabilitation and standardization of certain plants to also qualify for international standardization and accreditations.

**Gromax, Inc.** is a wholly-owned subsidiary of Vitarich which started commercial operation in January 1996. Previously, Gromax was a division of Vitarich which was spun off to a separate entity. Gromax was registered with SEC on November 10, 1995.

Gromax is presently engaged in the manufacture of animal health and nutritional products for commercial sales as well as for use of its parent company (Vitarich) in its contract breeding and contract growing operations.

Aside from catering to its internal breeders and growers, it had expanded its animal health products to include hog and dairy products from cattle, goats and carabaos.

The registered office of Gromax is located at the Vitarich compound, Abangan Sur, Marilao, Bulacan. The registered office of its parent company is also the same with the registered office of the company.

Gromax yielded positive results for the first semester of 2011 as it registered total sales revenue of P 88.4 M, slightly higher as against last year's revenue of P 86.3M.

**Philippine's Favorite Chicken Inc. (PFCI)**, one of the subsidiaries of Vitarich, entered into distribution agreements in 1995 with America's Favorite Chicken Company (AFC), a company that operates the Texas Chicken and Popeye's Chicken restaurants in the United States. Under these distribution agreements, PFCI will distribute the paper goods, restaurant supplies, equipment and food products to Texas Manok Atbp. Inc. (TMA). The latter corporation, which is owned by the Sarmiento family, in turn, entered into a development and franchise agreement with AFC. Under the development agreement between TMA and AFC, PFCI was granted the exclusive right to develop an aggregate of fifty (50) Texas Chicken and fifty (50) Popeye's Chicken restaurants in the Philippines in consideration for territorial and franchise fees payable to AFC as stipulated in the agreements. In addition, a 5% percent royalty fee based on sales is assessed for each franchised restaurant. This royalty is being paid by TMA, the operator of the restaurant.

The franchise agreement allowed the PFCI to use the Texas Chicken and Popeye's Chicken trade names, service marks, logos, food formulae and recipes, and other exclusive rights to the proprietary Texas and Popeye's Chicken System.

The development of the restaurants was scheduled over a period of seven years starting in 1995 for Texas Chicken and 1996 for Popeye's. The franchise agreement shall be for a period of ten (10) years for each restaurant unit, renewable for four additional periods of five years each, at the option of the franchisee. However, PFCI, in 2000, lost its right to develop Popeye's Chicken in the Philippines.

On October 1, 1998, the Board of Directors of PFCI approved the conversion into equity of the advances of Vitarich Corporation to PFCI amounting to P165 million to be applied to its unpaid subscriptions and for additional shares of stock of PFCI. Out of the P165 million advances to be converted into equity, P25 million was applied to Vitarich's unpaid subscription while the remaining P140 million was shown under Deposit on Future Stock Subscriptions account pending the approval from the SEC of the conversion.

In 2003, PFCI reverted the investment in shares of stock in PFCI to Advances to subsidiaries amounting to P140 million, as the Board of Directors of PFCI decided not to pursue its application with the SEC to convert into equity the advances received from Vitarich. PFCI initially recorded the transaction as an increase in investment in shares of stock in PFCI and a decrease in advances to subsidiaries when the proposed conversion was approved by the Board of Directors of PFCI in 1998.

AFC unilaterally terminated its development and franchise agreements with PFCI in 2001. As a result, in August 2001, PFCI and TMA filed a case against AFC and some of AFC's officers, such as Tom Johnson , Anthony Pavese and Loreta Sassen, among others, for undue termination of the development and franchise agreements with the Regional Trial Court of Pasig City, docketed as Civil Case No. 68583. The case called for injunction, specific performance, sum of money and damages against AFC and some of its officers.

In connection with such legal action, in 2001, PFCI recognized as claims receivable, as of December 31, 2001, certain losses arising from the closure of certain Texas Chicken

restaurants and legal fees incurred relating to the case filed against AFC. Losses recognized as claims receivable include, among others, the loss on write-off of leasehold and building improvements relating to the closed stores. The total amount recognized as claims receivable (presented as part of Other Non-current Assets account in the consolidated balance sheets) totaled P23.2 million as of December 31, 2001.

The Regional Trial Court of Pasig City, in a decision dated April 3, 2002, approved the issuance of a preliminary writ of attachment on the properties of AFC in the Philippines upon posting of PFCI and TMA of a bond amounting to P100 million.

On September 24, 2003, the trial court granted the Motion to Dismiss filed by two of the defendants. PFCI, in turn, filed a Motion for Partial Reconsideration of the order. Moreover, AFC has filed a Petition for Certiorari before the Court of Appeals assailing the validity of the trial court's previously issued writ of attachment.

On December 22, 2004, the parties have entered into a compromise agreement for the settlement of the case of which the parties have filed a joint motion to dismiss before the Regional Trial Court of Pasig City, Branch 152.

On March 04, 2005, the Regional Trial Court of Pasig City, Branch 152 had approved the Joint Motion to Dismiss filed by the parties based on the Compromise Agreement entered into by them, thus, putting an end to the case.

In 2005, the Company discontinued operations of its Texas Manok's Restaurants. Accordingly, it terminated all its employees and provided full valuation allowances on all its remaining assets.

Although the Board of Directors (BOD) and stockholders have not yet formally adopted a plan to liquidate the Company, the financial statements are presented under the liquidation basis of accounting to appropriately reflect the significant changes in the Company's status of operations.

