# COVER SHEET
## for
## QUARTERLY REPORT

SEC Registration Number

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**COMPANY NAME**

VITARICH CORPORATION AND SUBSIDIARIES (A Subsidiary of Kormasinc, Inc.)

**PRINCIPAL OFFICE** *(No./Street/Barangay/City/Town/Province)*

Marilao – San Jose Road, Sta. Rosa I, Marilao, Bulacan

| Form Type | Department requiring the report | Secondary License Type, If Applicable |
|---|---|---|
| 17-Q | CRMD | N/A |

**COMPANY INFORMATION**

| Company's Email Address | Company's Telephone Number/s | Mobile Number |
|---|---|---|
| agd@vitarich.com | (044) 843-3033 | (0918) 848 2200 |

| No. of Stockholders | Annual Meeting (Month / Day) | Fiscal Year (Month / Day) |
|---|---|---|
| 4,267 | June 28 | December 31 |

**CONTACT PERSON INFORMATION**

The designated contact person ***MUST*** be an Officer of the Corporation

| Name of Contact Person | Email Address | Telephone Number/s | Mobile Number |
|---|---|---|---|
| Ms. Stephanie Nicole S. Garcia | nsg@vitarich.com | (044) 843-3033 | (0918) 8482258 |

**CONTACT PERSON'S ADDRESS**

**Marilao–San Jose Road, Sta. Rosa I, Marilao, Bulacan**

***NOTE 1***: *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

***2:*** *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt shall not excuse the corporation from liability for its deficiencies.*

## 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 **September 30, 2016**

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)

**MARILAO-SAN JOSE ROAD, STA. ROSA I, MARILAO, BULACAN** **3019**

7. Address of issuer's principal office Postal Code

**843-3033 connecting to 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 |
|---|---|
| **Common Stock** | **2,786,497,901** |

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 September 30, 2016 (with comparative figures as of December 31, 2015) and for the period ended September 30, 2015 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 if 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**
EVP Logistics and Administration/Treasurer

**ATTY. MARY CHRISTINE DABU-PEPITO**
Asst. Corporate Secretary; Corporate Information Officer and Compliance Officer

Annex A

SEC Number 21134
File Number ______

VITARICH CORPORATION AND SUBSIDIARIES

(Company's Full Name)

Marilao-San Jose Road, Sta. Rosa I, Marilao, Bulacan

(Company's Address)

843-30-33 connecting all departments

(Telephone Number)

(Year Ending)
(Month & day)

Quarterly Consolidated
Unaudited Financial Statements

Form Type

Amendment Designation (If applicable)

September 30, 2016

Period Ended Date

(Secondary License Type and File Number)

# VITARICH CORPORATION AND SUBSIDIARIES

Unaudited Interim Consolidated Financial Statements
As at and for the nine months ended September 30, 2016
(With Comparative Figures for 2015)

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

During 2013, the creditor banks and the SPAV Companies transferred their interest in the restructured loan to Kormasinc, Inc. (Kormasinc). On October 16, 2013, the Securities and Exchange Commission (SEC) approved the debt to equity conversion of the loans aggregating ₱2.4 billion to Kormasinc pursuant to a debt to equity agreement between Kormasinc and the Company on September 20, 2013 and the Company's filing for an increase in authorized capital stock from ₱0.5 billion to ₱3.5 billion.

The Board of Directors and Stockholders have approved the increase in authorized capital stock on various dates from ₱0.5 billion to ₱3.5 billion: (1) 1.0 billion shares of stock with a par value of ₱1.00 for a total of ₱1.0 billion on May 27, 2010; (2) 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 (3) 3.5 billion shares of stock with a par value of ₱1.00 for a total of ₱3.5 billion on August 28, 2012.

On September 20, 2013, the BOD approved the conversion of part of the Company's debts to Kormasinc amounting to ₱2,376,528,137 into equity at a ratio of 1:1 or 1 share of common stock for every ₱1.00 debt in which ₱90,030,236 shall be applied as payment for the issuance of the 90,030,236 shares out of the existing unissued shares, while ₱2,286,497,901 shall be applied as payment for the additional shares of stock which shall be issued out of the increase in the authorized capital stock. On October 16, 2013, the SEC approved the debt to equity conversion and the Company's increase in authorized capital stock. Consequently, Kormasinc acquired 85.29% ownership of the Company. In 2014, Kormasinc reduced its equity interest in the Company from 85.29% to 69.67%.

In 2014, the Company's Board of Directors (BOD) approved the disposal of its major feed mill and the land where it is located at Marilao, Bulacan and several noncore assets with an aggregate carrying value of ₱1,288.7 million for ₱659.4 million. The proceeds were used to further reduce outstanding liabilities and generate needed working capital. Loss on the sale of assets amounted to ₱629.3 million.

The Company started outsourcing its manufacturing capability and leasing warehouse facilities in Guiguinto, Bulacan and Valenzuela City for its feed milling requirements for its Luzon operation. In addition, the Company is currently occupying its new office building in Marilao, Bulacan.

On September 16, 2016, the Rehabilitation Court granted the Company's motion for successful exit from the Plan.

**Results of Operations**:

For the nine months period ended September 30, 2016, Vitarich Corporation and its subsidiaries generated consolidated sale of goods of ₱3,652 million, higher by 53% from ₱2,391 million of same period last year. Higher consolidated revenues were due to the higher volume of animal and aqua feeds and dressed chickens.

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.

Raw material prices improved compared last year because of cash on delivery (COD) buying. Major raw material prices continue to improve in the Company's favor. Soybean meal and yellow corn prices also remained stable during the third quarter but supply is becoming tight because harvest season was completed. The Company has positioned its requirements through forward booking.

It is forecasted that prices of raw materials for the next quarter will remain stable and will improve specially the protein and energy sources.

The Company generated gross profit of ₱ 465 million for the nine months period ended September 30, 2016, 61% higher from the same period of the previous year because of improved efficiency of its poultry operations; production cost efficiency, improved inventory management and innovations within the Company and its products. The technological investments have allowed the Company to increase nutrient specifications embedded in the formula that lead to increased efficiency in the chickens. Vitarich feeds are customized based on the breed because each variety of chicken has its own dietary specifications.

For the nine months period ended September 30, 2016, consolidated operating expenses increased by 28% from ₱279 million from the same period of the previous year to ₱357 million.

Other operating income for the nine months period ended September 30, 2016 decreased by 24% against the other operating income for the same period of the previous year.

The Company achieved an operating profit of ₱154 million or an increase of 118% versus same period of the previous year as a result of positive results of its operations.

