

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANY NAME

V	I	T	A	R	I	C	H		C	O	R	P	O	R	A	T	I	O	N		A	N	D		S	U	B	S	I
D	I	A	R	I	E	S		(	A		s	u	b	s	i	d	i	a	r	y		o	f		K	o	r	m	a
s	i	n	c	,		I	n	c	.																				

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

M	a	r	i	l	a	o	-	S	a	n		J	o	s	e		R	o	a	d	,		S	t	a	.		R	o	
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Form Type

1	7	-	Q
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Department requiring the report

C	R	M	D
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Secondary License Type, If Applicable

N	/	A
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### COMPANY INFORMATION

Company's Email Address

**agd@vitarich.com**

Company's Telephone Number

**(044) 843-3033**

Mobile Number

**(0918) 848 2200**

No. of Stockholders

**4,139**

Annual Meeting (Month / Day)

**Last Friday of June**

Fiscal Year (Month / Day)

**December 31**

### CONTACT PERSON INFORMATION

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

Name of Contact Person

**Ms. Stephanie Nicole S. Garcia**

Email Address

**nsg@vitarich.com**

Telephone Number/s

**(044) 843-3033**

Mobile Number

**(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 of Notice of Deficiencies 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, 2019**
2. Commission identification number **21134**      3. BIR Tax Identification No. **000-234-398**
4. Exact name of issuer as specified in its charter **VITARICH CORPORATION**
5. Province, country or other jurisdiction of incorporation or organization **BULACAN**
6. Industry Classification Code:  (SEC Use Only)
7. Address of issuer's principal office Postal Code  
**MARILAO-SAN JOSE ROAD, STA. ROSA I, MARILAO, BULACAN** **3019**
8. Issuer's telephone number, including area code  
**843-3033 connecting to all departments**
9. Former name, former address and former fiscal year, if changed since last report  
**N/A**
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<br>stock outstanding and amount of debt outstanding |
|----------------------------|--|
| <b><u>Common Stock</u></b> | <b><u>3,054,334,014</u></b>  |
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 []

Annex A

SEC Number 21134

File Number                     

VITARICH CORPORATION AND SUBSIDIARIES

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(Company's Full Name)

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

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(Company's Address)

843-30-33 connecting to all departments

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(Telephone Number)

---

(Year Ending)

(Month & day)

Quarterly Consolidated  
Unaudited Financial Statements

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Form Type

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Amendment Designation (If Applicable)

September 30, 2019

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Period Ended Date

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(Secondary License Type and File Number)

## **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, 2019 (with comparative figures as of December 31, 2018) and for the period ended September 30, 2018 and Selected Notes to Consolidated Financial Statements are filed as part of this form 17-Q as Annex "A"

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

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

## **PART II – OTHER INFORMATION**

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

## **SIGNATURES**

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

Registrant – **VITARICH CORPORATION**

By:

  
\_\_\_\_\_  
**STEPHANIE NICOLE S. GARCIA**  
EVP, Corporate Management Services  
Director/ Treasurer

  
\_\_\_\_\_  
**ATTY. MARY CHRISTINE DABU-PEPITO**  
Assistant Corporate Secretary, Corporate  
Information Officer and Compliance Officer

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

Vitarich Corporation (singly and collectively referred to as 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 and livestock. 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.

On October 16, 2013, the SEC approved the Company's increase in authorized capital stock to ₱3.5 billion and the conversion of Company debts amounting to ₱2.4 billion to Kormasinc, Inc. (Kormasinc) into equity at 1 share of common stock for every ₱1.00 debt. Of the converted debt, ₱90.0 million was applied as payment for 90,030,236 shares from unissued shares and ₱2.3 billion was applied as payment for additional shares from the increase in authorized capital.

With the debt to equity conversion and significant improvement in the Company's operations, the Regional Trial Court of Malolos, Bulacan (the Rehabilitation Court) approved the Company's exit from Corporate Rehabilitation on September 16, 2016.

On December 22, 2017, the SEC approved the debt to equity conversion of the remaining payable of ₱407.1 million to Kormasinc at ₱1.52 a share increasing Kormasinc's ownership interest from 69.20% to 71.90%.

On June 30, 2017, the Company's stockholders approved the Company's plan to undergo a Quasi-reorganization. The Company will reduce the par value of the Company share and the existing additional paid-in capital will be applied to eliminate the Company deficit of ₱2.2 billion as at December 31, 2017.

On July 11, 2018, the SEC approved the change in par value which resulted to a decrease in the capital stock of the Company from ₱3.5 billion divided into 3.5 billion shares with par value of ₱1.00 each to ₱1.33 billion divided into 3.5 billion shares with the par value of ₱0.38 each. The reduction in par value resulted to recognition of additional paid in capital amounting to ₱1.9 billion. On July 18, 2018, the Company received the Certificate of Approval of Equity Restructuring to wipe out the deficit as of December 31, 2017 in the amount of ₱2.3 billion against the additional paid in capital of ₱2.3 billion.

On July 26, 2017, the Board of Directors (BOD) and Stockholders of Philippines Favorite Chicken, Inc. (PFCI) approved the shortening of the corporate life of PFCI until March 31, 2019. PFCI which has ceased operations since 2005, was placed under the liquidation process. The Company deconsolidated PFCI and recognized a gain of ₱28.2 million on deconsolidation.

On May 31, 2018, the SEC approved the shortening of the corporate life of Gromax until November 10, 2019. Gromax Inc. has ceased operations since 2015. The Company recognized an impairment loss of ₱7.4 million which pertains to assets that are no longer recoverable.

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.

## **Results of Operations:**

For the three quarters of 2019, Vitarich Corporation and its subsidiaries generated consolidated sale of goods of ₱5,960 million, lower by 2% from ₱6,087 million of same period last year due to unfavorable chicken prices.

The Company incurred net loss of ₱105.6 million for the nine months period ended September 30, 2019, as compared to net income of ₱56.0 million from a year ago which was brought about by significant decrease in selling prices of chicken in the market during the first half of the year due to massive importation of chicken.

For the three quarters of 2019, consolidated operating expenses is at ₱416.1 million, 3% lower versus the same period of last year of ₱430.5 million.

Other operating income for the three quarters of 2019 has increased by 35% against the other operating income for the same period last year.

The Company posted positive operating profit of ₱109.7 million for the three months period ended September 30, 2019 resulting from the positive turnaround of its operations on the said period.

For the nine months period ended September 30, 2019, the Company suffered an operating loss of ₱15.0 million or decrease of 112% versus same period of last year due to depressed poultry business condition since last quarter of 2018. Operating income generated by the Company on the same period last year amounted to ₱123.3 million.

Other charges amounted to ₱84.6 million in the first nine months of 2019 or an increase of 87% versus the same period last year due to one-time payment of tax settlement. This has resulted to a consolidated net loss before tax for the nine months period ended September 30, 2019 of ₱99.6 million as against last year's net income before tax of ₱78.0 million.

## **Corporate Action Plan:**

**For Feeds**, the Company will continue to deliver superior products through continuing improvements in its formulations and production processes. The Company aims to reposition its animal feed lines.

**For Foods & Farms**, the Company will expand the poultry business by increasing its breeder capacity. The Company will also increase its food market base by expanding its distribution channels by way of penetrating hotel and restaurant institutions (HRI) accounts, and tapping selected supermarket for its fresh dressed chicken.

## **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.

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.

On May 31, 2018, the SEC approved the shortening of the corporate life of Gromax until November 10, 2019. Gromax Inc. has ceased operations since 2015. The Company recognized an impairment loss of ₱7.4 million which pertains to assets that are no longer recoverable.

**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 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 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.

On July 26, 2017, the BOD and Stockholders of PFCI approved the shortening of the corporate life of PFCI until March 31, 2019. PFCI which has ceased operations since 2005, was placed under the liquidation process. The Company deconsolidated PFCI and recognized a gain of ₱28.2 million on deconsolidation.

### **Financial Condition**

Unaudited balance sheet as at September 30, 2019 vs. audited December 31, 2018

The Company's consolidated total assets as at September 30, 2019 is at ₱3,980 million lower than December 31, 2018 level of ₱4,343 million. Total current assets decreased from ₱2,733 million as at December 31, 2018 to ₱2,290 million as at September 30, 2019.

Cash balance decreased to ₱190 million as at September 30, 2019 from ₱218 million as at December 31, 2018. The decrease in cash was attributed to net cash outflows used in operating activities, acquisitions of property, plant and equipment and payments of loans.

Trade and other receivables account decreased by 6% because of improved collection efficiency.

Inventories amounting to ₱636 million as at September 30, 2019 decreased from ₱937 million as at December 31, 2018 brought by depletion of frozen chicken inventories.

Other current assets account of ₱85 million as at September 30, 2019 decreased by 24% as compared to ₱111 million as at December 31, 2018. Other noncurrent assets increased by ₱5.2 million as compared to its balance as at December 31, 2018.

Total current liabilities as at September 30, 2019 amounted to ₱2,150 million, lower by 10% as compared to its balance as at December 31, 2018.

Stockholders' equity decreased from ₱1,514 million to ₱1,409 million, due to net loss posted for the three quarters of 2019.

### **The Corporation's top four (4) key performance indicators are described as follows:**

	Unaudited Sept. 2019	Unaudited Sept. 2018
Revenue (₱ million)	₱5,960	₱6,087
Cost Contribution (₱ million)	5,583	5,552
Gross Profit Rate (%)	6%	9%
Operating Income (Loss) (₱ million)	(15)	123



1) Sales Volume, Price, and Revenue Growth

Consolidated revenue composed of feeds, day old chicks, chicken, and animal health products sales amounted to ₱5,960 million for the three quarters of 2019, which is lower than the sales from the same period last year of ₱6,087 million, mainly because of unfavorable chicken prices in the market.

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**  
**(A Subsidiary of Kormasinc, Inc.)**

**INTERIM CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS AT SEPTEMBER 30, 2019 AND DECEMBER 31, 2018**

	Unaudited September 30, 2019	Audited December 31, 2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash (Note 6)	₱189,770,554	₱217,712,840
Trade and other receivables (Note 7)	1,379,590,216	1,467,699,472
Inventories and livestock (Note 8)	635,795,082	936,527,822
Other current assets (Note 9)	84,947,730	111,048,088
Total Current Assets	2,290,103,582	2,732,988,222
<b>Noncurrent Assets</b>		
Property, plant and equipment (Note 10)	1,026,619,933	966,942,452
Investment properties (Note 11)	644,634,537	629,884,644
Other noncurrent assets (Note 9)	18,513,408	13,266,414
Total Noncurrent Assets	1,689,767,878	1,610,093,510
	<b>₱3,979,871,460</b>	<b>₱4,343,081,732</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 12)	₱1,708,442,260	₱1,735,186,367
Loans payable (Note 13)	427,772,711	649,999,929
Current portion of finance lease liabilities (Note 24)	14,037,158	13,920,213
Total Current Liabilities	2,150,252,129	2,399,106,509
<b>Noncurrent Liabilities</b>		
Cash bond deposits (Note 14)	39,757,140	40,343,557
Net retirement liability (Note 19)	105,184,638	101,580,458
Loans payable - net of current portion (Note 13)	173,750,000	172,480,055
Finance lease liabilities - net of current portion (Note 24)	31,882,761	42,813,390
Net deferred tax liabilities (Note 20)	70,215,473	72,329,574
Total Noncurrent Liabilities	420,790,012	429,547,034
Total Liabilities	2,571,042,141	2,828,653,543
<b>Equity</b>		
Capital stock (Note 22)	1,160,646,925	1,160,646,925
Additional paid-in capital (Note 1)	1,470,859	1,470,859
Retained earnings (deficit)	(66,436,400)	39,162,470
Other comprehensive income (Note 22)	313,147,935	313,147,935
Total Equity	1,408,829,319	1,514,428,189
	<b>₱3,979,871,460</b>	<b>₱4,343,081,732</b>

*See accompanying Notes to Interim Consolidated Financial Statements.*

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

**INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	2019		2018	
	July to Sept.	Jan. to Sept.	July to Sept.	Jan. to Sept.
<b>SALE OF GOODS</b> (Note 5)	<b>₱2,305,454,599</b>	<b>₱5,959,616,582</b>	₱2,124,945,502	₱6,087,332,664
<b>COST OF GOODS SOLD</b> (Note 15)	<b>2,051,360,728</b>	<b>5,583,079,540</b>	1,967,033,127	5,551,574,192
<b>GROSS PROFIT</b>	<b>254,093,871</b>	<b>376,537,042</b>	157,912,375	535,758,472
Operating expenses (Note 16)	149,569,749	416,105,581	149,407,658	430,538,906
Other operating income (Note 17)	(5,214,568)	(24,529,844)	(5,726,457)	(18,123,589)
	<b>144,355,181</b>	<b>391,575,737</b>	143,681,201	412,415,317
<b>OPERATING PROFIT (LOSS)</b>	<b>109,738,690</b>	<b>(15,038,695)</b>	14,231,174	123,343,155
<b>OTHER CHARGES – Net</b> (Note 18)	<b>5,307,437</b>	<b>84,589,946</b>	6,958,112	45,332,273
<b>INCOME (LOSS) BEFORE INCOME TAX</b>	<b>104,431,253</b>	<b>(99,628,641)</b>	7,273,062	78,010,882
<b>PROVISION FOR (BENEFIT FROM) INCOME TAX</b> (Note 20)				
Current	5,249,161	8,084,330	4,030,480	36,010,134
Deferred	(788,681)	(2,114,101)	(645,871)	(13,965,107)
	<b>4,460,480</b>	<b>5,970,229</b>	3,384,609	22,045,027
<b>NET INCOME (LOSS)</b>	<b>99,970,773</b>	<b>(105,598,870)</b>	3,888,453	55,965,855
<b>OTHER COMPREHENSIVE INCOME</b>				
<i>Items not to be reclassified to profit or loss:</i>				
Revaluation increase on property, plant and equipment - net of deferred income tax (Note 10)	–	–	–	–
Actuarial gains - net of deferred income tax (Note 19)	–	–	–	–
	–	–	–	–
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	<b>₱99,970,773</b>	<b>(₱105,598,870)</b>	₱3,888,453	₱55,965,855
<b>EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED</b> (Note 23)	<b>₱0.03</b>	<b>(₱0.03)</b>	₱0.00	₱0.02

See accompanying Notes to Interim Consolidated Financial Statements.

