

C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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COMPANYNAME

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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

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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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C O M P A N Y I N F O R M A T I O N

Company's Email Address

agdanque@vitarich.com

Company's Telephone Number

(+632) 8843-3033

Mobile Number

(0918) 848 2200

No. of Stockholders

4,132

Annual Meeting (Month / Day)

Last Friday of August

Fiscal Year (Month / Day)

December 31

C O N T A C T P E R S O N I N F O R M A T I O N

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

Name of Contact Person

Ms. Stephanie Nicole S. Garcia

Email Address

nsgarcia@vitarich.com

Telephone Number/s

(+632) 8843-3033

Mobile Number

(0918) 8482258

C O N T A C T P E R S O N ' S A D D R E S S

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 **March 31, 2020**
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
(+632) 8843-3033
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 stock outstanding and amount of debt outstanding
<u>Common Stock</u>	<u>3,054,334,014</u>
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

(Company's Full Name)

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

(Company's Address)

(+632) 8843-30-33

(Telephone Number)

(Year Ending)

(Month & day)

Quarterly Consolidated
Unaudited Financial Statements

Form Type

Amendment Designation (If Applicable)

March 31, 2020

Period Ended Date

(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 March 31, 2020 (with comparative figures as of December 31, 2019) and for the period ended March 31, 2019 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 (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 reduced the par value of the Company share and the existing additional paid-in capital and outstanding revaluation surplus was 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 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, Inc. (Gromax) until November 10, 2019. Gromax 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 first quarter of 2020, Vitarich Corporation and its subsidiaries generated consolidated sale of goods of ₱2,338 million, higher by 26% from ₱1,861 million of same quarter last year due to a more favorable selling price trend of chicken and increase in volume.

Gross profit for the first quarter amounted to ₱289 million, higher by ₱309 million from negative ₱20 million of same quarter last year.

Operating expenses is at ₱143.5 million, 1% higher versus the same period of last year of ₱141.7 million.

Other operating income of ₱5.3 million for the first quarter of 2020 decreased by 29% against the other operating income for the same period last year.

Vitarich continued its momentum from last quarter of 2019 which allowed a 98% increase in net income for its 2019 Audited Financial Statement vis-à-vis 2018 (i.e., from ₱65.15 million in 2018 to ₱128.82 in 2019). This momentum gave Vitarich income before tax of ₱132.99 million for the first quarter of 2020, a big improvement from negative ₱173.37 million in the same period last year. For January 2020, Vitarich had a net income of ₱69.39 million. For February 2020, Vitarich had a net income of ₱46.43 million. When COVID-19 Lockdown was implemented in March 2020, Vitarich still posted a net income of ₱17.16 million.

For the first quarter, Vitarich posted a Net income of 93.1 million or 154% increase compared to same period last year. The first quarter performance has provided ample buffer for the COVID-19 lockdown in the second quarter.

Corporate Action Plan:

Considering the economic and market realities, Vitarich is focusing on efficiency and quality, which is why it is a preferred business partner for poultry farmers and its chicken products qualify for hotels, restaurants and institutional clientele.

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.

The Company continues to exercise lifetime professional partnership with business partners by providing them all the necessary support especially in difficult times like this COVID-19 pandemic. Feeds sales fulfilled requirements of customers whose previous supplier had to scale down or close.

For Foods & Farms, Vitarich will expand its poultry business by carefully increasing its breeder capacity. The Company continues to increase its food market base through new sales channels including direct community selling, penetration of additional hotel and restaurant institutions (or HRI) accounts, and tapping selected supermarkets. Vitarich is also exploring e-commerce and online channels.

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

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

On October 1, 1998, the Board of Directors of PFCI approved the conversion into equity of the advances of Vitarich Corporation to PFCI amounting to ₱165 million to be applied to its unpaid subscriptions and for additional shares of stock of PFCI. Out of the ₱165 million advances to be converted into equity, ₱25 million was applied to Vitarich's unpaid subscription while the remaining ₱140 million was shown under Deposit on Future Stock Subscriptions account pending the approval from the SEC of the conversion.

In 2003, PFCI reverted the investment in shares of stock in PFCI to Advances to subsidiaries amounting to ₱140 million, as the BOD 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 BOD of PFCI approved the proposed conversion in 1998.

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

In connection with such legal action, in 2001, PFCI recognized as claims receivable, as of December 31, 2001, certain losses arising from the closure of certain Texas Chicken restaurants and legal fees incurred relating to the case filed against AFC. Losses recognized as claims receivable include, among others, the loss on write-off of leasehold and building improvements relating to the closed stores. The total amount recognized as claims receivable (presented as part of Other Non-current Assets account in the condensed interim consolidated balance sheets) totaled ₱23.2 million as of December 31, 2001.

The Regional Trial Court of Pasig City, in a decision dated April 3, 2002, approved the issuance of a preliminary writ of attachment on the properties of AFC in the Philippines upon posting of PFCI and TMA of a bond amounting to ₱100 million. Management believed that this case would be settled in favor of PFCI and TMA.

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

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

On March 4, 2005, the Regional Trial Court of Pasig City, Branch 152 had approved the Joint Motion to Dismiss filed by the parties based on the Compromise Agreement entered into by them, thus, putting an end to the case.

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

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 ceased operations since 2005 and 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 March 31, 2020 vs. audited December 31, 2019

The Company's consolidated total assets as at March 31, 2020 is at ₱4,333 million higher than December 31, 2019 level of ₱4,203 million. Total current assets increased from ₱2,270 million as at December 31, 2019 to ₱2,390 million as at March 31, 2020.

Cash balance decreased to ₱177 million as at March 31, 2020 from ₱180 million as at December 31, 2019. The decrease in cash was attributed to net cash outflows provided by operating activities, acquisition of property, plant and equipment and payment of loans.

Trade and other receivables account increased by 6% in relation to higher sales revenue.

Inventories amounting to ₱628 million as at March 31, 2020 increased from ₱567 million as at December 31, 2019 due to higher frozen chicken inventories.

Other current assets account of ₱41 million as at March 31, 2020 decreased by 44% as compared to ₱72 million as at December 31, 2019. Other non-current assets increased by ₱13.9 million as compared to its balance as at December 31, 2019.

Total current liabilities as at March 31, 2020 amounted to ₱2,127 million, higher by 3% as compared to its balance as at December 31, 2019.

Stockholders' equity increased from ₱1,662 million to ₱1,755 million, due to net income posted for the first quarter of 2020.

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

	Unaudited Mar 2020	Unaudited Mar 2019
Revenue (₱ million)	₱2,338	₱1,861
Cost Contribution (₱ million)	2,049	1,881
Gross Profit Rate (%)	12%	-1%
Operating Income (₱ million)	151	-155

1) Sales Volume, Price, and Revenue Growth

Consolidated revenue composed of feeds, day old chicks, chicken, and animal health products sales amounted to ₱2,338 million for the first quarter of 2020, which is higher than the sales from the same period last year of ₱1,861 million, mainly because of more favorable selling price trend of chicken and increase in volume.

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 decision 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 MARCH 31, 2020 AND DECEMBER 31, 2019**

	Unaudited March 2020	Audited December 2019
ASSETS		
Current Assets		
Cash (Note 6)	P 176,961,311	P179,645,390
Trade and other receivables (Note 7)	1,542,486,149	1,451,787,414
Inventories and livestock (Note 8)	628,197,932	566,738,049
Other current assets (Note 9)	40,759,903	72,169,035
Total Current Assets	2,388,405,295	2,270,339,888
Noncurrent Assets		
Property, plant and equipment (Note 10)	940,147,720	924,873,846
Investment properties (Note 11)	804,940,664	802,266,589
Right-of-use assets (Note 9)	167,650,861	187,664,899
Other noncurrent assets (Note 9)	32,028,630	18,100,256
Total Noncurrent Assets	1,944,767,875	1,932,905,590
	P 4,333,173,170	P4,203,245,478
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Note 12)	P 1,757,932,492	P1,600,955,492
Loans payable (Note 13)	288,846,719	384,132,265
Current portion of lease liabilities (Note 25)	80,182,322	86,981,626
Total Current Liabilities	2,126,961,533	2,072,069,383
Noncurrent Liabilities		
Cash bond deposits (Note 14)	41,383,283	40,954,787
Net retirement liability (Note 20)	92,334,951	91,516,839
Loans payable - net of current portion (Note 13)	141,997,555	148,202,912
Lease liabilities - net of current portion (Note 25)	93,742,665	106,953,936
Net deferred tax liabilities (Note 21)	81,186,232	81,075,807
Total Noncurrent Liabilities	450,644,686	468,704,281
Total Liabilities	2,577,606,219	2,540,773,664
Equity		
Capital stock (Note 23)	1,160,646,925	1,160,646,925
Additional paid-in capital (Note 1)	1,470,859	1,470,859
Retained earnings	266,278,571	173,183,434
Other comprehensive income (Note 23)	327,170,596	327,170,596
Total Equity	1,755,566,951	1,662,471,814
	P 4,333,173,170	P4,203,245,478

