



17 May 2013

**PHILIPPINE STOCK EXCHANGE**

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

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


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 first quarter ended March 31, 2013.

Thank you.

Very truly yours,

VITARICH CORPORATION

  
PEDRO T. DABU, JR.  
Corporate Information Officer/Asst. Corporate Secretary

# COVER SHEET

2 1 1 3 4

S.E.C. Registration Number

V I T A R I C H C O R P O R A T I O N

( Company's Full Name )

M A C A R T H U R H I G H W A Y A B A N G A N S U R  
M A R I L A O B U L A C A N

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

ALICIA G. DANQUE

Contact Person

843-30-33 connecting all dept.

Company Telephone Number

1 2 - 3 1

Month Day

Fiscal Year

1 7 - Q

Form Type

Last Friday of  
June

0 6

Month Day

Secondary License Type. If Applicable

Dept. Requiring this Doc.

Amended Articles Number / Section

Total No. of Stockholders

Total Amount of Borrowings

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

Document I. D.

LCU

Cashier

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 MARCH 31, 2013
2. Commission identification number 21134 3. BIR Tax Identification No 000-234-398
4. Exact name of issuer as specified in its charter VITARICH CORPORATION
5. Province, country or other jurisdiction of incorporation or organization BULACAN

6. Industry Classification Code:  (SEC Use Only)

7. Address of issuer's principal office MAC ARTHUR HIGHWAY, ABANGAN SUR, MARILAO, BULACAN 3019  
Postal Code

- 843-30-33 connecting all departments
8. Issuer's telephone number, including area code

- N/A
9. Former name, former address and former fiscal year, if changed since last report

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
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<u>Common Stock</u>	<u>409,969,764</u>
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11. Are any or all of the securities listed on a Stock Exchange?

Yes ☒ No ☐

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange, Inc. Common

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 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 the registrant was required to file such reports)

Yes ☒ No ☐

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

Yes ☐ No ☒

## **PART I - FINANCIAL INFORMATION**

### **Item 1 – Financial Statements**

The unaudited financial statements of Vitarich Corporation and its subsidiaries as at and for the period ended March 31, 2013 (with comparative figures as of December 31, 2012 and for the period ended March 31, 2012) and Selected Notes to Consolidated Financial Statements are filed as part of this form 17-Q as Annex "A".

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

The information required by Part III, Paragraph (A)(2)(b) of "Annex C" is attached hereto as Annex "B".

## **PART II - OTHER INFORMATION**

Vitarich Corporation and its subsidiaries may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C, which would otherwise be required to be filed with respect to such information, or in a subsequent report on Form 17-Q.


## **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:

  
**STEPHANIE NICOLE S. GARCIA**  
Treasurer/Chief Finance Officer

  
**PEDRO T. DABU, JR.**  
Corporate Information Officer/  
Asst. Corporate Secretary

Date: May 17, 2013

**Annex A**

SEC Number 21134

File Number

**VITARICH CORPORATION AND SUBSIDIARIES**

(Company's Full Name)

**MacArthur Highway, Abangan Sur, Marilao Bulacan**

(Company's Address)

**843-30-33 connecting all department**

(Telephone Number)

(Year Ending)

(month & day)

**Quarterly Consolidated  
Unaudited Financial Statements**

Form Type

Amendment Designation ( If applcable )

**March 31, 2013**

Period Ended Date

(Secondary License Type and File Number)



# PART I - FINANCIAL INFORMATION

## ITEM I - FINANCIAL STATEMENTS

### VITARICH CORPORATION AND SUBSIDIARIES

#### CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE PERIOD ENDED MARCH 31, 2013 AND THE YEAR ENDED DECEMBER 31, 2012  
(In Thousand Pesos)

	UNAUDITED MAR 2013	AUDITED DEC 2012
<b>ASSETS</b>		
Current Assets		
Cash	28,792	34,221
Trade and other receivables	814,401	818,342
Due from related parties - net	99,775	99,940
Inventories	485,156	544,371
Other current assets-net	36,770	28,073
<b>Total Current Assets</b>	<b>1,464,893</b>	<b>1,524,947</b>
Noncurrent Assets		
Property, plant and equipment	1,626,874	1,636,267
Investment property	846,169	846,424
Other noncurrent assets	2,594	2,634
<b>Total Noncurrent Assets</b>	<b>2,475,636</b>	<b>2,485,325</b>
<b>TOTAL ASSETS</b>	<b>3,940,530</b>	<b>4,010,271</b>
<b>LIABILITIES AND EQUITY</b>		
Current Liabilities		
Trade and other payables	1,144,899	1,231,099
Current portion of restructured debt	72,463	72,463
Income tax payable	6,680	4,952
<b>Total Current Liabilities</b>	<b>1,224,041</b>	<b>1,308,514</b>
Noncurrent Liabilities		
Restructured debt -net of current portion	2,262,512	2,230,114
Trade and other payables	168,144	168,144
Deferred tax liabilities-net	158,314	159,121
Retirement benefit obligation	89,187	89,666
Cash bond deposits	20,149	18,887
<b>Total Noncurrent Liabilities</b>	<b>2,698,307</b>	<b>2,665,931</b>
Equity		
Capital Stock	409,970	409,970
Additional paid-in capital	913,740	913,740
Revaluation reserve	820,693	823,381
Deficit	(2,134,748)	(2,119,792)
Accumulated unrealized actuarial gains	8,528	8,528
<b>Total Equity</b>	<b>18,182</b>	<b>35,826</b>
<b>TOTAL LIABILITIES &amp; STOCKHOLDERS EQUITY</b>	<b>3,940,530</b>	<b>4,010,271</b>



**VITARICH CORPORATION & SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**  
**FOR THE FIRST QUARTER ENDED MARCH 31, 2013, MARCH 31, 2012 AND DECEMBER 2012**  
(In Thousand Pesos)