**VITARICH CORPORATION AND SUBSIDIARIES****(A Subsidiary of Kormasinc, Inc.)****INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	<b>For the Nine Months Ended</b>	
	<b>September 30</b>	
	<b>2019</b>	<b>2018</b>
	<b>(Unaudited)</b>	<b>(Unaudited)</b>
<b>CAPITAL STOCK</b>		
Balance at beginning of period	<b>₱1,160,646,925</b>	₱3,054,334,014
Quasi-reorganization (Note 1)	–	(1,893,687,089)
Balance at end of period	<b>1,160,646,925</b>	1,160,646,925
<b>ADDITIONAL PAID - IN CAPITAL</b>		
Balance at beginning of period	<b>1,470,859</b>	363,821,288
Quasi-reorganization (Note 1)	–	(2,256,037,518)
Reduction in par value (Note 1)	–	1,893,687,089
Balance at end of period	<b>1,470,859</b>	1,470,859
<b>DEFICIT</b>		
Balance at beginning of period	<b>39,162,470</b>	(2,256,037,518)
Net income (loss) for the period	<b>(105,598,870)</b>	55,965,855
Quasi-reorganization (Note 1)	–	2,256,037,518
Balance at end of period	<b>(66,436,400)</b>	55,965,855
<b>OTHER COMPREHENSIVE INCOME</b>		
Balance at beginning and end of period	<b>313,147,935</b>	270,704,331
	<b>₱1,408,829,319</b>	₱1,488,787,970

*See accompanying Notes to Interim Consolidated Financial Statements.*

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

**INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS**

	For the Nine Months Ended September 30	
	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income (loss) before income tax	(P99,628,641)	P78,010,882
Adjustments for:		
Depreciation and amortization	70,937,636	47,833,731
Interest expense	60,841,445	23,404,756
Retirement benefit expense	5,015,154	-
Impairment loss on trade and other receivables	2,031,849	2,858,705
Gain on sale of property, plant and equipment	(272,776)	-
Interest income	(170,009)	(584,923)
Loss on deconsolidation of a subsidiary	-	22,512,440
Impairment loss on investment in a subsidiary	-	18,292,340
Operating income before working capital changes	38,754,658	192,327,931
Decrease (increase) in:		
Trade and other receivables	86,077,407	(103,824,612)
Due from related parties	-	(55,847,259)
Inventories and livestock	300,732,740	(289,393,360)
Other current assets	26,100,358	433,267
Other noncurrent assets	(8,005,571)	2,130,768
Increase (decrease) in:		
Trade and other payables	(28,194,165)	184,639,728
Cash bond deposits	(586,417)	5,525,071
Retirement liability	-	(4,931,393)
Net cash generated from (used for) operations	414,879,010	(68,939,859)
Income tax paid	(8,084,330)	(24,379,238)
Retirement benefits paid	(1,410,974)	-
Interest received	170,009	584,923
Net cash provided by (used in) operating activities	405,553,715	(92,734,174)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Property, plant and equipment	(132,291,898)	(139,505,100)
Investment properties	(14,749,893)	(8,495,883)
Proceeds from sale of:		
Property, plant and equipment	4,708,134	5,276,634
Investment properties	-	4,671,427
Net cash used in investing activities	(142,333,657)	(138,052,922)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments of loans	(1,496,286,724)	(402,826,700)
Availment of loans	1,264,515,767	497,171,200
Interest paid	(59,391,387)	(23,404,756)
Net cash provided by (used in) financing activities	(291,162,344)	70,939,744
<b>NET DECREASE IN CASH</b>	<b>(27,942,286)</b>	<b>(159,847,352)</b>
<b>CASH AT BEGINNING OF PERIOD</b>	<b>217,712,840</b>	<b>323,006,118</b>
<b>CASH AT END OF PERIOD</b>	<b>P189,770,554</b>	<b>P163,158,766</b>

See accompanying Notes to Interim Consolidated Financial Statements.

## VITARICH CORPORATION AND SUBSIDIARIES

(A Subsidiary of Kormasinc, Inc.)

### NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Corporate Information

Vitarich Corporation (singly and collectively referred to as 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 and livestock. 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	
		Sep 2019	Dec 2018
Gromax, Inc. (Gromax)*	Manufacturing	–	–
Philippines Favorite Chicken, Inc. (PFCI)**	Distributor	–	–

\*Ceased operations in 2015.

\*\*Ceased operations in 2005 and deconsolidated in 2017.

On October 16, 2013, the SEC approved the Company's increase in authorized capital stock to ₱3.5 billion and the conversion of Company debts amounting to ₱2.4 billion to Kormasinc, Inc. (Kormasinc) into equity at 1 share of common stock for every ₱1.00 debt. Of the converted debt, ₱90.0 million was applied as payment for 90,030,236 shares from unissued shares and ₱2.3 billion was applied as payment for additional shares from the increase in authorized capital.

With the debt to equity conversion and significant improvement in the Company's operations, the Regional Trial Court of Malolos, Bulacan (the Rehabilitation Court) approved the Company's exit from Corporate Rehabilitation on September 16, 2016.

On December 22, 2017, the SEC approved the debt to equity conversion of the remaining payable of ₱407.1 million to Kormasinc at ₱1.52 a share increasing Kormasinc's ownership interest from 69.20% to 71.90% (see Note 22).

On June 30, 2017, the Company's stockholders approved the Company's plan to undergo a Quasi-reorganization. The Company will reduce the par value of the Company share and the existing additional paid-in capital and outstanding revaluation surplus will be applied to eliminate the Company deficit of ₱2.2 billion as at December 31, 2017.

On July 11, 2018, the SEC approved the change in par value which resulted to a decrease in the capital stock of the Company from ₱3.5 billion divided into 3.5 billion shares with par value of ₱1.00 each to ₱1.33 billion divided into 3.5 billion shares with the par value of ₱0.38 each. The reduction in par value resulted to recognition of additional paid in capital amounting to ₱1.9 billion. On July 18, 2018, the Company received the Certificate of Approval of Equity Restructuring to wipe out the deficit as of December 31, 2017 in the amount of ₱2.3 billion against the additional paid in capital of ₱2.3 billion.

On July 26, 2017, the Board of Directors (BOD) and Stockholders of PFCI approved the shortening of the corporate life of PFCI until March 31, 2019. PFCI which has ceased operations since 2005, was placed under the liquidation process. The Company deconsolidated PFCI and recognized a gain of ₱28.2 million on deconsolidation (see Note 4).

On May 31, 2018, the SEC approved the shortening of the corporate life of Gromax until November 10, 2019. Gromax Inc. has ceased operations since 2015. The Company recognized an impairment loss of ₱7.4 million which pertains to assets that are no longer recoverable.

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.

The accompanying interim consolidated financial statements were authorized for issue by the BOD on October 29, 2019.

### **Status of Operations**

The Company's sales for the nine months period ended September 30, 2019 of ₱5,960 million decreased from ₱6,087 million for the same period in 2018 due to unfavorable chicken prices since the last quarter of 2018. However, the Company is seeing a positive turnaround of operations in the remaining period of the year and is committed to continue its intensive marketing, improved formulation technology for its feeds products and tolling operational partnerships. The Company also expands its poultry business by increasing its breeder capacity and its distribution channel by way of penetrating hotel, restaurant, and institution accounts and tapping selected supermarket for its fresh dressed chicken.

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. But due to depressed poultry business condition since last quarter of 2018, the Company was adversely affected resulting to an operating loss of ₱15.0 million for the nine months period ended September 30, 2019.

The Company has continued to generate the necessary cash flow to sustains its operations and settle its remaining liabilities.

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## **2. Summary of Significant Accounting Policies**

### **Statement of Compliance**

The unaudited interim consolidated financial statements of the Company as at and for the nine months period ended September 30, 2019 have been prepared in accordance with Philippine Accounting Standards (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, PAS, Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) and SEC provisions.

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, 2018.

#### Measurement Bases

The accompanying interim consolidated financial statements of the Company are presented in Philippine Peso, the Company's functional and presentational currency. All values represent absolute amounts except when otherwise stated.

The interim consolidated financial statements have been prepared on the historical cost basis of accounting, except for property, plant and equipment (excluding transportation equipment), investment properties and biological assets which are stated at fair value. Historical cost is generally based on fair value of the consideration given in exchange for an asset.

#### Basis of Consolidation

The interim consolidated financial statements comprise the interim financial statements of the Company and its subsidiaries. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Company controls an investee if, and only if, it has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee
- The ability to use its power over the investee to affect its returns

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Company has less than a majority of the voting or similar rights of an investee, it considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Company's voting rights and potential voting rights

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Parent company loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent company gains control until the date it ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Parent company's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between Parent company and its subsidiaries are eliminated in full on consolidation.



A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Company loses control over a subsidiary, it derecognizes the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resulting gain or loss is recognized in profit or loss. Any investment retained is recognized at fair value.

#### Summary of Significant Accounting Policies

##### Business Combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Parent company elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Parent company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, *Financial Instruments*, is measured at fair value with the changes in fair value recognized in the interim consolidated statements of comprehensive income in accordance with PFRS 9. Other contingent consideration that is not within the scope of PFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Company re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

#### Current versus Non-Current Classification

The Company presents assets and liabilities in the interim consolidated statements of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
  - Held primarily for the purpose of trading
  - Expected to be realized within twelve months after the reporting period
- Or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
  - It is held primarily for the purpose of trading
  - It is due to be settled within twelve months after the reporting period
- Or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period

The Company classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities, respectively.

#### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date. The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the interim consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities.

Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.

Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognized in the interim consolidated financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Company determines the policies and procedures for fair value measurements on financial instruments, biological assets, property, plant and equipment and investment properties.

External valuers are involved for valuation of significant assets, such as property, plant and equipment and investment properties. The involvement of external valuers is determined annually by management. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case.

At each reporting date, management analyzes the movements in the values of assets and liabilities which are required to be remeasured or re-assessed as per the Company's accounting policies. For this analysis, the Company verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

The Company, in conjunction with the external valuers, also compares the change in the fair value of each asset and liability with relevant external sources to determine whether the change is reasonable.

For the purpose of fair value disclosures, the Company has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Further information about the assumptions made in measuring fair value is included in the following notes:

- Note 3, *Significant Judgment, Accounting Estimates and Assumptions*
- Note 8, *Inventories and Livestock*
- Note 10, *Property, Plant and Equipment*
- Note 11, *Investment Properties*
- Note 27, *Fair Value Information*

#### Changes in Accounting Policies, Disclosures and Presentation

The Company applied PFRS 15 and PFRS 9 for the first time. The nature and effect of the changes as a result of adoption of these new accounting standards are described below.

##### *PFRS 15, Revenue from Contracts with Customers*

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related Interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers.

PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires extensive disclosures.

The Company adopted PFRS 15 using the modified retrospective method of adoption with the date of initial application on January 1, 2018. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Company elected to apply the standard to all contracts as at January 1, 2018.

The cumulative effect of initially applying PFRS 15 is recognized at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information was not restated and continues to be reported under PAS 11, PAS 18 and related Interpretations.

The Company's contract with customers for the sale of animal and dressed chickens provides an option for the customers to return the product after a certain number of days from sale.

When a contract provides a customer with a right to return the goods within a specified period, the Company previously records the amount when the customer eventually returns the goods.

Under PFRS 15, the consideration received from the customer is variable because the contract allows the customer to return the products. The Company used the expected value method to estimate the goods that will not be returned anchored mainly on past sales return experience. Based on the estimation made by the Company, the impact is not material.

#### *PFRS 9, Financial Instruments*

PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Company applied PFRS 9 using the modified retrospective approach, with an initial application date on January 1, 2018. The Company has not restated the comparative information, which continues to be reported under PAS 39. Differences arising from the adoption of PFRS 9 have been recognized directly in retained earnings.

#### *Classification and measurement*

Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: The Company's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' (SPPI) on the principal amount outstanding.

The assessment of the Company's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

Cash, trade and other receivables (excluding advances to suppliers and officers and employees) and security deposits previously classified as loans and receivables are held to collect contractual cash flows and give rise to cash flows representing SPPI. These are now classified and measured as financial assets at amortized cost.

The Company has not designated any financial liabilities as at fair value through profit or loss. There are no changes in the classification and measurement for the Company's financial liabilities.

The measurement requirements of PFRS 9 did not have any significant impact to the Company. The Company continued to measure all financial assets at amortized cost previously carried at amortized cost under PAS 39.

In summary, upon adoption of PFRS 9, the Company had the following required reclassifications:

	<u>January 1, 2018</u>	
	<u>PAS 39</u>	<u>PFRS 9</u>
	<u>Measurement</u>	<u>Measurement</u>
	<u>Loans and</u>	<u>Amortized Cost</u>
	<u>Receivables</u>	
Cash in banks	₱321,490,948	₱321,490,948
Trade and other receivables	1,136,432,957	1,135,678,596
Security deposits	12,036,892	12,036,892

The adoption of PFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. PFRS 9 requires the Company to recognize an allowance for ECLs for all debt instruments not held at fair value through profit or loss and contract assets.

Upon adoption of PFRS 9, the Company recognized additional impairment on its trade receivables amounting to ₱1.1 million, which resulted to a decrease in retained earnings of ₱0.8 million (net of deferred tax amounting to ₱0.3 million) as at January 1, 2018.

#### Cash

Cash includes cash on hand and in banks. Cash in banks earn interest at prevailing bank deposit rates.

#### Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Starting January 1, 2018, the Company has adopted PFRS 9.

#### Financial Assets

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, fair value through OCI, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the company has applied the practical expedient are measured at the transaction price determined under PFRS 15. Refer to the accounting policies related to "Revenue".

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are SPPI on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Company's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the market place (regular way trades) are recognized on the trade date, i.e., the date that the Company commits to purchase or sell the asset.

#### Subsequent Measurement

For purposes of subsequent measurement, financial assets are classified in four categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
- Financial assets at fair value through profit or loss

#### Financial Assets at Amortized Cost (Debt Instruments)

This category is the most relevant to the Company. The Company measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

Financial assets at amortized cost are subsequently measured using the effective interest rate (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Company's cash, trade and other receivables (excluding advances to suppliers and officers and employees) and security deposits are classified under this category.

The Company does not have financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments), financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets at fair value through profit or loss as of September 30, 2019.

*Impairment of Financial Assets*

Further disclosures relating to impairment of financial assets are also provided in the following notes:

- Note 3, *Significant Judgment, Accounting Estimates and Assumptions*
- Note 7, *Trade and Other Receivables*

The Company recognizes an allowance for ECL for all debt instruments not held at fair value through profit or loss. ECL is based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

*General Approach for Cash and Security Deposits*

ECL is recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECL is provided for credit loss that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit loss expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

For cash in banks, the Company assessed that placements are with reputable counterparty banks that possess good credit ratings.

For security deposits, the Company used external benchmarking which compares the internal credit risk rating of certain debtor with the external rating agencies and use the latter's estimate of probability of default (PD) for similar credit risk rating.

*Simplified Approach for Trade Receivables*

The Company applies a simplified approach in calculating ECL. Therefore, the Company does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECL at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Company considers a financial asset in default when contractual payments are 120 days past due. However, in certain cases, the Company may also consider a financial asset to be in default when internal or external information indicates that the Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Company. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Initial Recognition, Subsequent Measurement and Impairment of Financial Assets Prior to the Adoption of PFRS 9

Financial Assets

Date of Recognition

The Company recognizes a financial asset in the interim consolidated statements of financial position when it becomes a party to the contractual provisions of a financial instrument. All regular way purchases and sales of financial assets are recognized on the trade date, i.e., the date that the Company commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of the assets within the period generally established by regulation or convention in the market place.

Initial Recognition of Financial Assets

Financial assets are recognized initially at fair value of the consideration given (in the case of an asset). Transaction costs are included in the initial measurement of all financial assets, except for financial instruments measured at fair value through profit or loss (FVPL). Fair value is determined by reference to the transaction price or other market prices. If such market prices are not readily determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing market rate of interest for similar instruments with similar maturities.

Classification of Financial Instruments

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

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

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

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate. Gains and losses are recognized in consolidated statements of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Loans and receivables are included in current assets if maturity is within 12 months from reporting date. Otherwise, these are classified as noncurrent assets.

The Company's cash, trade and other receivables (excluding advances to suppliers and officers and employees), and security deposits (classified under other noncurrent assets) are classified under this category.



### Impairment of Financial Assets

The Company assesses at each reporting date whether there is objective evidence that a financial or group of financial assets is impaired. Objective evidence includes observable data that comes to the attention of the Company about loss events such as but not limited to significant financial difficulty of the counterparty, a breach of contract, such as a default or delinquency in interest or principal payments, probability that borrower will enter bankruptcy or other financial reorganization. If there is objective evidence that an impairment loss on financial assets carried at amortized cost (e.g., receivables) has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material. The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the interim consolidated statements of comprehensive income.

The Company first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant.

If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in the group of financial assets with similar credit risk and characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the estimated impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is reduced by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the interim consolidated statements of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

### Financial Liabilities

#### Initial Recognition and Subsequent Measurement Prior to and Upon Adoption of PFRS 9

##### Other Financial Liabilities

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

Other financial liabilities are initially recognized at fair value of the consideration received, less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method.

All interest-related charges are recognized as expense and included under “Interest expense” account in the interim consolidated statements of comprehensive income.

The amortized cost of a financial liability is the amount at which the financial liability is measured at initial recognition minus the principal repayments plus or minus the cumulative accretion using the effective interest method of any difference between that initial amount and the maturity amount. Interest expense, including premiums payable on settlement or redemption and direct issue costs, is charged to interim consolidated statements of comprehensive income on an accrual basis using the effective interest method. Interest expense is added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

The Company’s trade and other payables (excluding statutory payables), loans payable, finance lease liabilities and cash bond deposits are classified under this category.