See accompanying Notes to Interim Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Unaudited Jan-Mar 2020	Unaudited Jan-Mar 2019
REVENUE		
Sale of goods, net of discount (Notes 5 and 15)	P 2,337,993,581	P1,860,733,329
Fair value adjustment on biological assets (Notes 2 and 15)	—	—
	2,337,993,581	1,860,733,329
COST OF GOODS SOLD (Note 16)		
Cost of goods sold	(2,049,073,968)	(1,881,269,547)
Fair value adjustment on biological assets (Notes 2 and 15)	—	—
	(2,049,073,968)	(1,881,269,547)
GROSS PROFIT (LOSS)	288,919,613	(20,536,218)
Operating expenses (Note 17)	(143,510,767)	(141,715,332)
Other operating income (Note 18)	5,275,739	7,423,938
	(138,235,028)	(134,291,394)
OPERATING PROFIT (LOSS)	150,684,585	(154,827,612)
OTHER INCOME (CHARGES) – Net (Note 19)	(17,692,175)	(18,540,353)
INCOME (LOSS) BEFORE INCOME TAX	132,992,410	(173,367,965)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 21)		
Current	39,786,848	—
Deferred	110,425	(668,744)
	39,897,273	(668,744)
NET INCOME (LOSS)	93,095,137	(172,699,221)
OTHER COMPREHENSIVE INCOME		
<i>Items not to be reclassified to profit or loss:</i>		
Actuarial gain - net of deferred income tax (Note 20)		—
Revaluation increase on property, plant and equipment - net of deferred income tax (Note 10)	—	—
		—
TOTAL COMPREHENSIVE INCOME (LOSS)	P 93,095,137	(P172,699,221)
EARNINGS (LOSS) PER SHARE - BASIC AND DILUTED (Note 24)	P0.03	(P0.06)

See accompanying Notes to Interim Consolidated Financial Statements.

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

INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	For the Three Months Ended	
	Unaudited March 2020	Unaudited March 2019
CAPITAL STOCK		
Balance at beginning and end of period	P1,160,646,925	P1,160,646,925
ADDITIONAL PAID - IN CAPITAL		
Balance at beginning and end of period	1,470,859	1,470,859
RETAINED EARNINGS (DEFICIT)		
Balance at beginning of period	173,183,434	39,162,470
Net income (loss) for the period	93,095,137	(172,699,221)
Transfer to retained earnings (deficit) of revaluation reserve realized through depreciation, net of deferred income tax (Note 10)	—	—
Balance at end of period	266,278,571	(133,536,751)
OTHER COMPREHENSIVE INCOME		
Balance at beginning of year	327,170,596	313,147,935
Actuarial gain (loss), net of deferred income tax (Note 20)	—	—
Transfer to retained earnings (deficit) of revaluation reserve realized through depreciation, net of deferred income tax (Note 10)	—	—
Balance at end of year	327,170,596	313,147,935
	P 1,755,566,951	P1,341,728,968

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 Three Months Ended	
	Unaudited March 2020	Unaudited March 2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	₱132,992,410	(₱173,367,965)
Adjustments for:		
Depreciation and amortization (Notes 9 and 10)	8,726,453	21,924,394
Interest expense	13,673,244	18,589,119
Retirement benefit expense (Note 20)	1,570,000	–
Provision for doubtful accounts (Note 7)	2,564,950	654,007
Interest income	(2,555)	(497,776)
Operating income (loss) before working capital changes	159,524,502	(132,698,220)
Decrease (increase) in:		
Trade and other receivables	(93,263,685)	37,635,365
Inventories and livestock	(61,459,883)	134,869,634
Other current assets	31,409,132	(28,867,258)
Other noncurrent assets related to operations	6,085,664	(584,211)
Increase (decrease) in:		
Trade and other payables	155,937,907	(79,097,398)
Lease liability	–	–
Cash bond deposits	428,496	1,603,015
Retirement liability	–	604,181
Net cash generated from (used for) operations	198,662,132	(66,534,892)
Income tax paid	(39,786,848)	–
Retirement benefits paid (Note 20)	(751,888)	–
Interest received	2,555	497,776
Net cash provided by (used in) operating activities	158,125,951	(66,037,116)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property, plant and equipment	(24,000,327)	(37,441,821)
Investment properties	(2,794,290)	–
Proceeds from sale of property, plant and equipment	120,215	–
Net cash used in investing activities	(26,674,402)	(37,441,821)
CASH FLOWS FROM FINANCING ACTIVITIES		
Availment of loans	119,258,000	503,345,150
Payments of loans	(220,748,903)	(462,615,916)
Interest paid	(22,911,621)	(17,623,433)
Payments of lease liabilities	(9,733,105)	–
Net cash provided by (used in) financing activities	(134,135,629)	23,105,801
NET INCREASE (DECREASE) IN CASH	(2,684,079)	(80,373,137)
CASH AT BEGINNING OF PERIOD	179,645,390	217,712,840
CASH AT END OF PERIOD	₱ 176,961,311	₱137,339,703

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 (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	
		March 2020	December 2019
Gromax, Inc. (Gromax)*	Manufacturing	100%	100%
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 23).

On June 30, 2017, the Company's stockholders approved the Company's plan to undergo a Quasi-reorganization. The Company reduced the par value of the Company share and the existing additional paid-in capital and outstanding revaluation surplus was 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 par value of ₱0.38 each. The reduction in par value resulted to recognition of additional paid in capital of ₱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 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 ceased operations since 2015. In 2018, 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 June 29, 2020.

Status of Operations

The Company's sales for the three months period ended March 31, 2020 of ₱2,338 million increased from ₱1,861 million for the same period in 2019 mainly because of more favorable selling price trend of chicken and increase in volume. The Company also expand its poultry business by carefully increasing its breeder capacity. The Company continues to increase its food market base through new sales channels including direct community selling, penetration of additional hotel and restaurant institutions (or HRI) accounts, and tapping selected supermarkets. Vitarich is also exploring e-commerce and online channels.

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.

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

2. Summary of Significant Accounting Policies

Statement of Compliance

The accompanying interim consolidated financial statements of the Company as at and for the three months period ended March 31, 2020 have been prepared in compliance 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, Philippine Accounting Standards (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 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 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 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 28, *Fair Value Information*

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.

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, *Revenue from Contracts with Customers*.

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 'solely payments of principal and interest' (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 in banks, 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 March 31, 2020.

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 expected credit loss (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, Insurance Claims Receivable 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.

Other Financial Liabilities

Financial liabilities are classified in this category if these are not held for trading or not designated as at FVPL upon the inception of the liability. These include liabilities arising from operations or borrowings.

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 method. Amortized cost is calculated by taking into account any related issue costs, discount or premium. Gains and losses are recognized in the consolidated statement of comprehensive income when the liabilities are derecognized, as well as through the amortization process.

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 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 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 unobservable 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 right-of-use asset, project development costs, security deposits (disclosed under financial instruments), and computer software.

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 interim 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:

Asset Type	Number of Years
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 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, right-of-use asset, 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 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 interim 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 remeasurement 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 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 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 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 March 31, 2020, 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 March 31, 2020, the Company's estimated right of return assets and refund liabilities is not material.

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

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. 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.

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

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

Starting January 1, 2019, the Company adopted PFRS 16.

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Company as a Lessee. The Company applies a single recognition and measurement approach for all leases, except for short-term leases. The Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets. The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated amortization and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are amortized on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, amortization is calculated using the estimated useful life of the assets.

The amortization periods for the right-of-use asset, based on the above policies, are as follows:

Asset Type	Number of Years
Right-of-use asset – transportation equipment	5
Right-of-use asset – buildings	2 to 5
Right-of-use asset – machineries	2 to 3

Lease liabilities. At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets. The Company applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

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 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 interim 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 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.

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.

Impairment testing 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 significant 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.