	UNAUDITED		AUDITED
	JAN-MAR 2013	JAN-MAR 2012	DEC 2012
SALES OF GOODS	699,625	714,270	3,060,183
COSTS OF GOOD SOLD	659,746	647,342	2,799,551
<b>GROSS PROFIT</b>	<b>39,879</b>	<b>66,928</b>	<b>260,632</b>
OTHER OPERATING EXPENSES ( INCOME )			
Operating Expenses	69,096	94,530	292,372
Other Operating Income	(25,448)	(28,620)	(146,373)
	43,648	65,910	145,999
<b>OPERATING PROFIT ( LOSS)</b>	<b>(3,769)</b>	<b>1,018</b>	<b>114,633</b>
OTHER CHARGES (INCOME)			
Interest Expense	46,839	46,936	193,284
Impairment loss on:			
Trade and other receivables	861		82,867
Project development cost			10,456
Due from related parties			90
Fair value loss(gain) from investment property			(51,054)
Reversal of Long Outstanding Payables	(35,000)		
Finance Income	(39)		
Gain on sale of investment property and property and equipment - net			(39)
Interest income			(500)
	12,660	46,936	235,105
PROFIT ( LOSS) BEFORE TAX	(16,429)	(45,918)	(120,472)
TAX BENEFIT			
Current	(2,022)		
Deferred	806		1,863
<b>NET INCOME ( LOSS )</b>	<b>(17,644)</b>	<b>(45,918)</b>	<b>(118,609)</b>
OTHER COMPREHENSIVE INCOME			
Additional revaluation reserve on property, plant & equipment			24,987
Unrealized actuarial gain (losses) - net of tax			(13,944)
	-	-	11,044
<b>TOTAL COMPREHENSIVE INCOME ( LOSS)</b>	<b>(17,644)</b>	<b>(45,918)</b>	<b>(107,565)</b>
<b>EARNING / ( LOSS) PER SHARE:</b>			
Basic and diluted earnings (loss) per share were computed as follows:			
Net income ( loss )	(17,644)	(45,918)	(118,609)
Divided by the weighted average number of outstanding shares	409,970	409,970	409,970
<b>EARNINGS / (LOSS) PER SHARE - basic &amp; diluted</b>	<b>₱ 0.04</b>	<b>₱ 0.11</b>	<b>₱ 0.29</b>



**VITARICH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**FOR THE PERIOD ENDED MARCH 31, 2013, MARCH 31, 2012 AND DECEMBER 31, 2012**  
(In Thousand Pesos)

	<b>UNAUDITED</b>		<b>AUDITED</b>
	<b>MAR 2013</b>	<b>MAR 2012</b>	<b>DEC 2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax	16,429	45,918	120,471
Adjustments for:			
Interest expense	46,839	46,936	193,284
Depreciation	16,884	18,924	65,257
Impairment loss on project development cost			10,456
Recovery of written accounts			(13,823)
Gain on sale of property, plant and equipment and investment properties			(39)
Retirement benefits	2,582		9,725
Fair value(gain) loss from investment property			(51,054)
Interest Income	(39)		(500)
Finance Income			
<b>Operating profit before working capital changes</b>	<b>49,837</b>	<b>19,942</b>	<b>92,835</b>
Decrease (increase ) in:			
Trade & other receivables	3,943	(7,289)	(2,600)
Due from related parties	165	264	(2,336)
Inventories	59,215	(8,173)	(92,388)
Other Current Assets	(8,991)	(5,556)	(14,647)
Other non-current assets	40	72	(1,655)
Increase (decrease) in:			
Trade & other payables	(100,608)	(5,447)	72,222
Cash bond deposits	1,262	(1,316)	(3,725)
Retirement Benefit Obligation	-	2,582	-
<b>Total Changes in Working Capital</b>	<b>4,863</b>	<b>(4,921)</b>	<b>47,706</b>
Interest received	37		178
Interest paid	(31)		(12)
Retirement benefits paid	(3,061)	(1,371)	(13,728)
Income tax paid			(1,502)
<b>Net Cash Provided by Operating Activities</b>	<b>1,808</b>	<b>(6,292)</b>	<b>32,642</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Net acquisitions of property and equipment	(7,492)	(13,263)	(31,375)
Net acquisitions of investment property	255	507	(11,380)
Proceeds from sale of investment property	-		2,052
<b>Net cash Used in Investing Activities</b>	<b>(7,237)</b>	<b>(12,756)</b>	<b>(40,703)</b>
<b>NET INCREASE(DECREASE) IN CASH</b>	<b>(5,429)</b>	<b>(19,048)</b>	<b>(8,061)</b>
<b>CASH AT BEGINNING OF YEAR</b>	<b>34,221</b>	<b>42,282</b>	<b>42,282</b>
<b>CASH AT END OF PERIOD</b>	<b>28,792</b>	<b>23,234</b>	<b>34,221</b>





**VITARICH CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE FIRST QUARTER ENDED MARCH 31, 2013 AND 2012**  
(In Thousand Pesos)

	MARCH 2013	MARCH 2012	AUDITED DEC 31, 2012
<b>CAPITAL STOCK</b>	<b>409,970</b>	<b>409,970</b>	<b>409,970</b>
<b>ADDITIONAL PAID-IN CAPITAL</b>	<b>913,740</b>	<b>913,740</b>	<b>913,740</b>
<b>REVALUATION RESERVE ON PROPERTY</b>			
Balance, beginning of year	823,381	806,331	806,331
Transfer to deficit of revaluation reserve absorbed through depreciation			(7,938)
Piecemeal Realization of Revaluation Surplus	(2,688)		
Additional revaluation reserve on property plant and equipment net of tax			24,987
Other comprehensive income			
<b>Balance, end of the year / quarter</b>	<b>820,693</b>	<b>806,331</b>	<b>823,381</b>
<b>RETAINED EARNINGS</b>			
Balance, beginning of year	(2,119,792)	(2,005,835)	(2,005,835)
Prior period adjustments			(3,285)
<b>As restated</b>	<b>(2,119,792)</b>	<b>(2,005,835)</b>	<b>(2,009,120)</b>
Transfer to deficit realized from depreciation	2,688	-	7,938
Net income ( loss )	(17,644)	(45,918)	(118,609)
<b>Balance, end of the year / quarter</b>	<b>(2,134,748)</b>	<b>(2,051,753)</b>	<b>(2,119,792)</b>
<b>ACCUMULATED UNREALIZED ACTUARIAL GAIN (LOSSES)</b>			
Prior period	8,528		8,528
For the year / quarter			
<b>Balance, end of the year / quarter</b>	<b>8,528</b>	<b>-</b>	<b>8,528</b>
<b>TOTAL EQUITY</b>	<b>18,182</b>	<b>78,288</b>	<b>35,826</b>