*“Day 1” Difference.* Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Company recognizes the difference between the transaction price and fair value (a “Day 1” difference) in the interim consolidated statements of comprehensive income. In cases where there is no observable data on inception, the Company deemed the transactions price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Company determines the appropriate method of recognizing the “Day 1” difference.

#### Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the interim consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the interim consolidated statements of financial position.

#### Derecognition of Financial Assets and Liabilities

*Financial Assets.* A financial asset (or, when applicable a part of a financial asset or part of a Company of similar financial assets) is derecognized when:

- a. the right to receive cash flows from the asset has expired;
- b. the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass through’ arrangement; or
- c. the Company has transferred its right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the interim consolidated statements of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Company could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the interim consolidated statements of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

#### Inventories

The Company recognizes inventories when the risk and rewards are transferred to the Company usually upon receipt from local suppliers and upon delivery of the goods to the carrier from importation.

Inventories are valued at the lower of cost and net realizable value (NRV). The purchase price and costs incurred in bringing each product to its present location are accounted for as follows:

*Raw Materials and Feeds Supplements, Supplies and Animal Health Products – Weighted Average Method.* All costs directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities are included as part of costs of these inventories.

*Finished Goods and Factory Stocks and Supplies Inventories – Weighted Average Method.* Include direct materials, labor and manufacturing overhead costs. All costs directly attributable to acquisition such as the purchase price, import duties and other taxes that are not subsequently recoverable from taxing authorities are included as part of costs of these inventories.

NRV of finished goods is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. NRV of raw materials and supplies is the current replacement cost.

#### Livestock

Livestock include day-old chicks after undergoing hatching process and chicks which are grown as chicken broilers. They are accounted for as biological assets and are measured at fair value less costs to sell in accordance with PAS 41, *Agriculture*.

The valuation takes into consideration input based on hatchability rate of eggs, mortality of chicks being grown as chicken broilers and estimated future cash flows to be incurred in hatching the eggs and growing the chicks. The market prices are derived from observable market prices. The prices are reduced for costs incurred in dressing the chicken and freight costs to market, to arrive at a net fair value at farm gate.

#### Other Assets

Other current assets consist of creditable withholding tax (CWT), prepayments, and input value added tax (VAT).

*CWT.* CWT represents the amount withheld by the Company's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

*Prepayments.* Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to expense as these are consumed in operations or expire with the passage of time.

Prepayments are classified as current asset when the cost of goods or services related to the prepayment are expected to be incurred within one year or the Company's normal operating cycle, whichever is longer. Otherwise, prepayments are classified as noncurrent assets.

*VAT.* Revenue, expenses and assets are recognized net of the amount of VAT except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

The net amount of VAT recoverable from the tax authorities is recognized under "Other current assets" account in the interim consolidated statements of financial position.

Other noncurrent assets consist of security deposits (disclosed under financial instruments), project development costs, computer software and others.

*Project Development Costs.* These costs represent capitalized development costs which are accounted for under the cost model. The cost of the asset is the amount of cash paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition or production.

Costs associated with research activities are recognized as expense in the consolidated statements of comprehensive income as these are incurred. Costs that are directly attributable to the development phase of the Company's aqua feeds and aqua culture projects are recognized as project development cost provided they meet the following recognition requirements:

- a. there is a demonstration of technical feasibility of the prospective product for internal use or sale;
- b. the intangible asset will generate probable economic benefits through internal use or sale;
- c. sufficient technical, financial and other resources are available for completion; and,
- d. the intangible asset can be reliably measured.

All other development costs are expensed as incurred.

*Security Deposits.* These represent rental deposits paid by the Company and will be returned at the end of the lease term. These qualify as financial assets and are also disclosed under financial instruments.

*Computer Software.* Computer software acquired is measured on initial recognition at cost. Subsequent to initial recognition, computer software is carried at cost less any accumulated amortization and any impairment losses. Internally generated computer software, excluding capitalized development costs, is not capitalized and expenditure is charged against profit or loss in the year in which the expenditure is incurred.

Computer software is amortized over the economic useful life of three years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method for computer software are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Gains or losses arising from disposition of computer software measured as the difference between the disposal proceeds and the carrying amount of the asset, are recognized in profit or loss when the asset is derecognized.

#### Property, Plant and Equipment

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

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for major additions, improvements and renewals are capitalized. Expenditures for repairs and maintenance are charged to expense as incurred.

Subsequent to initial recognition at cost, property, plant and equipment (except for transportation equipment) are carried at appraised values, as determined by independent appraisers, less any subsequent accumulated depreciation, amortization and any accumulated impairment losses. Fair market value is determined based on appraisals made by external professional valuers by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and a knowledgeable willing seller in an arm's length transaction as at the valuation date. Any revaluation reserve is credited to "Revaluation increase on property, plant and equipment" account presented under the equity section of the interim consolidated statements of financial position. Any decrease in the revaluation surplus of the same asset is charged to other comprehensive income to the extent of any credit balance existing in the revaluation surplus in respect of that asset and the remaining decline, if any, is recognized in the interim consolidated statements of comprehensive income.

Annually, an amount from the "Revaluation reserve" account is transferred to "Retained Earnings" under the equity section in the interim consolidated statements of financial position for the depreciation relating to the revaluation reserve, net of related taxes. Upon disposal, any revaluation reserve relating to the particular asset sold is transferred to "Retained Earnings." Revaluations are performed with sufficient regularity ensuring that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

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

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

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

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

Construction-in-progress (CIP) pertains to properties under construction and is stated at cost. Cost includes costs of construction, labor and other direct costs. CIP is not depreciated until such time that the relevant assets are completed and available for operational use.

Fully depreciated assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An item of property, plant and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the interim consolidated statements of comprehensive income in the year the item is derecognized.

#### Investment Properties

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

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

Any gain or loss resulting from either a change in the fair value or the sale of an investment property is immediately recognized in the interim consolidated statements of comprehensive income.

No depreciation charges are recognized on investment properties accounted for under the fair value method.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

Rental income and operating expenses from investment properties are reported as part of "Other operating income" and "Operating expenses," respectively, in the interim consolidated statements of comprehensive income.

Transfers are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Company accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

#### Impairment of Nonfinancial Assets

Nonfinancial assets consisting of property, plant and equipment, computer software, project development cost and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its recoverable amount, the asset or cash-generating unit is written down to its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the interim consolidated statements of comprehensive income.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statements of comprehensive income unless the asset is carried at revalued amount, in which case, the reversal is treated as a revaluation increase.

After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over remaining useful life.

### Equity

*Capital Stock and Additional Paid-in Capital (APIC).* Capital stock is measured at par value for all shares issued. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as APIC. Incremental costs incurred directly attributable to the issuance of new shares are recognized in equity as deduction from proceeds, net of tax. Unpaid subscriptions are recognized as a reduction of subscribed capital shares.

*OCI.* OCI comprises of items of income and expense that are not recognized in profit or loss for the year in accordance with PFRS. OCI of the Company pertains to revaluation reserve on property, plant and equipment and rereasurement gains and losses on retirement liability.

*Retained Earnings (Deficit).* Retained earnings (deficit) represents the accumulated net income or losses, net of any dividend declaration.

Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

### Earnings (Loss) per Share

The Company presents basic and diluted earnings (loss) per share. Basic earnings (loss) per share is calculated by dividing the profit (loss) attributable to equity holders of the Company by the weighted average number of common shares outstanding during the year, excluding common shares purchased by the Company and held as treasury shares, if any. Diluted earnings (loss) per share is calculated in the same manner, adjusted for the effects of all the dilutive potential common shares.

### Revenue Recognition

The Company is engaged in the growing, production and distribution of chicken broilers, either as live or dressed; manufacture and distribution of animal feeds, animal health and nutritional products, and feed supplements and production of day-old chicks and pullets.



Revenue from sale of live or dressed chicken, animal feeds, animal health and nutritional products, and feed supplements and day-old chicks is recognized at the point in time when control of the asset is transferred to the customer, generally on delivery. The normal credit term is 30 to 90 days upon delivery.

The Company considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated. In determining the transaction price, the Company considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognized will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

#### Rights of Return

For sale of animal and aqua feeds, certain contracts provide a customer with a right to return the goods within a specified period. The Company uses the expected value method to estimate the goods that will not be returned because this method best predicts the amount of variable consideration to which the Company will be entitled. The requirements in PFRS 15 on constraining estimates of variable consideration are also applied in order to determine the amount of variable consideration that can be included in the transaction price. For goods that are expected to be returned, instead of revenue, the Company recognizes a refund liability. A right of return asset (and corresponding adjustment to cost of sales) is also recognized for the right to recover products from a customer.

#### Contract Balances

##### *Contract Assets*

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Company performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognized for the earned consideration that is conditional.

##### *Trade receivables*

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in financial instruments – initial recognition and subsequent measurement.

##### *Contract Liabilities*

A contract liability is the obligation to transfer goods or services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers goods to the customer, a contract liability is recognized when the payment is made, or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Company performs under the contract.

As of September 30, 2019, the Company does not have contract assets and contract liabilities.

*Right of Return Assets*

Right of return asset represents the Company's right to recover the goods expected to be returned by customers. The asset is measured at the former carrying amount of the inventory, less any expected costs to recover the goods, including any potential decreases in the value of the returned goods. The Company updates the measurement of the asset recorded for any revisions to its expected level of returns, as well as any additional decreases in the value of the returned products.

*Refund Liabilities*

A refund liability is the obligation to refund some or all of the consideration received (or receivable) from the customer and is measured at the amount the Company ultimately expects it will have to return to the customer. The Company updates its estimates of refund liabilities (and the corresponding change in the transaction price) at the end of each reporting period. Refer to above accounting policy on variable consideration.

As of September 30, 2019, the Company's estimated right of return assets and refund liabilities is not material.

Prior to January 1, 2018, revenue is recognized to the extent that the economic benefits will flow to the Company and the amount of the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received, excluding discounts and rebates. The following specific recognition criteria must also be met before revenue is recognized.

*Sale of Goods.* Revenue is recognized when the risk and rewards of ownership of the goods have passed to the buyer.

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

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

*Interest.* Interest income is recognized as the interest accrues taking into account the effective yield on the assets.

*Other Income.* Other income is recognized when earned.

Cost and Expense Recognition

Costs and expenses are recognized in the interim consolidated statements of comprehensive income upon consumption of goods, utilization of the services or at the date these are incurred.

Interest expense is reported on an accrual basis and is recognized using the effective interest method.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
- d. there is a substantial change to the asset.

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

*Company as a Lessee.* Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases. Operating lease payments are recognized as an expense in the interim consolidated statements of comprehensive income on a straight-line basis over the lease term.

Leases where the lessor transfers substantially all the risks and rewards of ownership are classified as finance lease. Liability is recognized in the interim consolidated statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of minimum lease payments, determined at the inception of the lease and is subsequently measure at amortized cost using effective interest method.

*Company as a Lessor.* Leases where the Company retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which these are earned.

#### Employee Benefits

*Short-term benefits.* The Company provides short-term benefits to its employees in the form of basic pay, 13th month pay, bonuses, employer's share on government contribution, and other short-term benefits.

*Retirement Benefits.* The Company has a partially funded, noncontributory retirement plan, administered by trustees, covering their permanent local employees. Costs of retirement benefits are actuarially determined using the projected unit credit method. This method reflects service rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Company recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements; and net interest expense or income in the interim consolidated statements of comprehensive income.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment; and the date that the Company recognizes restructuring-related costs.

Net interest on the net retirement liability or asset is the change during the period in the net retirement liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net retirement liability or asset. Net interest is calculated by applying the discount rate to the net defined benefit liability or asset.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held in trust and managed by a trustee bank. Plan assets are not available to the creditors of the Company, nor can they be paid directly to the Company. The fair value of the plan assets is based on the market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The defined benefit asset or liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets on which the liabilities are to be settled directly. The present value of the defined benefit liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the reporting date.

#### Income Taxes

*Current tax.* Current tax is the expected tax payable on the taxable income for the year, using tax rate enacted or substantively enacted at the reporting date.

*Deferred tax.* Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) in effect at the reporting date.

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

#### Foreign Currency Transactions

The Company determines its own functional currency and items included in the interim consolidated financial statements are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency exchange rate ruling at the transaction date.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to the interim consolidated statements of comprehensive income. Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### Related Party Transactions

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

#### Provisions and Contingencies

Provisions for legal claims are recognized when the Company has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the interim consolidated financial statements. These are disclosed in the notes to interim consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is not recognized in the interim consolidated financial statements but disclosed in the notes to interim consolidated financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

Post year-end events that provide additional information about the Company's financial position at the end of reporting year (adjusting events) are reflected in the interim consolidated financial statements. Post year-end events that are non-adjusting events are disclosed in the notes to interim consolidated financial statements when material.

#### Segment Reporting

Operating segments are components of the Company: (a) that engage in business activities from which they may earn revenue and incur expenses (including revenues and expenses relating to transactions with other components of the Company); (b) whose operating results are regularly reviewed by the Company's senior management, its chief operating decision maker, to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available.

For purposes of management reporting, the Company's operating businesses are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

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### **3. Significant Judgment, Accounting Estimates and Assumptions**

The preparation of the Company's interim consolidated financial statements requires management to make judgment, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcome that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

#### Judgment

In the process of applying the Company's accounting policies, management has made the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the interim consolidated financial statements:

*Determination of Operating Segments.* Determination of operating segments is based on the information about components of the Company that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Company's chief operating decision maker, which is defined to be the Company's BOD, in order to allocate resources to the segment and assess its performance. The Company reports separate information about an operating segment that meets any of the following quantitative thresholds: (a) its reported revenue, including both sales to external customers and intersegment sales or transfers, is 10% or more of the combined revenue, internal and external, of all operating segments; (b) the absolute amount of its reported profit or loss is 10% or more of the greater, in absolute amount, of (i) the combined reported profit of all operating segments that did not report a loss and (ii) the combined reported loss of all operating segments that reported a loss; and (c) the assets of the segment are 10% or more of the combined assets of all operating segments.

The Company has three reportable operating segments which are its foods, feeds and farms segments, and one geographical segment as the Company's operations are located in the Philippines. The Company operates and derives all its revenue from domestic operations. Thus, no further disclosures of geographical segments are necessary.

*Assessment of Legal Contingencies.* The estimate of the probable costs for the resolution of possible claims have been developed in consultation with outside counsel handling the Company's defense in these matters and is based upon an analysis of potential results.

There are on-going litigations filed against the Company and its subsidiaries that management believes would not have a material adverse impact on the Company's financial condition and results of operations.

*Realizability of Insurance Claims Receivable.* As discussed in Note 7, the Company has an outstanding claim for typhoon damages from an insurance company. The Company's claim is now subject of a court proceeding that is currently ongoing. The determination of whether the insurance claims receivable is realizable requires judgment by management. For purposes of ECL, the Company is also required to estimate the amount and timing of the future cash inflows from the resolution of this case as well the related effective interest rate used to discount the cashflows.

Management and its legal counsel believe that the ongoing litigation on the remaining claims will not result in any significant adverse impact on the Company's financial condition and results of operations.

*Classification of Leases.* The Company classifies leases in accordance with the substance of the contractual agreement and the transfer of the risks and benefits incidental to the ownership of the leased property. Leases, where management has determined that the risks and rewards related to the leased property are transferred to the Company, are classified as finance leases. On the other hand, leases entered into by the Company, where management has determined that the risks and rewards of the leased property are retained with the lessor, are accounted for as operating leases.

*Operating Lease - Company as Lessor.* Leases where the Company does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. The Company has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a major part of the economic life of the commercial property and the present value of the minimum lease payments not amounting to substantially all of the fair value of the commercial property, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and amortized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Rental income recorded under "Other operating income" account in the interim consolidated statements of comprehensive income amounted to ₱9.6 million and ₱14.3 million for the nine months period ended September 30, 2019 and 2018, respectively (see Notes 17 and 24).

*Operating Lease - Company as Lessee.* The Company entered into various lease agreements covering several warehouses to house its finished goods, raw materials and other inventories. Each of the lease agreements is renewable for another lease term upon mutual consent of both parties.

