



**STENIEL MANUFACTURING CORPORATION**

November 14, 2013

**PHILIPPINE STOCK EXCHANGE, INC.**  
Philippine Stock Exchange Plaza  
Ayala Triangle, Ayala Avenue  
Makati City 1226

Attention: **Ms. Janet A. Encarnacion**  
Head, Disclosure Department

Re: **Quarterly Report as of September 30, 2013**  
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Madam:

We submit herewith the Quarterly Report for the quarter ended September 30, 2013 of STN.

Thank you.

Very truly yours,

A handwritten signature in black ink, appearing to read "Mia M. Ormita".

Mia M. Ormita

Corporate Information Officer

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

G	a	t	e	w	a	y	B	u	s	i	n	e	s	P	a	r	k	,											
J	a	v	a	l	e	r	a	,	G	e	n	.	T	r	i	a	s	,	C	a	v	i	t	e					

(Complete Business Address)

<b>Delma P. Bermundo</b>
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Contact Person

<b>+63 (46) 433-0066</b>
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Company Telephone Number

1	2
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Month

3	1
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Day

S	E	C	17	Q
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Form Type

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Secondary License Type, if applicable

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Dept. Requiring this Doc.

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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
Foreign

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To be accomplished by SEC Personnel concerned

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File Number

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Document I.D.

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Cashier

SEC Number 23736  
File Number \_\_\_\_\_

**Steniel Manufacturing Corporation**  
(Company's Full Name)

**Gateway Business Park,  
Javalera, General Trias, Cavite**  
(Company's Address)

**(046) 433-0066**  
(Telephone)

**Not Applicable**  
(Fiscal Year Ending)  
(month & day)

**Form 17-Q**  
Form Type

**Not Applicable**  
Amendment Designation  
(If applicable)

**September 30, 2013**  
Period Date Ended

**Not Applicable**  
Secondary License Type  
and File Number

# SECURITIES AND EXCHANGE COMMISSION

## Form 17-Q

### STENIEL MANUFACTURING CORPORATION

*Quarterly Report Pursuant to Section 17  
of the Securities Regulation Code  
and SRC Rule 17(2)(b) Thereunder*

1. For the quarterly period ended : September 30, 2013
2. SEC Identification Number : 23736
3. BIR Tax Identification Number : 000-099-128
4. Exact Name of Registrant : Steniel Manufacturing Corporation
5. Country of Incorporation : Metro Manila, Philippines
6. Industry Classification Code :
7. Address of principal office : Gateway Business Park  
Javalera, Gen. Trias, Cavite
8. Registrant's telephone number : (046) 433-0066
9. Securities registered pursuant to Sections 8 and 12 of Code, or Sections 4 and 8 of the RSA

<b>Title of class</b>	<b>Number of shares outstanding</b>
Common shares	1,000,000,000* <sup>1</sup>

<sup>\*1</sup> Reported by the stock transfer agent as of September 30, 2013

10. The Registrant's common shares are listed on the Philippine Stock Exchange.
11. (a) The Registrant has filed all reports required to be filed pursuant to 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 12 months.  
  
(b) The Registrant has been subject to such filing requirements for the past 90 days.

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## 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 hereto duly authorized.

Registrant : Steniel Manufacturing Corporation  
By

Signature :   
Delma P. Bermundo

Title : Chief Finance Officer

Date : November 14, 2013

*Distribution* : 3 copies - Securities & Exchange Commission  
1 copy - File/receiving copy

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED STATEMENTS OF INCOME/(LOSS)  
UNAUDITED**

<i>(In Thousands)</i>	For the Nine Months Ended 30, September		For the Three Months Ended 30, September	
	2013	2012	2013	2012
<b>Revenues</b>	459,975	433,512	190,947	128,549
<b>Cost of Goods Sold</b>	412,349	432,274	161,617	130,951
<b>Gross Profit</b>	47,627	1,237	29,330	(2,403)
<b>Operating Expenses</b>	10,068	26,460	4,476	10,179
<b>Income/(Loss) from Operations</b>	37,559	(25,223)	24,854	(12,582)
<b>Financing Charges, Net</b>				
<b>Loss Before Other Income/(Charges)</b>	37,559	(25,223)	24,854	(12,582)
<b>Other Income/(Charges)</b>	273	3,671	(418)	4,341
<b>Income/(Loss) Before Taxes</b>	37,832	(21,552)	24,435	(8,241)
<b>Provision for Taxes</b>	(817)	(13)	(487)	(13)
<b>Net Income/(Loss) for the Period</b>	37,015	(21,565)	23,948	(8,254)
<b>Loss Per Common Share in centavos *</b>	0.037	(0.022)	0.024	(0.008)

\* *Basic earnings (loss) per common share is calculated by dividing the net loss or income for the period by the weighted average number of shares outstanding after giving retroactive effect to stock dividends, if any, during the period. The Company has no dilutive potential common shares.*

Please refer to the accompanying Notes to Unaudited Interim Consolidated Financial Statements.

STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES  
CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
UNAUDITED

(In Thousands)	For the Nine Months Ended 30, September		For the Three Months Ended 30, September	
	2013	2012	2013	2012
Capital stocks				
Authorized				
1,000,000,000 common shares				
Php 1 par value per share				
Issued and outstanding shares				
September 30, 2012				
1,000,000.00				
September 30, 2011				
1,000,000.00	1,000,000	1,000,000	1,000,000	1,000,000
Additional paid-in capital	414,632	414,632	414,632	414,632
Retained earnings/(deficit)				
Beginning	(1,583,579)	(1,594,335)	(1,570,512)	(1,607,645)
Net Loss for the period	37,014	(21,565)	23,948	(8,254)
Ending	(1,546,565)	(1,615,900)	(1,546,564)	(1,615,899)
Balance	(131,933)	(201,267)	(131,933)	(201,267)

Please refer to the notes in the preparation of the consolidated interim financial statements on page 16.



STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

<i>(In PhpThousands)</i>	Unaudited September 30 2013	Audited December 31 2012	Unaudited September 30 2012
<b>Current Assets</b>			
Cash and cash equivalents	34,863	17,117	4,986
Trade and other receivables	333,935	311,686	232,280
Inventories	168,228	172,401	235,352
Prepayment and other current assets	3,653		1,217
	540,679	501,204	473,835
Assets held for sale	216,677	216,677	230,630
<b>Total current assets</b>	<b>757,355</b>	<b>717,881</b>	<b>704,465</b>
<b>Non-current Assets</b>			
Property, Plant and Equipment	55,101	48,971	36,621
Investment in shares of Associate	-		-
Input Tax	65,196	65,196	88,681
Other Assets	15,143	7,433	7,730
<b>Total non-current Assets</b>	<b>135,440</b>	<b>121,600</b>	<b>133,032</b>
	892,796	839,481	837,497
<b>Current Liabilities</b>			
Loans and trust receipts payable			
Accounts payable and accruals	456,427	440,127	464,202
<b>Total current liabilities</b>	<b>456,427</b>	<b>440,127</b>	<b>464,202</b>
<b>Non-current Liabilities</b>			
Long-term borrowings	568,301	568,301	568,419
Pension benefit obligations			6,143
<b>Total non-current Liabilities</b>	<b>568,301</b>	<b>568,301</b>	<b>574,562</b>
<b>Stockholders' Equity</b>	<b>(131,932)</b>	<b>(168,947)</b>	<b>(201,267)</b>
	892,796	839,481	837,497

The notes on pages 1 to 47 are an integral part of these consolidated financial statements.

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**CONSOLIDATED BALANCE SHEET STATEMENT OF CASH FLOWS  
UNAUDITED**

<i>(In PhpThousands)</i>	For the Nine Months Ended 30, September		For the Three Months Ended 30, September	
	2013	2012	2013	2012
<b>CASH FLOWS - OPERATING ACTIVITIES</b>				
Net Loss for the period	37,015	(21,565)	23,948	(8,255)
Depreciation and amortization	10,740	10,291	3,122	3,389
Changes in working capital:				
(Increase)/decrease in:				
Receivables, net	(22,249)	6,437	(8,180)	8,374
Inventories	4,173	14,042	(10,170)	(24,099)
Prepayment and other current assets	(3,653)	(1,217)	(1,411)	493
Increase/(decrease) in:				
Accounts payable and accruals	16,300	603	22,485	27,429
	42,326	8,591	29,794	7,331
<b>CASH FLOWS - INVESTING ACTIVITIES</b>				
Additions to property, plant & equipment	(16,870)	(8,493)	(2,774)	(4,106)
(Increase)/decrease in available for sale financial	(5,931)		(5,947)	
Decrease in other assets/investments in affiliates	(1,779)	(2,161)	(50)	(4,832)
	(24,580)	(10,654)	(8,771)	(8,938)
<b>NET DECREASE IN CASH &amp; CASH EQUIVALENTS</b>	17,746	(2,063)	21,023	(1,607)
<b>CASH &amp; CASH EQUIVALENTS, Beginning</b>	17,117	7,049	13,840	6,593
<b>CASH &amp; CASH EQUIVALENTS, Ending</b>	34,863	4,986	34,863	4,986

**STENIEL MANUFACTURING CORPORATION AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

**1. Corporate information**

Steniel Manufacturing Corporation ("SMC or the Company") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on September 13, 1963. The Securities and Exchange Commission has granted extending the company's term of existence on September 11, 2013. The Company and its subsidiaries (the "Steniel Group") are engaged in the manufacturing, processing, and selling of all kinds of paper products, paper board and corrugated carton containers, and all other allied products and processes. The Company is listed in the Philippine Stock Exchange, Inc.