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SEGMENT INFORMATION**  
**FOR THE FIRST QUARTER ENDED MARCH 31, 2013**

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, livestock, and fish growers. 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.
- 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, and taxes currently payable and accrued liabilities. Segment liabilities do not include deferred tax liabilities.

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

The following table presents revenue and profit information regarding business segments for the first quarter ended March 31, 2013, and certain asset and liability information regarding business segments at March 31, 2013.

<b>As at March 31, 2013 – Unaudited (in thousand Pesos)</b>						
	<b>Foods</b>	<b>Feeds</b>	<b>Farms</b>	<b>Corporate &amp; Others</b>	<b>Eliminations</b>	<b>Consolidated</b>
<b>REVENUES</b>						
Net Sales						
External Sales	₱216,847	₱458,693	₱24,086			₱699,625
Inter-segment sales						-
	216,847	458,693	24,086	-	-	699,625
<b>RESULTS</b>						
Segment Results	(2,128)	14,652	7,011	(35,964)		(16,429)
Other charges -net						-
Income/(Loss) before tax						(16,429)
Tax Expense						(1,215)
Net Income/(Loss)						<b>(17,644)</b>
<b>OTHER INFORMATION</b>						
Segment assets	₱1,048,428	₱2,315,065	₱531,541	₱134,405	₱(88,909)	<b>₱3,940,530</b>
Segment liabilities	₱297,569	₱397,081	₱4,038	₱262,651	₱626,034	₱1,587,373
Interest Bearing Loans				2,334,975		2,334,975
Consolidated Total Liabilities	₱297,569	₱397,081	₱4,038	₱2,597,626		<b>₱3,922,348</b>

## AGING OF RECEIVABLES

As at March 31, 2013 – Unaudited (in thousand Pesos)							
	TOTAL	CURRENT	1-30	31-60	61-90	91-120	OVER 120
Feeds	856,652	185,603	29,233	10,786	12,179	7,832	611,018
Farms	54,280	15,593	2,469	1,526	12	0	34,680
Foods	292,931	30,678	7,691	797	133	474	253,158
<b>Total Trade Receivables</b>	<b>1,203,863</b>	<b>231,874</b>	<b>39,393</b>	<b>13,109</b>	<b>12,324</b>	<b>8,306</b>	<b>898,856</b>
Advances to Officers and Employees	6,618	5,829					788
Other Receivables	473,204	99,646	-	803	137	-	372,618
<b>Total Trade and Nontrade Receivables</b>	<b>1,683,685</b>	<b>337,350</b>	<b>39,393</b>	<b>13,912</b>	<b>12,462</b>	<b>8,306</b>	<b>1,272,263</b>
Less: Allowance for Impairments	869,284						869,284
<b>NET RECEIVABLES</b>	<b>814,401</b>	<b>337,350</b>	<b>39,393</b>	<b>13,912</b>	<b>12,462</b>	<b>8,306</b>	<b>402,978</b>

## FINANCIAL RATIOS

Below is a schedule showing financial soundness indicators of the Corporation for the period ended:

	Unaudited Mar 2013	Unaudited Mar 2012	Audited Dec 2012
<b>Current / Liquidity Ratio</b>	1.20	1.27	1.17
Current assets	1,464,893	1,421,164	1,524,947
Current Liabilities	1,224,041	1,123,199	1,308,514
<b>Solvency Ratio</b>	0.00	(0.01)	(0.01)
Net income (loss) before depreciation	455	(26,994)	(55,214)
Total Liabilities	3,922,348	3,710,569	3,974,445
<b>Debt-to-Equity Ratio</b>	215.73	47.40	110.94
Total liabilities	3,922,348	3,710,569	3,974,445
Total Equity	18,182	78,288	35,826
<b>Asset-to-Equity Ratio</b>	216.73	49.00	111.94
Total assets	3,940,530	3,835,792	4,010,271
Total equity	18,182	78,288	35,826
<b>Interest rate coverage Ratio</b>	0.65	-	0.38
Pretax loss before interest	30,410	1,018	72,812
Interest expense	46,839	-	193,284
<b>Profitability Ratio</b>	(0.90)	(0.59)	(3.36)
Net income (loss)	(16,429)	(45,918)	(120,471)
Total equity	18,182	78,288	35,826

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**VITARICH CORPORATION AND SUBSIDIARIES**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE FIRST QUARTER ENDED MARCH 31, 2013**

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**General Information and Status of Operations**

**Corporate Information**

Vitarich Corporation (the Company or Parent Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 31, 1962. On March 30, 2012, the SEC approved the extension of its corporate life for another 50 years. Its shares of stock are registered with the Philippine Stock Exchange on February 8, 1995. The Company has 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 production and distribution of 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 registered principal place of business of the Company and its subsidiaries (collectively referred to hereinafter as the Company) is located at Bo. Abangan Sur, McArthur Highway, Marilao, Bulacan. The Company has operating offices in Luzon, Iloilo and Davao, and maintains satellite offices in Southern Philippines.