Rent expense charged to operations amounted to ₱20.8 million and ₱12.1 million for the nine months period ended September 30, 2019 and 2018, respectively (see Notes 16 and 24).

*Finance Leases.* The Company has entered into finance lease agreements covering its transportation equipment. The Company has determined that it obtains the significant risks and rewards of ownership of this transportation equipment and accordingly the lease agreements are accounted for under finance lease (see Note 24).

*Capitalization of Development Costs.* Careful judgment by management is applied when deciding whether the recognition requirements for development costs relating to the Company's aqua feeds and aqua culture projects, in contrast with research, have been met. This is necessary as the economic success of any product development is uncertain and may be subject to future technical problems at the time of recognition. Judgments are based on the information available at the end of each reporting period. In addition, all internal activities related to the research and developments of new products are continuously monitored by the Company's management. The Company has stopped developing aqua feeds and aqua culture projects.

Project development costs as at September 30, 2019 and December 31, 2018 amounting to ₱31.4 million was fully provided with allowance for impairment losses (see Note 9).

*Classification of Property.* The Company classifies its property as owner-occupied based on its current intentions where the property will be used. When the property is held for capital appreciation or when management is still undecided as to its future use, land is classified as investment property. Property used in operations are classified as owner-occupied property and included as part of property, plant and equipment.

#### Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the interim consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

*Determination of Impairment Losses on Trade and Other Receivables.* Starting January 1, 2018, the Company uses a provision matrix to calculate ECLs for receivables. The provision rates are based on days past due.



The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. To search the most relevant macroeconomic variable with a strong linear relationship on the past due behavior of the portfolio, regression analysis was applied to the following: inflation, unemployment, movement of Philippine peso against the US dollar, percentage change in gross domestic product and consumer price index. Among these factors, the forward-looking information on inflation was determined to have a strong and symmetrical relationship with the past due behavior of the Company's trade receivable portfolio. For instance, if forecast economic conditions (i.e., inflation) are expected to deteriorate over the next year which can lead to an increased number of defaults, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECL is a significant estimate. The amount of ECL is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECL on the Company's receivables is disclosed in Note 7. Prior to January 1, 2018, allowance is made for specific accounts, where objective evidence of impairment exists. The Company evaluates these accounts based on available facts and circumstances, including, but not limited to, the length of the Company's relationship with the customers, the customers' current credit status, average age of accounts, collection experience, and historical loss experience. The Company reviews the age and status of receivables and identifies accounts that are to be provided with allowance on a continuous basis.

The Company recognized provision for impairment losses on trade and other receivables amounting to ₱2.0 million and ₱2.9 million for the nine months period ended September 30, 2019 and 2018, respectively, (see Note 7).

The carrying value of trade and other receivables amounted to ₱1,379.6 million and ₱1,467.7 million as at September 30, 2019 and December 31, 2018, respectively. Allowance for impairment losses on trade and other receivables as at September 30, 2019 and December 31, 2018 amounted to ₱289.8 million and ₱287.8 million, respectively (see Note 7).

*Estimating Fair Value of Biological Assets.* The fair values of the Company's livestock are based on the most reliable estimate of market prices at the point of harvest.

The following table provides a description of the various biological asset types, shows the valuation techniques used in measuring Level 3 fair values, as well as the significant unobservable inputs used. Refer to Note 2 for further detail on Level 3 fair value measurement.

Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Day-old chicks – these are hatched from eggs with hatching period of 21 days.	Income approach. The valuation model considers the net cash flows expected to be generated from the sale of day-old chicks. The cash flow projections include specific estimates for the hatching period. The valuation model also considers the hatchability rate. Due to the short hatching period, discounting is generally ignored.	Inclusive of: <ul style="list-style-type: none"> <li>▪ Estimated future sale price of day-old chicks.</li> <li>▪ Estimated gross margin based on forecasted sales.</li> <li>▪ Estimated hatchability rate.</li> <li>▪ Estimated costs to be incurred in the hatching process.</li> </ul>	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> <li>▪ the estimated sale price was higher (lower);</li> <li>▪ the estimated cash inflows based on forecasted sales were higher (lower);</li> <li>▪ the estimated hatchability rate was higher (lower); or</li> <li>▪ the estimated costs to be incurred in the hatching process were lower (higher).</li> </ul>
Growing broilers – these are grown from chicks for a period of 30 days	Income approach. The valuation model considers the net cash flows expected to be generated from the sale of fully grown broilers as dressed chickens. The cash flow projections include specific estimates for the volume of harvest considering the mortality rates. Due to the short growing period of chicks into broilers, discounting is generally ignored.	Inclusive of: <ul style="list-style-type: none"> <li>▪ Estimated future sale price of dressed chicken.</li> <li>▪ Estimated gross margin based on forecasted sales.</li> <li>▪ Estimated mortality rate.</li> <li>▪ Estimated costs to be incurred in the growing process.</li> </ul>	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> <li>▪ the estimated sale price was higher (lower);</li> <li>▪ the estimated cash inflows based on forecasted sales were higher (lower);</li> <li>▪ the estimated mortality rate was lower (higher); or</li> <li>▪ the estimated costs to be incurred in the growing process were lower (higher).</li> </ul>

*Determination of NRV of Inventories.* The Company, in determining the NRV of inventories, considers any adjustments for obsolescence which is generally 100% allowance on inventories that are damaged or expired or a certain percentage if their selling prices have declined. The amount and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. Inventories are affected by price changes in critical ingredients which are imported and in different market segments of agri-business relating to poultry breeding, feeds and animal health products. An increase in allowance for inventory obsolescence and market decline would increase recorded operating expense and decrease current assets.

Inventories carried at lower of costs or NRV as at September 30, 2019 and December 31, 2018 amounted to ₱635.8 million and ₱936.5 million, respectively. Allowance for inventory obsolescence as at September 30, 2019 and December 31, 2018 amounted to ₱2.4 million (see Note 8).

*Revaluation of Property, Plant and Equipment (Excluding Transportation Equipment) and Investment Properties.* The Company carries its investment properties at fair value, with changes in fair value being recognized in the interim consolidated statements of comprehensive income. In addition, the Company measures property, plant and equipment (excluding transportation equipment) at revalued amounts, with changes in fair value being recognized in OCI. For these assets (except for land), a valuation methodology based on cost reproduction approach was used, as there is a lack of comparable market data because of the nature of the properties.

The Company's land, which are classified as part of property, plant and equipment and investment properties, are valued by reference to transactions involving properties of a similar nature, location and condition.

In determining the appraised values of the property, plant and equipment and investment properties, the Company hired an independent firm of appraisers as at December 31, 2018. In order to arrive at a reasonable valuation, the appraisers personally inspected the properties, requested information from reputable sources and considered the following: (a) utility and market value of the land; (b) cost of reproduction of the replaceable property; (c) current prices for similar used property in the second hand market; (d) age, condition, past maintenance, and present and prospective serviceability in comparison with new assets of like kind; (e) accumulated depreciation; and, (f) recent trend and development in the industry concerned.

The fair values of the property, plant and equipment (except for land) and the building under investment properties were arrived at using the Cost of Reproduction Approach. Under this approach, the most significant inputs are estimates of the current cost of reproduction of the replaceable property in accordance with the current market prices for materials, labor, manufactured equipment, contractor's overhead and profit and fees, but without prior provision for overtime or bonuses for labor and premiums for materials. Adjustments are then made to reflect depreciation resulting from physical deterioration and obsolescence to arrive at a reasonable valuation which is an unobservable input.

The fair values of the land classified as part of investment properties and under property, plant and equipment was derived using the Sale Comparison Approach. Under this approach, the value of the land is based on the sales and listings of comparable properties registered within the vicinity. This approach requires the establishment of comparable properties by reducing reasonable comparative sales and listings to a common denominator. This is done by adjusting the differences between the subject property to those actual sales and listings regarded as comparable. The properties used as bases of comparison are situated within the immediate vicinity of the subject property. The comparison was premised on factors such as location, size and shape of the land, and time element which are the most significant unobservable inputs on the valuation. Although this input is subjective, management considers that the overall valuation would not be materially affected by reasonable and possible alternative assumptions.

Fair market value is defined as the highest price in terms of money which a property will bring if exposed for sale in the open market, allowing reasonable time to find a purchaser who buys with knowledge of all the uses to which it is adapted and for which it is capable of being used.

The appraiser also considered the concept of value in use which is based on the highest and most profitable continuous use or that which may reasonably be expected to produce the greatest net return over a given period of time.

As of December 31, 2018, the Company's property, plant and equipment (except transportation equipment) were re-appraised by an independent firm of appraisers resulting to an additional revaluation reserve of ₱90.7 million before tax effect (see Note 10). Also, in December 2018, the Company's investment properties were re-appraised by an independent firm of appraisers resulting to an additional fair value gain of ₱83.4 million (see Note 11).

The carrying value of property, plant and equipment amounted to ₱1,026.6 million and ₱966.9 million as at September 30, 2019 and December 31, 2018, respectively (see Note 10). The carrying value of investment properties amounted to ₱644.6 million and ₱629.9 million as at September 30, 2019 and December 31, 2018 respectively (see Note 11).

*Estimation of Useful Lives of Property, Plant and Equipment (Except Land) and Computer Software.* The Company reviews annually the estimated useful lives of property, plant and equipment (except land) and computer software based on expected asset's utilization, market demands and future technological development consistent with the Company's pursuit of constant modernization of the equipment fleet to ensure the availability, reliability and cost-efficiency of the equipment. It is possible that the factors mentioned may change in the future, which could cause a change in estimated useful lives. A reduction in estimated useful lives could cause a significant increase in depreciation and amortization of property, plant and equipment and computer software.

The carrying amount of property, plant and equipment and computer software as at September 30, 2019 and December 31, 2018 follows:

	<b>September 2019</b>	December 2018
Property, plant and equipment* (see Note 10)	<b>₱639,395,231</b>	₱581,647,750
Computer software (see Note 9)	<b>7,458,611</b>	9,808,272
	<b>₱646,853,842</b>	₱591,456,022

*\*Excluding the carrying amount of land amounting to ₱387.2 million and ₱385.3 million as at September 30, 2019 and December 31, 2018, respectively.*

*Assessment of Impairment of Nonfinancial Assets.* The Company assesses at the end of each reporting period whether there is any indication that an asset may be impaired.

In assessing whether there is any indication that an asset may be impaired, the Company considers the external and internal sources of information. External sources of information include but are not limited to unexpected significant decline in market value and any other significant changes with an adverse effect on the Company, whether it had taken place during the period or will take place in the near future in the market, economic or legal environment in which the entity operates or in the market to which the asset is dedicated. Internal sources of information include evidence of obsolescence or physical damage on an asset, significant changes with an adverse effect on the Company whether it had taken place during the period, or are expected to take place in the near future, to the extent to which, or in a manner in which, an asset is used or is expected to be used, and any other evidence that indicates that the economic performance of an asset is, or will be, worse than expected.

The aggregate carrying value of property, plant and equipment, and computer software as at September 30, 2019 and December 31, 2018 amounted to ₱1,034.1 million and ₱976.8 million (see Notes 9 and 10).

*Estimation of Retirement Benefits.* The cost of the defined benefit pension plan and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the interest rates of government bonds. The mortality rate is based on publicly available mortality tables for the Philippines. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases and pension increases consider historical rate increases as well as expected future inflation rates.

Further details about pension obligations are provided in Note 19.

The estimated present value of defined benefit obligation amounted to ₱108.8 million and ₱105.1 million as at September 30, 2019 and December 31, 2018, respectively, while fair value of plan assets amounted to ₱3.6 million as at September 30, 2019 and December 31, 2018 (see Note 19).

*Realizability of Deferred Tax Assets.* The Company's assessment on the recognition of deferred tax assets on nondeductible temporary differences is based on the forecasted taxable income of the following reporting period. This forecast is based on the Company's past results and future expectations on revenues and expenses.

No deferred tax assets were recognized on certain deductible temporary differences and carryforward benefits of NOLCO and MCIT with income tax effect amounting to ₱40.9 million, and ₱16.2 million as at September 30, 2019 and December 2018, respectively (see Note 20). Management has assessed that it may not be probable that future taxable profit will be available in the near future against which these deferred tax assets can be utilized.

Deferred tax assets recognized by the Company amounted to ₱128.9 million and ₱126.8 million as at September 30, 2019 and December 31, 2018, respectively (see Note 20).

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#### **4. Deconsolidation of a Subsidiary**

On July 26, 2017, the BOD and stockholders of PFCI approved the shortening of the corporate life of PFCI until March 31, 2019. PFCI which has ceased operations since 2005, was placed under the liquidation process. The Company deconsolidated PFCI and recognized a gain of ₱28.2 million on deconsolidation.

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#### **5. Segment Reporting**

##### Business Segments

For management purposes, the Company is 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.

The industry segments where the Company operates are as follows:

- a. The Food segment is engaged in the growing, production and distribution of chicken broilers, either as live or dressed. Its products are distributed to wet markets and supermarkets.
- b. The Feeds segment caters to the feed requirement of the poultry growers' industry. It is engaged in the manufacture and distribution of animal 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

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. Segment liabilities include all operating liabilities and consist principally of accounts, wages, taxes currently payable and accrued liabilities. Segment assets and liabilities do not include deferred tax assets and liabilities.

Intersegment Transactions

Segment revenues, expenses and performance include sales and purchases between business segments and between geographical segments. Such sales and purchases are eliminated in consolidation. The Company generally accounts for intersegment sales and transfers at cost.

Segment Financial Information

The segment financial information is presented as follows (in thousands):

	September 30, 2019 - Unaudited (in thousand Pesos)					
	Foods	Feeds	Farms	Corporate & Others	Eliminations	Consolidated
<b>REVENUES</b>						
Sale of goods	P2,748,257	P2,797,670	P413,690	P-	P-	P5,959,617
<b>COST AND OTHER OPERATING EXPENSES</b>						
Cost of goods sold excluding depreciation	2,696,423	2,542,582	303,576	-	-	5,542,581
Operating expenses excluding depreciation	69,707	109,716	-	206,243	-	385,666
Depreciation and amortization	3,207	48,540	268	18,923	-	70,938
Other operating income	-	(14,905)	-	(9,625)	-	(24,530)
	2,769,337	2,685,933	303,844	215,541	-	5,974,655
<b>SEGMENT OPERATING PROFIT (LOSS)</b>	(P21,080)	P111,737	P109,846	(P215,541)	P-	(15,038)
Other charges -net						(84,590)
Loss before income tax						(99,628)
Tax expense						(5,970)
Net loss						(105,598)
<b>ASSETS AND LIABILITIES</b>						
Segment assets	P464,551	P1,473,840	P325,858	P1,715,622	P-	P3,979,871
Segment liabilities	P357,437	P156,020	P852	P2,056,733	P-	P2,571,042
<b>OTHER INFORMATION</b>						
Capital expenditures	P15,689	P110,302	P273	P20,778	P-	P147,042
Non-cash expenses other than depreciation and impairment losses	P-	P-	P-	P-	P-	P-

September 30, 2018 - Unaudited (in thousand Pesos)						
	Foods	Feeds	Farms	Corporate & Others	Eliminations	Consolidated
<b>REVENUES</b>						
Sale of goods	₱2,749,378	₱2,889,388	₱448,567	–	–	₱6,087,333
<b>COST AND OTHER OPERATING EXPENSES</b>						
Cost of goods sold excluding depreciation	2,414,862	2,678,976	431,923	–	–	5,525,761
Operating expenses excluding depreciation	42,938	122,770	–	245,972	–	411,680
Depreciation and amortization	2,576	33,768	281	8,047	–	44,672
Other operating income	–	(4,056)	–	(14,068)	–	(18,124)
	2,460,376	2,831,458	432,204	239,951	–	5,963,989
<b>SEGMENT OPERATING PROFIT (LOSS)</b>						
	₱289,002	₱57,930	₱16,363	(₱239,951)	–	₱123,344
Other charges -net						(45,332)
Income before tax						78,012
Tax expense						(22,045)
Net income						₱55,967
<b>ASSETS AND LIABILITIES</b>						
Segment assets	₱396,200	₱1,014,116	₱323,929	₱1,793,921	₱–	₱3,528,166
Segment liabilities	₱710,758	₱153,701	₱10,159	₱1,164,759	₱–	₱2,039,377
<b>OTHER INFORMATION</b>						
Capital expenditures	₱2,832	₱119,102	₱2,427	₱23,640	₱–	₱148,001
Non-cash expenses other than depreciation and impairment losses	₱–	₱–	₱–	₱–	₱–	₱–

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.

