



VICTORIAS MILLING COMPANY, INC.

SEEDS OF SUSTAINABILITY: CULTIVATING A CULTURE OF ECO-CONSCIOUSNESS

Annual & Sustainability Report 2022-23

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ABOUT THE COVER

As a key figure in the sugar industry, VMC stands out as a champion of the circular economy, where the byproducts of one business seamlessly integrate as inputs for another. Embracing an eco-conscious approach, VMC goes beyond conventional sustainability concepts by actively promoting renewable energy sources such as bioethanol, cogeneration, and soon, biogas and solar. The company exemplifies a forward-thinking model that not only mitigates its environmental footprint but actively contributes to a positive impact on society, the local community, and the global landscape.

VMC serves as a shining example, not merely replacing traditional energy sources, but rather innovatively incorporating alternative and renewable energy solutions to sustain its operations. This commitment not only reflects responsible business practices but also positions VMC as a catalyst for positive change. The hope is that such initiatives will foster a collective commitment to environmental stewardship and sustainable business practices.

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ABOUT THE REPORT

“ Seeds of Sustainability: Cultivating a Culture of Eco-Consciousness”

is VMC's Annual and Sustainability Report that highlights key financial information and performance results for Crop Year 2022-2023, including the sustainability challenges and impact of the Company's activities and programs on the economy, the environment, and society. The report and its contents are aligned with the requirements under the Sustainable Reporting Guidelines issued by the Securities and Exchange Commission (SEC) through its Memorandum Circular No. 4, Series of 2019. The SEC Circular is patterned after the Global Reporting Initiative's G4 Sustainability Reporting Guidelines.

WHO WE ARE

Victorias Milling Company Inc is the leading sugar-based manufacturing company, with a diverse business portfolio, ranging from raw sugar milling and refinery to power cogeneration, bioethanol, and alcohol production.

VMC offers a variety of products and services such as food processing, real estate sales, leasing, and recreation through its subsidiaries, Victorias Foods Corporation, Victorias Green Energy Corporation, Victorias Agricultural Land Corporation, Canetown Development Corporation, and Victorias Golf & Country Club.



SUGAR MILL

VMC operates a raw sugar mill with a daily capacity of **15,000 metric tons**. It also operates a refinery plant with a daily capacity of **25,000 Lkg** (1 Lkg = 50 kilograms). To ensure maximum utilization of the refinery, VMC also provides toll refinery services to planters.



DISTILLERY OPERATIONS

The division produces alcohol and ethanol with an actual daily capacity of **120,000 liters**, with molasses as the primary feedstock. Molasses is a byproduct of the sugar operations. In 2020, the distillery started producing rubbing alcohol using ethyl alcohol as primary raw material.



POWER GENERATION

A newly established segment with the primary purpose of carrying on the business of power generation derived from renewable energy resources for wholesale of electricity to power companies, distribution utilities, electric cooperatives, retail electricity suppliers, aggregators, and other customers.

GROUP CORPORATE STRUCTURE

Subsidiaries



VICTORIAS MILLING COMPANY, INC.



Non-profit organization

VMC Foundation is dedicated to spearheading diverse youth and community programs that offer opportunities and support for individuals and the community at large. It is committed to helping create positive change, empowered communities, and a sustainable future for all.



100% ownership

Food processing is involved primarily in selling processed, preserved and packaged food products such as canned sardines and luncheon meat.

VICTORIAS FOODS



100% ownership

Engaged in power cogeneration, derived from renewable energy sources, and services for wholesale of electricity.

VICTORIAS GREEN ENERGY



100% ownership

Derives income from lease of certain parcels of land.

VICTORIAS AGRICULTURAL LAND



93% ownership

Involved in development and sale of memorial lots and operation of memorial park; and lease of certain parcels of land

CANETOWN DEVELOPMENT CORPORATION



81% ownership

Finally, entertainment derives income from membership fees when billed and when corresponding services are rendered.

VICTORIAS GOLF & COUNTRY CLUB

MISSION

To establish the company as a leader in the sugarcane industry, delivering excellence through the production of sugar, power, and fuel.

VISION

We Nourish. We Power. We Fuel.