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 March 31, 2020 and December 31, 2019 amounting to P31.4 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 ₱2.6 million and ₱0.6 million for the three months period ended March 31, 2020 and 2019, respectively, (see Note 7 and 19).

The carrying value of trade and other receivables amounted to ₱1,542.5 million and ₱1,451.8 million as at March 31, 2020 and December 31, 2019, respectively. Allowance for impairment losses on trade and other receivables as at March 31, 2020 and December 31, 2019 amounted to ₱313.5 million and ₱310.9 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"> Estimated future sale price of day-old chicks. Estimated gross margin based on forecasted sales. Estimated hatchability rate. Estimated costs to be incurred in the hatching process. 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> the estimated sale price was higher (lower); the estimated cash inflows based on forecasted sales were higher (lower); the estimated hatchability rate was higher (lower); or the estimated costs to be incurred in the hatching process were lower (higher).
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"> Estimated future sale price of dressed chicken. Estimated gross margin based on forecasted sales. Estimated mortality rate. Estimated costs to be incurred in the growing process. 	The estimated fair value would increase (decrease) if: <ul style="list-style-type: none"> the estimated sale price was higher (lower); the estimated cash inflows based on forecasted sales were higher (lower); the estimated mortality rate was lower (higher); or the estimated costs to be incurred in the growing process were lower (higher).

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 March 31, 2020 and December 31, 2019 amounted to ₱628.2 million and ₱566.7 million, respectively. Allowance for inventory obsolescence as at March 31, 2020 and December 31, 2019 amounted ₱4,039 and ₱4,039, respectively, (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 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 machinery and equipment, buildings, land improvements, office furniture, fixtures and equipment and leasehold improvements, 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, 2019 and 2018, respectively. 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.

In December 2019 and 2018, the Company's investment properties were re-appraised by an independent firm of appraisers resulting to an additional fair value gain of ₱158.3 million and ₱83.4 million, respectively (see Note 11).

The carrying value of property, plant and equipment amounted to ₱940.1 million and ₱924.9 million as at March 31, 2020 and December 31, 2019, respectively (see Note 10). The carrying value of investment properties amounted to ₱804.9 million and ₱802.3 million as at March 31, 2020 and December 31, 2019 respectively (see Note 11).

Estimation of Useful Lives of Property, Plant and Equipment (Except Land and Construction in Progress), Right-of-Use Asset and Computer Software. The Company reviews annually the estimated useful lives of property, plant and equipment (except land), right-of-use asset 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, right-of-use asset and computer software.

The carrying amount of property, plant and equipment, right-of-use asset and computer software as at March 31, 2020 and December 31, 2019, are as follows:

	Unaudited March 2020	Audited December 2019
Property, plant and equipment* (see Note 10)	₱ 553,379,822	₱523,318,623
Right-of-use asset	167,650,861	187,664,899
Computer software (see Note 9)	7,027,012	7,540,538
	₱ 728,057,695	₱718,524,060

**Excluding the carrying amount of land amounting to ₱386.8 million and ₱386.8 million as at March 31, 2020 and December 31, 2019, respectively and construction in progress amounting to ₱13.6 million and ₱14.8 million as at March 31, 2020 and December 31, 2019.*

Leases - Estimating the incremental borrowing rate. The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

The Company's lease liabilities amounted to ₱173.9 million and ₱193.9 million as of March 31, 2020 and December 31, 2019, respectively (see Note 25).

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, right-of-use asset and computer software as at March 31, 2020 and December 31, 2019 amounted to ₱1,114.8 million and ₱1,120.1 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 20.

The estimated present value of defined benefit obligation amounted to ₱96.2 million and ₱95.3 million as at March 31, 2020 and December 31, 2019 while fair value of plan assets amounted to ₱3.8 million as at March 31, 2020 and December 31, 2019 (see Note 20).

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 MCIT with income tax effect amounting to ₱1.2 million as at March 31, 2020 and December 31, 2019, respectively (see Note 21). 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 ₱125.6 million and ₱126.2 million as at March 31, 2020 and December 31, 2019, respectively (see Note 21).

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.

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:

- 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.
- 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.
- The Farms segment is involved in the production of day-old chicks and pullets.
- 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):

	March 31, 2020 (Unaudited)					
	Foods	Feeds	Farms	Corporate & Others	Eliminations	Consolidated
REVENUES						
Sale of goods, net of discount	P 1,002,093	P 1,165,812	P 170,089	P-	P-	P 2,337,994
Fair value adjustment on biological Assets	-	-	-	-	-	-
	P1,002,093	P1,165,812	P170,089	P-	P-	P 2,337,994
COST AND OTHER OPERATING EXPENSES						
Cost of goods sold excluding depreciation	900,531	883,738	233,265	-	-	2,017,534
Operating expenses excluding depreciation	6,002	14,396	-	113,896	-	134,294
Depreciation and amortization	1,084	17,580	91	22,003	-	8
Other operating income	-	(3,702)	-	(1,573)	-	(5,275)
	907,617	912,012	233,356	134,326	-	2,187,311
SEGMENT OPERATING PROFIT (LOSS)	P 94,476	P 253,800	(P 63,267)	(P 134,326)	P-	P 150,683
Other charges -net						(17,692)
Income before income tax						132,992
Tax expense						(39,897)
Net income						P93,095
ASSETS AND LIABILITIES						
Segment assets	P 890,757	P 2,005,658	P 250,532	P 1,186,226	P-	P 4,333,173
Segment liabilities	P 109,032	P 1,259,350	P 41,651	P 1,167,572	P-	P 2,577,605
OTHER INFORMATION						
Capital expenditures	P 2,794	P 11,068	P-	P 12,932	P-	P 26,794
Non-cash expenses other than depreciation and impairment losses	P-	P859	P-	P711	P-	P1,570

	March 31, 2019 (Unaudited)					
	Foods	Feeds	Farms	Corporate & Others	Eliminations	Consolidated
REVENUES						
Sale of goods, net of discount	P922,163	P861,459	P77,112	P-	P-	P1,860,733
Fair value adjustment on biological Assets	-	-	-	-	-	-
	<u>P922,163</u>	<u>P861,459</u>	<u>P77,112</u>	<u>P-</u>	<u>P-</u>	<u>P1,860,733</u>
COST AND OTHER OPERATING EXPENSES						
Cost of goods sold excluding depreciation	994,912	790,279	84,375	-	-	1,869,566
Operating expenses excluding depreciation	31,927	45,320	-	57,077	-	134,323
Depreciation and amortization	1,046	14,320	91	3,638	-	19,096
Other operating income	-	(2,967)	-	(4,457)	-	(7,424)
	<u>1,027,885</u>	<u>846,952</u>	<u>84,466</u>	<u>56,258</u>	<u>-</u>	<u>2,015,561</u>
SEGMENT OPERATING PROFIT (LOSS)	<u>(P105,722)</u>	<u>P14,507</u>	<u>(P7,354)</u>	<u>(P56,258)</u>	<u>-</u>	<u>(P154,827)</u>
Other charges -net						(18,540)
Income before income tax						(173,368)
Tax expense						668
Net income						<u>(P 172,699)</u>
ASSETS AND LIABILITIES						
Segment assets	P482,995	P1,530,155	P338,705	P1,782,662	P-	P4,134,518
Segment liabilities	P378,732	P143,233	P900	P 2,269,925	P-	P2,792,790
OTHER INFORMATION						
Capital expenditures	P6,627	P19,769	P-	P10,822	P-	P37,218
Non-cash expenses other than depreciation and impairment losses	P-	P-	P-	P-	P-	P-

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:

	Unaudited March 2020	Audited December 2019
Cash on hand	P 3,101,690	P2,861,645
Cash in banks	173,859,621	176,783,745
	<u>P 176,961,311</u>	<u>P179,645,390</u>

Cash in banks earn interest at prevailing bank deposit interest rates of 0.1% to 0.5% in March 2020, March 2019 and December 2019. Interest income on cash in banks amounted to P0.002 and P0.49 million in March 31, 2020 and 2019, respectively (see Note 19).

7. Trade and Other Receivables

This account consists of:

	Unaudited March 2020	Audited December 2019
Trade (Note 22)	₱1,073,112,019	₱1,168,380,954
Advances to:		
Suppliers	400,674,398	214,063,243
Officers and employees (Note 22)	13,551,222	12,276,664
Nontrade (Note 22)	197,762,980	197,102,414
Insurance claims receivable	155,171,065	155,171,065
Others	15,680,314	15,693,972
	1,855,951,998	1,762,688,312
Allowance for impairment losses	(313,465,849)	(310,900,898)
	₱1,542,486,149	₱1,451,787,414

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 22).