## 6. Cash

This account consists of:

	<b>Unaudited September 2019</b>	Audited December 2018
Cash on hand	<b>₱2,253,984</b>	₱1,814,535
Cash in banks	<b>187,516,570</b>	215,898,305
	<b>₱189,770,554</b>	₱217,712,840

Cash in banks earn interest at prevailing bank deposit interest rates of 0.1% to 0.5% as at September 30, 2019 and December 31, 2018. Interest income on cash in banks amounted to ₱0.2 million and ₱0.6 million for the nine months period ended September 30, 2019 and 2018, respectively (see Note 18).



## 7. Trade and Other Receivables

This account consists of:

	<b>Unaudited September 2019</b>	Audited December 2018
Trade	<b>₱982,541,284</b>	₱1,029,946,116
Advances to:		
Suppliers	<b>278,256,843</b>	324,918,311
Officers and employees (Note 21)	<b>10,295,970</b>	12,149,797
Nontrade (Note 21)	<b>202,205,126</b>	208,113,323
Insurance claims receivable	<b>155,171,065</b>	155,171,065
Others	<b>40,927,714</b>	25,176,797
	<b>1,669,398,002</b>	1,755,475,409
Allowance for impairment losses	<b>(289,807,786)</b>	(287,775,937)
	<b>₱1,379,590,216</b>	₱1,467,699,472

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

Advances to suppliers pertain to advance payments on purchases of goods and services to be purchased in the Company's normal course of business. These goods and services are expected to be delivered within a year

Advances to officers and employees are unsecured, noninterest-bearing and subject to salary deduction or liquidation for a specified period of time of about one year (see Note 21).

Nontrade receivables comprise mainly of receivables arising from incidental income of the Company such as tolling, rentals, hatching, hauling and laboratory analysis charges. These are settled within 30-90 days and are noninterest-bearing.

The Company has an outstanding claim for typhoon damages from Charter Ping An Insurance Corporation. 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. On August 17, 2016, the Company received ₱58.9 million as partial settlement. The Company continues to legally pursue the remaining outstanding balance of ₱157.5 million as at September 30, 2019. The court proceedings for the remaining claims were remanded to the Regional Trial Court of Malolos City in accordance with the resolution issued by the Court of Appeals on February 13, 2018. Management and its legal counsel believe that the ongoing litigation on the remaining claims will not result in any significant adverse impact on the Company's financial condition and results of operations.

Other receivables comprise mainly of unsecured and noninterest-bearing short term deposits and claims from Philippine Social Security System.

Movements in the allowance for impairment losses account as at September 30, 2019 and December 31, 2018 are shown below:

	<b>Unaudited September 2019</b>	Audited December 2018
Balance at beginning of year	<b>₱287,775,937</b>	₱263,722,639
PFRS 9 transition adjustment	-	1,077,660
Balance at beginning of year, restated	<b>287,775,937</b>	264,800,299
Provision (Note 16)	<b>2,031,849</b>	22,975,638
	<b>₱289,807,786</b>	₱287,775,937

## 8. Inventories and Livestock

### Inventories

This account consists of:

	<b>Unaudited September 2019</b>	Audited December 2018
Inventories:		
Finished goods		
At cost	<b>₱200,487,916</b>	₱214,864,336
At NRV	<b>198,101,053</b>	212,477,473
Raw materials and feeds supplement	<b>296,790,928</b>	375,087,029
Supplies and animal health products	<b>46,318,829</b>	84,244,316
	<b>541,210,810</b>	671,808,818
Livestock:		
Finished goods	<b>19,019,940</b>	161,757,394
Raw materials	<b>24,164,975</b>	32,997,382
Day-old chicks	<b>41,084,222</b>	66,559,169
Broilers	<b>10,315,135</b>	3,405,059
	<b>94,584,272</b>	264,719,004
	<b>₱635,795,082</b>	₱936,527,822

Inventories are valued at lower of cost or NRV as at September 30, 2019 and December 31, 2018. Inventories charged to cost of goods sold amounted to ₱4,696.7 million and ₱4,826.2 million for the nine months period ended September 30, 2019 and 2018, respectively (see Note 15).

Included under livestock are finished goods and raw materials which pertain to dressed chickens and eggs for hatching which are out of scope of PAS 41.

Livestock

The Company's biological assets pertain to its livestock consisting of day-old chicks and broilers.

Day-old Chicks	Unaudited September 2019	Audited December 2018
Opening balance	₱66,559,169	₱40,527,839
Increase due to production	674,983,554	1,195,439,030
Decrease due to sales, harvest and mortality	(700,458,501)	(1,169,407,700)
	<b>₱41,084,222</b>	<b>₱66,559,169</b>
<hr/>		
Broilers	Unaudited September 2019	Audited December 2018
Opening balance	₱3,405,059	₱481,002
Increase due to production	2,093,327,080	2,559,432,513
Decrease due to sales, harvest and mortality	(2,086,417,004)	(2,556,508,456)
	<b>₱10,315,135</b>	<b>₱3,405,059</b>

**9. Other Assets**

Other Current Assets

This account consists of:

	Unaudited September 2019	Audited December 2018
CWT	₱69,782,825	₱61,023,050
Prepayments	14,073,647	49,694,474
Input VAT	4,182,790	3,422,096
	<b>88,039,262</b>	<b>114,139,620</b>
Allowance for impairment losses	(3,091,532)	(3,091,532)
	<b>₱84,947,730</b>	<b>₱111,048,088</b>

Prepayments mainly pertain to insurance and bond premiums, among others, which are amortized within a year.

Other Noncurrent Assets

This account consists of:

	Unaudited September 2019	Audited December 2018
Project development costs	₱31,368,396	₱31,368,396
Security deposits	11,054,797	3,458,142
Computer software	7,458,611	9,808,272
	<b>49,881,804</b>	<b>44,634,810</b>
Allowance for impairment losses	(31,368,396)	(31,368,396)
	<b>₱18,513,408</b>	<b>₱13,266,414</b>

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 amounting to ₱31.4 million was provided with full valuation allowance as at September 30, 2019 and December 31, 2018.

Security deposits represent rental and other deposits paid by the Company and will be returned at the end of the lease term.

Movements of computer software are as follows:

	Unaudited September 2019	Audited December 2018
<b>Cost</b>		
Balance at beginning of period/year	₱22,457,587	₱15,930,855
Additions	408,916	6,526,732
Balance at end of period/year	22,866,503	22,457,587
<b>Accumulated Depreciation and Amortization</b>		
Balance at beginning of period/year	12,649,315	7,613,654
Depreciation and amortization	2,758,577	5,035,661
Balance at end of period/year	15,407,892	12,649,315
Net carrying amount	₱7,458,611	₱9,808,272

## 10. Property, Plant and Equipment

The composition and movements of this account are presented below:

	September 30, 2019 (Unaudited)								
	At Appraised Values					At Cost			Total
	Land	Machinery and Equipment	Buildings	Leasehold and Land Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress		
<b>Cost</b>									
Balance at beginning of year	₱385,294,702	₱470,452,525	₱141,722,138	₱17,460,394	₱55,605,397	₱128,335,677	₱74,039,319	₱1,272,910,152	
Additions	1,930,000	36,086,127	77,278,606	4,051,958	6,630,488	6,314,719	-	132,291,898	
Reclassification	-	3,446,372	55,254,855	49,500	1,390,564	-	(60,141,291)	-	
Disposals	-	-	-	-	-	(6,067,888)	-	(6,067,888)	
Balance at end of year	387,224,702	509,985,024	274,255,599	21,561,852	63,626,449	128,582,508	13,898,028	1,399,134,162	
<b>Accumulated Depreciation, and Amortization</b>									
Balance at beginning of year	₱-	₱157,083,556	₱45,494,244	₱12,328,581	₱36,585,415	₱54,475,904	₱-	₱305,967,700	
Depreciation and amortization (Notes 15 and 16)	-	37,410,139	7,292,929	734,377	8,687,786	14,053,828	-	68,179,059	
Disposals	-	-	-	-	-	(1,632,530)	-	(1,632,530)	
Balance at end of year	-	194,493,695	52,787,173	13,062,958	45,273,201	66,897,202	-	372,514,229	
<b>Net carrying amount</b>	<b>₱387,224,702</b>	<b>₱315,491,329</b>	<b>₱221,468,426</b>	<b>₱8,498,894</b>	<b>₱18,353,248</b>	<b>₱61,685,306</b>	<b>₱13,898,028</b>	<b>₱1,026,619,933</b>	
	December 31, 2018 (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	
<b>Cost</b>									
Balance at beginning of year	₱325,133,988	₱216,898,218	₱104,678,129	₱15,367,972	₱39,371,631	₱200,317,385	₱18,076,511	₱919,843,834	
Additions	4,890,857	225,254,108	31,901,683	319,316	14,958,356	41,659,725	55,962,808	374,946,853	
Revaluation gain	56,770,858	27,321,180	5,567,749	272,107	813,116	-	-	90,745,010	
Reclassifications/disposals	(1,501,001)	979,019	(425,423)	1,500,999	462,294	(113,641,433)	-	(112,625,545)	
Balance at end of year	385,294,702	470,452,525	141,722,138	17,460,394	55,605,397	128,335,677	74,039,319	1,272,910,152	
<b>Accumulated Depreciation, and Amortization</b>									
Balance at beginning of year	-	134,454,479	36,188,031	11,046,775	26,364,890	138,526,680	-	346,580,855	
Depreciation and amortization (Notes 15 and 16)	-	22,613,422	9,306,213	1,281,805	10,181,705	24,937,188	-	68,320,333	
Reclassifications	-	15,655	-	1	38,820	(108,987,964)	-	(108,933,488)	
Balance at end of year	-	157,083,556	45,494,244	12,328,581	36,585,415	54,475,904	-	305,967,700	
<b>Net carrying amount</b>	<b>₱385,294,702</b>	<b>₱313,368,969</b>	<b>₱96,227,894</b>	<b>₱5,131,813</b>	<b>₱19,019,982</b>	<b>₱73,859,773</b>	<b>₱74,039,319</b>	<b>₱966,942,452</b>	

If all the property, plant and equipment were measured at cost model, the carrying amounts will be as follows:

September 30, 2019 (Unaudited)								
	Land	Machinery and Equipment	Buildings	Leasehold and Land Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost as at September 30, 2019	₱22,359,357	₱439,486,595	₱244,362,558	₱17,405,012	₱58,267,536	₱128,582,508	₱13,898,028	₱924,361,594
Accumulated depreciation and impairment	2,200,059	189,912,006	42,770,132	10,055,939	40,509,327	66,897,202	–	352,344,665
<b>Net carrying amount</b>	<b>₱20,159,298</b>	<b>₱249,574,589</b>	<b>₱201,592,426</b>	<b>₱7,349,073</b>	<b>₱17,758,209</b>	<b>₱61,685,306</b>	<b>₱13,898,028</b>	<b>₱572,016,929</b>

  

December 31, 2018 (Audited)								
	Land	Machinery and Equipment	Buildings	Leasehold and Land Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost as at year end	₱20,429,357	₱399,954,096	₱111,829,097	₱13,303,554	₱50,246,484	₱128,335,677	₱74,039,319	₱798,137,584
Accumulated depreciation and impairment	2,200,059	152,501,867	35,477,203	9,321,562	31,821,541	54,475,904	–	285,798,136
<b>Net carrying amount</b>	<b>₱18,229,298</b>	<b>₱247,452,229</b>	<b>₱76,351,894</b>	<b>₱3,981,992</b>	<b>₱18,424,943</b>	<b>₱73,859,773</b>	<b>₱74,039,319</b>	<b>₱512,339,448</b>

The reconciliation of revaluation reserve is as follows:

	Revaluation Reserve	Deferred Tax Liability (see Note 20)	Net (see Note 22)
Balance as at September 30, 2019	<b>₱454,603,004</b>	<b>(₱136,380,901)</b>	<b>₱318,222,103</b>
Balance as at January 1, 2018	₱375,439,371	(₱112,631,811)	₱262,807,560
Revaluation increase on property, plant and equipment	90,745,010	(27,223,503)	63,521,507
Transfer to retained earnings of revaluation reserve on property, plant and equipment realized through depreciation	(11,581,377)	3,474,413	(8,106,964)
<b>Balance as at December 31, 2018</b>	<b>₱454,603,004</b>	<b>(₱136,380,901)</b>	<b>₱318,222,103</b>

In 2016, property, plant, and equipment with a net book value of ₱37.5 million that were subject to lease arrangements were reclassified to investment properties (see Note 11). The net carrying amount of ₱37.5 million becomes part of the cost of these investment properties. Related revaluation reserve of ₱17.7 million and deferred tax liabilities of ₱5.3 million of these reclassified properties as at December 31, 2016 will be reversed only after the properties are disposed off (see Note 20).

As at September 30, 2019 and December 31, 2018, fully depreciated property, plant and equipment with gross carrying value of ₱58.5 million and ₱27.5 million, respectively, are still in use.

Depreciation and amortization expense follows:

	Unaudited September 2019	Unaudited September 2018
Property, plant and equipment	<b>₱68,179,059</b>	₱44,672,102
Computer software (Note 9)	<b>2,758,577</b>	3,161,629
	<b>₱70,937,636</b>	₱47,833,731

Fair Value Measurement

The Company’s property, plant and equipment (except for transportation equipment and construction in progress) were appraised by an independent firm of appraisers. The latest appraisal report is at October 31, 2018. 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		
		2019	2018	
Land	Sales Comparison Approach	Price per square meter Value adjustments	<b>₱1,300-₱4,500</b> <b>15%-40%</b>	₱1,493-₱1,857 35%-48%
	Valuation Technique	Significant Unobservable Inputs	Remaining useful life	
Machinery and Equipment	Cost Reproduction Approach	Replacement cost less accrued depreciation	3 - 5 years remaining useful life	
Buildings	Cost Reproduction Approach	Replacement cost less accrued depreciation	5 - 10 years remaining useful life	
Land Improvements	Cost Reproduction Approach	Replacement cost less accrued depreciation	2 - 4 years remaining useful life	
Office Furniture, Fixtures and Equipment	Cost Reproduction Approach	Replacement cost less accrued depreciation	2 - 4 years remaining useful life	
Leasehold Improvements	Cost Reproduction Approach	Replacement cost less accrued depreciation	2 - 4 years remaining useful life	

The significant unobservable inputs to fair valuation are as follows:

*Price per square meter:* estimated value prevailing in the real estate market depending on the location, area, shape and time element.

*Value adjustments:* adjustments are made to bring the comparative values in approximation to the investment property taking into account the location, size, architectural features and etc.

*Market approach*

Sales comparison approach involves the comparison of the land to those that are more or less located within the vicinity of the appraised property and are subject of recent sales and offerings. Adjustments were made to arrive at the market value by considering the location, size, shape, utility, desirability and time element.

*Replacement cost less accumulated depreciation*

Replacement cost approach is a method under the cost approach that indicates the value by calculating the current replacement cost of an asset less deductions for physical deterioration and all relevant forms of obsolescence. Depreciation is estimated as evidence by the observed condition and present and prospective serviceability in comparison with new units of like kind.

**11. 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:

	<b>Unaudited September 2019</b>	Audited December 2018
Balance at beginning of year	<b>₱629,884,644</b>	₱540,175,409
Additions	<b>14,749,893</b>	11,211,338
Disposals	-	(4,871,427)
Gain on fair value changes	-	83,369,324
	<b>₱644,634,537</b>	₱629,884,644

In 2018, the Company acquired additional properties pertaining to VDP dressing plant and Davao hatchery. In 2019, the Company disposed investment properties at carrying amount of ₱0.2 million.