The ultimate parent of the Company is Steniel (Netherlands) Holdings B.V. (SNHBV), incorporated in Amsterdam is the registered owner of 82.2716% of the shares of the Group prior to restructuring of the loan in 2010. The remaining 17.7284% of the shares are widely held.

Consequent to the restructuring of the loan in 2010, remaining unissued share capital of the Company totaling 123,818 shares were issued to Roxburgh Investment Limited to reduce the Company's outstanding debts. As a result, Roxburgh Investment Limited now owns 12.3818% of the Company, while the ownership of certain directors and officers of the Group as well as the public have been reduced to 72.0849% and 15.5333%, respectively.

On January 18, 2012, the major and minority shareholders of SNHBV entered into a Share Purchase Agreement with Right Total Investments Limited (Right Total; a limited liability company incorporated in British Virgin Islands as an investment company), to purchase up to 100% of the issued and outstanding shares of SNHBV. With this sale of shares by SNHBV, Right Total is now the owner of the 72.0849% shares of the Company consequently making it its ultimate holding company.

On January 25, 2012, the Company received a tender offer report from Right Total to purchase the 27.92% shares of minority investing public of the total issued shares at a price of P0.0012 per share or an aggregate price of P334,981. Payment of the price of the tender shares validly tendered and accepted for payment shall be by way of checks which shall be made available for pick up at the office of BDO Securities, Inc. three (3) days after the tender shares are crossed at PSE.

The Company's registered address and principal office is located at Gateway Business Park, Barrio Javalera, Gen. Trias, Cavite, Philippines.

The unaudited interim consolidated financial statements of the Company and its subsidiaries have been approved and authorized for issuance by the Company's Board of Directors on November 14, 2013.

**2. Summary of Significant Accounting Policies**

**2.1 Basis of Preparation**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with Philippine Accounting Standard (PAS) 34, Interim Financial Reporting. Accordingly, the unaudited condensed consolidated financial statements do not include all of the information and disclosures required in the December 31, 2012 annual audited consolidated financial statements, and should be read in conjunction with the Company's annual consolidated financial statements as of and for the year ended December 31, 2012.

The preparation of the financial statements in compliance with Philippine Financial Reporting Standards (PFRS) requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The estimates and assumptions used in the accompanying unaudited interim consolidated financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the unaudited condensed consolidated financial statements. Actual results could differ from such estimates.

The unaudited interim consolidated financial statements include the accounts of Steniel Manufacturing Corporation and its subsidiaries. The unaudited condensed consolidated financial statements are presented in Philippine peso (Php), and all values are rounded to the nearest thousands except when otherwise indicated.

*Standards, amendments and interpretations to published standards effective 2012 and onwards:*

*(a) New and amended standards adopted by the Group*

There are no PFRS or IFRIC and PIC interpretations that are effective for the first time for the financial year beginning on or after January 1, 2012 that would be expected to have a material impact on the Group.

*(b) New standards, amendments and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after January 1, 2013, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- *PAS 19 (Amendment), Employee Benefits* (effective January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. They would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group has yet to assess the full impact of the amendments and intends to adopt the amendment beginning January 1, 2013.

- *PFRS 9, Financial Instruments* (effective January 1, 2015). This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than profit or loss, unless this creates an accounting mismatch. The Group has yet to assess the full impact of PFRS 9 and intends to adopt PFRS 9 beginning January 1, 2015. The Group will also consider the impact of the remaining phases of PFRS 9 when issued.

- *PFRS 10, Consolidated Financial Statements* (effective January 1, 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group has yet to assess the full impact of PFRS 10 and intends to adopt PFRS 10 beginning January 1, 2013.

- *PFRS 12, Disclosures of Interests in Other Entities* (effective January 1, 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group has yet to assess the full impact of PFRS 12 and intends to adopt PFRS 12 beginning January 1, 2013.