We transform sugarcane -- into sugar that nourishes the body; into power that energizes industries and homes; and into fuel that drives the engines of the country. Our name is our guarantee of the highest quality: in our products, services, and dealings with our customers, namely, the planters, traders and fellow industry stakeholders. We achieve this through industry-leading efficiency, enabling infrastructure and by driving our team to be the best, working with excellence. We pledge to pursue profitable growth with prudence and wisdom to ensure reasonable, sustainable returns to the stakeholders of the business. Our employees are our partners. By their competence, motivation and sense of fulfillment, and their embrace and practice of our values, we succeed. We are responsible stewards of the environment and of the communities in which we work and live.

CORE VALUES

TEAMWORK. We achieve results together.

EXCELLENCE. We strive to become better everyday.

ACT WITH INTEGRITY. We are true to our word and transparent in our undertakings.

MALASAKIT. We decide and act in the best interests of the company.

MILESTONES



1919 Don Miguel J. Ossorio and wife, Maria Paz Yangco, set up Victorias Milling Company Inc. (VMC) with Claudio Ruiz de Luzuriaga, Francisco Ossorio, and Shiras Jones.

1954 VMC (formerly known as VICMICO) makes its first largest post-liberation production.



1964 VMC begins to diversify, establishing a foundry.

1969 VMC's 50th anniversary and the first carbonation plant in the Philippines is set up.

1985 Victorias Foods Corporation (VFC) begins to export canned light tuna chunks to Canada.



1988 A Yoshimine boiler goes into operation. It adds to the company's steam and electric generating capacity. GENE-X micro-computer facilitates breeding, selection and generation of crosses in the sugarcane research services.

1993 VMC debuts at the Philippine Stock Exchange (PSE) after a blockbuster initial public offering (IPO) that raised Php 525 million in fresh capital.

1997 VMC files a petition with the Securities and Exchange Commission for a suspension of payments to all creditors and to allow it to undergo corporate rehabilitation.

2011 VMC ventures into renewable energy, declaring a total power generation capacity of 18MW with excess capacity of 2MW which shall be sold to end-users.



2014 VMC fully pays all its restructured loans and successfully redeems all its convertible notes.

2018 VMC adds bioethanol production to its renewable energy portfolio.



2019 VMC celebrates its 100th year with the inauguration of its cogen plant.

2023 Utilizing renewable energy as a resource, VMC commissions its biogas generator sets to power up its factory; and launches its expanded power plant with the commissioning of its new bagasse fired boiler and turbo generator.





MESSAGE FROM THE CHAIRMAN

I am filled with immense gratitude and pride for our collective efforts that have propelled Victorias Milling Company (VMC) to new heights. The challenges we faced at the beginning of crop year 2022-2023 were met with resilience and unity, demonstrating the strength of our industry and our commitment to its sustained growth.

The whole industry collaborated to heed the government's call for early milling to address the anticipated sugar volume shortage. This collaborative effort was instrumental to our successful operations throughout the year. Notably, the favorable price of raw sugar which significantly benefited our farmers, set the stage for our improved performance during the crop year.

I am glad to announce that we were able to attain a 63% increase in consolidated net profit for the crop year ending August 31, 2023. This robust growth, coupled with a strong balance sheet showcasing a 16% increase in stockholder's equity and a 10% net profit margin, is a testament to the dedication and strategic acumen of our entire team.

The profit growth is attributed to higher prices, increased ethanol production, and augmented power exports. Our bioethanol and power business segments continue to play a pivotal role in supporting a circular economy, contributing to the overall sustainability of our operations. Our Distillery has increased its production capacity of 120,000 liters of anhydrous alcohol (AHA) daily, totalling 36 million liters annually, with a remarkable 33.8% increase in AHA production compared to the previous year.

It is noteworthy that our current ratio remains strong at 3.4, while our debt-to-equity ratio remains low at 0.21. The fixed assets of our core segments—sugar milling, refinery, power generation, and distillery operations—account for 53% of our total assets, showcasing the diverse yet integrated nature of our endeavors.