Other charges increased to ₱141 million for the nine months period ended September 30, 2016 versus same period of the previous year. This has also resulted to a consolidated income before tax for the period of ₱13 million as against last year's loss of ₱46 million.

**Corporate Action Plan**:

Despite the turbulent external environment that continues to beset it, notably a global increase in prices of ingredients used in feed manufacturing, the Company has demonstrated its agility and tenacity to maintain its leadership. As in the past, it has always managed to survive, get back to its feet and grow in new related endeavors that continue to be profitable notwithstanding price upheavals. It continues to be pioneering because of its strong leadership in cutting-edge feed technology, as now demonstrated in the nationwide program to develop the pangasius industry.

Proceeds from the sale of its Bulacan feedmill property were used for debt repayment and for working capital. Putting to use the working capital provided by the property sale, the Company expects a turnaround in its operations in 2016. Relatively debt free and with sufficient working capital, the Company is now focused on growing its business. The Company has lined up the following programs that will help achieve its revenue and net income targets for 2016:

1. Expanding the poultry business by increasing breeder capacity;
2. Significantly increasing volume base by repositioning of animal and aqua feed lines;
3. Increasing food market base by developing chicken and dory value-added products;
4. Helping their farmers in all aspects of production, such as providing the concentrate, analyzing inputs, lab analysis, and providing seminars on how to properly feed and take care of the livestock.

**Subsidiaries**:

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

Gromax was engaged in the manufacture of animal health and nutritional products for commercial sales as well as for use of the 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.

On March 17, 2015, the Company's BOD decided to transfer Gromax business and its employees to the Company effective April 1, 2015. The Company's BOD has likewise decided to continue its corporate entity without any active operations, except handling collection of its receivables and pursuing legal cases against delinquent customers and employees until the BOD has decided to end its corporate life.

Gromax has recognized impairment losses on its remaining assets and has continued to recognize its liabilities.

Accordingly, Gromax continues to present its financial statements on a going concern basis, which contemplates the realization of the assets and the satisfaction of liabilities in the normal course of business.

The registered office of Gromax is located at the Vitarich compound, Sta. Rosa I, Marilao, Bulacan. The registered office of its parent Company is also the same with the registered office of the said Company.

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

The franchise agreement 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 ₱165 million to be applied to its unpaid subscriptions and for additional shares of stock of PFCI. Out of the ₱165 million advances to be converted into equity, ₱25 million was applied to Vitarich's unpaid subscription while the remaining ₱140 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 ₱140 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 condensed interim consolidated balance sheets) totaled ₱23.2 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 ₱100 million. Management believed that this case would be settled in favor of 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, PFCI 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 PFCI, the financial statements are presented under the liquidation basis of accounting to appropriately reflect the significant changes in PFCI's status of operations.

**Financial Condition**

Unaudited balance sheet as at September 30, 2016 vs. audited December 31, 2015

The Company's consolidated total assets as at September 30, 2016 stood at ₱2,476 million, higher than December 31, 2015 level of ₱2,373 million. Total current assets increased from ₱1,483 million as at December 31, 2015 to ₱1,562 million as at September 30, 2016.

Cash balance increased to ₱ 232 million as at September 30, 2016 from ₱ 185 million as at December 31, 2015. The increase in cash was attributed to net cash inflows provided by operating activities.

Trade and other receivables account decrease by 4% as a result of improved collection efficiency.

Inventories increased by 23% due to increase in purchases in anticipation of higher sales.

Other current assets amounted to ₱ 63 million and ₱ 75 million as at September 30, 2016 and December 31, 2015, respectively. Other non-current assets decreased by ₱4 million because of the decrease in security deposit and amortization of intangible asset.

Total current liabilities as at September 30, 2016 amounted to ₱1,608 million, higher by 19% as compared to its balance as at December 31, 2015.

Stockholders' equity increased from ₱764 million to ₱769 million because of net income posted for the nine months period ended September 30, 2016.

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

| | Unaudited Sept 2016 | Unaudited Sept 2015 |
|---|---|---|
| Revenue (₱ million) | ₱3,652 | ₱2,391 |
| Cost Contribution (₱ million) | 3,187 | 2,102 |
| Gross Profit Rate (%) | 13% | 12% |
| Operating Income (₱ million) | 154 | 71 |

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 ₱3,652 million, higher than the same period last year of ₱2,391 million, mainly because of higher sales volume of animal feeds and dressed chicken.

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

   This 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.

## VITARICH CORPORATION AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

**AS AT SEPTEMBER 30, 2016 AND DECEMBER 31, 2015**

**(In Thousand Pesos)**

| | Sept 2016 (Unaudited) | December 2015 (Audited) |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | **₱231,948** | ₱185,451 |
| Trade and other receivables | **856,365** | 889,597 |
| Inventories | **410,472** | 333,251 |
| Other current assets | **63,259** | 74,774 |
| Total Current Assets | **1,562,044** | 1,483,073 |
| **Noncurrent Assets** | | |
| Property, plant and equipment | **376,011** | 410,949 |
| Investment properties | **488,223** | 428,440 |
| Net deferred tax assets | **27,334** | 24,680 |
| Other noncurrent assets | **22,106** | 26,127 |
| Total Noncurrent Assets | **913,674** | 890,196 |
| | **₱2,475,718** | ₱2,373,269 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Trade and other payables | **₱1,201,026** | ₱938,885 |
| Payable to stockholder | **407,111** | 407,111 |
| Total Current Liabilities | **1,608,137** | 1,345,996 |
| **Noncurrent Liabilities** | | |
| Trade and other payables | **-** | 168,144 |
| Net retirement liability | **77,620** | 75,090 |
| Cash bond deposits | **20,894** | 20,007 |
| Total Noncurrent Liabilities | **98,514** | 263,241 |
| **Equity** | | |
| Capital stock | **2,786,498** | 2,786,498 |
| Additional paid-in capital | **224,547** | 224,547 |
| Deficit | **(2,430,234)** | (2,437,488) |
| Other comprehensive income | **188,256** | 190,475 |
| Total Equity | **769,067** | 764,032 |
| | **₱2,475,718** | ₱2,373,269 |