The composition of investment properties as at September 30, 2019 and December 31, 2018 are as follows:

	<b>Unaudited September 2019</b>	Unaudited December 2018
Cost	<b>₱432,586,278</b>	₱417,836,385
Cumulative gain on fair value changes	<b>212,048,259</b>	212,048,259
	<b>₱644,634,537</b>	₱629,884,644

#### Fair Value Measurement

Investment properties are revalued periodically at fair values as determined by an independent firm of appraisers. The latest appraisal report is at December 31, 2018. The Company recognized fair value gain of ₱83.4 million in December 2018. 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	
		2019	2018
Land	Sales Comparison Approach	<b>₱135-₱9,000</b> <b>5%-55%</b>	₱135-₱9,000
	Price per square meter Value adjustments		5%-55%
Buildings	Valuation Technique	Significant Unobservable Inputs	Remaining useful life
	Cost Reproduction Approach	Replacement cost less accrued depreciation	5 - 10 years remaining useful life

The significant unobservable inputs to fair valuation are as follows:

*Price per square meter:* estimated value prevailing in the real estate market depending on the location, area, shape and time element.

*Value adjustments:* adjustments are made to bring the comparative values in approximation to the investment property taking into account the location, size, architectural features and etc.

*Market approach*

Sales comparison approach involves the comparison of the land to those that are more or less located within the vicinity of the appraised property and are subject of recent sales and offerings. Adjustments were made to arrive at the market value by considering the location, size, shape, utility, desirability and time element.

*Replacement cost less accumulated depreciation*

Replacement cost approach is a method under the cost approach that indicates the value by calculating the current replacement cost of an asset less deductions for physical deterioration and all relevant forms of obsolescence. Depreciation is estimated as evidence by the observed condition and present and prospective serviceability in comparison with new units of like kind.

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## 12. Trade and Other Payables

This account consists of:

	<b>Unaudited September 2019</b>	Audited December 2018
Trade (Note 21)	<b>₱1,279,463,856</b>	₱1,245,933,653
Accrued expenses	<b>209,918,402</b>	186,038,162
Nontrade	<b>178,950,124</b>	131,380,150
Customers' deposits	<b>29,596,165</b>	74,863,422
Others	<b>10,513,713</b>	96,970,980
	<b>₱1,708,442,260</b>	₱1,735,186,367

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

Accrued expenses are normally settled within one year. Accrued expenses mainly pertain to salaries and wages, freight and handling, outside services, rebates, taxes and licenses, commission, plant and office supplies.

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 within one year.

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

Other payables consist of advances from officers and employees, social security premiums payable and other statutory liabilities. These are normally settled within a year.



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### 13. Loans Payable

This account consists of the following:

	<b>Unaudited September 2019</b>	Audited December 2018
Current portion	<b>₱427,772,711</b>	₱649,999,929
Noncurrent portion	<b>173,750,000</b>	172,480,055
	<b>₱601,522,711</b>	₱822,479,984

In 2018, the Company obtained unsecured Peso-denominated short-term and long-term loans from local banks to finance working capital requirements. Long-term loans of the Company are payable within eight years. Short-term and long-term loans of the Company bear interest rate at 4.50% to 6.75% and 7.63% to 9.00%, respectively.

The Company's long-term loans are not subject to any debt covenants.

Interest expense amounted to ₱60.8 million and ₱23.4 million for the nine months period ended September 30, 2019 and 2018, respectively (see Note 18).

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### 14. Cash Bond Deposits

Cash bond deposits amounting to ₱39.8 million and ₱40.3 million as at September 30, 2019 and December 31, 2018, respectively, substantially consist of surety bond deposits obtained from contract growers, contract breeders, customers and salesmen. These will be refunded upon termination of the contract.

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

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### 15. Cost of Goods Sold

This account consists of:

	<b>Unaudited September 2019</b>	Unaudited September 2018
Inventories used (see Note 8)	<b>₱4,696,702,651</b>	₱4,826,151,723
Outside services	<b>670,005,532</b>	561,958,033
Salaries and employee benefits (see Note 16)	<b>75,300,639</b>	60,091,819
Depreciation (see Note 16)	<b>40,498,439</b>	22,178,340
Contractual services	<b>48,403,314</b>	41,680,564
Communication, light and water	<b>29,907,911</b>	28,626,709
Repairs and maintenance	<b>16,187,428</b>	6,935,774
Others	<b>6,073,626</b>	3,951,230
	<b>₱5,583,079,540</b>	₱5,551,574,192

## 16. Operating Expenses

Operating expenses in the interim consolidated statements of comprehensive income are classified as follows:

	Unaudited September 2019	Unaudited September 2018
Administrative expenses	P192,077,714	P214,956,293
Selling and distribution expenses	224,027,867	215,582,613
	<b>P416,105,581</b>	<b>P430,538,906</b>

The details of operating expenses by nature are shown below:

	Unaudited September 2019	Unaudited September 2018
Salaries and employee benefits	P123,523,286	P119,070,778
Transportation, travel and freight and handling	121,331,125	163,108,453
Depreciation and amortization	30,439,197	25,655,391
Rentals (see Note 24)	20,780,342	12,109,282
Professional fees	17,356,834	12,120,993
Advertising and promotions	16,285,744	20,026,685
Taxes and licenses	15,898,495	15,679,510
Representation and entertainment	14,967,741	5,201,851
Contractual services	13,936,579	14,292,109
Commissions	8,604,751	10,464,990
Communications, light and water	7,398,518	5,846,741
Insurance	3,378,343	2,828,154
Repairs and maintenance	3,217,953	3,785,782
Supplies	2,824,859	3,998,667
Provision for impairment losses on receivables (see Note 7)	2,031,849	2,858,705
Others	14,129,965	13,490,815
	<b>P416,105,581</b>	<b>P430,538,906</b>

Other expenses include, among others, association dues, contributions, training and seminar costs and inspections fees.

### Employee Benefits

Breakdown of employee benefits is presented below:

	Unaudited September 2019	Unaudited September 2018
Salaries and wages	P185,200,418	P164,387,697
Retirement benefits (see Note 19)	5,015,154	4,922,000
Other short-term benefits	8,608,353	5,852,900
	<b>P198,823,925</b>	<b>P175,162,597</b>

Salaries and employee benefits is allocated as follows:

	<b>Unaudited September 2019</b>	Unaudited September 2018
Cost of goods sold (see Note 15)	<b>₱75,300,639</b>	₱56,091,819
Operating expenses:		
Administrative expenses	<b>100,324,554</b>	96,470,215
Selling and distribution expenses	<b>23,198,732</b>	22,600,563
	<b>123,523,286</b>	119,070,778
	<b>₱198,823,925</b>	₱175,162,597

Depreciation and Amortization

Depreciation and amortization is allocated as follows (see Notes 9 and 10):

	<b>Unaudited September 2019</b>	Unaudited September 2018
Cost of goods sold (see Note 15)	<b>₱40,498,439</b>	₱22,178,340
Operating expenses:		
Administrative expenses	<b>18,923,665</b>	14,844,591
Selling and distribution expenses	<b>11,515,532</b>	10,810,800
	<b>30,439,197</b>	25,655,391
	<b>₱70,937,636</b>	₱47,833,731

**17. Other Operating Income**

This account consists of:

	<b>Unaudited September 2019</b>	Unaudited September 2018
Miscellaneous sales	<b>₱10,876,970</b>	₱-
Rentals (see Note 24)	<b>9,625,179</b>	14,339,790
Sale of scrap materials	<b>4,027,695</b>	3,783,799
	<b>₱24,529,844</b>	₱18,123,589

**18. Other Charges (Income)**

	<b>Unaudited September 2019</b>	Unaudited September 2018
Interest expense (see Notes 13, 21 and 24)	<b>₱60,841,445</b>	₱23,404,756
Tax settlement	<b>36,016,425</b>	-
Interest income (see Note 6)	<b>(170,009)</b>	(584,923)
Loss on deconsolidation of a subsidiary	-	22,512,440
Others	<b>(12,097,915)</b>	-
	<b>₱84,589,946</b>	₱45,332,273

Tax settlement pertains to the Company's payments to Bureau of Internal Revenue to settle tax assessments.

## 19. Retirement Benefits

The Company maintains a partially funded, noncontributory post-employment defined benefit plan covering all of its regular full-time employees. The defined benefit plan is being administered by a trustee bank which is responsible for the administration of the plan assets and for the definition of the investment strategy. The Company's retirement benefits are based on years of service and one and one-fourth month's salary for every year of continuous service.

The plan is exposed to interest rate risks and changes in the life expectancy of qualified employees. The plan is not exposed to significant concentrations of risk on the plan assets.

Actuarial valuations are made periodically to update the retirement liability and the amount of contributions. The latest actuarial valuation of the plan is as at December 31, 2018.

Retirement expense recognized in the interim consolidated statements of comprehensive income amounting to ₱5.0 million and ₱4.9 million for the nine months period ended September 30, 2019 and 2018, respectively, pertains to accrual of current service cost for the period (see Note 16):

The amounts of net retirement liability recognized in the interim consolidated statements of financial position are determined as follows:

	<b>Unaudited September 2019</b>	Audited December 2018
Present value of the obligation	<b>₱108,751,215</b>	₱105,147,035
Fair value of plan assets	<b>(3,566,577)</b>	(3,566,577)
	<b>₱105,184,638</b>	₱101,580,458

Movements in the present value of retirement liability are as follows:

	<b>Unaudited September 2019</b>	Audited December 2018
Balance at beginning of year	<b>₱105,147,035</b>	₱88,180,586
Current service costs	<b>5,015,154</b>	10,647,028
Benefits paid	<b>(1,410,974)</b>	(17,033,671)
Interest expense	-	4,506,028
Remeasurement loss recognized in OCI	-	18,260,974
Settlement loss	-	586,090
	<b>₱108,751,215</b>	₱105,147,035

Movements in the fair value of plan assets are presented below:

	<b>Unaudited September 2019</b>	Audited December 2018
Balance at beginning of year	<b>₱3,566,577</b>	₱3,649,050
Interest income	-	186,466
Remeasurement loss	-	(268,939)
	<b>₱3,566,577</b>	₱3,566,577

Actual returns on plan assets amounted to nil and ₱0.08 million in 2019 and 2018.

The categories of plan assets as a percentage of the fair value to total plan assets are as follows:

	<b>2019</b>	2018
Cash and cash equivalents	<b>31.82%</b>	31.82%
Debt instruments	<b>55.01%</b>	55.01%
Equity instruments	<b>23.33%</b>	23.33%
Others	<b>(10.16%)</b>	(10.16%)

There are no expected future contributions in the plan in 2019.

The schedule below presents a projection of benefit payments expected to be paid out of the retirement fund.

	<b>2019</b>	2018
Less than one year	<b>₱6,548,981</b>	₱6,548,981
Between one and five years	<b>27,093,391</b>	27,093,391
Over five years	<b>62,459,869</b>	62,459,869
	<b>₱96,102,241</b>	₱96,102,241

For the determination of retirement liability, the following actuarial assumptions were used:

	<b>2019</b>	2018
Discount rate	<b>7.7%</b>	7.7%
Expected rate of salary increase	<b>10%</b>	10%
Average remaining working life of an employee retiring at the age of 60:		
Male	<b>39</b>	39
Female	<b>35</b>	35

The weighted average duration of the present value of defined benefit obligation is 10.8 years in 2019 and 2018.

A quantitative sensitivity analysis for changes in assumptions as at December 31, 2018 is shown below (amounts in thousands):

	Change in Assumptions	Effect to retirement
Discount rate	+100 bps	₱10,516
	-100 bps	12,292
Salary rate	+100 bps	11,898
	-100 bps	(10,401)

## 20. Provision for (Benefit from) Income Tax

The components of provision for (benefit from) income tax as reported in the interim consolidated statements of comprehensive income are as follows:

	Unaudited September 2019	Unaudited September 2018
<b>Reported in the interim consolidated profit or loss</b>		
MCIT at 2%	<b>₱8,084,330</b>	₱–
RCIT at 30%	–	36,010,134
Deferred income tax benefit	<b>(2,114,101)</b>	(13,965,107)
	<b>₱5,970,229</b>	₱22,045,027

The reconciliation of tax on pretax income computed at the applicable statutory rates to tax expense (benefit) reported in the interim consolidated statements of comprehensive income is as follows:

	Unaudited September 2019	Unaudited September 2018
Income tax expense (benefit) at statutory tax rate	<b>(₱29,888,592)</b>	₱23,403,265
Change in unrecognized deferred tax assets	<b>24,679,226</b>	(11,630,895)
Tax effect of nondeductible expenses	<b>11,230,597</b>	3,619,982
Income already subjected to final tax	<b>(51,002)</b>	(101,057)
Effect of deconsolidation	–	6,753,732
	<b>₱5,970,229</b>	₱22,045,027

The components of the recognized net deferred tax assets and liabilities as at September 30, 2019 and December 31, 2018 are as follows:

	Unaudited September 2019	Audited December 2018
<i>Deferred tax assets:</i>		
Allowance for impairment loss on:		
Trade and other receivables	<b>₱82,567,092</b>	₱81,957,537
Product development costs	<b>9,410,519</b>	9,410,519
Property, plant and equipment	<b>5,392,850</b>	5,392,850
Inventory	<b>716,059</b>	716,059
Retirement liability	<b>30,781,023</b>	29,276,477
	<b>128,867,543</b>	126,753,442
<i>Deferred tax liabilities:</i>		
Revaluation reserve on property, plant and equipment	<b>(136,380,901)</b>	(136,380,901)
Changes in fair value of investment properties	<b>(62,702,115)</b>	(62,702,115)
	<b>(199,083,016)</b>	(199,083,016)
Net deferred tax liabilities	<b>(₱70,215,473)</b>	(₱72,329,574)

Details of MCIT, which can be claimed as deduction from future RCIT due within three years from the year the MCIT was incurred, is shown below.

Year Incurred	Beginning Balance	Incurred	Applied/Expired	Ending Balance	Valid Until
2019	₱–	₱8,084,330	₱–	₱8,084,330	2022
2018	3,346,948	–	–	3,346,948	2021
2016	11,630,895	–	–	11,630,895	2019
	<b>₱14,977,843</b>	<b>₱8,084,330</b>	<b>₱–</b>	<b>₱23,062,173</b>	

The amount of NOLCO, MCIT and other deductible temporary differences as at September 30, 2019 and December 31, 2018 for which the related deferred tax assets have not been recognized are shown below.

	September 2019 (Unaudited)		December 31, 2018 (Audited)	
	Amount	Tax Effect	Amount	Tax Effect
NOLCO	<b>₱55,316,320</b>	<b>₱16,594,896</b>	₱–	₱–
MCIT	<b>23,062,173</b>	<b>23,062,173</b>	14,977,843	14,977,843
Retirement liability	<b>3,992,203</b>	<b>1,197,661</b>	3,992,203	1,197,661
	<b>₱82,370,696</b>	<b>₱40,854,730</b>	₱18,970,046	₱16,175,504

## 21. Related Party Transactions

The Company engages, in the normal course of business, in various transactions with its related parties which include stockholders, entities under common control, key management and others, as described below. Unless otherwise indicated, settlement of related party transactions are made thru cash.

### Payable to a Stockholder

*Settlement of Restructured Debt.* Payable to a stockholder resulted mainly from the acquisition by Kormasinc of the Company's restructured debt from creditors. Of the restructured debt of ₱3.2 billion acquired by Kormasinc (including interest of ₱200.0 million), ₱2.4 billion was converted to equity in 2013.

On December 22, 2017, the SEC approved the debt to equity conversion of the remaining payable of ₱407.1 million to Kormasinc at ₱1.52 a share. Consequently, Kormasinc's ownership interest increased from 69.20% to 71.90% (see Notes 1 and 22).

### Due to and from related parties

*Advances to and from Related Parties.* The Company also grants unsecured, noninterest-bearing advances to its related parties for working capital requirements. These are payable on demand, hence, are classified under current assets in the interim consolidated statements of financial position.

Summarized below are the outstanding accounts arising from these transactions (see Notes 7 and 12).