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 March 31, 2020. 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 March 31, 2020 and December 31, 2019 are shown below:

	Trade	Others	Total
Balance as at January 1, 2020	₱150,085,476	₱160,815,423	₱310,900,898
Provision (Note 19)	2,564,950	—	2,564,950
Balance as at March 31, 2020	₱ 152,650,426	₱160,815,423	₱ 313,465,849

	Trade	Others	Total
Balance as at January 1, 2019	₱148,603,623	₱139,172,314	₱287,775,937
Provision	1,481,853	21,643,109	23,124,961
Balance as at December 31, 2019	₱150,085,476	₱160,815,423	₱310,900,898

8. Inventories and Livestock

Inventories

This account consists of:

	Unaudited March 2020	Audited December 2019
Inventories:		
Finished goods at NRV	₱191,610,500	₱167,731,381
Raw materials and feeds supplement	280,694,234	267,896,005
Supplies and animal health products	43,122,757	47,470,598
	515,427,491	483,097,984
Livestock:		
Day-old chicks	42,379,026	48,994,621
Raw materials	13,735,090	25,469,649
Finished goods	52,235,805	6,869,835
Broilers	4,420,520	2,305,960
	112,770,441	83,640,065
	₱628,197,932	₱566,738,049

Inventories are valued at lower of cost and NRV as at March 31, 2020 and December 31, 2019. The cost of finished goods carried at NRV, amounted to ₱191.6 million and ₱167.7 million as of March 31, 2020 and December 31, 2019, respectively. Inventories charged to cost of goods sold amounted to ₱1,764.5 million and ₱1,635.4 million for the three months period ended March 31, 2020, and 2019, respectively (see Note 16).

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. They are carried at cost since their respective NRV is higher than cost.

Livestock

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

	Unaudited March 2020	Audited December 2019
Day-old Chicks		
Opening balance	P48,994,621	P66,559,169
Increase due to production	265,413,782	926,188,243
Fair value adjustment due to production	—	212,922,640
Decrease due to sales, harvest and mortality	(272,029,376)	(949,707,276)
Fair value adjustment due to sales, harvest and mortality	—	(206,968,155)
	P 42,379,026	P48,994,621
Broilers		
Opening balance	P2,305,960	P3,405,059
Increase due to production	765,835,062	2,948,648,335
Fair value adjustment due to production	—	266,646,459
Decrease due to sales, harvest and mortality	(763,720,502)	(2,951,999,567)
Fair value adjustment due to sales, harvest and mortality	—	(264,394,326)
	P 4,420,520	P2,305,960

Movements in the allowance for inventory obsolescence account as at March 31, 2020 and December 31, 2019 are shown below:

	Unaudited March 2020	Audited December 2019
Balance at beginning of year/period	P4,039	P2,386,863
Reversal	—	(2,382,824)
Provision (Note 16)	—	—
Balance at end of year/period	P4,039	P4,039

9. Right-of-use Assets and Other Assets

Right-of-use Assets

As at March 31, 2020, movements of right-of-use asset are as follows:

	Right-of-use asset Building	Right-of-use asset Transportation equipment	Right-of-use asset Machineries	Total
Cost				
Balance at beginning of year	₱21,455,220	₱73,847,259	₱174,905,773	₱270,208,252
Reclassification	—	—	—	—
Additions	—	—	—	—
Disposals	—	—	—	—
Balance at end of year	21,455,220	73,847,259	174,905,773	270,208,252
Accumulated Amortization				
Balance at beginning of year	6,426,192	32,390,718	43,726,443	82,543,353
Depreciation	1,841,432	3,597,125	14,575,481	20,014,038
Disposal	—	—	—	—
Balance at end of year	8,267,624	35,987,843	58,301,924	102,557,391
Net carrying amount	₱13,187,596	₱37,859,416	₱116,603,849	₱167,650,861

Other Current Assets

This account consists of:

	Unaudited March 2020	Audited December 2019
CWT	₱ 21,907,778	₱59,694,733
Prepayments	18,503,670	12,237,781
Input VAT	3,439,987	3,328,053
	43,851,435	75,260,567
Allowance for impairment losses	(3,091,532)	(3,091,532)
	₱40,759,903	₱72,169,035

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

Other Noncurrent Assets

This account consists of:

	Unaudited March 2020	Audited December 2019
Project development costs	₱31,368,396	₱31,368,396
Security deposits	25,001,618	10,559,718
Computer software	7,027,012	7,540,538
	63,397,026	49,468,652
Allowance for impairment losses	(31,368,396)	(31,368,396)
	₱32,028,630	₱18,100,256

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 P31.4 million was provided with full valuation allowance as at March 31, 2019 and December 31, 2019.

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 March 2020	Audited December 2019
Cost		
Balance at beginning of year/period	P23,867,955	P22,457,587
Additions	406,000	1,410,368
Balance at end of year/period	24,273,955	23,867,955
Accumulated Depreciation and Amortization		
Balance at beginning of year/period	16,327,417	12,649,315
Depreciation and amortization	919,526	3,678,102
Balance at end of year/period	17,246,943	16,327,417
Net carrying amount	P7,027,012	P7,540,538

10. Property, Plant and Equipment

The composition and movements of this account are presented below:

March 31, 2020 (Unaudited)								
	At Appraised Values				At Cost			
	Land	Machinery and Equipment	Buildings	Leasehold and Land Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost								
Balance at beginning of period	P386,767,894	P521,415,893	P210,211,827	P32,189,597	P64,486,178	P57,894,027	P14,787,329	P1,287,752,745
Additions	—	28,554,915	120,000	3,281,913	4,159,165	165,600	5,370,948	41,652,540
Reclassification	—	—	—	—	—	—	(6,555,538)	(6,555,538)
Disposals	—	—	—	—	—	—	—	—
Balance at end of year	P386,767,894	P549,970,808	P210,331,827	P35,471,510	P68,645,343	P58,059,627	P13,602,739	P1,322,849,748
Accumulated Depreciation, and Amortization								
Balance at beginning of period	P—	P207,564,305	P54,865,526	P13,521,636	P47,832,102	P39,095,330	—	P362,878,899
Depreciation and amortization (Notes 16 and 17)	—	11,225,355	2,532,736	1,141,488	2,930,559	1,992,991	—	19,823,129
Reclassification	—	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—	—
Balance at end of period	—	218,789,660	57,398,262	14,663,124	50,762,661	41,088,321	—	382,702,028
Net carrying amount	P386,767,894	P331,181,148	P152,933,565	P20,808,386	P17,882,682	P16,971,306	P13,602,739	P940,147,720

December 31, 2019 (Audited)								
	At Appraised Values				At Cost			
	Land	Machinery and Equipment	Buildings	Leasehold and Land Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost								
Balance at beginning of year	P385,294,702	P470,452,525	P141,722,138	P17,460,394	P55,605,397	P128,335,677	P74,039,319	P1,272,910,152
Additions	1,930,000	44,436,137	24,691,301	4,401,454	9,453,340	8,652,567	648,630	94,213,429
Reclassification	(456,808)	6,527,231	43,798,388	10,327,749	(572,559)	(72,426,329)	(59,900,620)	(72,702,948)
Disposals	—	—	—	—	—	(6,667,888)	—	(6,667,888)
Balance at end of year	P386,767,894	P521,415,893	P210,211,827	P32,189,597	P64,486,178	P57,894,027	P14,787,329	P1,287,752,745
Accumulated Depreciation, and Amortization								
Balance at beginning of year	P—	P157,083,556	P45,494,244	P12,328,581	P36,585,415	P54,475,904	P—	P305,967,700
Depreciation and amortization (Notes 16 and 17)	—	45,237,337	12,024,117	1,395,759	11,699,810	22,522,996	—	92,880,019
Reclassification	—	5,243,412	(2,652,835)	(202,704)	(453,123)	(35,768,440)	—	(33,833,690)
Disposals	—	—	—	—	—	(2,135,130)	—	(2,135,130)
Balance at end of year	—	207,564,305	54,865,526	13,521,636	47,832,102	39,095,330	—	362,878,899
Net carrying amount	P386,767,894	P313,851,588	P155,346,301	P18,667,961	P16,654,076	P18,798,697	P14,787,329	P924,873,846

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

NOTES:

	March 31, 2020 (Unaudited)							
	Land	Machinery and Equipment	Buildings	Leasehold and Land Improvements	Office Furniture, Fixtures and Equipment	Transportation Equipment	Construction in Progress	Total
Cost as of period	P 21,902,549	P 479,472,379	P 180,438,786	P 31,314,669	P 63,286,429	P 130,485,956	P 20,158,277	P 927,059,045
Accumulated depreciation and impairment	2,200,059	207,607,040	46,610,180	11,577,335	46,023,907	41,088,321	–	355,106,842
Reclassification	–	–	–	–	–	–	6,555,537	6,555,537
Net carrying amount	P 19,702,490	P 271,865,339	P 133,828,606	P 19,737,334	P 17,262,522	P 89,397,635	P 13,602,740	P 565,396,666

	December 31, 2019 (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	P21,902,549	P450,917,464	P180,318,786	P28,032,757	P59,127,265	P130,320,356	P14,787,329	P885,406,506
Accumulated depreciation and impairment	2,200,059	196,381,685	44,077,444	10,435,847	43,093,348	39,095,330	–	335,283,713
Reclassification	–	–	–	–	–	72,426,329	–	72,426,329
Net carrying amount	P19,702,490	P254,535,779	P136,241,342	P17,596,910	P16,033,917	P18,798,697	P14,787,329	P477,696,464

The reconciliation of revaluation reserve is as follows:

	Revaluation Reserve	Deferred Tax Liability (see Note 21)	Net (see Note 23)
Balance as at January 1, 2020	P447,177,383	(P134,153,215)	P313,024,168
Transfer to retained earnings of revaluation reserve on property, plant and equipment realized through depreciation	–	–	–
Balance as at March 31, 2020	P447,177,383	(P134,153,215)	P313,024,168

Balance as at January 1, 2019	P454,603,004	(P136,380,901)	P318,222,103
Transfer to retained earnings of revaluation reserve on property, plant and equipment realized through depreciation	(7,425,621)	2,227,686	(5,197,935)
Balance as at December 31, 2019	P447,177,383	(P134,153,215)	P313,024,168

In 2016, property, plant, and equipment with a net book value of P37.5 million that were subject to lease arrangements were reclassified to investment properties (see Note 11). The net carrying amount of P37.5 million becomes part of the cost of these investment properties. Related revaluation reserve of P17.7 million and deferred tax liabilities of P5.3 million of these reclassified properties as at December 31, 2016 will be reversed only after the properties are disposed off.

Depreciation and amortization expense follow:

	Unaudited March 2020	Unaudited March 2019
Property, plant and equipment	P 19,823,129	P21,004,869
Computer software (Note 9)	919,526	919,526
Right-of-use asset (Note 9)	20,014,038	–
	P 40,756,692	P21,924,395

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 December 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	
			2020	2019
Land	Sales Comparison Approach	Price per square meter Value adjustments	P1,493-P1,857 35%-48%	P1,493-P1,857 35%-48%

Significant increases (decreased) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

	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 which are either for lease or 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:

March 31, 2020 (Unaudited)			
	Land	Building	Total
Balance at beginning of year	P545,128,167	P257,138,422	P802,266,589
Additions	–	2,794,290	2,794,290
Disposals	(120,215)	–	(120,215)
Balance at end of year	P 545,007,952	P 259,932,712	P 804,940,664

December 31, 2019 (Audited)			
	Land	Building	Total
Balance at beginning of year	P390,276,582	P239,608,062	P629,884,644
Gain on fair value changes (see Note 19)	154,851,585	3,495,172	158,346,757
Additions	–	14,035,188	14,035,188
Balance at end of year	P545,128,167	P257,138,422	P802,266,589

The composition of investment properties as at March 31, 2020 and December 31, 2019 are as follows:

	Unaudited March 2020	Audited December 2019
Cost	P 434,545,648	P431,871,573
Cumulative gain on fair value changes	370,395,016	370,395,016
	P 804,940,664	P802,266,589

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, 2019. The Company recognized fair value gain of P158.3 million and P83.4 million in 2019 and 2018, respectively. The fair value measurement for investment properties has been categorized as Level 3 (significant unobservable inputs).

Significant increases (decreases) in estimated price per square meter in isolation would result in a significantly higher (lower) fair value on a linear basis.

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

		Range		
	Valuation Technique	Significant Unobservable Inputs	2020	2019
Land	Sales Comparison Approach	Price per square meter	₱130-₱6,800	₱135-₱9,000
		Value adjustments	2%-330%	5%-55%
	Valuation Technique	Significant Unobservable Inputs	Remaining useful life	
Buildings	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.

12. Trade and Other Payables

This account consists of:

	Unaudited March 2020	Audited December 2019
Trade (see Note 22)	₱1,285,774,686	₱1,228,647,069
Accrued expenses	294,815,471	232,304,020
Nontrade	138,899,450	99,433,288
Customers' deposits	28,881,437	28,147,121
Others	9,561,448	12,423,994
	₱1,757,932,492	₱1,600,955,492

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.

13. Loans Payable

This account consists of the following:

	Unaudited March 2020	Audited December 2019
Current portion	₱ 288,846,719	₱384,132,265
Noncurrent portion	141,997,555	148,202,912
	₱ 430,844,274	₱532,335,177

In 2019 and 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 and short-term loans are not subject to any debt covenants.

Interest expense amounted to ₱13.7 million and ₱18.6 million for the three months period ended March 31, 2020 and 2019, respectively (see Note 19).

14. Cash Bond Deposits

Cash bond deposits amounting to ₱41.4 million and ₱41.0 million as at March 31, 2020 and December 31, 2019, 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.

15. Revenue

	Unaudited March 2020	Unaudited March 2019
Sales:		
Feeds	₱1,188,569,452	₱879,490,948
Foods	1,008,270,785	923,990,295
Farms	173,124,057	78,635,603
Sales discount, returns and allowances	(31,970,713)	(21,383,517)
	2,337,993,581	1,860,733,329
Changes in fair values of biological assets	—	—
	₱ 2,337,993,581	₱1,860,733,329

16. Cost of Goods Sold

This account consists of:

	Unaudited March 2020	Unaudited March 2019
Inventories used (see Note 8)	₱ 1,764,543,174	₱ 1,635,444,698
Outside services	202,613,103	186,020,547
Changes in fair values of biological assets	—	—
Depreciation (see Note 17)	₱ 31,540,114	₱ 13,552,286
Salaries and employee benefits (see Note 17)	20,703,368	19,007,911
Contractual services	15,384,206	14,124,350
Communication, light and water	10,566,056	9,700,772
Repairs and maintenance	2,559,979	2,350,335
Others	1,163,968	1,068,648
	₱ 2,049,073,968	₱ 1,881,269,547

17. Operating Expenses

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

	Unaudited March 2020	Unaudited March 2019
Administrative expenses	P69,773,531	P68,900,608
Selling and distribution expenses	73,737,236	72,814,724
	P143,510,767	P141,715,332

The details of operating expenses by nature are shown below:

	Unaudited March 2020	Unaudited March 2019
Salaries and employee benefits	P 45,146,274	P40,727,523
Transportation, travel and freight and handling	42,814,163	43,744,847
Depreciation and amortization	9,216,578	8,374,109
Professional fees	7,677,975	3,952,138
Contractual services	6,501,078	5,150,624
Commissions	5,208,891	2,169,200
Advertising and promotions	4,550,793	5,292,740
Taxes and licenses	3,646,448	4,713,063
Representation and entertainment	3,155,714	2,143,458
Rentals (see Note 25)	3,102,563	14,756,608
Communications, light and water	2,224,320	2,323,492
Repairs and maintenance	1,403,423	1,144,252
Insurance	1,011,577	1,329,440
Supplies	455,204	1,312,090
Others	7,395,766	4,581,748
	P 143,510,767	P141,715,332

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 March 2020	Unaudited March 2019
Salaries and wages	P 62,414,218	P56,623,139
Retirement benefits (see Note 20)	1,570,000	1,575,140
Other short-term benefits	1,865,424	1,537,155
	P 65,849,642	P59,735,434

Salaries and employee benefits is allocated as follows:

	Unaudited March 2020	Unaudited March 2019
Cost of goods sold (see Note 16)	P 20,703,368	P19,007,911
Operating expenses:		
Administrative expenses	24,083,346	21,726,158
Selling and distribution expenses	21,062,928	19,001,365
	45,146,274	40,727,523
	P65,849,642	P59,735,434

Depreciation and Amortization

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

	Unaudited March 2020	Unaudited March 2019
Cost of goods sold (see Note 16)	P 31,540,114	P13,552,286
Operating expenses:		
Administrative expenses	5,529,426	5,023,992
Selling and distribution expenses	3,687,152	3,350,117
	9,216,578	8,374,109
	P 40,756,692	P21,926,395

18. Other Operating Income

This account consists of:

	Unaudited March 2020	Unaudited March 2019
Sale of scrap materials	P 3,702,346	P 2,966,795
Rentals (see Note 25)	1,573,393	4,457,143
	P 5,275,739	P 7,423,938

19. Other Income (Charges)

	Unaudited March 2020	Unaudited March 2019
Interest expense (see Notes 13, 22 and 25)	(P 13,673,244)	(P 18,589,119)
Impairment losses on receivables	(2,564,950)	(654,007)
Interest income (see Note 6)	2,555	497,776
Foreign exchange gain	1,746,210	—
Others	(3,202,746)	204,997
	(P 17,692,175)	(P 18,540,353)

20. 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, 2019.