*See accompanying Notes to Condensed Interim Consolidated Financial Statements.*

## VITARICH CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

**FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015**
**(With Comparative Figures for 2015)**
**(In Thousand Pesos)**

| | UNAUDITED | | UNAUDITED | |
|---|---|---|---|---|
| | JAN-SEPT 2016 | JAN-SEPT 2015 | JULY-SEPT 2016 | JULY-SEPT 2015 |
| **SALE OF GOODS** | **₱3,651,729** | **₱2,391,261** | ₱1,324,876 | ₱991,631 |
| **COST OF GOODS SOLD** | **3,187,196** | **2,101,917** | 1,154,013 | 838,986 |
| **GROSS PROFIT** | **464,533** | **289,344** | 170,863 | 152,645 |
| **OTHER OPERATING EXPENSES (INCOME)** | | | | |
| Operating expenses | **356,931** | **279,382** | 122,634 | 121,993 |
| Operating income | **(46,042)** | **(60,592)** | (9,381) | (10,460) |
| | **310,889** | **218,790** | 113,253 | 111,533 |
| **OPERATING PROFIT** | **153,644** | **70,554** | 57,610 | 41,112 |
| **OTHER INCOME (CHARGES)** | | | | |
| Tax compromise settlement | **(89,250)** | – | (89,250) | – |
| Provision for probable losses | **(52,729)** | – | – | – |
| Gain on fair value changes of investment properties | **7,048** | **2,771** | – | 2,771 |
| Interest expense | **(6,752)** | **(61)** | (2,031) | (20) |
| Interest income | **632** | **90** | 270 | 29 |
| Loss on sale of property, plant and equipment and investment properties | – | **(94,588)** | – | – |
| Others | – | **(24,611)** | – | – |
| | **(141,051)** | **(116,399)** | (91,011) | 2,780 |
| **INCOME (LOSS) BEFORE INCOME TAX** | **12,593** | **(45,845)** | (33,401) | 43,892 |
| **INCOME TAX BENEFIT (EXPENSE)** | **(7,558)** | **17,741** | (2,402) | (447) |
| **NET INCOME (LOSS)** | **5,035** | **(28,104)** | (35,803) | 43,445 |
| **OTHER COMPREHENSIVE INCOME** | | | | |
| *Items not to be reclassified to profit or loss:* | | | | |
| Revaluation increase on property, plant and equipment - net of tax | – | – | – | – |
| Actuarial gains (losses) - net of tax | – | – | – | – |
| | – | – | – | – |
| **TOTAL COMPREHENSIVE INCOME (LOSS)** | **₱5,035** | **(₱28,104)** | (₱35,803) | ₱43,445 |
| **INCOME (LOSS) PER SHARE - BASIC AND DILUTED** | **₱0.00** | **(₱0.01)** | (₱0.01) | ₱0.02 |

*See accompanying Notes to Condensed Interim Consolidated Financial Statements.*

## VITARICH CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
### AND THE YEAR ENDED DECEMBER 31, 2015
### (In Thousand Pesos)

| | UNAUDITED | | |
|---|---|---|---|
| | **2016 SEPT** | 2015 SEPT | **AUDITED 2015** |
| **CAPITAL STOCK** | **₱2,786,498** | ₱2,786,498 | ₱2,786,498 |
| **ADDITIONAL PAID-IN CAPITAL** | **224,547** | 224,547 | 224,547 |
| **OTHER COMPREHENSIVE INCOME** | | | |
| Balance at beginning of year/quarter | **190,475** | 195,098 | 195,098 |
| Transfer to deficit of revaluation reserve realized through depreciation, net of tax | **(2,219)** | (2,659) | – |
| Transfer to deficit of actuarial gain from retirement liability of Gromax | **–** | – | (2,524) |
| Transfer to deficit of revaluation reserve realized through disposal, net of tax | **–** | – | (3,515) |
| Actuarial gain, net of tax | **–** | – | 1,416 |
| Balance at end of year/quarter | **188,256** | 192,439 | 190,475 |
| **DEFICIT** | | | |
| Balance at beginning of year/quarter | **(2,437,488)** | (2,451,784) | (2,451,784) |
| Transfer to deficit of revaluation reserve realized through depreciation, net of tax | **2,219** | 2,659 | – |
| Transfer to deficit of actuarial gain from retirement liability of Gromax | **–** | – | 3,605 |
| Transfer to deficit of revaluation reserve realized through disposal, net of tax | **–** | – | 3,515 |
| Net income (loss) | **5,035** | (28,104) | 7,176 |
| Balance at end of year/quarter | **(2,430,234)** | (2,477,229) | (2,437,488) |
| **TOTAL EQUITY** | **₱769,067** | ₱726,255 | ₱764,032 |

*See accompanying Notes to Condensed Interim Consolidated Financial Statements.*

## VITARICH CORPORATION AND SUBSIDIARIES

## CONSOLIDATED STATEMENTS OF CASH FLOWS

### FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016 AND 2015
### AND THE YEAR ENDED DECEMBER 31, 2015
### (In Thousand Pesos)

| | UNAUDITED | | AUDITED |
|---|---|---|---|
| | **SEPT 2016** | **SEPT 2015** | **DEC 2015** |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Income (loss) before tax | **₱12,593** | (₱45,845) | ₱642 |
| Adjustments for: | | | |
| Depreciation and amortization | **21,176** | 17,746 | 24,533 |
| Impairment loss on: | | | |
| Trade and other receivables | **9,264** | 13,969 | 18,101 |
| Input VAT | **–** | – | 3,096 |
| Gain on fair value changes of investment properties | **(7,048)** | (2,771) | (1,686) |
| Interest expense | **6,752** | 61 | 221 |
| Retirement benefit cost | **2,530** | 3,512 | 8,706 |
| Interest income | **(632)** | (90) | (171) |
| Loss on sale of property, plant and equipment, investment properties and others | **–** | 94,588 | 94,613 |
| Operating profit before working capital changes | **44,635** | 81,170 | 148,055 |
| Decrease (increase) in: | | | |
| Trade and other receivables | **23,968** | (59,993) | (98,403) |
| Inventories | **(77,221)** | 8,685 | (63,853) |
| Other current assets | **11,515** | (27,267) | (23,030) |
| Other noncurrent assets | **4,021** | (12,270) | (23,455) |
| Increase in: | | | |
| Trade and other payables | **93,996** | 83,193 | 46,410 |
| Cash bond deposits | **887** | 2,518 | 3,589 |
| Net cash generated from (used for) operations | **101,801** | 76,036 | (10,687) |
| Income taxes paid | **(10,211)** | (7,034) | (10,938) |
| Interest paid | **(6,752)** | (61) | (221) |
| Interest received | **632** | 90 | 171 |
| Retirement benefits paid | **–** | – | (4,631) |
| Net cash provided by (used in) operating activities | **85,470** | 69,031 | (26,306) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Additions to: | | | |
| Property, plant and equipment | **(23,746)** | (41,464) | (55,707) |
| Investment properties | **(16,929)** | (13,403) | (13,403) |
| Proceeds from sale of investment properties | **1,702** | – | 102,079 |
| Net cash provided by (used in) investing activities | **(38,973)** | (54,867) | 32,969 |
| **CASH FLOW FROM A FINANCING ACTIVITY** | | | |
| Decrease in payable to stockholder | **–** | (69,752) | (63,272) |
| **NET INCREASE (DECREASE) IN CASH** | **46,497** | (55,588) | (56,609) |
| **CASH AT BEGINNING OF PERIOD** | **185,451** | 242,060 | 242,060 |
| **CASH AT END OF PERIOD** | **₱231,948** | ₱186,472 | ₱185,451 |

| | | | |
|---|---|---|---|
| **NONCASH FINANCIAL INFORMATION** | | | |
| Reclassification of property, plant and equipment to investment properties | **₱37,508** | ₱– | ₱– |