**Status of Operations**

The Company has successfully improved its operations resulting in operating profit of ₱114.6 million in 2012 and ₱7.5 million in 2011 from an operating loss of ₱13.8 million in 2010. Although, the Company was able to increase its sales to ₱3.1 billion in 2012 and ₱2.7 billion in 2011 from ₱2.3 billion in 2010, the Company has incurred losses of ₱118.6 million in 2012, ₱237.0 million in 2011, and ₱207.1 million in 2010, mainly because of operational difficulties and interest expense on its loans (i.e. accretion of discount of ₱132 million in 2012, ₱127 million in 2011, and ₱148 million in 2010).

To address these situations, the Company implemented the following programs:

- corporate branding and image rebuilding;
- launching of new products in the market;
- expanding sales and distribution networks;
- strengthening business ties with trading partners, local and abroad; and,
- continuously improving product quality including rehabilitation and standardization of certain plants to qualify for international standardization and accreditations.

In 2011 and 2010, the Court approved the disposal of the Company's non-core assets and the assignment of insurance proceeds to settle ₱263.7 million of the restructured debt: dacion en pago of investment properties and property and equipment for ₱184.7 million; and assignment to creditors of ₱79.0 million of its receivable from an insurance company as partial settlement. These are executory in accordance with the Rules of Procedures on Corporate Rehabilitation although subject to appeal by creditor banks. The Company still has non-core assets aggregating ₱954.1 million which the Court has also approved for disposal through dacion en pago to settle the Company's restructured debt.

The ability of the Company to continue as a going concern depends largely on the successful implementation of its Plan and programs. The consolidated financial statements do not include any adjustments on the recoverability and classification of the assets or the amounts and classification of the liabilities arising from these uncertainties.

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**Basis of Preparation and Statement of Compliance**

The unaudited interim consolidated financial statements of the Group have been prepared on the historical cost basis of accounting, except for property, plant and equipment and investment property which are stated at fair value and are presented in Philippine Peso, the Group's functional currency. All values represent absolute amounts except when otherwise stated.

The unaudited interim consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual consolidated financial statements as at December 31, 2012.

The unaudited interim consolidated financial statements of the Group for the three months ended March 31, 2013 have been prepared in accordance with PAS 34 *Interim Financial Reporting* and in compliance with Philippine Financial Reporting Standards (PFRS) issued by the Philippine Financial Reporting Standards Council (FRSC) and adopted by the SEC.

This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

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**Summary of Significant Changes in PFRS**

The Company adopted new and revised PFRS effective January 1, 2012. These are summarized below:

- PFRS 7 Financial Instruments: Disclosures - Enhanced Derecognition and Transfer of Financial Assets Disclosure Requirements – The amended standard requires additional disclosure on financial assets that have been transferred but not derecognized and an entity's continuing involvement in the derecognized assets. This disclosure is required to enable the user of the financial statements to evaluate any remaining risks on the transferred assets.
- PAS 12 Income Taxes - Deferred Taxes: Recovery of Underlying Assets (Amended) – The amendment clarifies that the deferred tax on investment properties measured using the fair value model in PAS 40 should be determined considering that the carrying value the investment properties will be recovered through a sale transaction. Deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16 should also be measured by determining the recoverability of the non-depreciable assets in a sale transaction.

The new and revised PFRS has no significant impact on the amounts and disclosures in the financial statements.

The Company opted for an early application of PAS 19 – Employee Benefits (Amendment). The amendment to PAS 19 which is effective for annual period beginning or as at January 1, 2013 includes numerous changes ranging from the fundamental such as removing the corridor mechanism in the recognition of actuarial gains or losses and the concept of expected returns on plan assets to simple clarifications and re-wording.

The effects of the early adoption of amendments to PAS 19 increased the total comprehensive loss by ₱0.6 million for the year ended December 31, 2011 and decreased the total comprehensive loss by ₱5.9 million for the year ended December 31, 2010.

#### New and Revised PFRS Not Yet Adopted

Relevant new and revised PFRS which are not yet effective for the year ended December 31, 2012 and have not been applied in preparing the consolidated financial statements are summarized below:

Effective for annual periods beginning on or after July 1, 2012:

- PAS 1, Financial Statement Presentation, Presentation of Items of Other Comprehensive Income – The amendment changed the presentation of items in Other Comprehensive Income (OCI). Items that could be reclassified to profit or loss at a future point in time should be presented separately from items that cannot be reclassified.

Effective for annual periods beginning on or after January 1, 2013:

- PAS 27, Separate Financial Statements (as revised in 2011) – As a consequence of the new PFRS 10 and PFRS 12, PAS 27 is now limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements.
- PAS 28, Investments in Associates and Joint Ventures (as revised in 2011) – This standard prescribes the application of the equity method to investments in joint ventures and associates.
- PFRS 7, Financial Instruments Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments) – The amendment requires entities to disclose information that will enable users to evaluate the effect or potential effect of netting arrangements on an entity's financial position. The new disclosure is required for all recognized financial instruments that are subject to an enforceable master netting arrangement or similar agreement.
- PFRS 10, Consolidated Financial Statements – The standard replaces the portion of PAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements and SIC-12 Consolidation - Special Purpose Entities. It establishes a single control model that applies to all entities including special purpose entities. Management will have to exercise significant judgment to determine which entities are controlled, and are required to be consolidated by a parent company.
- PFRS 12, Disclosure of Interests with Other Entities – The standard includes all of the disclosures that were previously in PAS 27 related to consolidated financial statements, as well as all of the disclosure requirements that were previously included in PAS 31 and PAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required.
- Amendments to PFRS 10, PFRS 11 and PFRS 12: Transition Guidance – The amendments provide additional transition relief in PFRS 10, PFRS 11 Joint Arrangements and PFRS 12 Disclosure of Interests in Other Entities, limiting the requirement to provide adjusted comparative information to only the preceding comparative period. Furthermore, for disclosures related to unconsolidated structured entities, the amendments will remove the requirement to present comparative information for periods before PFRS 12 is first applied.
- PFRS 13, Fair Value Measurement – The standard establishes a single source of guidance under PFRS for all fair value measurements. It does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under PFRS when fair value is required or permitted.