In our fourth year of focusing on sustainability, we recognize the challenges, which demand a whole-system change and the adoption of new goals and technologies across the organization. Aligning our internal processes with the broader sugar-power-ethanol industry and the public sector is crucial for the success of our sustainability transition. Lastly, in the area of corporate governance, we see the need for both horizontal and vertical policy coordination to achieve our goals.

To address these challenges during VMC's sustainability transition, our company is focusing on expertise, creativity, and professionalism to innovate and add value to products while establishing a sustainable source of raw materials for high-quality products and eco-friendly biomass energy. We are likewise committed to conducting business with good corporate governance and striving for a regenerative economy through initiatives like liquid fertilization, power co-generation, river conservation, and reforestation, all contributing to positive environmental and societal impacts.

The Barangay Emergency Response Team (BERT) Training that we conducted in collaboration with the Manapla Disaster Response and Rescue Management Team and the Regional Mobile Force Battalion 6, exemplifies our dedication to community well-being and disaster preparedness. Similarly, the 2-day workshop on effective solid waste management, organized with the Municipal Environment and Natural Resources Office (MENRO), highlights our commitment to environmental stewardship and income generation for local communities.

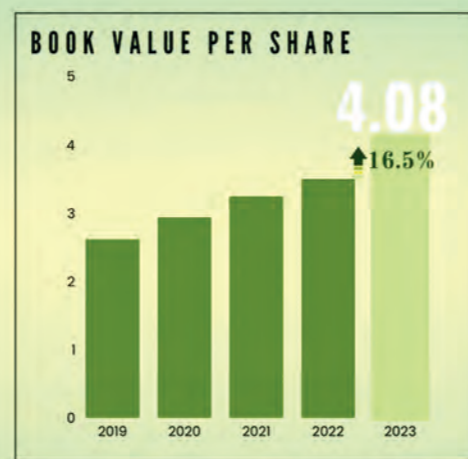
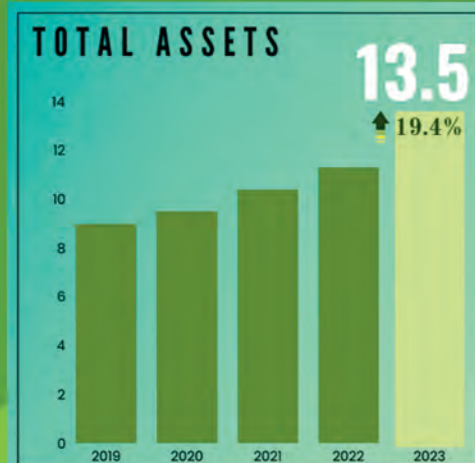
Our sustainability initiatives, ranging from clean-up drives and greening programs to community planning and innovative fertilization programs, illustrate our holistic approach towards a regenerative economy. The positive impact of these projects extends beyond environmental preservation, positively influencing community livelihoods and ensuring a more sustainable future.

As we move forward, let us remain united in our purpose and vision for the greater good. The challenges may be many, but with the unwavering support of our dedicated partners, stakeholders, and employees, I am confident that we can overcome them. Our industry thrives on unity, and together, we will continue to forge a path toward a sustainable and prosperous future.

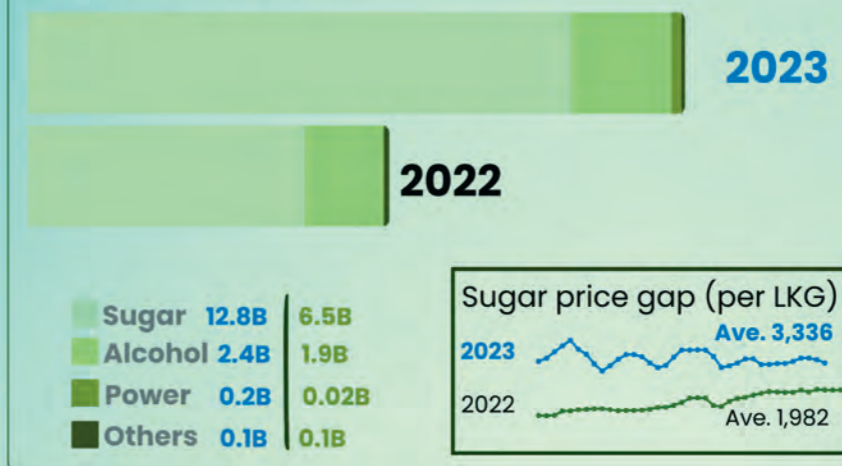
Thank you for your tireless efforts and commitment. Here's to another year of success, growth, and positive impact.