*See accompanying Notes to Condensed Interim Consolidated Financial Statements.*

## VITARICH CORPORATION AND SUBSIDIARIES

## NOTES TO CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2016

### 1. Corporate Information and Status of Operations

Vitarich Corporation (the Company) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on July 31, 1962 to engage primarily in manufacturing and selling of feeds. On March 30, 2012, the SEC approved the extension of its corporate life for another 50 years. The Company's shares of stock were registered with the Philippine Stock Exchange on February 8, 1995.

The subsidiaries of the Company are as follows:

| | Line of Business | Percentage of Ownership |
|---|---|---|
| Gromax, Inc. (Gromax) | Manufacturing | 100.00 |
| Philippines Favorite Chicken, Inc. (PFCI)* | Distributor | 100.00 |

**Ceased its operations in 2005.*

The Company and its subsidiaries are collectively referred to as "The Company."

Effective April 1, 2015, the operations of Gromax, manufacturing animal health and nutritional feeds, was reintegrated into the Company. Specialty feeds supplement the product offering of animal feeds produced by the Company. Pursuant to the reintegration, Gromax transferred all its employees to the Company. Retirement benefits accruing to these employees were transferred accordingly.

The Company is under a Corporate Rehabilitation Plan (Plan) approved by the Regional Trial Court of Malolos, Bulacan (Rehabilitation Court) on May 31, 2007. The implementation of the Plan resulted mainly in the restructuring of Company debt aggregating ₱3.2 billion (at original amount) resulting to longer payment terms and the lowering of interest. During the year ended December 31, 2013, Kormasinc, Inc. (Kormasinc), acquired the debt from the Company creditors comprising of local banks and special purpose asset vehicles (SPAV) companies and entered into a memorandum of agreement with the Company for a debt to equity conversion on September 20, 2013. Pursuant to the agreement, ₱2.4 billion of the acquired remaining debt of ₱3.2 billion (including interest of ₱200.0 million) was converted to equity at one peso (₱1.00) for every one (1) share of stock on the remaining available shares and on the increase in the Company's authorized capital stock from ₱0.5 billion to ₱3.5 billion.

On October 16, 2013, the SEC approved the debt to equity conversion and the Company's increase in authorized capital stock. Consequently, Kormasinc acquired 85.29% ownership of the Company. In 2014, Kormasinc reduced its equity interest in the Company from 85.29% to 69.75%.

In 2014, the Company's Board of Directors (BOD) approved the disposal of its major feed mill and the land where it is located at Marilao, Bulacan and several noncore assets with an aggregate carrying value of ₱1,288.7 million for ₱659.4 million. The proceeds were used to further reduce outstanding liabilities and generate needed working capital. Loss on the sale of assets amounted to ₱629.3 million.

The Company started outsourcing its manufacturing capability and leasing warehouse facilities in Guiguinto, Bulacan and Valenzuela City for its feed milling requirements for its Luzon operation. The Company also constructed a new office building in Marilao, Bulacan.

On September 16, 2016, the Rehabilitation Court granted the Company's motion for successful exit from the Plan.

The registered principal place of business of The Company is located at Marilao-San Jose Road, Sta. Rosa I, 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 significantly increased sales for the nine-month period ended September 30, 2016 to ₱3,651.7 million from ₱2,391.3 million for the nine-month period ended September 30, 2015 resulting from intensive marketing, introduction of more food products, improved formulation technology for its feeds products and tolling operational partnerships. As previously discussed, Kormasinc (stockholder) acquired all the restructured debt and entered into a debt to equity conversion with the Company in 2013. Moreover, the Company disposed off its major feed mill in 2014 to further reduce debt and to generate the necessary working capital. The Company has become more cost-efficient in its purchasing activities increasing gross profit to ₱464.5 million for the nine-month period ended September 30, 2016 from ₱289.3 million for the nine-month period ended September 30, 2015.

The debt presented in the financial statements as payable to stockholder was substantially reduced to ₱207.1 million as at September 30, 2016 and December 31, 2015, excluding interest of ₱200.0 million in both periods.

The Company is focusing towards establishing operational partnerships, strengthening its core products by improving quality standards, continuing its cost reduction program and revisiting customer and supplier terms to increase sales and to improve operating results. As a result of the implementation of these programs, the Company generated operating income of ₱153.6 million for the nine-month period ended September 30, 2016.

With these corporate initiatives, the Company has improved its financial condition and has continued to generate the necessary cash flow to sustain its operations and settle its remaining liabilities.

## 2. Basis of Preparation and Statement of Compliance

The unaudited interim consolidated financial statements of the Company have been prepared on the historical cost basis of accounting, except for property, plant and equipment and investment properties which are stated at fair value, and are presented in Philippine Peso, the Company's functional and presentation 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 Company's annual consolidated financial statements as at December 31, 2016.

The unaudited interim consolidated financial statements of the Company for the nine-month period ended September 30, 2016 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.

## 3. Summary of Changes in PFRS

Adoption of New and Revised PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which The Company adopted effective for annual periods beginning on or after January 1, 2016:

- Amendments to PAS 1, *Presentation of Financial Statements* – The amendments clarify guidance on materiality and aggregation, the presentation of subtotals, the structure of financial statements and the disclosure of accounting policies.

- Amendments to PAS 16, *Property, Plant and Equipment - Clarification of Acceptable Methods of Depreciation,* and PAS 38*, Intangible Assets - Clarification of Acceptable Methods of Amortization* – The amendments add guidance and clarify that (i) the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset, and (ii) revenue is generally presumed to be an inappropriate basis for measuring the consumption of the economic benefits embodied in an intangible asset; however, this presumption can be rebutted in certain limited circumstances.

- Amendment to PAS 19, *Employee Benefits* – The amendment clarifies that the high quality corporate bonds used in estimating the discount rate for post-employment benefits should be denominated in the same currency as the benefits to be paid.