- Improvements to PFRS •

The omnibus amendments to PFRS were issued in May 2012, which are effective for annual periods beginning on or after January 1, 2013, were issued primarily to clarify accounting and disclosure requirements to assure consistency in the application of the following standards.

- PAS 1, Presentation of Financial Statements
- PAS 16, Property Plant and Equipment
- PAS 32, Financial Instrument: Presentation
- PAS 34, Interim Financial Reporting •

Effective for annual periods beginning on or after January 1, 2014:

- Amendments to PFRS 10, PFRS 12 and PAS 27: Investment Entities – The amendments provide an exception from the requirements of consolidation to investment entities and instead require these entities to present their investments in subsidiaries as a net investment that is measured at fair value. Investment entity refers to an entity whose business purpose is to invest funds solely for returns from capital appreciation, investment income or both.
- Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities – The amendments address inconsistencies in current practice when applying the offsetting criteria in PAS 32, Financial Instruments: Presentation. The amendments clarify (a) the meaning of 'currently has a legally enforceable right of set-off'; and (b) that some gross settlement systems may be considered equivalent to net settlement. •Effective for annual periods beginning on or after January 1, 2015:
- PFRS 9, Financial Instruments: Classification and Measurement – This standard is the first phase in replacing PAS 39 and applies to classification and measurement of financial assets as defined in PAS 39.

Under prevailing circumstances, except for PFRS 13, the adoption of the foregoing new and revised PFRS is not expected to have any material effect on the consolidated financial statements.

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### **Summary of Significant Accounting Policies**

The significant accounting policies that have been used in the preparation of the consolidated financial statements are summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### Basis of Consolidation

*Subsidiaries* – Subsidiaries are entities controlled by the Parent Company. The consolidated financial statements include the accounts of the Parent Company and its subsidiaries. In assessing control, the existence and effect of potential voting rights that are currently exercisable or convertible are considered. Subsidiaries are consolidated from the date of acquisition or incorporation, being the date on which the Company obtains control, and continue to be consolidated until the date such control ceases.

*Transactions Eliminated on Consolidation* – All intraCompany balances, transactions, income and expenses and unrealized gains and losses are eliminated in full.

*Accounting Policies of Subsidiaries* – The financial statements of subsidiaries are prepared for the same reporting year using uniform accounting policies as that of the Parent Company.

## Financial Assets and Liabilities

*Date of Recognition.* Financial instruments are recognized in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

*Initial Recognition.* Financial assets and financial liabilities are recognized initially at fair value. Directly attributable transaction costs are included in the initial measurement of financial instruments, except for financial instruments classified at fair value through profit or loss (FVPL).

*Classification of Financial Instruments.* The Company classifies its financial assets into the following categories: financial assets at FVPL, held-to-maturity (HTM) investments, available-for-sale (AFS) financial assets, and loans and receivables. The Company classifies its financial liabilities into financial liabilities at FVPL and other financial liabilities.

The Company determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year-end.

The Company does not have financial instruments classified as financial assets or financial liabilities at FVPL, HTM investments and AFS financial assets.

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in consolidated statements 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 reporting date. Otherwise, these are classified as noncurrent assets.

The Company's cash in banks, trade and other receivables, and due from related parties are classified under this category.

*Other Financial Liabilities.* Other financial liabilities at amortized cost pertain to issued financial instruments or their components that are not classified or designated at FVPL and contain obligations to deliver cash or another financial asset to the holder as to settle the obligation other than by the exchange of fixed amount of cash or another financial asset for a fixed number of own equity.

The Company's trade and other payables, restructured debt, and cash bond deposits are classified under this category.

## Trade and Other Receivables

Trade receivables are usually due within 30 to 90 days and are noninterest-bearing.

Nontrade receivables comprise mainly of receivables arising from incidental income of the Company such as tolling and rentals.

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 comprise mainly of unsecured, non-interest bearing advances to suppliers, advances to contract growers and breeders, short term deposits and claims from SSS.



The Company's claim for settlement for typhoon damages from the Philippine Charter Insurance Corporation (now Charter Ping An Insurance Corporation) is still ongoing. The Court Order for a partial payment of ₱150.0 million of the insurance claims of ₱316.0 million is pending with the Supreme Court. Pursuant to the Insurance Code, the Company is entitled to interest on its claim at a rate twice the ceiling prescribed by the Monetary Board beginning March 12, 2010, 90 days from the date the Company has filed the claim.

The trade and other receivables are composed of the following:

In thousand Pesos	Unaudited Mar-13	Audited Dec-12
Trade Receivables	1,203,863	1,222,212
Insurance Claims Receivable	215,394	215,394
Non Trade Receivables	198,922	192,482
Advances to Officers and Employees	6,618	7,550
Other Receivables	58,888	48,383
	1,683,685	1,686,021
Allowance for Impairment	(869,284)	(867,679)
	814,401	818,342

### **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 Goods, 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 and Feeds Supplements, Supplies and Animal Health Products* - 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 March 31, 2013 and the year-ended December 31, 2012 are shown below:

In thousand Pesos	Unaudited Mar 2013	Audited Dec 2012
<b>At Cost:</b>		
Finished goods	79,148	56,622
Materials in-transit	-	23,953
Supplies and animal health Products	1,773	18,069
<b>At NRV:</b>		
Raw materials and feeds supplement	169,215	239,296
Factory stocks and supplies	113,238	108,818
Livestock	121,783	97,613
	<b>485,156</b>	<b>544,371</b>

### **Property, Plant and Equipment**

Property, plant and equipment (except for transportation equipment which are stated at cost less accumulated depreciation and any impairment in value and land which is stated at appraised value less any impairment losses) 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.