Retirement expense recognized in the interim consolidated statements of comprehensive income amounting to ₱1.6 million and nil for the three months period ended March 31, 2020 and 2019, respectively, pertains to accrual of current service cost for the period (see Note 17).

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

	Unaudited March 2020	Audited December 2019
Present value of the obligation	₱96,161,076	₱95,342,964
Fair value of plan assets	(3,826,125)	(3,826,125)
	₱92,334,951	₱91,516,839

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

	Unaudited March 2020	Audited December 2019
Balance at beginning of year	₱95,342,964	₱105,147,035
Remeasurement loss (gain) recognized in OCI	—	(27,473,071)
Current service costs	1,500,000	11,749,402
Interest expense	—	8,096,322
Benefits paid	(681,888)	(2,176,724)
Settlement loss	—	—
Balance at end of year	₱96,161,076	₱95,342,964

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

	Unaudited March 2020	Audited December 2019
Balance at beginning of year	₱3,826,125	₱3,566,577
Interest income	—	274,626
Remeasurement loss	—	(15,078)
	₱3,826,125	₱3,826,125

Actual returns on plan assets amounted to nil and ₱0.26 in 2020 and 2019, respectively.

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

	2020	2019
Cash and cash equivalents	33.24%	33.24%
Equity instruments	16.15%	16.15%
Debt instruments	51.28%	51.28%
Others	(0.67%)	(0.67%)

There are no expected future contributions in the plan in 2020.

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

	2020	2019
Less than one year	₱7,488,413	₱7,488,413
Between one and five years	30,426,386	30,426,386
Over five years	68,538,125	68,538,125
	₱106,452,924	₱106,452,924

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

	2020	2019
Discount rate	5.47%	5.47%
Expected rate of salary increase	5%	5%
Average remaining working life of an employee retiring at the age of 60:		
Male	39	39
Female	35	35

The weighted average duration of the present value of defined benefit obligation is 9.5 years in 2020 and 2019.

A quantitative sensitivity analysis for changes in assumptions as at March 31, 2020 and December 31, 2019 are shown below (amounts in thousands):

		Impact on Defined Benefit Obligation	
	Change in Assumptions	2020	2019
Discount rate	+100 bps	(₱ 9,699)	(₱ 9,699)
	-100 bps	9,700	9,700
Salary rate	+100 bps	9,648	9,648
	-100 bps	(8,498)	(8,498)

21. Provision for (Benefit from) Income Tax

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

	Unaudited March 2020	Unaudited March 2019
Reported in the interim		
Consolidated Profit or Loss		
RCIT at 30%	P39,786,848	P—
MCIT at 2%	—	—
Deferred income tax expense (benefit)	110,425	(668,744)
	P39,897,273	(P668,744)

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 March 2020	Unaudited March 2019
Income tax expense at statutory tax rate	P 39,897,723	P —
Change in unrecognized deferred tax assets	—	(668,744)
Tax effects of:		
Nondeductible expenses	—	—
Income already subjected to final tax	(766)	—
Nontaxable income	316	—
	P 39,897,273	(P 668,744)

The components of the recognized net deferred tax assets and liabilities as at March 31, 2020 and December 31, 2019 are as follows:

	Unaudited March 2020	Audited December 2019
<i>Deferred tax assets:</i>		
Allowance for impairment loss on:		
Trade and other receivables	P 83,987,808	P 83,218,323
Product development costs	9,410,519	9,410,519
Property, plant and equipment	5,392,850	5,392,850
Inventory	1,212	1,212
Retirement liability	26,728,391	26,257,391
Excess of lease liability over right-of-use asset	76,111	1,881,199
	125,596,891	126,161,494
<i>Deferred tax liabilities:</i>		
Revaluation reserve on property, plant and equipment	(133,699,037)	(134,153,215)
Changes in fair value of investment properties	(70,622,101)	(70,622,101)
Changes in fair value of biological assets	(2,461,985)	(2,461,985)
	(206,783,123)	(207,237,301)
Net deferred tax liabilities	(P 81,186,232)	(P 81,075,807)

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
2018	₱ 3,346,948	₱ –	(₱ 3,346,948)	₱ –	2021
2016	11,630,895	–	(11,630,895)	–	2019
	₱ 14,977,843	₱ –	(₱ 14,977,843)	₱ –	

Unrecognized deferred tax asset amounting to ₱1.2 million pertains to retirement liability.

In 2019, the Company utilized its MCIT amounting to ₱15.0 million.

22. 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 23).

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.

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).

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

		March 2020 (Unaudited)		December 2019 (Audited)	
Related Parties	Nature of Transactions	Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances
Trade and other receivables					
Entities under common control	Sales	₱ 367,942,127		₱843,138,904	
	Collections	(365,485,280)	₱ 231,067,224	(640,264,819)	₱228,610,377
Trade and other payables					
Entities under common control	Purchases	₱ 441,963,005		₱1,591,869,921	
	Payments	(519,310,285)	₱ 16,501,289	(1,501,864,550)	₱93,848,569

The Company also avails of interest-bearing advances from a shareholder which are payable within a year.

Related Party	Nature of Transactions	Unaudited March 2020		Audited December 2019	
		Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances
Stockholder	Advances for working capital	P-	P-	(P85,726,435)	P-
	Interest	-	-	13,378,992	-
			P-		P-

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	Unaudited March 2020		Audited December 2019	
		Amount of Transactions	Outstanding Balances	Amount of Transactions	Outstanding Balances
Advances to officers and employees	Net transactions	P 1,274,558	P 13,551,222	P126,867	P12,276,664

23. Equity

Capital Stock

As of March 31, 2020, the Company has authorized capital stock of 3.5 billion shares at P0.38 par value equivalent to P3.1 billion. Details of authorized and issued and outstanding shares are as follows:

	Unaudited March 2020	Audited December 2019
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 P407.1 million to Kormasinc at P1.52 a share. Consequently, Kormasinc's ownership interest increased from 69.20% to 71.90% (see Note 1). Excess over par value of P139.3 million was recognized as APIC.

The following summarizes the information on the Company's issued and outstanding shares as at March 31, 2020:

	Number of shares issued and outstanding	Percentage of shares
Issued and outstanding	3,054,334,014	100.00%
Listed shares:		
Owned by related parties	2,180,420,604	71.39%
Owned by public	796, 006, 412	26.06%
Owned by directors and officers	77,906,998	2.55%
Total	3,054,334,014	

Of the total shares owned by the public, 121.7 million shares are foreign-owned.

The total number of shareholders of the Company is 4,132 as at March 31, 2020 and December 2019.

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 20)	Total
Balance as at January 1, 2020	₱313,024,168	₱14,146,428	₱327,170,596
Transfer to retained earnings of revaluation reserve realized through depreciation, net of tax	—	—	—
Actuarial gain, net of tax	—	—	—
Balance as at March 31, 2020	₱313,024,168	₱14,146,428	₱327,170,596
Balance at January 1, 2019	₱318,222,103	(₱5,074,168)	₱313,147,935
Transfer to retained earnings of revaluation reserve realized through depreciation, net of tax	(5,197,935)	—	(5,197,935)
Actuarial loss, net of tax	—	19,220,596	19,220,596
Balance as at December 31, 2019	₱313,024,168	₱14,146,428	₱327,170,596

As of March 31, 2020, there are no available amounts for dividend declaration based on Parent Company balances.