- Amendments to PAS 27, *Separate Financial Statements - Equity Method in Separate Financial Statements* – The amendments reinstate the equity method option allowing entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements.

- Amendment to PFRS 7, *Financial Instruments: Disclosures* – The amendment adds guidance to clarify whether a servicing contract is continuing involvement in a transferred asset.

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28*, Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* – The amendments address a current conflict between the two standards and clarify that gain or loss should be recognized fully when the transaction involves a business, and partially if it involves assets that do not constitute a business.

- Amendments to PFRS 10, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 - *Investment Entities: Applying the Consolidation Exception* – The amendments clarify the application of the consolidation exception for investment entities and their subsidiaries.

The adoption of the foregoing new and revised PFRS did not have any material effect on the consolidated financial statements. Additional disclosures have been included in the notes to financial statements, as applicable.

New and Revised PFRS Not Yet Adopted

PFRS 9, *Financial Instruments*, which will be effective for annual periods beginning on or after January 1, 2018 has not been applied in preparing the unaudited consolidated financial statements.

This standard will replace PAS 39 (and all the previous versions of PFRS 9). It contains requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.

PFRS 9 requires all recognized financial assets to be subsequently measured at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on their classification by reference to the business model within which they are held and their contractual cash flow characteristics.

For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at fair value through profit or loss that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.

For the impairment of financial assets, PFRS 9 introduces an "expected credit loss" model based on the concept of providing for expected losses at inception of a contract; it will no longer be necessary for there to be objective evidence of impairment before a credit loss is recognized.

For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.

The derecognition provisions are carried over almost unchanged from PAS 39.

Under prevailing circumstances, the adoption of PFRS 9 is not expected to have any material effect on the consolidated financial statements of the Company. Additional disclosures will be included in the consolidated financial statements, as applicable.

## 4. Trade and Other Receivables

This account consists of (*in thousand Pesos*):

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| Trade | **₱886,303** | ₱879,212 |
| Nontrade | **180,100** | 184,739 |
| Insurance claims receivable | **157,513** | 216,644 |
| Advances to: | | |
| Suppliers | **89,551** | 55,368 |
| Officers and employees | **5,414** | 4,173 |
| Receivable from disposal of properties | **–** | 1,300 |
| Others | **35,918** | 37,332 |
| | **1,354,799** | 1,378,768 |
| Less allowance for impairment losses | **(498,434)** | (489,171) |
| | **₱856,365** | ₱889,597 |

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.

The Company's claim for settlement for typhoon damages from Charter Ping An Insurance Corporation is still pending with the Regional Trial 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 insurer is offering ₱58.9 million as settlement. On August 12, 2016, the Company received an order from the Regional Trial Court to release the consigned amount of ₱58.9 million as partial payment of the Company' s claim of ₱316 million. Accordingly, on August 17, 2016, the Company received the amount from Charter Ping An Insurance Corporation pursuant to the order from the Regional Trial Court. Management and its legal counsel believe that the ongoing litigation will not result in any significant adverse impact on the Company's financial condition and results of operations.

Advances to suppliers pertain to advance payments on purchases of goods and services.

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

Receivable from disposal of properties pertains to unpaid balances from the sale of property, plant and equipment and other investment properties.

Other receivables comprise mainly of unsecured and non-interest bearing advances to contract growers and breeders, short term deposits and claims from Philippine Social Security System.

**AGING OF RECEIVABLES**

| | As at SEPTEMER 30, 2016 – Unaudited (in thousand Pesos) | | | | | | |
|---|---|---|---|---|---|---|---|
| | **TOTAL** | **CURRENT** | **1-30** | **31-60** | **61-90** | **91-120** | **OVER 120** |
| Feeds | ₱659,354 | ₱364,669 | ₱19,538 | ₱3,988 | ₱5,053 | ₱5,966 | ₱260,140 |
| Foods | 206,049 | 41,231 | 3,473 | 527 | 33 | 20 | 160,765 |
| Farms | 20,900 | 4,058 | 8,448 | 437 | – | 28 | 7,929 |
| **Total Trade Receivables** | **886,303** | **409,958** | **31,459** | **4,952** | **5,086** | **6,014** | **428,834** |
| Nontrade | 269,651 | 90,871 | 3,715 | | 1 | | 175,064 |
| Insurance claims receivable | 157,513 | | | | | | 157,513 |
| Advances | 5,415 | 5,397 | | | | | 18 |
| Others | 35,917 | 35,917 | | | | | |
| **Total Trade and Nontrade Receivables** | **1,354,799** | **542,143** | **35,174** | **4,952** | **5,087** | **6,014** | **761,429** |
| Less: Allowance for Impairment | 498,434 | | | | | | 498,434 |
| **NET RECEIVABLES** | **₱856,365** | **₱542,143** | **₱35,174** | **₱4,952** | **₱5,087** | **₱6,014** | **₱262,995** |

## 5. Inventories

This account consists of (*in thousand Pesos*):

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| Raw materials and feeds supplement | **₱177,862** | 157,145 |
| Finished goods | **99,275** | 81,434 |
| Livestock | **80,846** | 49,841 |
| Supplies and animal health products | **14,170** | 44,424 |
| Factory stocks and supplies | **38,319** | 407 |
| | **₱410,472** | ₱333,251 |

## 6. Other Current and Noncurrent Assets

Other Current Assets (*in thousand Pesos*):

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| CWT | **₱30,124** | ₱34,274 |
| Prepayments | **25,809** | 3,816 |
| Input value-added tax | **11,820** | 41,182 |
| | **67,753** | 79,272 |
| Allowance for impairment losses | **(4,494)** | (4,498) |
| | **₱63,259** | ₱74,774 |

Other Noncurrent Assets (*in thousand Pesos*):

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| Project development costs | **₱31,368** | ₱31,368 |
| Deposits | **13,487** | 14,707 |
| Intangible assets | **8,568** | 11,420 |
| Other assets | **53,395** | 53,344 |
| | **106,818** | 110,839 |
| Allowance for impairment: | | |
| Other assets | **53,344** | 53,344 |
| Project development costs | **31,368** | 31,368 |
| | **84,712** | 84,712 |
| | **₱22,106** | ₱26,127 |

Prepayments mainly pertain to insurance and bond premiums, among others.

Project development costs represent expenses incurred on the Company's aqua feeds and aqua culture projects. Based on management's evaluation, these costs may no longer be recoverable. Accordingly, the project development cost was provided with full valuation allowance.

Computer software pertains to additions and improvements on the Company's accounting system.

Other assets mainly pertain to the impaired assets of PFCI with full valuation allowance.