Subsequent to initial recognition at cost, property, plant and equipment (except for transportation equipment) are carried at appraised values, 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" account presented under the equity section of the consolidated statements 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 statements of comprehensive income. Annually, an amount from the Revaluation Reserve 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 (except for land). The depreciation and amortization periods for property, plant and equipment, based on the above policies, are as follows:

<u>Asset Type</u>	<u>Number of Years</u>
Machinery and equipment	10 to 20
Buildings	20
Leasehold and land improvements	2 to 5
Office furniture, fixtures and equipment	3 to 10
Transportation equipment	4 to 5

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 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 the consolidated statements of comprehensive income in the year the item is derecognized.

### **Investment Properties**

Investment properties, accounted for under the fair value model, are property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at acquisition cost, including transaction costs. Subsequently, investment properties are stated at fair value as determined by independent appraisers on an annual basis. The carrying amounts recognized in the consolidated statements of financial position reflect the prevailing market conditions at the end of each reporting period.

Any gain or loss resulting from either a change in the fair value or the sale of an investment properties is immediately recognized in the statements of comprehensive income as gain (loss) on fair value changes on investment properties and gain (loss) on sale of investment properties, respectively, in the consolidated statements of comprehensive income.

No depreciation charges are recognized on investment properties accounted for under the fair value method. Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

Rental income and operating expenses from investment properties is reported as part of Other Operating Income and Selling and Distribution Costs, respectively, in the consolidated statements of comprehensive income.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development.

### **Trade & Other Payables**

This account consists of:

In thousand Pesos	Unaudited Mar 2013	Audited Dec 2012
Trade & non-trade payables	868,310	956,997
Accrued interest	274,281	294,872
Accrued expenses	78,824	89,921
Provisions	27,072	25,813
Customers' deposits	26,733	22,543
Other payables	37,823	9,098
	1,313,043	1,399,243
Less non-current portion	168,144	168,144
<b>Current portion</b>	<b>1,144,899</b>	<b>1,231,099</b>

Trade payables primarily consist of liabilities arising from purchases of raw materials related to the normal course of business. These are noninterest-bearing and are generally on a 90-day credit term.

Nontrade 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. These are settled throughout the year.

Accrued expenses mainly pertain to plant and office supplies, other services, salaries, among others that are normally settled throughout the year.

Provision pertains to PFCI obligations which include an estimated liability of P10.4 million from a legal case for non-payment of rentals. PFCI ceased operations in 2005. The case is pending decision before the Court of Appeals.

Other payables consist of security deposits, social security premiums payable and statutory liabilities.

The noncurrent portion of trade and other payables were liabilities held for payment in the same manner as the restructured debt. The payment terms and conditions, however, pursuant to the Plan are yet to be determined by the Court. Accordingly, these financial liabilities are carried at nominal values and are presented as noncurrent liabilities.

### **Revenue Recognition**

Revenue is recognized to the extent that the economic benefits will flow to the Company and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. 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 and the amount of revenue can be measured reliably.

*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.

### **Cost and Expense Recognition**

Costs and expenses are recognized in the consolidated statements of comprehensive income upon consumption of goods, utilization of the services or at the date these are incurred. Interest expenses are reported on an accrual basis and are recognized using the effective interest method.

### **Issuances, Repurchases, and Repayments of Debt and Equity Securities**

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

### **Dividends**

There are no dividends paid for common shares in the current interim period.

### **Cash Bond Deposits**

Cash bond deposits amounting to ₱18.9 million, ₱22.6 million, and ₱20.0 million as at December 31, 2012, 2011 and 2010, respectively, substantially consist of surety bond deposits obtained from contract growers, contract breeders, customers and salesmen.

The carrying amounts of the cash bond deposits are at nominal values because the timing of the refund or settlement could not be reasonably estimated.

### **Equity**

*Capital Stock.* The Company is authorized to issue 500 million common shares of stock with a par value of ₱1.00 per share, of which 409,969,764 common shares are issued and outstanding as at December 31, 2012 and 2011 or a total of ₱410.0 million.

The Board of Directors (BOD) approved the increase in the authorized capital stock from 500 million shares of stock with a par value of ₱1.00 for a total of ₱500 million to (a) 1.0 billion shares of stock with a par value of ₱1.00 for a total of ₱1.0 billion on May 27, 2010, (b) 1.5 billion shares of stock with a par value of ₱1.00 for a total of ₱1.5 billion on June 1, 2012, and (c) 3.5 billion shares of stock with a par value of ₱1.00 for a total of ₱3.5 billion on August 28, 2012.

The stockholders also approved the increase in authorized capital stock either in cash or for the conversion of debt to equity during the annual stockholders' meeting on June 25, 2010 for the initial increase of 500 million shares and during the special stockholders' meeting on August 28, 2012 and October 15, 2012 for additional increase of 500 million shares and 2 billion shares, respectively. These increases are still pending submission of the necessary documents for the approval of the SEC.

The following summarizes the information on the Group's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Authorized Shares	No. of Shares Issued
February 9, 1989	200,000,000	109,969,764
August 11, 1986	200,000,000	200,000,000
December 5, 1982	33,000,000	33,000,000
December 5, 1977	45,000,000	45,000,000
October 31, 1974	7,000,000	7,000,000
May 2, 1973	10,000,000	10,000,000
October 2, 1972	5,000,000	5,000,000

The shares were issued at a price ranging from a minimum of ₱8.00 to a maximum of ₱12.50 per share.

As of March 31, 2013, of the 409,969,764 shares issued, outstanding and listed with the PSE, 211,499,167 shares or 51.59% are owned by the public, including 12,972,207 foreign-owned shares.

The total number of shareholders of the Group is 4,479 and 4,516 as at March 31, 2013 and December 31, 2012, respectively.