- *PFRS 13, Fair Value Measurement* (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned with IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within PFRS or US GAAP. The Group has yet to assess the full impact of PFRS 13 and intends to adopt PFRS 13 beginning January 1, 2013.

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*Amendment and interpretation to existing standards that are not yet effective and not relevant to the Group*

- *PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation* (effective July 1, 2011).
- *Philippine interpretation IFRIC 15, Agreements for the Construction of Real Estate* (effective January 1, 2012 but SEC has defer the mandatory adoption).

## **2.2 Basis of Consolidation**

The consolidated financial statements include the separate financial statements of the Company and the following subsidiaries incorporated in the Philippines:

	<i>Percent of ownership</i>
Steniel Cavite Packaging Corporation (SCPC)	100
Treasure Packaging Corporation (TPC)	100
Steniel Mindanao Packaging Corporation (SMPC)	100

The Company also has a 39.71% interest in Steniel Land Corporation (SLC), an associate. In 2012, after the dacion en pago from Steniel Group loan restructuring plan in 2010, all of the shares of TPC and MPPC were assigned to Greenkraft Corporation, a company incorporated in the Philippines. Following the sale of shares, SMC's ownership with SLC is now 39.23%.

## **2.3. Cash and cash equivalents**

Cash at September 30 consist of cash on hand and in banks. Cash in banks earn interest at the prevailing bank deposit rates between 0.25% to 0.625%.

## **2.4 Trade and other receivables**

Trade and other receivables consist of:

	September 30, 2013	December 31, 2012
Trade Receivables	97,418	76,110
Allowance for doubtful accounts	(45,840)	(43,613)
	51,578	32,497
<b>Non-trade receivables:</b>		
Creditable withholding taxes	113,110	111,361
Excess Input VAT	110,413	104,566
Other receivables	70,436	74,636
	293,959	290,563
Allowance for doubtful accounts	(11,602)	(11,373)
	333,935	311,687

## 2.5. Inventories

Inventories stated at costs consist of:

	September 30, 2013	December 31, 2012
Finished goods	10,264	10,688
Work-in-process	6,111	4,536
Raw materials	121,116	128,312
Materials and supplies	30,737	28,865
	168,228	172,401

The above inventories are pledged as collateral to the Group's borrowings.

## 2.6 .Assets held-for-sale

This pertains to remaining assets and shares of stocks in an associate held for sale pursuant to the provisions of the Amended Agreement. The assets and shares are measured at lower of the carrying amount and fair value less cost to sell.

## 2.7 Accounts payables and accruals

Accounts payables and accruals consist of:

	September 30, 2013	December 31, 2012
Trade Payables	381,171	383,752
Accruals and others	55,285	36,393
Payable to an associate	19,971	19,982
	456,427	440,127

## 2.8. Long-term Borrowings

Long-term borrowings consist of:

	September 30, 2013	December 31, 2012
Greenkraft Corporation	380,578	380,578
Roxburgh Investments Limited	187,723	187,723
	568,301	568,301

The above secured loans were originally obtained from the lenders under the Omnibus Agreement's revolving working capital facility with annual interest rates.

A substantial portion of the property and equipment of the Company and its subsidiaries, and present and future receivables and inventories of its subsidiaries are used as collateral for the term loans and revolving capital facilities in accordance with the Omnibus Agreement. Further, the Omnibus Agreement provides for certain affirmative and negative covenants subject for compliance by the Company and its subsidiaries, with respect to, among others, (a) restriction on the declaration of dividends, incurrence of significant capital expenditures and commitments, and merger or consolidation; and (b) maintenance of current and debt-to-equity ratios of at least 1:1 and 1.5:1, respectively. Requirements on certain financial ratios were not met.

The Company failed to settle its outstanding short-term and long-term loans which were supposed to mature at various dates in 2004, 2005, and 2006 and was declared by the lending banks in default on May 24, 2006. During the last quarter of 2006, a lending bank informed the Company of the assignment and sale of its outstanding balance of the loan to Greenkraft Corporation, a third party. Similarly, another lending bank advised the Company in June 2007 that it has also assigned its titles and rights relative to the loan to Investments 2234 Philippines Fund I (SPV-AMC), Inc. and in 2010, the latter assigned its titles and rights to the loan to Greenkraft Corporation. In 2009, the other lending bank also assigned its title and rights to the loan to Roxburgh Investments Limited.

On October 14, 2010, Greenkraft Corporation assigned its loans receivables amounting to P296,510 thousand to Roxburgh Investments Limited.