5-YEAR FINANCIAL HIGHLIGHTS

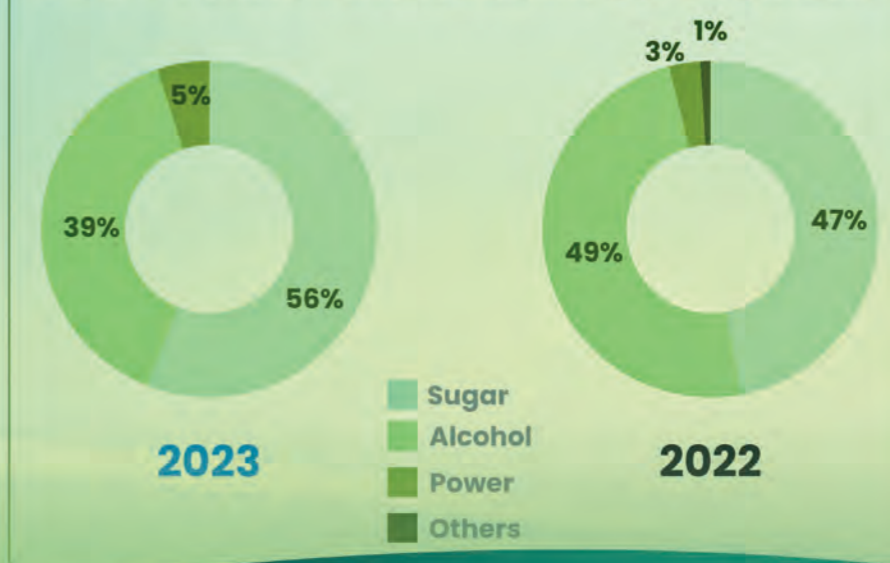
in Billions Php except with EPS & book value per share



Revenue



Gross Profit Contribution by Segment



RESILIENCE THROUGH CHALLENGES

VMC's MANAGEMENT REPORT

declining productivity due to climate change, fragmentation of farms, lack of development of good sugarcane varieties and outdated practices, inefficient and underutilised sugar mills, and volatile sugar and ethanol prices.

Despite these industry, market, and operational challenges, the Company generated higher sales revenues for raw sugar, refined sugar, power and ethanol.

The Group achieved a remarkable 63% increase in consolidated net profit for the crop year ending August 31, 2023, realizing a 10% net profit margin. This growth was fueled by unprecedented higher prices, increased ethanol production, and augmented power exports. Nevertheless, intensified competition among mills, driven by diminishing provincial sugarcane output, raised cane hauling costs

Financial Highlights

The Philippines faced its second-lowest sugar production in over two decades, driven by decreased sugarcane volume and a crop area that is below 400,000 hectares for the fifth consecutive year. High production costs persisted due to price hikes on agricultural inputs and fuel and increased labor costs. Despite government import programs, retail sugar prices remained high. Calls to liberalize imports in favor of industrial users threatened the livelihoods of nearly a million sugarcane farmers. Other industry challenges include