Related Parties	Nature of Transactions	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
		Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances
<b>Trade and other receivables</b>					
Entities under common control	Sales	₱585,495,822		₱32,062,295	
	Collections	(533,062,585)	₱78,169,528	(6,326,003)	₱25,736,292
<b>Trade and other payables</b>					
Entities under common control	Purchases	₱701,702,570		₱9,626,883	
	Payments	(695,422,974)	₱10,122,794	(5,783,685)	₱3,843,198

*Trade Payable.* The Company buys raw materials, hogs, and breeder flocks from related parties and sells animal feeds, raw materials, feed supplements and dressed chicken to related parties (see Note 12). The Company also avails of advances from a shareholder which are payable within a year.

Related Party	Nature of Transactions	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
		Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances
Stockholder	Advances for working capital	₱16,149,050	₱101,875,485	₱5,000,000	₱85,726,435
	Interest	3,724,903	–	15,888,383	–
			₱101,875,485		₱85,726,435

#### Advances to Officers and Employees

The Company grants unsecured, noninterest-bearing advances to its officers which are normally collected within one year through salary deduction (see Note 7). Certain officers also pay operating expenses on behalf of the Company which are payable upon demand (see Note 12). Shown below are the movements in the accounts.

Nature of Transactions	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)		
	Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances	
Advances to officers and employees	Collection	₱1,853,827	₱10,295,970	₱25,438,801	₱12,149,797

## 22. Equity

#### Capital Stock

As of September 30, 2019, the Company has authorized capital stock of 3.5 billion shares at ₱0.38 par value equivalent to ₱3.1 billion. Details of authorized and issued and outstanding shares are as follows:

	Unaudited September 2019	Audited December 2018
Authorized	3,500,000,000	3,500,000,000
Issued and outstanding	3,054,334,014	3,054,334,014



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
December 22, 2017	3,000,000,000	267,836,113
October 16, 2013	3,000,000,000	2,286,497,901
February 9, 1989	200,000,000	200,000,000
August 11, 1986	200,000,000	200,000,000
December 5, 1982	33,000,000	33,000,000
December 5, 1977	45,000,000	45,000,000
October 31, 1974	7,000,000	7,000,000
May 2, 1973	10,000,000	10,000,000
October 2, 1972	5,000,000	5,000,000

On December 22, 2017, the SEC approved the debt to equity conversion of the remaining payable of ₱407.1 million to Kormasinc at ₱1.52 a share. Consequently, Kormasinc's ownership interest increased from 69.20% to 71.90% (see Note 1). Excess over par value of ₱139.3 million was recognized as APIC.

The following summarizes the information on the Company's issued and outstanding shares as at September 30, 2019:

	Number of shares issued and outstanding	Percentage of shares
<b>Issued and outstanding</b>	<b>3,054,334,014</b>	<b>100.00%</b>
Listed shares:		
Owned by related parties	2,177,265,604	71.28%
Owned by public	803,762,412	26.32%
Owned by directors and officers	73,305,998	2.40%
<b>Total</b>	<b>3,054,334,014</b>	

Of the total shares owned by the public, 161.3 million shares are foreign-owned.

The total number of shareholders of the Company is 4,139 and 4,155 as at September 30, 2019 and December 2018, respectively.

Other Comprehensive Income

The components and movements of other comprehensive income not to be reclassified to profit or loss are presented below:

	Revaluation Reserve (see Note 10)	Accumulated Actuarial Gains (Loss) (see Note 19)	Total
Balance as at September 30, 2019	<b>₱318,222,103</b>	<b>(₱5,074,168)</b>	<b>₱313,147,935</b>
Balance at January 1, 2018	₱262,807,560	₱7,896,771	₱270,704,331
Revaluation increase on property, plant and equipment, net of tax	63,521,507	-	63,521,507
Transfer to retained earnings of revaluation reserve realized through depreciation, net of tax	(8,106,964)	-	(8,106,964)
Actuarial loss, net of tax	-	(12,970,939)	(12,970,939)
Balance as at December 31, 2018	₱318,222,103	(₱5,074,168)	₱313,147,935

As of September 30, 2019, there are no available amounts for dividend declaration based on Parent Company balances.

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**23. Earnings (Loss) Per Share**

Basic and diluted earnings per share were computed as follows:

	<b>September 2019</b>	September 2018
Net income (loss) for the period	<b>(₱105,598,870)</b>	₱55,965,855
Divided by the weighted average number of outstanding shares	<b>3,054,334,014</b>	3,054,334,014
Earnings (loss) per share - basic and diluted	<b>(₱0.03)</b>	₱0.02

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

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**24. Significant Agreements**

Operating Lease Agreement - Company as Lessor

The Company is a party under cancellable leases covering certain hatcheries and plants (i.e., dressing and rendering), which have remaining lease terms of between five to ten years. All leases include a clause to enable upward revision of rental charges on an annual basis based on prevailing market conditions.

Total rent income from these operating leases amounted to ₱9.6 million and ₱14.3 million for the nine months period ended September 30, 2019 and 2018, respectively, and are shown as part of “Other operating income” account in the interim consolidated statements of comprehensive income (see Note 17).

Future minimum rentals receivable under non-cancellable operating leases as at September 30, 2019 and December 31, 2018 are as follows:

	<b>Unaudited September 2019</b>	Audited Dec 2018
Within one year	<b>₱7,048,800</b>	₱18,191,151
After one year but not more than five years	<b>28,195,200</b>	59,709,577
	<b>₱35,244,000</b>	₱77,900,728

Operating Lease Agreement - Company as Lessee

The Company leases its warehouses under operating lease agreements. The terms of the lease range from one to two years and renewable upon mutual agreement by the parties. Security deposits amounted to ₱6.8 million and ₱3.4 million as at September 30, 2019 and December 31, 2018, respectively. Rent expense amounted to ₱20.8 million and ₱12.1 million for the nine months period ended September 30, 2019 and 2018, respectively (see Note 16). Future minimum lease payments under the lease agreements follow:

	<b>Unaudited September 2019</b>	Audited Dec 2018
Within one year	<b>₱19,550,829</b>	₱29,508,132
More than one year but not more than five years	<b>12,027,378</b>	5,906,352
	<b>₱31,578,207</b>	₱35,414,484

Finance Lease Agreement - Company as Lessee

The Company entered into finance lease arrangements for the acquisition of Company vehicles. The arrangements bear annual interest rate ranging from 2% to 4% and are payable in 60 equal monthly installments.

As at September 30, 2019, details of the account follow:

	<b>Unaudited September 2019</b>	Audited December 2018
Current	<b>₱14,037,158</b>	₱13,920,213
Noncurrent	<b>31,882,761</b>	42,813,390
	<b>₱45,919,919</b>	₱56,733,603

The carrying value of the transportation equipment as at September 30, 2019 and December 31, 2018 acquired through finance lease agreements amounted to ₱49.3 million and ₱36.9 million, respectively (see Note 10).

Future minimum lease payments under the lease agreements follow:

	<b>Unaudited September 2019</b>	Audited Dec 2018
Within one year	<b>₱14,037,158</b>	₱13,920,213
More than one year but not more than five years	<b>31,882,761</b>	42,813,390
	<b>₱45,919,919</b>	₱56,733,603

### Tolling Agreements

The Company have entered into various toll arrangements, mainly for the manufacture of feeds, hatching of eggs and dressing of poultry livestock. The Company's payment is fixed per unit of output.

In accordance with IFRIC 4, *Determining whether an Arrangement contains a Lease*, these agreements are evaluated whether they convey a right to use an asset in return for a payment or series of payments and will therefore be accounted for as a lease. The Company considered whether the agreements contained the following elements of a lease: (a) identification of a specific asset and (b) ability to control physically the use of the underlying asset, either through operations or access, while obtaining or controlling more than an insignificant amount of the output of the asset.

Based on management's assessment, certain agreements should be accounted for under IFRIC 4. Total payments for this type of arrangements amounted to ₱339.7 million and ₱376.3 million for the nine months period ended September 30, 2019 and 2018, respectively, and is recorded as part of "Cost of goods sold" account under "Outside services" in the interim consolidated statements of comprehensive income.

### Usufruct Agreement

In 2018, the Company entered into a usufruct agreement with Luzon Agri Venture, Inc. (LAVI) authorizing the latter to the right of usufruct over the Company's Davao and Marilao Dressing Plants for a period of five (5) years beginning January 2018 in consideration for the capital investment by LAVI for the additional dressing line and improvements amounting to approximately ₱68.0 million.

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## 25. Note to Interim Consolidated Statements of Cash Flows

The Company had no material non-cash investing nor non-cash financing activity-related transactions as at September 30, 2019 and December 31, 2018.

The changes in the Company's liabilities arising from financing activities are as follows:

	January 1, 2019	Proceeds	Payments	Interest expense	September 30, 2019
Loans payable	₱822,479,984	₱1,264,515,767	(₱1,485,473,040)	₱-	₱601,522,711
Accrued interest payable	3,236,049	-	(59,391,387)	60,841,445	4,686,107
Finance lease liabilities	56,733,603	-	(10,813,684)	-	45,919,919
	<b>₱882,449,636</b>	<b>₱1,264,515,767</b>	<b>(₱1,555,678,111)</b>	<b>₱60,841,445</b>	<b>₱652,128,737</b>

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## 26. Contingencies

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.

## 27. Fair Value Information

The carrying amounts and fair values of the categories of financial assets and liabilities presented in the interim consolidated statements of financial position are shown below:

	September 30, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Carrying Values	Fair Values	Carrying Values	Fair Values
<b>Financial Assets at Amortized Cost</b>				
Cash in banks	₱187,516,570	₱187,516,570	₱215,898,305	₱215,898,305
Trade and other receivables*	994,287,535	994,287,535	1,033,958,076	1,033,958,076
Security deposits	11,054,797	11,054,797	3,458,142	3,458,142
	<b>1,192,858,902</b>	<b>1,192,858,902</b>	<b>1,253,314,523</b>	<b>1,253,314,523</b>
<b>Financial Liabilities at Amortized Cost</b>				
Trade and other payables**	1,697,928,547	1,697,928,547	₱1,722,406,659	₱1,722,406,659
Loans payable	601,522,711	601,522,711	822,479,984	824,920,709
Finance lease liabilities	45,919,919	45,919,919	56,733,603	61,157,132
Cash bond deposits	39,757,140	39,757,140	40,343,557	40,343,557
	<b>₱2,385,128,317</b>	<b>₱2,385,128,317</b>	<b>₱2,641,963,803</b>	<b>₱2,648,828,057</b>

\*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱278.3 million, ₱96.7 million and ₱10.3 million, respectively, as at September 30, 2019 and ₱324.9 million, ₱96.7 million and ₱12.1 million, respectively, as at December 31, 2018.

\*\*Excluding statutory liabilities amounting to ₱10.5 million and ₱12.8 million as at September 30, 2019 and December 31, 2018, respectively.

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

*Long-term Debt.* The estimated fair value is based on the discounted value of the future cash flows using the prevailing interest rate. As at September 30, 2019, the fair value of long-term debt approximates its carrying value.

*Cash Bond Deposits.* Cash bond deposits are presented at nominal values because the timing of the refund or settlement of the deposits could not be reasonably estimated.

The carrying values of the following financial assets and financial liabilities approximate their values as at September 30, 2019 and December 31, 2018:

*Cash in banks, Trade and Other Receivables, Security deposits, and Trade and Other Payables.* The carrying amounts of these financial instruments approximate their fair values due to the short-term nature of these accounts.

As at September 30, 2019 and December 31, 2018, the Company's financial assets, liabilities, biological assets, property, plant and equipment and investment properties are categorized under Level 3 in the fair value hierarchy. There has been no transfer from Level 3 to other levels in 2019 and 2018.

## 28. Financial 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 and in the

succeeding pages.

Foreign Currency Risk

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 because purchases denominated in foreign currency are kept at a minimum.

Interest Rate Risk

As at September 30, 2019 and December 31, 2018, the Company has no significant floating rate financial assets or liabilities. The Company's operating cash flows are substantially independent of changes in market interest rates.

The Company has no borrowings that carry variable interest rates, which released the Company from any cash flow interest rate risk.

Credit Risk

Generally, the maximum credit risk exposure of the financial assets is the carrying amount of the financial assets as shown in the interim consolidated statements of financial position (or in the detailed analysis provided in the notes to the interim consolidated financial statements) as summarized below.

	<b>Unaudited September 2019</b>	Audited December 2018
Cash in banks	<b>₱187,516,570</b>	₱215,898,305
Trade and other receivables*	<b>994,287,535</b>	1,033,958,076
Security deposits	<b>11,054,797</b>	3,458,142
	<b>₱1,192,858,902</b>	₱1,253,314,523

*\*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱278.3 million, ₱96.7 million and ₱10.3 million, respectively, as at September 30, 2019 and ₱324.9 million, ₱96.7 million and ₱12.1 million, respectively, as at December 31, 2018.*

The Company continuously monitors defaults of counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. When 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 when 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.

The tables below show the credit quality of the Company's financial assets:

September 30, 2019 (Unaudited)						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Total			
Cash in banks	₱187,516,570	₱-	₱187,516,570	₱-	₱-	₱187,516,570
Trade and other receivables*	858,680,725	-	858,680,725	135,606,810	289,807,786	1,284,095,321
Security deposits	11,054,797	-	11,054,797	-	-	11,054,797
	<b>₱1,057,252,092</b>	<b>₱-</b>	<b>₱1,057,252,092</b>	<b>₱135,606,810</b>	<b>₱289,807,786</b>	<b>₱1,482,666,688</b>

\*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱278.3 million, ₱96.7 million and ₱10.3 million, respectively, as at September 30, 2019.

December 31, 2018 (Audited)						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Total			
Cash in banks	₱215,898,305	₱-	₱215,898,305	₱-	₱-	₱215,898,305
Trade and other receivables*	975,460,299	-	975,460,299	155,171,065	287,775,937	1,418,407,301
Security deposits	3,458,142	-	3,458,142	-	-	3,458,142
	<b>₱1,194,816,746</b>	<b>₱-</b>	<b>₱1,194,816,746</b>	<b>₱155,171,065</b>	<b>₱287,775,937</b>	<b>₱1,637,763,748</b>

\*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱324.9 million, ₱96.7 million and ₱12.1 million, respectively, as at December 31, 2018.

The Company's basis in grading its neither past due nor impaired financial assets is as follows:

High grade:	ratings given to counterparties with strong to very strong capacity to meet its obligations.
Standard grade:	ratings given to counterparties with average capacity to meet its obligations

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, receivables are written-off if past due for more than one year and are not subject to enforcement activity.

Set out below is the information about the credit risk exposure on the Company's trade receivables using a provision matrix:

As at September 30, 2019	Trade Receivables (in millions)							Total	Accounts with full provision	Total
	Current	<30 days	30-60 days	61-90 days	91-120 days	More than 120 days	Total			
Expected credit loss rate	0.10%	0.44%	1.93%	3.62%	5.13%	41.34%				
Estimated total gross carrying amount at default	₱534.0	₱178.6	₱23.3	₱8.0	₱5.5	₱9.1	₱758.5	₱271.4	₱1,029.9	
Expected credit loss	₱0.5	₱0.8	₱0.4	₱0.3	₱0.3	₱3.8	₱6.1	₱271.4	₱277.5	
As at December 31, 2018	Trade Receivables (in millions)							Total	Accounts with full provision	Total
	Current	<30 days	30-60 days	61-90 days	91-120 days	More than 120 days	Total			
Expected credit loss rate	0.10%	0.44%	1.93%	3.62%	5.13%	41.34%				
Estimated total gross carrying amount at default	₱534.0	₱178.6	₱23.3	₱8.0	₱5.5	₱9.1	₱758.5	₱271.4	₱1,029.9	
Expected credit loss	₱0.5	₱0.8	₱0.4	₱0.3	₱0.3	₱3.8	₱6.1	₱271.4	₱277.5	

### Cash Deposits

Credit risk from balances with banks and financial institutions is managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty credit limits are reviewed by the Company's Board of Directors on an annual basis and may be updated throughout the year. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through a counterparty's potential failure to make payments.