24. Earnings Per Share

Basic and diluted earnings per share were computed as follows:

	Unaudited March 2020	Unaudited March 2019
Net income (loss) for the period/year	₱ 93,095,137	(₱172,699,221)
Divided by the weighted average number of outstanding shares	3,054,334,014	3,054,334,014
Earnings per share - basic and diluted	₱ 0.03	(₱0.06)

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

25. 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 ₱1.6 million, and ₱4.4 million for the three months period ended March 2020 and 2019, respectively, and are shown as part of "Other operating income" account in the interim consolidated statements of comprehensive income (see Note 18).

Future minimum rentals receivable under non-cancellable operating leases as at March 2020 and December 2019 are as follows:

	Unaudited March 2020	Audited December 2019
Within one year	₱6,293,571	₱6,293,571
After one year but not more than five years	12,140,178	13,713,571
	₱ 18,433,750	₱20,007,142

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 ₱25.0 million and ₱10.6 million as at March 31, 2020 and December 31, 2019, respectively. Rent expense amounted to ₱3.1 million and ₱14.8 million for the three months period ended March 31, 2020 and 2019, respectively (see Note 17). Future minimum lease payments under the lease agreements follow:

	Unaudited March 2020	Audited December 2019
Within one year	₱ 13,523,122	₱13,825,942
More than one year but not more than five years	5,265,817	8,646,597
	₱ 18,788,939	₱22,472,539

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.

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

Lease Liabilities

The following are the amounts recognized for the period ended March 31, 2020 interim consolidated statement of comprehensive income:

Depreciation expense of right-of-use assets included in other noncurrent assets	₱ 20,014,038
Interest expense on lease liabilities	2,113,526
Expenses relating to short-term leases (see Note 17)	3,102,563
Total amount recognized in the March 31, 2020 interim consolidated statement of comprehensive income	<u>₱25,230,127</u>

The rollforward analysis of lease liabilities follows:

As at January 1, 2020, as previously reported	₱ 193,935,563
Additions	-
Interest expense	2,901,045
Payments	(22,911,621)
As at March 31, 2020	<u>₱ 173,924,987</u>

As at March 31, 2020, the details of the lease liabilities follow:

Current	₱ 80,182,322
Noncurrent	93,742,665
	<u>₱173,924,987</u>

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.

Prior to January 1, 2019, 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.

In 2018, based on management's assessment, certain agreements were accounted under IFRIC-4 which were subsequently terminated in 2019.

Total payments for this type of arrangements amounted to ₱110.3 million and ₱125.9 million for the three months ended March 31, 2020 and 2019, respectively, and is recorded as part of "Cost of goods sold" account under "Outside services" in the consolidated statements of comprehensive income

As a result of adoption of PFRS 16, the Company evaluated whether there are tolling agreements which qualify as lease agreements to be accounted for under the standard. Based on its evaluation, certain tolling agreements qualify as lease and resulted to the recognition of net right-of-use asset and lease liability amounting to ₱116.6 million and ₱118.2 million, respectively as of March 31, 2020.

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.

26. Note to Consolidated Statements of Cash Flows

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

	January 1, 2020	Proceeds/ Additions	Payments	Interest expense	March 31, 2020
Loans payable	P532,335,177	P119,258,000	(P220,748,903)	P—	P430,844,274
Accrued interest payable	2,325,176	—	(9,733,105)	10,772,199	3,364,270
Lease liabilities	193,935,563	—	(22,911,621)	2,901,045	173,924,987
Total liabilities from financing activities	P728,595,915	P119,258,000	(253,393,629)	P13,673,244	P608,133,531

	January 1, 2019	Proceeds/ Additions	Payments	Interest expense	December 31, 2019
Loans payable	P822,479,984	P1,069,496,769	(P1,359,641,576)	P—	P532,335,177
Accrued interest payable	3,236,049	—	(74,965,307)	74,054,434	2,325,176
Lease liabilities*	68,799,514	186,243,082	(68,961,650)	7,854,616	193,935,562
Total liabilities from financing activities	P894,515,547	P1,255,739,851	(1,503,568,533)	P81,909,050	P728,595,915

*Presented in the beginning balance is the transition adjustment upon the adoption of PFRS 16. The leases previously classified as operating lease and finance lease amounting to P56.7 million and P12.6 million, respectively.

The Company's noncash transactions consist of the addition to lease liabilities and right-of use assets amounted to P173.9 million for the period ended March 31, 2020.

27. 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.

28. Fair Value Information

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

	March 2020 (Unaudited)		December 2019 (Audited)	
	Carrying Values	Fair Values	Carrying Values	Fair Values
Financial Assets at Amortized Cost				
Cash in banks	P176,961,311	P176,961,311	P176,783,745	P176,783,745
Trade and other receivables*	1,019,594,455	1,019,594,455	1,120,380,494	1,120,380,494
Security deposits	25,001,618	25,001,618	10,559,718	10,559,718
	P1,221,557,384	P1,221,557,384	P1,307,723,957	P1,307,723,957
Financial Liabilities at Amortized Cost				
Trade and other payables**	P1,748,371,044	P1,748,371,044	P1,588,531,498	P1,588,531,498
Loans payable	430,844,274	430,844,274	532,335,177	532,335,177
Lease liabilities	173,924,987	173,924,987	193,935,562	197,598,911
Cash bond deposits	41,383,283	41,383,283	40,954,787	40,954,787
	P2,394,523,588	P2,394,523,588	P2,355,757,024	P2,359,420,373

*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to P400.7 million, P108.7 million and P13.5 million, respectively, as at March 31, 2020 and P214 million, P105.1 million and P12.3 million, respectively, as at December 31, 2019.

**Excluding statutory liabilities amounting to P9.6 million and P12.4 million as at March 31, 2019 and December 2019, 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 March 31, 2020, 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 March 31, 2020 and December 31, 2019.

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 March 31, 2020 and December 31, 2019, 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 March 2020 and December 2019.

29. 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 March 31, 2020 and December 31, 2019, 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 consolidated statements of financial position (or in the detailed analysis provided in the notes to the consolidated financial statements) as summarized below.

	Unaudited March 2020	Audited December 2019
Cash in banks	₱ 176,961,311	₱176,783,745
Trade and other receivables*	1,019,594,455	1,120,380,494
Security deposits	25,001,618	10,559,718
	₱1,221,557,384	₱1,307,723,957

*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱400.7 million, ₱108.7 million and ₱13.5 million, respectively, as at March 31, 2020 and ₱214.1 million, ₱105.1 million and ₱12.3 million, respectively, as at December 31, 2019.

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:

March 31, 2020 (Unaudited)						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Total			
Cash in banks	₱ 176,961,311	₱-	₱176,961,311	₱-	₱-	₱ 176,961,311
Trade and other receivables*	575,289,741	-	575,289,741	444,304,714	313,465,849	1,333,060,304
Security deposits	25,001,618	-	25,001,618	-	-	25,001,618
	₱ 777,252,670	₱-	₱ 777,252,670	₱ 444,304,714	₱313,465,849	₱ 1,535,023,233

*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱400.7 million, ₱108.7 million and ₱13.5 million, respectively, as at March 31, 2020.

December 31, 2019 (Audited)						
	Neither Past Due nor Impaired			Past Due but not Impaired	Impaired	Total
	High Grade	Standard Grade	Total			
Cash in banks	₱176,783,745	₱-	₱176,783,745	₱-	₱-	₱176,783,745
Trade and other receivables*	631,335,181	-	631,335,181	489,045,313	310,900,898	1,431,281,392
Security deposits	10,559,718	-	10,559,718	-	-	10,559,718
	₱818,678,644	₱-	₱818,678,644	₱489,045,313	₱310,900,898	₱1,618,624,855

*Excluding advances to suppliers, advances to contract growers and breeders, and advances to officers and employees amounting to ₱214.1million, ₱105.1 million and ₱12.3 million, respectively, as at December 31, 2019.

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 March 31, 2020	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			
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	2.93%			
Estimated total gross carrying amount at default	P597.3	P188.0	P29.4	P14.3	P6.3	P47.8	P883.1	P285.3	P1,168.4
Expected credit loss	P0.02	P0.02	P0.02	P0.01	P0.01	P1.40	P1.48	P285.3	P286.8

As at December 31, 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			
Expected credit loss rate	0.00%	0.00%	0.00%	0.00%	0.00%	2.93%			
Estimated total gross carrying amount at default	P597.3	P188.0	P29.4	P14.3	P6.3	P47.8	P883.1	P285.3	P1,168.4
Expected credit loss	P0.02	P0.02	P0.02	P0.01	P0.01	P1.40	P1.48	P285.3	P286.8

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 March 31, 2020 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*	P1,748,371,044	P-	P-	P-
Loans payable	276,562,977	12,283,742	141,997,555	-
Lease liabilities	40,091,161	40,091,161	93,742,665	-
Cash bond deposits	-	-	41,383,283	-
Future interest on long term debt	5,699,276	5,286,964	22,029,859	-
	P2,070,724,458	P57,661,867	P299,153,362	P-

*Excluding statutory liabilities amounting to P9.6 million as at March 31, 2020.