Consequently, the Company and its major creditors/lenders signed the Amended Agreement on October 15, 2010. The restructuring of the loan finally resolved the default situation. The Company's accrued interest which was capitalized as part of the loan principal in 2010 in accordance with the Amended Agreement, was condoned during the year by its major creditors amounting to P294,634 thousand. In addition, the accrued interest in 2010 amounting to P13,052 thousand was also reversed in 2011 in relation to the 2-year grace period provided by its creditors.

## 2.9. Share capital

Share capital as at September 30, 2013 and December 31, 2012 consist of:

	No. of Shares	Par value per share	Amount
Authorized	1,000,000,000	1	1,000,000,000
Issued and outstanding	1,000,000,000	1	1,000,000,000

## 2.10 .Others

(a) Commitments and contingent liabilities

In the normal course of business, the Group has various outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit facilities, commitments on lease, and suits/claims under litigation which are not shown in the consolidated financial statements and pending tax assessments that are presently being contested.

In the opinion of the management of the Group, based on the advice of its external legal counsels, the ultimate disposition of the foregoing commitments and contingencies will not have a significant effect on the consolidated financial condition or operating results of the Group.

(b) Related party transactions

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprises and their key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

\* \* \* \* \*



**Part 1: PERFORMANCE INDICATORS**

The following key performance indicators have been identified in measuring the performance of the Company: a) sales revenues, b) cost of goods sold, c) operating expenses, c) income from operations, and e) financial ratios. Sales revenue is measured both in metric tons (MT) and average selling prices (ASP). Total cost of goods sold for the period is expressed in peso per MT basis while both operating expenses and income from operations are expressed in absolute peso amounts. These indicators are monitored on a periodic basis and are compared against targets set at the beginning of each year.

**Revenues** Consolidated sales revenue for the third quarter of 2013 reached Peso 190.947 million with an equivalent volume of 4,590 MT. The revenue for the period is 49% higher than the actual revenue of Peso 128.549 million due to the increase of volume by 20% at 749MT of the same period last year. Of the total volume, all sales in volume of 3,623MT is 73% higher than 1,528MT of the same period last year with higher average selling price (ASP).

**Cost of goods sold** The Company reported a gross profit (GP) for the current period of Peso 26.580 million (GP rate of 14%) versus an actual GP for the same period last year of Peso 1.244Million. This is mainly due to the 18% improvement in total sales volume and improvement in average selling price of total all-in sales. The decrease of 4% on manufacturing overhead compared to same period last year contributed as well.

**Operating expenses** Operating expenses on a consolidated basis for the current quarter of Peso 3.366 million at 733 pesos per MT is 16% better than the same period last year of 758 peso per MT.

**Income/(loss) from operations** Overall, the Company reported an income from operations for the current quarter of Peso 23,214 million compared with the same period last year with actual loss of 1,670 million. Please refer to the reasons cited in the foregoing for the related explanations.

**Financial ratios** Consolidated current assets as at September 30, 2013 totaled Peso 757,355 million while current liabilities as at the same date totaled Peso 456,427 million. The increase in current assets as at current 3<sup>rd</sup> quarter-end as compared with the year-end balance of 717 881 was significantly attributed to higher revenues brought about by improved sales volume and collection. Consequential to this, cash and short term investments also increased by 104% compared with the year-end balance. Inventory level of paper, a major raw material slightly decreased compared to the same period last year. Accounts payable balances recorded an increase as at September 30, 2013 totaled Php 21,453 million compared to year end balance. With respect to long-term borrowings, there is no change between the balances during the current quarter as compared with those of year-end 2012. Working capital ratio as at September 30, 2013 is 1.7. Working capital ratio is computed as the ratio of current assets over current liabilities. Debt-to-equity ratio is not computed for the current quarter because of the negative equity balance.

**Part 2: MANAGEMENT DISCUSSION AND ANALYSIS****General Information and Group Structure**

The Company has three operating subsidiaries nationwide that produce their own corrugated boards for conversion to finished boxes. These facilities are located in Cavite, Cebu and Davac and each is fully equipped with corrugator and converting machines. The finished products are mainly

used for packaging consumer goods, fresh fruits, canned sardines, furniture and electronic goods. Marketing activities are coordinated centrally for most of the Company's high volume customers. However, each of the operating subsidiaries is individually responsible for sales and marketing activities directed at their regional customers.

The business operations of Steniel Cavite Packaging Corporation (SCPC) gradually slowed down in 2006. The Board of Directors of SCPC approved the temporary cessation of plant operation on March 27, 2007 in view of the continued business losses incurred since its incorporation, in addition to difficult economic and business conditions. The machines and equipment of SCPC were disposed via dacion en pago during 2010 to reduce long-term borrowing as part of the loan restructuring agreement. The dacion en pago of its buildings will be completed during the second semester of 2011. The salient points of the loan restructuring agreement are discussed in the succeeding portion of this report.