### Liquidity Risk

The Company manages its liquidity profile to be able to service debt as this falls due by maintaining sufficient cash from operations. The Company maintains cash to meet its liquidity requirements for up to 30-day periods.

As at September 30, 2019 the Company's financial liabilities have contractual maturities which are presented below:

	Current		Noncurrent	
	Within 6 Months	6 to 12 Months	1 to 5 Years	Later than 5 Years
Trade and other payables*	₱1,697,928,547	₱–	₱–	₱–
Loans payable	188,165,741	239,606,970	–	173,750,000
Finance lease liability	6,561,400	7,475,758	31,882,761	–
Cash bond deposits	–	–	39,757,140	–
Future interest on long term debt	7,084,837	6,838,519	39,532,995	2,373,268
	<b>₱1,899,740,525</b>	<b>₱253,921,247</b>	<b>₱111,172,896</b>	<b>₱176,123,268</b>

\*Excluding statutory liabilities amounting to ₱10.5 million as at September 30, 2019.

As at December 31, 2018 the Company's financial liabilities have contractual maturities which are presented below:

	Within			Later than
	6 Months	6 to 12 Months	1 to 5 Years	5 Years
Trade and other payables*	₱1,722,406,659	₱–	₱–	₱–
Loans payable	649,999,929	–	172,480,055	–
Finance lease liabilities	6,777,639	7,473,834	42,813,390	–
Cash bond deposits	40,343,557	–	–	–
Future interest on long term debt	7,106,254	7,104,445	45,338,696	3,994,996
	<b>₱2,426,634,038</b>	<b>₱14,578,279</b>	<b>260,632,141</b>	<b>₱3,994,996</b>

\*Excluding statutory liabilities amounting to ₱12.8 million as at December 31, 2018.

### 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.



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## 29. Capital Management Objectives, Policies and Procedures

The Company's capital management objectives are to ensure the Company's ability to continue as a going concern and significantly improve its operations.

On December 22, 2017, the SEC approved the Company's debt to equity conversion improving debt to equity ratio from 2.29 in 2016 to 1.26 in 2017. Moreover, the Company's stockholders approved a Quasi-reorganization plan to eliminate Company deficit and generate retained earnings to provide returns to its stockholders and maximize shareholder value.

Company liabilities and equity are shown below.

	September 2019	December 2018
Total liabilities	₱2,571,042,141	₱2,828,653,543
Total equity	1,408,829,319	1,514,428,189

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## 30. New and Amended Standards and Interpretations

### Other New Pronouncements Effective for December 31, 2018 year-end

Several other amendments and interpretations apply for the first time in 2018, but do not have an impact on the consolidated financial statements of the Company. The Company has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
- Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
- Amendments to PAS 28, *Investments in Associates and Joint Ventures, Measuring an Associate or Joint Venture at Fair Value* (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

### Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Company does not expect that the future adoption of the said pronouncements will have a significant impact on its consolidated financial statements. The Company intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2019

▪ Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are ‘solely payments of principal and interest on the principal amount outstanding’ (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

These amendments have no impact on the consolidated financial statements of the Company.

▪ PFRS 16, *Leases*

PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under PFRS 16 is substantially unchanged from today’s accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs.

The Company plans to apply the modified retrospective approach upon adoption of PFRS 16 in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC-4, *Determining whether an Arrangement contains a Lease*. The Company will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC-4.

The Company also elects to use the exemptions provided by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value.

The accounting for operating leases where the Company acts as the lessee will significantly change due to the adoption of PFRS 16.

The Company is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Company.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.

The interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

This interpretation is not relevant to the Company because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of September 30, 2019 and December 31, 2018.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

The Company intends to adopt the following other pronouncements issued when they become effective. Adoption of these pronouncements is not expected to have a significant impact on the Company's consolidated financial statements.

*Effective beginning on or after January 1, 2019*

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- *Annual Improvements to PFRSs 2015-2017 Cycle*
  - Amendments to PFRS 3, *Business Combinations*, and PFRS 11, *Joint Arrangements, Previously Held Interest in a Joint Operation*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization* Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Definition of a Business*

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

**VITARICH CORPORATION****(A Subsidiary of Kormasinc, Inc.)****SUPPLEMENTARY SCHEDULE OF ALL THE EFFECTIVE STANDARDS AND INTERPRETATIONS**

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as at September 30, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
<b>Philippine Financial Reporting Standards</b>				
PFRS 1	First-time Adoption of Philippine Financial Reporting Standards	<b>x</b>		
PFRS 2	Share-based Payment			<b>x</b>
	Amendments to PFRS 2, Classification and Measurement of Share-based Payment Transactions			<b>x</b>
PFRS 3	Business Combinations			<b>x</b>
PFRS 4	Insurance Contracts			<b>x</b>
	Amendments to PFRS 4, Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts			<b>x</b>
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations			<b>x</b>
PFRS 6	Exploration for and Evaluation of Mineral Resources			<b>x</b>
PFRS 7	Financial Instruments: Disclosures	<b>x</b>		
PFRS 8	Operating Segments	<b>x</b>		
PFRS 9	Financial Instruments	<b>x</b>		
PFRS 10	Consolidated Financial Statements	<b>x</b>		
PFRS 11	Joint Arrangements			<b>x</b>
PFRS 12	Disclosure of Interests in Other Entities			<b>x</b>
PFRS 13	Fair Value Measurement	<b>x</b>		
PFRS 14	Regulatory Deferral Accounts			<b>x</b>
PFRS 15	Revenue from Contracts with Customers	<b>x</b>		
<b>Philippine Accounting Standards</b>				
PAS 1	Presentation of Financial Statements	<b>x</b>		
PAS 2	Inventories	<b>x</b>		
PAS 7	Statement of Cash Flows	<b>x</b>		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	<b>x</b>		
PAS 10	Events after the Reporting Period	<b>x</b>		
PAS 12	Income Taxes	<b>x</b>		

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
PAS 16	Property, Plant and Equipment	✕		
PAS 17	Leases	✕		
PAS 19	Employee Benefits	✕		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✕
PAS 21	The Effects of Changes in Foreign Exchange Rates	✕		
PAS 23	Borrowing Costs			✕
PAS 24	Related Party Disclosures	✕		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✕		
PAS 27	Separate Financial Statements	✕		
PAS 28	Investments in Associates and Joint Ventures			✕
	Amendments to PAS 28, Measuring an Associate or Joint Venture at Fair Value (Part of Annual Improvements to PFRSs 2014 - 2016 Cycle)			✕
PAS 29	Financial Reporting in Hyperinflationary Economies			✕
PAS 32	Financial Instruments: Presentation	✕		
PAS 33	Earnings per Share	✕		
PAS 34	Interim Financial Reporting	✕		
PAS 36	Impairment of Assets	✕		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✕		
PAS 38	Intangible Assets	✕		
PAS 39	Financial Instruments: Recognition and Measurement	✕		
PAS 40	Investment Property	✕		
	Amendments to PAS 40, Transfers of Investment Property	✕		
PAS 41	Agriculture	✕		
<b>Philippine Interpretations</b>				
Philippine Interpretation IFRIC-1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✕

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation IFRIC-2	Members' Shares in Co-operative Entities and Similar Instruments			✘
Philippine Interpretation IFRIC-4	Determining whether an Arrangement contains a Lease	✘		
Philippine Interpretation IFRIC-5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✘
Philippine Interpretation IFRIC-6	Liabilities arising from Participating in a Specific Market—Waste Electrical and Electronic Equipment			✘
Philippine Interpretation IFRIC-7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✘
Philippine Interpretation IFRIC-10	Interim Financial Reporting and Impairment	✘		
Philippine Interpretation IFRIC-12	Service Concession Arrangements			✘
Philippine Interpretation IFRIC-14	PAS 19—The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✘		
Philippine Interpretation IFRIC-16	Hedges of a Net Investment in a Foreign Operation			✘
Philippine Interpretation IFRIC-17	Distributions of Non-Cash Assets to Owners			✘
Philippine Interpretation IFRIC-19	Extinguishing Financial Liabilities with Equity Instruments	✘		
Philippine Interpretation IFRIC-20	Stripping Costs in the Production Phase of a Surface Mine			✘
Philippine Interpretation IFRIC-21	Levies			✘
Philippine Interpretation IFRIC-22	Foreign Currency Transactions and Advance Consideration			✘

<b>PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS Effective as of September 30, 2019</b>		<b>Adopted</b>	<b>Not Adopted</b>	<b>Not Applicable</b>
Philippine Interpretation SIC-7	Introduction of the Euro			<b>x</b>
Philippine Interpretation SIC-10	Government Assistance—No Specific Relation to Operating Activities			<b>x</b>
Philippine Interpretation SIC-15	Operating Leases—Incentives			<b>x</b>
Philippine Interpretation SIC-25	Income Taxes—Changes in the Tax Status of an Entity or its Shareholders			<b>x</b>
Philippine Interpretation SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease			<b>x</b>
Philippine Interpretation SIC-29	Service Concession Arrangements: Disclosures			<b>x</b>
Philippine Interpretation SIC-32	Intangible Assets—Web Site Costs			<b>x</b>



**VITARICH CORPORATION**  
**(A Subsidiary of Kormasinc, Inc.)**

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**SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
September 30, 2019

	Amount
Retained earnings as at beginning of period	₱39,162,470
Balance at beginning of period of:	
PFRS 9 transition adjustment	754,361
Cumulative gain on fair value changes of investment properties	(212,048,259)
Deficit as adjusted to available for dividend declaration	
at beginning of period	(172,131,428)
Net loss closed to deficit	(105,598,870)
Deficit as adjusted to available for dividend declaration at end of the	
year	(₱277,320,398)

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## VITARICH CORPORATION AND SUBSIDIARIES

(A Subsidiary of Kormasinc, Inc.)

### FINANCIAL RATIOS

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

	Unaudited September 2019	Audited December 2018
<b>Current/Liquidity Ratio</b>	<b>1.07</b>	1.14
Current assets	2,290,103,582	2,732,988,222
Current liabilities	2,150,252,129	2,399,106,509
<b>Debt-to-equity Ratio</b>	<b>1.82</b>	1.87
Total liabilities	2,571,042,141	2,828,653,543
Total equity	1,408,829,319	1,514,428,189
<b>Asset-to-equity Ratio</b>	<b>2.82</b>	2.87
Total assets	3,979,871,460	4,343,081,732
Total equity	1,408,829,319	1,514,428,189
	Unaudited September 2019	Unaudited September 2018
<b>Solvency Ratio</b>	<b>(0.01)</b>	0.05
Net income (loss) before depreciation and amortization	(34,661,234)	103,799,586
Total liabilities	2,571,042,141	2,039,376,931
<b>Interest rate coverage Ratio</b>	<b>(0.64)</b>	4.33
Pretax income (loss) before interest	(38,787,196)	101,415,638
Interest expense	60,841,445	23,404,756
<b>Profitability Ratio</b>	<b>(0.07)</b>	0.04
Net income (loss)	(105,598,870)	55,965,855
Total equity	1,408,829,319	1,488,787,970

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY PAR. 6**  
**PART II OF**  
**SRC RULE 68 AS AMENDED**

Unaudited  
September 30, 2019

**Table of Contents**

<u>Schedule</u>	<u>Description</u>	<u>Page</u>
A	Financial Assets	<u>N/A</u>
B	Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related Parties)	<u>1</u>
C	Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	<u>2</u>
D	Intangible Assets - Other Assets	<u>3</u>
E	Long-Term Debt	<u>4</u>
F	Indebtedness to Related Parties	<u>5</u>
G	Guarantees of Securities of Other Issuers	<u>N/A</u>
H	Capital Stock	<u>6</u>

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES**  
**and PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**  
**September 30, 2019**  
**(In Thousands)**

<u>Name and Designation of Debtor</u>	Balance at beginning of Year	Additions	Deductions		Ending Balance		Balance as at September 30, 2019
			Collected	Written Off	Current	Noncurrent	
<b>Advances to Officers and Employees:</b>							
Mailyn Acero, Sales Manager	P856	P24	P32	P-	P848	P-	P848
Rey D. Ortega, Vice President and General Manager	309	-	47	-	262	-	262
Jonemar Espiritu, Sales Manager	70	6	11	-	65	-	65
Alfredo Espiritu Jr., District Sales Manager	90	-	12	-	78	-	78
Teddy Mendoza, Credit and Collection Officer	63	-	16	-	47	-	47
Brina Bandoja, Manager	109	-	21	-	88	-	88
Willard Endaya, Manager	161	-	115	-	46	-	46
Others*	10,492	9,675	11,305	-	8,862	-	8,862
	<b>P12,150</b>	<b>P9,705</b>	<b>P11,559</b>	<b>P-</b>	<b>P10,296</b>	<b>P-</b>	<b>P10,296</b>

\*Represent advances to officers and employees with balances less than P100,000.

Note: All of the above receivables are current.

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE**  
**CONSOLIDATION**  
**OF FINANCIAL STATEMENTS**  
**September 30, 2019**  
**(In Thousands)**

Related Party	Balance at beginning of year	Additions	Deductions			Ending Balance		Balance as at September 30, 2019
			Collections	Write Off	Amounts written off	Current	Noncurrent	
Amounts Due from Related Parties								
Gromax, Inc.	P46,511	P-	P-	P-	P-	P46,511	P-	P46,511

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SCHEDULE D - INTANGIBLE ASSETS – OTHER ASSETS**  
September 30, 2019  
(In Thousands)

<u>Description</u>	Begining balance	Additions	Charged to cost and expense	Charged to other accounts	Other changes additions (deductions)	Balance at end of year
Computer software	P9,808	P408	P2,758	P-	P-	P7,458

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SCHEDULE E – LONG TERM DEBT**  
**September 30, 2019**  
**(In Thousands)**

<b>Title of the Issuer</b>	<b>Agent/Lender</b>	<b>Outstanding Balance</b>	<b>Current Portion</b>	<b>Noncurrent Portion</b>	<b>Interest Rate</b>	<b>Number of Periodic Installments</b>	<b>Interest Payment</b>	<b>Final Maturity</b>
Fixed	Chinabank Savings	₱86,875	₱–	₱86,875	7.88%	28 quarterly payments	Monthly	October 30, 2026
Fixed	Chinabank Savings	86,875	–	86,875	8.13%	28 quarterly payments	Monthly	November 30, 2026
		<b>₱173,750</b>	<b>₱–</b>	<b>₱173,750</b>				

**VITARICH CORPORATION AND SUBSIDIARIES**  
**SCHEDULE F - RECEIVABLE FROM (PAYABLE TO) RELATED PARTIES**  
September 30, 2019  
(In Thousands)

<b>Related Parties</b>	<b>Balance at beginning of year</b>	<b>Additions</b>	<b>Deductions</b>			<b>Ending Balance</b>		<b>Balance as at September 30, 2019</b>
			<b>Collections (Payments)</b>	<b>Discounting</b>	<b>Write Off</b>	<b>Current</b>	<b>Noncurrent</b>	
<b>Trade and other receivables</b>								
Entities under common control	₱25,736	₱585,496	(₱533,063)	₱-	₱-	₱-	₱-	₱78,169
<b>Trade and other payables</b>								
Entities under common control	₱3,843	₱701,703	(₱695,423)	₱-	₱-	₱-	₱-	₱10,123
<b>Stockholders</b>	₱85,726	₱16,149	₱-	₱-	₱-	₱-	₱-	₱101,875



**VITARICH CORPORATION AND SUBSIDIARIES**  
**SCHEDULE H – CAPITAL STOCKHOLDER**  
**September 30, 2019**  
**(In Thousands)**

<b>Title of Issue</b>	<b>Number of shares authorized</b>	<b>Number of shares issued and outstanding as shown under the statement of financial position caption</b>	<b>Number of shares reserved for options, warrants, conversion &amp; other rights</b>	<b>Number of shares held by</b>		
				<b>Related parties</b>	<b>Directors, officers and employees</b>	<b>Public</b>
Common stock – ₱0.38 par value per share						
Authorized - 3,500,000,000 shares	3,500,000	3,054,334	–	2,177,266	73,306	803,762

**VITARICH CORPORATION AND SUBSIDIARIES**  
**MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG THE GROUP**  
September 30, 2019