As at December 31, 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*	P1,588,531,498	P–	P–	P–
Loans payable	371,848,523	12,283,742	148,202,912	–
Lease liabilities	43,490,813	43,490,813	106,953,936	–
Cash bond deposits	–	–	40,954,787	–
Future interest on long term debt	5,699,276	5,286,964	24,731,796	–
	P2,009,570,110	P61,061,519	P320,843,431	P–

*Excluding statutory liabilities amounting to P12.4 million as at December 31, 2019.

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.

30. 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.

	Unaudited March 2020	Audited December 2019
Total liabilities	P 2,577,606,219	P2,540,773,664
Total equity	1,755,566,951	1,662,471,814

31. New and Amended Standards and Interpretations

Other New Pronouncements Effective for December 31, 2019 year-end

Several other amendments and interpretations apply for the first time in 2019, 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 9, *Prepayment Features with Negative Compensation*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- 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*

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, 2020

▪ Amendments to PFRS 3, *Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant's ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

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

These amendments will apply on future business combinations of the Company.

▪ 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.

Effective beginning on or after January 1, 2021

▪ PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- i. A specific adaptation for contracts with direct participation features (the variable fee approach)
- ii. A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

The adoption of this accounting standard will not have an impact to the Company's financial statements.

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*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

32. COVID-19 Outbreak

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region (NCR) effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until May 15, 2020. On May 12, 2020, NCR was included in the selected areas to be under modified enhanced community quarantine from May 16, 2020 until May 31, 2020. Subsequently, NCR was placed on general community quarantine starting June 1, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Company's first quarter performance has provided ample buffer for the COVID-19 outbreak for the second quarter. The Company will continue to monitor the situation.

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

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

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

RATIO	FORMULA	Unaudited March 2020	Unaudited March 2019	Audited December 2019
Current Ratio				
	Current assets	2,388,405,295	2,508,323,338	2,270,339,888
	Divided by current liabilities	2,126,961,533	2,364,474,251	2,072,069,383
	Current ratio	1.12	1.06	1.10
Debt-to-equity Ratio				
	Total liabilities	2,577,606,219	2,792,789,517	2,540,773,664
	Divided by total equity	1,755,566,951	1,341,728,968	1,662,471,814
	Debt-to-equity ratio	1.47	2.08	1.53
Asset-to-equity Ratio				
	Total assets	4,333,173,170	4,134,518,485	4,203,245,478
	Divided by total equity	1,755,566,951	1,341,728,968	1,662,471,814
	Asset-to-equity ratio	2.47	3.08	2.53
Solvency Ratio				
	Net income (loss) before depreciation and amortization	101,821,590	(151,694,352)	289,760,359
	Divided by total liabilities	2,577,606,219	2,792,789,517	2,540,773,664
	Solvency ratio	0.04	(0.05)	0.11
Interest rate coverage Ratio				
	Pretax income before interest	146,665,654	(154,778,846)	224,596,171
	Divided by interest expense	13,673,244	18,589,119	81,909,050
	Interest rate coverage ratio	10.73	(8.33)	2.74
Profitability Ratio				
	Net income	93,095,137	(172,699,221)	128,823,029
	Divided by total equity	1,755,566,951	1,341,728,968	1,662,471,814
	Profitability ratio	0.05	(0.13)	0.08

VITARICH CORPORATION AND SUBSIDIARIES**(A Subsidiary of Kormasinc, Inc.)****SUPPLEMENTARY SCHEDULE OF RETAINED EARNINGS****AVAILABLE FOR DIVIDEND DECLARATION****MARCH 31, 2020**

	Amount
Retained earnings as at beginning of period	(P173,183,434)
Cumulative gain on fair value changes of investment properties	(212,048,259)
Deficit as adjusted to available for dividend declaration	
at beginning of period	(38,864,825)
Net income closed to retained earnings	93,095,137
Deficit as adjusted to available for dividend declaration at end of the year	P54,230,312

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

SEC SUPPLEMENTARY SCHEDULES AS REQUIRED BY
PAR. 6 PART II OF
SRC RULE 68 AS AMENDED
Unaudited
March 31, 2020

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VITARICH CORPORATION AND SUBSIDIARIES
SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES
and PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
March 31, 2020
(In Thousands)

<u>Name and Designation of Debtor</u>	Balance at beginning of period	Additions	Deductions		Ending Balance		Balance as at March 31, 2020
			Collected	Written Off	Current	Noncurrent	
Advances to Officers and Employees:							
Mailyn Acero, Sales Manager	₱356	₱–	₱25	₱–	₱331	₱–	₱331
Rey D. Ortega, Senior Vice-President and General Manager	245	–	17	–	228	–	228
Peter Andrew Dompur, Sales Manager	207	40	9	–	238	–	238
Adriano Barrameda, Sales Manager	179	–	10	–	169	–	169
Oliver Lupiba, Sales Manager	429	–	24	–	405	–	405
Olivia Pungtilan, Manager	172	–	172	–	–	–	–
Others*	10,688	1,492	–	–	12,180	–	12,180
	₱12,276	₱1,532	₱257	₱–	₱13,551	₱–	₱13,551

*Represent advances to officers and employees with balances less than ₱100,000.

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
March 31, 2020
(In Thousands)

			Deductions			Ending Balance		
	Balance at beginning of period	Additions	Collections	Write Off	Amounts written off	Current	Noncurrent	
<u>Related Party</u>								Balance as at March 31, 2020
Amounts Due from Related Parties								
Gromax, Inc.	₱41,598	₱–	₱–	₱–	₱–	₱41,598	₱–	₱41,598

VITARICH CORPORATION AND SUBSIDIARIES
SCHEDULE D - INTANGIBLE ASSETS – OTHER ASSETS

March 31, 2020
(In Thousands)

<u>Description</u>	Beginning balance	Additions	Charged to cost and expense	Charged to other accounts	Other changes additions (deductions)	Balance at end of period
Computer software	P7,540	P406	P919	P–	P–	P7,027

VITARICH CORPORATION AND SUBSIDIARIES
SCHEDULE E – LONG TERM DEBT
March 31, 2020
(In Thousands)

Title of the Issuer	Agent/Lender	Outstanding Balance	Current Portion	Noncurrent Portion	Interest Rate	Number of Periodic Installments	Interest Payment	Final Maturity
Fixed	Chinabank Savings	₱83,772	₱12,774	₱70,998	7.88%	28 quarterly payments	Monthly	October 30, 2026
Fixed	Chinabank Savings	83,772	12,773	70,999	8.13%	28 quarterly payments	Monthly	November 30, 2026
		₱167,544	₱25,547	₱141,997				

VITARICH CORPORATION AND SUBSIDIARIES
SCHEDULE F - RECEIVABLE FROM (PAYABLE TO) RELATED PARTIES

March 31, 2020

(In Thousands)

<u>Related Parties</u>	Balance at beginning of the period	Additions	Deductions			Ending Balance		Balance as at March 31, 2020
			Collections (Payments)	Discounting	Write Off	Current	Noncurrent	
Trade and other receivables								
Entities under common control	P228,610	P367,942	(P365,485)	P–	P–	P–	P–	P231,067
Trade and other payables								
Entities under common control	P93,848	P441,963	(P519,310)	P–	P–	P–	P–	P16,501
Stockholders	P–	P–	P–	P–	P–	P–	P–	P–

VITARICH CORPORATION AND SUBSIDIARIES
SCHEDULE H – CAPITAL STOCKHOLDER
March 31, 2020
(In Thousands)

					Number of shares held by	
<u>Title of Issue</u>	Number of shares authorized	Number of shares issued and outstanding as shown under the statement of financial position caption	Number of shares reserved for options, warrants, conversion & other rights	Related parties	Directors, officers and employees	Public
Common stock – ₱0.38 par value per share						
Authorized - 3,500,000,000 shares	3,500,000	3,054,334	—	2,180,420	77,906	796,008

VITARICH CORPORATION AND SUBSIDIARIES
MAP SHOWING THE RELATIONSHIP BETWEEN AND AMONG THE GROUP
March 31, 2020