## 7. Property, Plant and Equipment

Movements in this account are as follows *(in thousand Pesos)*:

| | **September 30, 2016 (Unaudited)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **At Appraised Values** | | | | **At cost** | | | |
| | **Land** | **Machinery and Equipment** | **Buildings** | **Leasehold and Land Improvements** | **Office Furniture, Fixtures and Equipment** | **Transportation Equipment** | **Construction in Progress** | **Total** |
| **Cost** | | | | | | | | |
| Balance at beginning of year | **₱255,841** | **₱174,148** | **₱70,014** | **₱31,417** | **₱72,898** | **₱144,045** | **₱3,839** | **₱752,202** |
| Additions | **–** | **4,330** | **3,368** | **4,590** | **3,742** | **5,424** | **2,292** | **23,746** |
| Reclassification | **(24,527)** | **(6,214)** | **3,839** | **(21,238)** | **(803)** | **–** | **(3,839)** | **(52,782)** |
| Balance at end of year | **₱231,314** | **₱172,264** | **₱77,221** | **₱14,769** | **₱75,837** | **₱149,469** | **₱2,292** | **₱723,166** |

| | September 30, 2016 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At Appraised Values | | | | At cost | | | |
| | **Land** | **Machinery and Equipment** | **Buildings** | **Leasehold and Land Improvements** | **Office Furniture, Fixtures and Equipment** | **Transportation Equipment** | **Construction in Progress** | **Total** |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| Balance at beginning of year | **₱–** | **₱109,959** | **₱26,296** | **₱21,543** | **₱66,464** | **₱116,991** | **₱–** | **₱341,253** |
| Additions | **–** | **8,731** | **2,923** | **1,047** | **2,781** | **5,694** | **–** | **21,176** |
| Reclassification | | **(1,446)** | **–** | **(13,034)** | **(794)** | **–** | **–** | **(15,274)** |
| **Balance at end of year** | **–** | **117,244** | **29,219** | **9,556** | **68,451** | **122,685** | **–** | **347,155** |
| **Carrying amount** | **₱231,314** | **₱57,598** | **₱49,000** | **₱5,622** | **₱6,924** | **₱28,082** | **₱2,169** | **₱376,011** |

| | December 31, 2015 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At Appraised Values | | | | At cost | | | |
| | Land | Machinery and Equipment | Buildings | Leasehold and Land Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Construction in Progress | Total |
| **Cost** | | | | | | | | |
| Balance at beginning of year | ₱247,641 | ₱163,352 | ₱51,205 | ₱30,321 | ₱66,760 | ₱123,658 | ₱13,559 | ₱696,496 |
| Additions | 8,200 | 10,796 | 5,530 | 816 | 6,138 | 20,387 | 3,839 | 55,706 |
| Reclassifications | – | – | 13,279 | 280 | – | | (13,559) | – |
| Balance at end of year | 255,841 | 174,148 | 70,014 | 31,417 | 72,898 | 144,045 | 3,839 | 752,202 |
| **Accumulated Depreciation and Impairment** | | | | | | | | |
| Balance at beginning of year | – | 98,798 | 23,082 | 19,856 | 64,252 | 110,733 | – | 316,721 |
| Additions | – | 11,161 | 3,214 | 1,687 | 2,212 | 6,258 | | 24,532 |
| **Balance at end of year** | – | 109,959 | 26,296 | 21,543 | 66,464 | 116,991 | – | 341,253 |
| **Carrying amount** | ₱255,841 | ₱64,189 | ₱43,718 | ₱9,874 | ₱6,434 | ₱27,054 | ₱3,839 | ₱410,949 |

In 2016, property, plant, and equipment with a net book value of ₱37.5 million were reclassified to investment properties. Corresponding deferred tax liabilities of the reclassified property and equipment amounted to ₱5.3 million.

If the property, plant and equipment were measured at cost model, the carrying amounts would be as follows *(in thousand Pesos)*:

| | September 30, 2016 (Unaudited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Land** | **Machinery and Equipment** | **Buildings** | **Leasehold and Land Improvements** | **Office Furniture, Fixtures and Equipment** | **Transportation Equipment** | **Construction in Progress** | **Total** |
| **Cost** | **₱13,611** | **₱150,167** | **₱64,033** | **₱12,112** | **₱25,418** | **₱149,468** | **₱2,292** | **₱417,101** |
| **Accumulated Depreciation and Impairment** | **–** | **108,077** | **25,177** | **7,009** | **18,117** | **122,685** | **–** | **281,065** |
| **Carrying amount** | **₱13,611** | **₱42,090** | **₱38,856** | **₱5,103** | **₱7,301** | **₱26,783** | **₱2,292** | **₱136,036** |

| | December 31, 2015 (Audited) | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Land | Machinery and Equipment | Buildings | Leasehold and Land Improvements | Office Furniture, Fixtures and Equipment | Transportation Equipment | Construction in Progress | Total |
| Cost | ₱26,948 | ₱152,051 | ₱56,825 | ₱18,652 | ₱22,412 | ₱144,045 | ₱3,839 | ₱424,772 |
| Accumulated Depreciation and Impairment | – | 102,836 | 22,900 | 15,807 | 16,115 | 116,991 | – | 274,649 |
| Carrying amount | ₱26,948 | ₱49,215 | ₱33,925 | ₱2,845 | ₱6,297 | ₱27,054 | ₱3,839 | ₱150,123 |

## Fair Value Measurement

The Company's property, plant and equipment (except for transportation equipment) were appraised by an independent firm of appraisers on September 30, 2013. The fair value measurement for property, plant and equipment has been categorized as level 3 (significant unobservable inputs).

Description of valuation techniques used and key inputs to valuation on property, plant and equipment follows:

| | Valuation Technique | Significant unobservable Inputs | Range (weighted average) |
|---|---|---|---|
| Land | Sales Comparison Approach | Selling price per square meter | ₱4,030/ sq. m. |
| Machinery and Equipment | Cost of Reproduction Approach | Replacement cost less accrued depreciation | 3 - 5 years remaining useful life |
| Buildings | Cost of Reproduction Approach | Replacement cost less accrued depreciation | 5 - 10 years remaining useful life |
| Land Improvements | Cost of Reproduction Approach | Replacement cost less accrued depreciation | 2 - 4 years remaining useful life |
| Office Furniture, Fixtures and Equipment | Cost of Reproduction Approach | Replacement cost less accrued depreciation | 2 - 4 years remaining useful life |
| Leasehold Improvements | Cost of Reproduction Approach | Replacement cost less accrued depreciation | 2 - 4 years remaining useful life |

## 8. Investment Properties

Investment properties comprise of the Company's hatchery buildings, dressing and rendering plants that are held to earn rentals and parcels of land foreclosed by the Company to settle customers' liabilities. These foreclosed parcels of land are being held for capital appreciation only.