### **Financial Condition**

Unaudited Balance Sheet as of June 30, 2011 vs. Audited December 31, 2010

The Company's consolidated total assets as of June 2011 stood at P3.9 billion, slightly higher as against December 2010 level. Consolidated current assets increased by almost 5% primarily due to the increase of trade & other receivables and inventories account. Trade and other receivables account increased by 7% due to higher sales revenue and lower collection efficiency. Likewise, inventories account also increased by almost 6% basically due to the increase of raw materials inventory and livestock inventory.

Cash balance declined to P38.3 million from P65.9 million as of end 2010. The reduction in cash was attributed to net cash outflows used in operating activities particularly for working capital requirements.

Trade and other payables account went up by P38.4 million or 4% to P978.1 million for the period ended June 2011 as compared to year end trade & payable accounts due to Company's decision to impose strict measures on cash disbursement to reserve cash for operations.

Stockholder's equity increased from P 276.5 million to P279.1 million, basically due to net income posted as of the second quarter ended.

**The Corporation's top five (5) key performance indicators are described as follows:**

**1) Sales Volume, Price and Revenue Growth**

Actual sales volume for feeds business increased by almost 13% from previous year's volume. Likewise, average selling price improved as compared last year. Foods sales volume as of June 2011 was 3,855.8 MT, higher as against last year's of 2,048.9 MT.

**2) Cost Contribution**

This measures the cost efficiency of the products and trend of raw materials prices, particularly importations wherein there are foreign exchange exposures. Costs are analyzed on a regular basis for management's better strategic decisions in cost reduction and efficiency measures.

**3) Gross Profit Rate**

The review is done on a regular basis to check if the targets are being met based on the forecasted gross profit rate. This is being done on a regular basis for proper and immediate action.

**4) Operating Margin**

Operating margin is the result after operating expenses are deducted. Review of operating expenses is performed on a regular basis. These are being analyzed and compared against budget, last month and previous years, to ensure that cost reduction measures are being met and implemented.

**5) Plant Capacity Utilization**

This determines total usage of the plant capacity. The higher the plant utilization, the better the productivity, which translates to better margin.

## 5 Key Performance Indicators

| Sales Revenue  | (unaudited )June 2011 |          |                          | (unaudited )June2010 |          |                          |
|----------------|-----------------------|----------|--------------------------|----------------------|----------|--------------------------|
|                | Volume                | Price    | Revenue<br>(000) omitted | Volume               | Price    | Revenue<br>(000) omitted |
| <b>Feeds</b>   |                       |          |                          |                      |          |                          |
| Animal         | 477.9                 | 1,081.02 | 516.7                    | 443.7                | 1,032.06 | 458.0                    |
| Aqua           | 222.4                 | 1,130.94 | 251.5                    | 173.4                | 1,135.54 | 196.9                    |
| <b>Poultry</b> |                       |          |                          |                      |          |                          |
| DOC            | 2,510.9               | 20.12    | 50.5                     | 2,069.6              | 23.45    | 48.5                     |
| Hogs           | 0.6                   | 4,930.64 | 2.8                      | 0.1                  | 7,998.24 | .5                       |
| Foods          | 3,885.8               | 89.19    | 359.6                    | 2,048.9              | 91.69    | 187.90                   |

| Cost Contribution | (unaudited)June 2011  |  | (unaudited)June2010   |  |
|-------------------|-----------------------|--|-----------------------|--|
| Feeds             | (000 omitted in peso) |  | (000 omitted in peso) |  |
| Animal            | 445.0                 |  | 387.4                 |  |
| Aqua              | 214.9                 |  | 171.6                 |  |
| <b>Poultry</b>    |                       |  |                       |  |
| DOC               | 54.7                  |  | 40.4                  |  |
| Hogs              | 2.1                   |  | .4                    |  |
| Foods             | 356.3                 |  | 171.7                 |  |

| Gross Profit Rate | June 2011 |  | June2010 |  |
|-------------------|-----------|--|----------|--|
| Feeds             |           |  |          |  |
| Animal            | 14%       |  | 15%      |  |
| Aqua              | 15%       |  | 13%      |  |
| <b>Poultry</b>    |           |  |          |  |
| DOC               | -8%       |  | 17%      |  |
| Hogs              | 27%       |  | 20%      |  |
| Foods             | 0%        |  | 9%       |  |

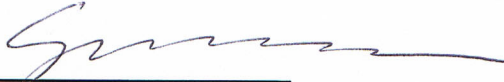
| Operating Margin | June 2011             |  | June2010              |  |
|------------------|-----------------------|--|-----------------------|--|
| Feeds            | (000 omitted in peso) |  | (000 omitted in peso) |  |
| Animal           | 36.4                  |  | 28.10                 |  |
| Aqua             | 7.0                   |  | (3.1)                 |  |
| <b>Poultry</b>   |                       |  |                       |  |
| DOC              | 1.3                   |  | 10.5                  |  |
| Hogs             | 0.8                   |  | (0.0)                 |  |
| Foods            | 0.5                   |  | 11.4                  |  |

## **SIGNATURES**

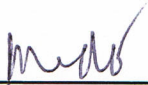
Pursuant to the requirements of the Securities Regulation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Registrant - **VITARICH CORPORATION**

By:



**JULIETA M. HERRERA**  
Controller



**TERESITA C. RIMANDO**  
Alternate Corporate Information Officer

Date: August 12, 2011

VitaSEC17Q-2ndQ2011