On August 20, 2008, Treasure Island Industrial Corporation (TIIC), owner of office space and warehouses, which Treasure Packaging Corporation (TPC) leases in Cebu, filed a case for ejectment, mandatory injunction and damages against TPC in the Municipal Trial Court Branch 2 (the 'Court') in Mandaue City due to unpaid rental. On December 3, 2008, a decision was rendered by the Court finding that TIIC's complaint is meritorious and ordered TPC to vacate the subject premises and improvements and restore TIIC's possession thereof. Consequently, starting September 2008, TPC temporarily ceased its operations and separated all its employees. The Board formally approved the cessation of TPC's operation on March 10, 2009. Following its closure, the property and equipment of TPC were disposed of to partially settle its trade and other liabilities.

Effective year-end 2008, only the manufacturing facility in Davao under SMPC remains operational.

Prior to 2006, Steniel (Netherlands) Holdings B.V. (SNHBV), incorporated in Amsterdam is the registered owner of 82.2716% of the shares of the Group and the former is 100% owned by Steniel (Belgium) Holdings NV (SBHNV). In 2006, SBHNV sold its shares in SNHBV to certain directors and officers of the Group. With the sale of shares, the ultimate parent of the Company became SNHBV. The remaining 17.7284% of the shares are widely held.

Consequent to the restructuring of the loan in 2010 as discussed in the succeeding part of this report, remaining unissued share capital of the Company totalling 123,818 shares were issued to Roxburgh Investment Limited to reduce the Company's outstanding debts. As a result, Roxburgh Investment Limited now owns 12.3818% of the Company, while the ownership of certain directors and officers of the Group as well as the public have been reduced to 72.0849% and 15.5333%, respectively.

On January 18, 2012, the major and minority shareholders of SNHBV entered into a Share Purchase Agreement with Right Total Investments Limited (Right Total; a limited liability company incorporated in British Virgin Islands as an investment company), to purchase up to 100% of the issued and outstanding shares of SNHBV. With this sale of shares by SNHBV, Right Total is now the owner of the 72.0849% shares of the Company consequently making it its ultimate holding company.

On January 25, 2012, the Company received a tender offer report from Right Total to purchase the 27.92% shares of minority investing public of the total issued shares at a price of P0.0012 per share or an aggregate price of P334,981. Payment of the price of the tender shares validly tendered and accepted for payment shall be by way of checks which shall be made available for pick up at the office of BDO Securities, Inc. three (3) days after the tender shares are crossed at PSE.

### **Status of Operation**

On May 24, 2006, the lending banks declared the Company in default for failure to meet its quarterly principal amortizations and interest payments since March 2004. During the last quarter of 2006, one of the lending banks informed the Company of the assignment and sale of its loan to a third party. Similarly, another lending bank advised the Company in June 2007 that it has also assigned the titles and rights relative to its loan balance to a third party. In 2009, another lending bank advised the Company that it has also assigned its loan balance to an investment entity. In 2010, an investment entity advised the Company that its right to the loan balances was assigned to the third party in the

agreement.

Due to the working capital drain experienced by the Company as a result of prior debt service payments and the difficult business and economic conditions during the period, the Company found it difficult to sustain further payments of debt while at the same time ensuring continued operations.

In 2009, discussions were made with the major creditors/lenders to restructure the outstanding loans. Subsequently, on October 15, 2010 the Company and the creditors/lenders signed the Amended and Restated Omnibus Agreement. The restructuring of the loan finally resolved the default situation. The essential elements of the Amended and Restated Omnibus Agreement are summarized below:

- o The outstanding principal and accrued interest expense as at September 30, 2010 is restructured for 25 years.
- o Conditional waiver of penalty and other charges upon the faithful performance by the Company of the terms of restructuring.
- o The outstanding principal and accrued interest expense as of September 30, 2010 shall be reduced via dacion en pago or sale of the following properties: (a) all of the outstanding common and preferred shares of stock in the Company's land holding entity, Steniel Land Corporation (SLC), (b) identified idle assets of the Company and its subsidiaries, and c) by way of conversion into equity through the issuance of the Company's unissued capital stock.
- o The outstanding principal amount after the dacion en pago or sale of properties shall be paid in 92 consecutive quarterly installments starting in January 2013.
- o The outstanding portion of the accrued interest after equity conversion shall be paid in 40 consecutive quarterly installments starting after year 15 from the date of restructuring.
- o Restructured outstanding principal will be subject to interest of 6% per annum for 15 years and 8% per annum on the 16<sup>th</sup> year onwards.
- o The restructured accrued interest expense will be subject to interest of 8% per annum.
- o The restructured loan shall be secured by the assets/collateral pool under the Collateral Trust Agreement.
- o All taxes and fees, including documentary stamp taxes and registration fees, shall be for the account of the Company.
- o All other costs and expenses of restructuring, including documentation costs, legal fees and out-of-pocket expenses shall be for the account of the Company; and
- o Other conditions include:
  - a. Lenders representative to be elected as director in the Company and in each of its subsidiaries.
  - b. A 5-year Business Plan for the Company's operating subsidiary including the execution of raw material supply contracts.
  - c. A merger, reorganization or dissolution of certain subsidiaries in line with the Business Plan.
  - d. No dividend declaration or payments until the restructured obligations are fully paid.
  - e. No new borrowing, unless with consent of the lenders.
  - f. No repayment or prepayment of any debt or obligation (other than operational expenses), unless with consent of the lenders.
  - g. Creditors' consent for change in material ownership in the Company and mortgagors.
  - h. Standard covenants, representations and warranties.

The dacion en pago of the Steniel Group's idle machines and the equity conversion through the issuance of the Company's capital stocks have been completed as at December 31, 2010. The dacion en pago transaction reduced outstanding principal amount by P122 million while the equity conversion reduced outstanding accrued interest by P248 million. The dacion en pago relating to the shares in SLC and the Group's building for a total value of P290 million are still under negotiations with buyers on meeting the regulatory requirements on transfer of assets as at reporting date. The change of ultimate parent company during the end of reporting period also caused the delay in dacion en pago. Upon completion of the tender offer in SMC's share of the ultimate parent company and final agreement with buyers to meet regulatory requirements relative to the transfer of assets, the dacion en pago is expected to be completed in 2012.

On December 2, 2011, the major creditors/lenders agreed to waive the payment of interest for the first two (2) years of the loan commencing of the restructuring date, to correspond to the principal repayment as stated in the Amended Agreement. Hence, interest payments on each interest payment date shall be made in accordance with the Amended and Restated Omnibus Agreement out

shall commence on the 27<sup>th</sup> month after the restructuring date, inclusive of a two (2) year grace period. In relation to this, on March 1, 2012, the accrued interest, which was capitalized as part of the loan principal in 2010 in accordance with the Amended Agreement, was also condoned by its major creditors effective December 31, 2011.

## Results of Operations

Consolidated sales revenue for the nine months ending September 30, 2013 reached Peso 459,975 million with an equivalent volume of 11,042 MT. The revenue for the period being reported is 6% higher than the revenue for the same period last year of Peso 433,512 million with an equivalent volume of 13,955 MT. The improvement in revenue was mainly due to improvement in All-in sales volume and an increase in actual all-in Average Selling Price (ASP).

The Company reported a GP for nine months ending September 30, 2013 of Peso 47,626 million (GP rate – 10%). This is higher than last year's nine months GP of Peso 1,237 million (GP rate – 0%) mainly due to increase in all-in ASP as discussed in the foregoing. With respect to manufacturing costs, the cost per MT of paper for the nine months period is unfavorable as compared with those for the same period in 2012. Similarly, the cost per MT of direct labor also unfavorable by about 8% during the nine months operation. Manufacturing overhead costs in absolute peso amount decreased by 22% during the period as compared with the same period of last year.

Operating expenses on a consolidated basis for the current period decreased by 22% to Peso 9,939 million as compared with last year's Peso 12,690 million. Continuing efforts are being implemented to control costs throughout the plants. Overall, the Company reported a net income from operations for the current quarter of Peso 23,214 million compared to last year's same period loss from operations of Peso 1,670 million.

As mentioned in the preceding, the Creditors granted the Company a 2-year grace in the payment of interest commencing on the restructuring date. Thus, there are no financing charges recognized during the period reported.

## Operating Plans

As in the past, the Company's key strategies are focused towards growing the existing market base, maintaining a sound financial position, and improving manufacturing efficiencies to enhance competitive standing particularly of the plant in Davao.