Movements in this account are summarized below *(in thousand Pesos):*

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| Balance at beginning of year | **₱428,440** | ₱610,043 |
| Reclassifications | **37,508** | – |
| Additions | **16,929** | 13,403 |
| Fair value gain (loss) | **7,048** | 1,686 |
| Disposals | **(1,702)** | (196,692) |
| Balance at end of year | **₱488,223** | ₱428,440 |

On April 28, 2016, the Rehabilitation Court approved the dacion of certain investment properties with Kormasinc. As at September 30, 2016, the parties have not yet executed the dacion.

Fair Value Measurement

Investment properties are revalued periodically at fair values as determined by an independent firm of appraisers. The latest appraisal report was prepared on April 1, 2016. The fair value measurement for investment properties has been categorized as level 3 (significant unobservable inputs).

Description of valuation techniques used and key inputs to valuation on investment properties follows:

| | Valuation Technique | Significant unobservable Inputs | Range (weighted average) |
|---|---|---|---|
| Land | Sales Comparison Approach | Selling price per square meters | ₱523 sq. m. |
| Building | Sales Comparison Approach | Sound value at market rate | 5 - 10 years remaining useful life |

## 9. Trade and Other Payables

This account consists of (*in thousand Pesos*):

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| Trade and nontrade | **₱867,002** | ₱909,925 |
| Accrued expenses | **140,875** | 116,301 |
| Customers' deposits | **36,785** | 46,161 |
| Provisions | **25,813** | 25,813 |
| Accrued interest | **254** | – |
| Due to related parties | – | 1,005 |
| Other | **130,297** | 7,824 |
| | **1,201,026** | 1,107,029 |
| Less noncurrent portion | – | 168,144 |
| Current portion | **₱1,201,026** | ₱938,885 |

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 are 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, salaries and other services, among others that are normally settled throughout the year.

Customers' deposits are amounts received from animal and aqua feeds' customers. These serve as collateral for any unpaid balances.

Provisions include an estimated liability of ₱25.8 million of PFCI arising from a legal case for non–payment of rentals and a provision to cover a probable claim from a third party as at December 31, 2015 and 2014. PFCI ceased operations in 2005. The PFCI case is still pending decision before the Court of Appeals. The claim was settled with a third party in 2015. Based on PFRS, the Company is allowed not to disclose information that may compromise the Company.

Other payables consist of advances from officers and employees, social security premiums payable and other statutory liabilities.

The noncurrent portion of trade and other payables were liabilities held for payment in the same manner as the restructured debt. Pursuant to the Company's motion for successful exit from Corporate Rehabilitation which was approved by the Regional Trial Court on September 16, 2016, these liabilities will become due and demandable. Accordingly, these financial liabilities are presented as current liabilities as at September 30, 2016.

## 10. Payable to Stockholder

*Settlement of Restructured Debt.* As discussed in Note 1, during the year ended December 31, 2013, Kormasinc acquired the Company's restructured debt from creditors comprising of local banks and SPAV companies and entered into a memorandum of agreement with the Company for a debt to equity conversion on September 20, 2013. Pursuant to the agreement, ₱2.4 billion of the restructured debt of ₱3.2 billion (including interest of ₱200.0 million) was converted to equity at one peso (₱1.00) for every one (1) share of stock on the remaining available shares and on the increase in authorized capital stock from ₱0.5 billion to ₱3.5 billion. The SEC approved, on October 16, 2013, the debt to equity conversion and the Company's increase in authorized capital stock. Consequently, Kormasinc acquired 85.29% ownership of the Company.

The transfer of interest on the restructured loan to Kormasinc and the debt to equity conversion of the Company's loan to Kormasinc resulted to the reversal of the unamortized "day 1" gain on the loan amounting to ₱681.8 million as at September 20, 2013. However, the subsequent approval by the SEC of the debt to equity conversion resulted to a pro-forma accounting income of ₱689.2 million arising from the difference between the market value and the par value of the shares at which price the debt was converted to equity.

Summarized below are the outstanding accounts, arising from the foregoing transactions *(in thousand Pesos)*:

| | | | **Sept 2016 (Unaudited)** | | Dec 2015 (Audited) | |
|---|---|---|---|---|---|---|
| | Relationship | Nature of Transactions | **Amount of Transactions** | **Outstanding Balances** | Amount of Transactions | Outstanding Balances |
| Kormasinc | Parent Company | Restructured debt acquired | **₱–** | **₱175,027** | (₱63,272) | ₱175,027 |
| | | Trade payables acquired | **–** | **32,098** | 32,098 | 32,098 |
| | | Interest on restructured debt | **–** | **199,986** | – | 199,986 |
| | | | | **₱407,111** | | ₱407,111 |

The terms of the payment of the loan are still subject to negotiation. Interest on the loan from the period September 2013 to June 2016 was waived by Kormasinc. Proceeds from the disposal of several core and noncore assets amounting to ₱63.3 million and ₱350.4 million in 2015 and 2014, respectively, were applied against the outstanding debt.

*Discounting of Receivables Offset against Payable to Stockholder.* On December 12, 2014, the Company's BOD approved the discounting of Company's receivable from Luz Farms, Inc. (LFI) to Kormasinc for a 50% discount considering the financial capability of LFI. Consequently, on the same date, the Company entered into a memorandum of agreement with Kormasinc discounting the Company's receivable from LFI for ₱49.2 million. Proceeds were used to offset portion of the Company's payable to Kormasinc. Loss on the discounting amounted to ₱49.2 million.

*Trade Payables acquired by Kormasinc.* In 2014, Group trade payables aggregating ₱32.1 million were acquired by Kormasinc from suppliers.

## 11. Cash Bond Deposits

Cash bond deposits amounting to ₱20.9 million and ₱20.0 million as at September 30, 2016 and December 31, 2015, 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.

## 12. Equity

Capital Stock

The Company has authorized capital stock of 3.5 billion shares at ₱1 par value equivalent to ₱3.5 billion.

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

On September 20, 2013, the BOD approved the conversion of part of the Company's debts to Kormasinc amounting to ₱2.4 billion into equity at a ratio of 1:1 or 1 share of common stock for every ₱1.00 debt in which ₱90.0 million shall be applied as payment for the issuance of the 90,030,236 shares out of the existing unissued shares, while ₱2.3 billion shall be applied as payment for the additional shares of stock which shall be issued out of the increase in the authorized capital stock.