### **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.

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

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

### **Restructured Debt**

**Debt at Discounted Value** - The debt was originally obtained from local creditor banks and was restructured pursuant to the Plan approved by the Court on May 31, 2007. Several of these creditor banks have transferred their interest in the loans to SPAV Companies. A summary of the restructured debt at discounted value is presented below:

	Unaudited March 31, 2012	2012	2011
Debt at original amount	₱3,254,367,021	₱3,254,367,021	₱3,254,367,021
Payments to date:			
Balance at beginning of year	(177,838,883)	(177,838,883)	(177,838,883)
Payments	-	-	-
Balance at end of year	(177,838,883)	(177,838,883)	(177,838,883)
	3,076,528,138	3,076,528,138	3,076,528,138
Unamortized discount at original amount	1,596,973,858	1,596,973,858	1,596,973,858
Accretion to date:			
Balance at beginning of year	823,021,856	690,818,686	563,697,898
Accretion	32,398,843	132,203,170	127,120,788
Balance at end of year	855,420,699	823,021,856	690,818,686
	741,553,159	773,952,002	906,155,172
Discounted value	2,334,974,979	2,302,576,136	2,170,372,966
Current maturing portion	(72,462,601)	(72,462,601)	(30,946,243)
Restructured debt - long term portion	₱2,262,512,378	₱2,230,113,535	₱2,139,426,723

The debt as at May 31, 2007 was remeasured at fair value (subsequently at amortized cost) based on the terms of the plan using the prevailing effective interest rate of 9% at that time.

The computation of the amortized cost of the loans, however, was revised in 2010 because of changes in the assumptions used. The terms of payment of the debt are on an annual basis, contrary to the previous assumption used, that is on a quarterly basis. This was affirmed by a Court order dated February 18, 2011. Moreover, the Company's sale of its non-core assets through dacion en pago in 2010 reduced the principal amount of the debt. The remeasurement resulted in a prior period adjustment in 2010 decreasing the original amount of the discount and increasing the deficit as at January 1, 2010 by ₱113.6 million.

In 2011, the restructured debt was revalued to recognize the accrued interest based on the Plan resulting in a decrease in deficit amounting to ₱67.9 million as at January 1, 2011.

#### Debt at Original Amount and Terms Under the Plan

The outstanding balance of the debt (at original value) is due to the following:

	<b>Unaudited March 31, 2013</b>	<b>2012</b>	<b>2011</b>
Creditor banks	<b>₱1,546,458,088</b>	₱1,546,458,088	₱1,546,458,088
SPAV companies	<b>1,530,070,050</b>	1,530,070,050	1,530,070,050
	<b>₱3,076,528,138</b>	₱3,076,528,138	₱3,076,528,138

The Plan provides, among others, for the following:

(a) a modified debt restructuring scheme for a period not exceeding 15 years;

(b) payment of interest to all the Company's creditors on the following basis:

- (i) Years 1 to 3 - at 1% per annum
- (ii) Years 4 to 6 - at 2% per annum
- (iii) Years 7 to 9 - at 3% per annum
- (iv) Years 10 to 15 - at 4% per annum

(c) implementation of certain programs as indicated in the Receiver's Report; and

Based on the Plan, the debt scheduling payment is summarized below:

	<b>Principal</b>	<b>Interest</b>	<b>Accretion of Discount</b>
Within 1 to 3 years	₱—	₱—	₱488,979,047
Within 4 to 6 years	251,829,694	187,292,955	390,846,002
Within 7 to 9 years	432,736,704	260,066,196	358,242,338
Within 10 to 15 years	2,569,800,623	521,154,604	358,906,471
	<b>₱3,254,367,021</b>	<b>₱968,513,755</b>	<b>₱1,596,973,858</b>

#### Compliance with Restructured Debt

Matured obligation, based on the debt scheduling payment, aggregated ₱165.1 million in 2012 and ₱76.8 million in 2011. This includes interest of ₱129.7 million in 2012 and ₱65.0 million in 2011.

The Company had paid a total of ₱263.7 million, which is more than the matured obligations. This was reported by the Court appointed Receiver, in his Quarterly Report to the Rehabilitation Court. The payments consist of ₱184.7 million through a dacion en pago of non-core assets to Kormasinc, Inc. in 2010 and ₱79.0 million assignment of insurance proceeds to the creditors in 2011. On September 14, 2012, the Company bidded out non-core assets to Kormasinc Inc., a creditor. The resulting dacion en pago for ₱70.1 million. Being a creditor, Kormasinc payment will be in reduction of restructured debt of ₱70.1 million. The bid, however, is still pending approval of the Court. In total, the Company had paid a total of ₱333.8 million.

The dacion en pago of the non-core assets which was offered by the Company as an equivalent compliance with the restructured debt annual schedule of payment, and the assignment of the insurance proceeds were approved by the Court. Although subject to appeal by creditor banks, these modes of payment are executory pursuant to the rules on corporate rehabilitation unless nullified by the higher Court.

The creditor banks have filed a motion for the termination of the rehabilitation proceedings arising from the Company's failure to achieve the goals set in the Plan. The Court of Appeals has ruled the case in favor of the Company. However, an appeal by the creditor banks is pending decision before the Supreme Court. The management and its legal counsel believe that the case will be ruled in its favor.

### **Interest Expense**

The breakdown of this account is as follows:

In thousand Pesos	Unaudited Mar 2013	Audited Dec 2012
Interest expense on restructured debt:		
Accretion of discount	₱32,399	₱132,203
Nominal interest payable to creditor banks/SPAVs	14,408	61,069
Others	46,807	193,272
	32	12
	<b>₱46,839</b>	<b>₱193,284</b>

### **Risk Management Objectives and Policies**

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

The Company does not engage in the trading of financial assets for speculative purposes nor does it write options. The financial risks, which the Company is exposed to, are described below:

- Foreign Currency Sensitivity
- Interest Rate Sensitivity
- Credit Risk
- Liquidity Risk
- Price Risk

#### **Foreign Currency Sensitivity**

To a certain extent, the Company 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 Company 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 at March 31, 2013, the Company has no significant floating rate financial assets or liabilities. The Company's operating cash flows are substantially independent of changes in market interest rates.