## Financial Condition

Consolidated current assets as at September 30, 2013 totaled Peso 757,355 million while current liabilities as at the same date totaled Peso 456,427 million. The increase in current assets as at current 3<sup>rd</sup> quarter-end as compared with the year-end balance of 717,881 was significantly attributed to higher revenues brought about by improved sales volume and collection. Consequential to this, cash and short term investments also increased by 104% compared with the year-end balance. Inventory level of paper, a major raw material slightly decreased compared to the same period last year. Accounts payable balances recorded an increase as at September 30, 2013 totaled Php 21,453 million compared to year end balance. With respect to long-term borrowings, there is no change between the balances during the current quarter as compared with those of year-end 2012. Working capital ratio as at September 30, 2013 is 1.7. Working capital ratio is computed as the ratio of current assets over current liabilities. Debt-to-equity ratio is not computed for the current quarter because of the negative equity balance.

There are no significant capital expenditures during the period. Neither is there any significant capital spending anticipated in the immediate future.

There are no events that will trigger direct or contingent financial obligation that is material to the company and there are no off-balance sheet transactions or arrangements with any

unconsolidated entity or other person during the period being reported. The Company adopts strict controls in managing working capital requirements including the implementation of programs to further improve collection turnover and optimize inventory levels. In view of the foregoing, consolidated total assets as at current quarter-end amounted to Peso 892,796 million as compared to Peso 839,481 million as at December 31, 2012.

## Financial Risk Management

The Company's financial assets and liabilities, comprising mainly of cash in banks, receivables, other non-current receivables, trade payables and borrowings and amounts due from/to related parties are exposed to a variety of financial risks, which include currency risk, credit risk, liquidity/funding risk and cash flow interest rate risk. The Company's management ensures that it has sound policies and strategies made to minimize potential adverse effects of those risks on its financial performance. Risk management is carried out through the policies approved by Board of Directors of the Company.

The foreign exchange risk of the Company arising from cash, trade receivables and payables is not significant. The net exposure is kept to an acceptable level by buying foreign currencies at spot rates when necessary to address short-term needs.

The Company is not significantly exposed to price risk on equity securities and proprietary club shares classified in the consolidated balance sheet as other assets. Furthermore, there are no foreign securities owned and held by the Company.

The fluctuation of future cash flows risk relates to the fluctuations of a financial instrument as a result of changes in the market interest rates with possible additional penalty charges. Since the declaration of default by the Company's lending banks in 2005, the interest rates applied are fixed. As the borrowings are carried at amortized cost with fixed interest rate, the Company is not exposed to either cash flow or fair value interest rate risk. The Company has no significant interest-bearing assets, which are dependent on market interest rate that would affect the Group's income and operating cash flows.

Credit risk is managed on a Group basis. Credit risk arises from deposits with banks, receivables and deposits with third parties. Cash transactions are limited to high-credit-quality financial institutions and are maintained with universal and commercial banks.

Liquidity risk relate to the failure of the Company or another party to discharge its obligations/commitments arising from receivables, payables and borrowings. Cash balances are considered low. The tight cash position limits its obligation to take advantage of increasing demands. Establishing new sources of trade credit and working capital facility will change this problem. The Company's financial liabilities, which include borrowings, trade payables and other current liabilities are due within 12 months.

The Company's objectives when managing capital are to safeguard the its ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

## PFRS 9, Financial Instruments

PFRS 9, Financial Instruments is a new standard, which becomes effective January 1, 2013, and is the first step in the process to replace PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 introduces new requirements for classifying and measuring financial assets and financial liabilities and is likely to affect the Group's accounting for its financial assets and financial liabilities. Given that the Company does not have complex financial instruments, this standard is not expected to have material impact on the financial statements. However, it may impact the classification of the Group's financial instruments. Based on the foregoing, the Company has decided not to early adopt either PFRS 9 (2009) or PFRS 9 (2010) for its 2012 annual financial reporting based on the impact evaluation made using the year-end 2011 balances.

\* \* \* \* \*

**Steniel Manufacturing Corporation and Subsidiaries**  
**Trade and Other Receivables**  
**As at September 30, 2013**

	<b>Amount</b> <i>(In 000 Php)</i>
<b>Trade Receivables:</b>	
1 to 60 days	44,057
61 to 120 days	4,505
Over 120 days	48,856
	97,418
<b>Allowance provision</b>	<b>(45,840)</b>
<b>Net</b>	<b>51,578</b>
<b>Other Receivables:</b>	
<b>Creditable Withholding Taxes</b>	<b>113,110</b>
<b>Excess Input Tax</b>	<b>110,413</b>
<b>Other Receivables</b>	<b>70,436</b>
	293,959
<b>Allowance provision</b>	<b>(11,602)</b>
<b>Net</b>	<b>282,357</b>
<b>Total, net</b>	<b>333,935</b>