The increase in authorized capital stock and the debt−to−equity conversion were approved by the SEC on October 16, 2013.

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

| Date of SEC Approval | Authorized Shares | No. of Shares Issued |
|---|---|---|
| Oct. 16, 2013 | 3,000,000,000 | 2,286,497,901 |
| Feb. 9, 1989 | 200,000,000 | 200,000,000 |
| Aug 11, 1986 | 200,000,000 | 200,000,000 |
| Dec. 5, 1982 | 33,000,000 | 33,000,000 |
| Dec. 5, 1977 | 45,000,000 | 45,000,000 |
| Oct. 31, 1974 | 7,000,000 | 7,000,000 |
| May 2, 1973 | 10,000,000 | 10,000,000 |
| Oct. 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.

The following summarizes the information on the Company's issued and outstanding shares:

| | Number of shares issued and outstanding | Percentage of shares |
|---|---|---|
| Issued and outstanding | 2,786,498 | 100.00% |
| Listed shares: | | |
| Owned by related parties | 1,931,339 | 69.31% |
| Owned by public | 788,666 | 28.30% |
| Owned by directors and officers | 66,493 | 2.39% |
| Total | 2,786,498 | |

Of the total shares owned by the public, 257.2 million shares are foreign-owned.

The total number of shareholders of the Company is 4,267 and 4,303 as at September 30, 2016 and December 31, 2015, respectively.

Additional Paid-in Capital
The approval by the SEC of the debt to equity conversion resulted to a pro-forma accounting income of ₱689.2 million and a reduction of the additional paid-in capital (APIC) of the same amount arising from the difference between the market value and the par value of the shares at which price the debt was converted to equity. APIC amounted to ₱224.5 million as at September 30, 2016 and December 31, 2015.

## 13. Earnings Per Share

Basic and diluted earnings per share were computed as follows *(in thousand Pesos)*:

| | **Unaudited Sept 2016** | Audited Dec 2015 |
|---|---|---|
| Net income for the year | **₱5,035** | ₱7,176 |
| Divided by the weighted average number of outstanding shares | **2,786,498** | 2,786,498 |
| Earnings per share - basic and diluted | **₱0.002** | ₱0.003 |

Diluted earnings per share is equal to the basic earnings per share because the Company does not have potential dilutive shares.

## 14. Segment Information

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 and pullets.

d) The Corporate and Others segment includes general and corporate income and expense items which are not specifically identifiable to a particular segment.

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

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

The following table presents revenue and profit information regarding business segments for the six-month ended September 30, 2016, and certain asset and liability information regarding business segments as at September 30, 2016.

| | As at September 30, 2016 - Unaudited (in thousand Pesos) | | | | | |
|---|---|---|---|---|---|---|
| | **Foods** | **Feeds** | **Farms** | **Corporate & Others** | **Eliminations** | **Consolidated** |
| **REVENUES** | | | | | | |
| **Net Sales** | | | | | | |
| **External Sales** | ₱1,342,627 | ₱2,112,598 | ₱196,504 | ₱– | ₱– | ₱3,651,729 |
| **COST AND OTHER OPERATING EXPENSES** | | | | | | |
| Cost of goods sold | 1,150,841 | 1,859,950 | 176,405 | – | – | 3,187,196 |
| Depreciation | 2,288 | 14,631 | – | 4,257 | – | 21,176 |
| Operating expenses | 44,058 | 114,453 | – | 177,244 | – | 335,755 |
| Other operating income | (14,507) | (30,797) | – | (738) | – | (46,042) |
| | 1,182,680 | 1,958,237 | 176,405 | 180,763 | – | 3,498,085 |
| **RESULTS** | | | | | | |
| **Segment Results** | ₱159,947 | ₱154,361 | ₱20,099 | (₱180,763) | ₱– | ₱153,644 |
| **Other charges - net** | | | | | | (141,051) |
| **Income/(Loss) before tax** | | | | | | 12,593 |
| **Tax Expense** | | | | | | (7,558) |
| **Net Income/(Loss)** | | | | | | **₱5,035** |
| **OTHER INFORMATION** | | | | | | |
| **Segment assets** | ₱266,148 | ₱776,311 | ₱291,169 | ₱605,203 | ₱536,887 | **₱2,475,718** |
| **Segment liabilities** | ₱332,464 | ₱47,948 | ₱1,093 | ₱1,324,908 | ₱238 | ₱1,706,651 |

Currently, the Company's operation is only in the Philippines, hence it has no geographical segment. The Company, however, has manufacturing plants in different regions of the country.

## 15. 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
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.

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 group, 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 manages its liquidity profile to be able to service its long−term debt as these fall due by maintaining sufficient cash from operations. The Company maintains cash to meet its liquidity requirements for up to 30−day periods. Noncurrent trade and other payables later than 5 years pertain to liabilities as of the date of filing of the Plan wherein the Rehabilitation Court issued Stay Order prohibiting the Company from making any payments thereof.

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.

**VITARICH CORPORATION AND SUBSIDIARIES**
**FINANCIAL RATIOS**
**(In thousand Pesos)**

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

| | Unaudited Sept 2016 | Audited Dec 2015 |
|---|---:|---:|
| **Current / Liquidity Ratio** | 0.97 | 1.10 |
| Current assets | 1,562,044 | 1,483,073 |
| Current liabilities | 1,608,137 | 1,345,996 |
| **Solvency Ratio** | 0.02 | 0.02 |
| Net income before depreciation | 26,211 | 31,695 |
| Total liabilities | 1,706,651 | 1,609,237 |
| **Debt-to-Equity Ratio** | 2.22 | 2.11 |
| Total liabilities | 1,706,651 | 1,609,237 |
| Total equity | 769,067 | 764,032 |
| **Asset-to-Equity Ratio** | 3.22 | 3.11 |
| Total assets | 2,475,718 | 2,373,269 |
| Total equity | 769,067 | 764,032 |
| **Interest rate coverage Ratio** | 2.87 | 3.90 |
| Pretax income before interest | 19,345 | 863 |
| Interest expense | 6,752 | 221 |
| **Profitability Ratio** | 0.01 | 0.01 |
| Net income | 5,035 | 7,176 |
| Total equity | 769,067 | 764,032 |

**OTHER MATTERS**

- There are outstanding warranty and legal claims against The Company. The Company has accrued liability on those items where the Court has definitely ruled against The Company and where the amount can be reliably estimated. The Company and its legal counsel believe that the other pending claims will be settled favorably and will not result to a material loss or impairment, if any. None of these contingencies are discussed in the consolidated financial statements in detail so as not to seriously prejudice The Company's position in the related disputes.
- 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 -** None

**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.