The Plan allowed the Company to defer the payment of its loans and their related interest charges and certain trade payables for a period of three years from the date of approval of the Plan.

The Company has no borrowings that carry variable interest rates, which released the Company from any 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 Company continuously monitors defaults of counterparties, identified either individually or by Company, and incorporates 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 Company's policy is to deal only with creditworthy counterparties.

The Company's trade and other receivables are not exposed to a concentration of credit risk as the Company 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 Company requires collateral, generally land and real estate, from its customers.

The Company's management considers that trade and other receivables that are not impaired nor past due for each reporting periods are of good credit quality.

#### Liquidity Risk

The Company's petition for corporate rehabilitation, which resulted in the eventual approval of the Plan, has significantly assisted in addressing the liquidity issue of the Company as the Plan provides for deferment of borrowing repayments for a period of three years. Nevertheless, the Company 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 Company maintains cash to meet its liquidity requirements for up to 30-day periods.

#### Price Risk

The Company is exposed to commodity price risk as the raw materials of its main products are subject to price swings. The Company's management actively seeks means to minimize exposure to such risk.

### **OTHER MATTERS**

- There were no contingent assets nor liabilities 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 event 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.

**Any significant element of income or loss that did not arise from the registrant's continuing operations** - There were no significant elements of income or loss arising from continuing operations.



**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

For the first quarter of 2013, Vitarich Corporation and its subsidiaries generated consolidated sale of goods of ₱700 million, slightly lower from ₱714 million of same quarter last year. Sales of feed products were up by 4% against last year despite the stiff competition from local and foreign feed competitors. The dory business of the Company sustained its growth momentum with revenues increasing by 150% from last year stemming from improved demand of consumers. Increasing feed and dory sales was achieved due to sustained marketing activities that resulted to opening of new dealers, distributors, and customers. The increased revenue of feed products was also driven by improved feed selling prices. On the other hand, revenues from DOC, chicken, and animal health products were lower than last year by 11%, 6%, and 19%, respectively. The decreased revenues of the poultry business were intentional due to challenges confronting the poultry industry. The Company will continue with its aggressive marketing campaigns, to further expand its sales and distribution network, strengthen market visibility of Company products, and likewise find and identify its niche in the market. Similarly, the Company will continue to pursue improvement of margins through optimum size distribution and efficient supply chain and enhancing efficiency and productivity.

Gross profit for the quarter declined to ₱39.9 million in the first quarter of 2013 from ₱66.9 million in the previous year caused primarily by depressed chicken prices and lower sales of animal health business.

Consolidated operating expenses considerably went down by 27% from ₱94.5 million as at March 2012 to ₱69.1 million as at March 2013. The uninterrupted controls on expenditures and permanent implementation of expense reduction programs dropped the level of operating expenses. However, other operating income went down by 11% from ₱28.6 million to ₱25.4 million this quarter.

Confronted with the combined effects of poor performance of the poultry industry and lower sales of animal health products, consolidated net income for the first quarter amounted to negative ₱17.6 million.

As the Company is under corporate rehabilitation, it will continue to focus on its core business and strive to improve operations. Likewise, the Company will also continuously institute the programs adopted by the management pursuant to the rehabilitation plan such as the following:

- Corporate branding and image rebuilding;
- Launching of new products in the market;
- Expanding sales and distribution networks;
- Strengthening business ties with trading partners, local and abroad; and
- Continuously improving product quality including rehabilitation and standardization of certain plants to 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.

Gromax manufactures, prepares, processes, mixes, distributes and sells innovative and high quality animal health and nutritional products, feed additives and commodities for poultry and livestock to contract growers, contract breeders, poultry and swine farms, feed mills, distributors, cooperatives, and poultry integrators throughout the country.

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

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 said Company.

Gromax yielded positive results as of March 2013 as it registered total sales revenue of ₱36.7 million with a net income of ₱1.0 million.

**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 Church's 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 allows 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 is 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 Board of Directors of PFCI approved the proposed conversion 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. Management believed that this case would be settled in favor of the PFCI and TMA.

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 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 4, 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 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 March 31, 2013 vs. audited December 31, 2012

The Company's consolidated total assets as of March 31, 2013 stood at ₱3.94 billion, slightly lower than December 31, 2012 level of ₱4.01 billion.

Total current assets decreased from ₱1.52 billion as at December 31, 2012 to ₱1.46 billion as at March 31, 2013.

Cash balance as of March 31, 2013 declined to ₱28.8 million from ₱34.2 million as of December 31, 2012. The reduction in cash was attributed to net cash outflows used in operating activities particularly for working capital requirements.

Trade and other receivable account slightly went down as a result of strict implementation of accounts receivable collection. In addition, due from related parties' account also decreased.

Inventories went down by 11% due to the decrease in finished goods inventory, supplies and animal health products, and raw materials and food supplements.

Other current assets account of ₱36.8 million was up by 31% as against ₱28.1 million in December 31, 2012. While other non-current assets maintained at ₱2.6 million.

Total current liabilities for the period ended amounted to ₱1.22 billion, lower by 6% as of December 31, 2012.

Trade and other payables account went down by 7% as against last year, mainly due to lower payable to suppliers relative to lower inventories. On the other hand, income tax payable increased by 35% from ₱4.9 million to ₱6.7 million.

Stockholders' equity decreased from ₱35.8 million to ₱18.2 million, basically due to net loss posted as of the first quarter period.

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

	Unaudited Mar 2013	Unaudited Mar 2012
Revenue (₱ million)	700	714
Cost Contribution (₱ million)	660	647
Gross Profit Rate (%)	6%	9%
Operating Margin (₱ million)	-3.8	1.0

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

Consolidated revenue composed of feeds, day old chicks, chicken, animal health products, and dory fish sales amounted to ₱700 million, slightly lower than the same period last year of ₱714 million, mainly because of lower sales volume of all product lines despite improved selling prices.

**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.