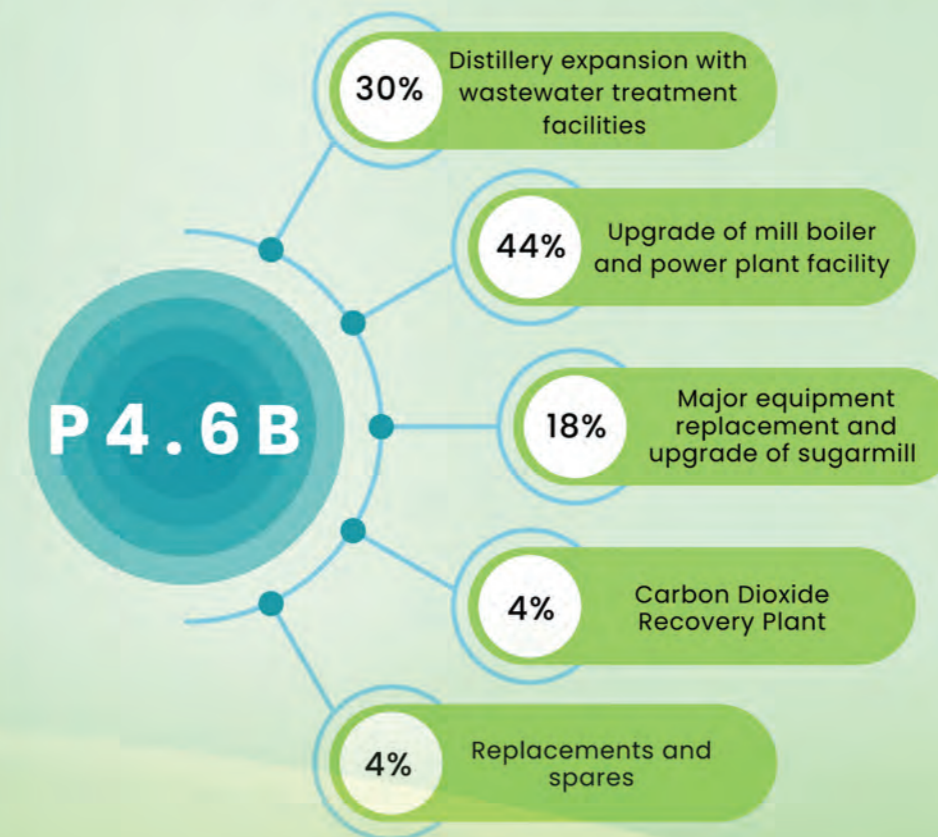
Linley A. Retirado
President and Chief Manufacturing Officer

Phoebe Lou B. Pastera
Chief Operating Officer

Kristine D. Cabuquason
Chief Finance Officer and
Creditor-Appointed Controller

Eva A. Vicencio-Rodriguez
Chief Administrative Officer,
Assistant Corporate Secretary and
Compliance and Information Officer

5Y CAPITAL EXPENDITURES

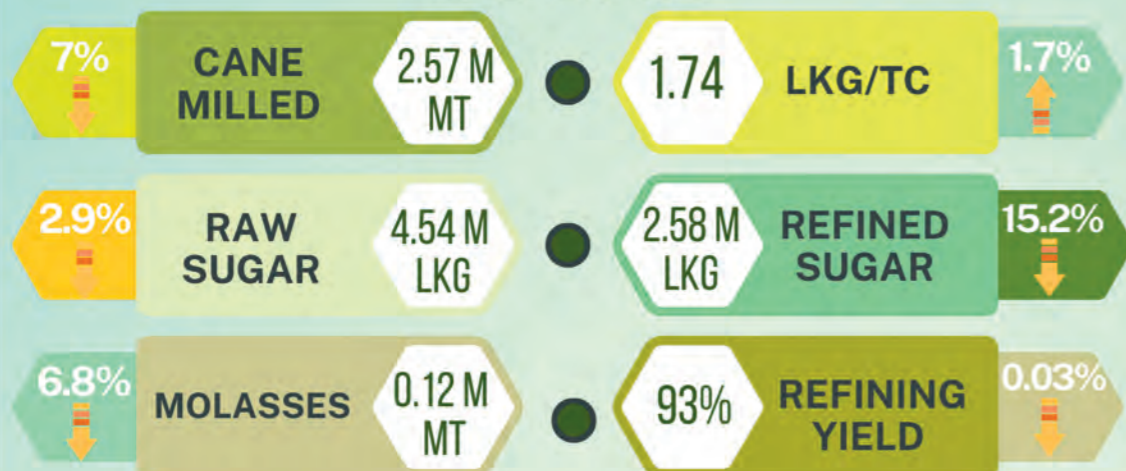


and incentives for the year. Coupled with the surge in manufacturing costs from rising inflation, the Group realised a gross profit margin of 19%, which is only slightly higher than last year. Incidents causing damage to raw sugar and molasses inventories led to provisions for losses, including liability to third parties, though the Group is insured and currently reviewing claims. The Group's balance sheet remained robust, with a 16% growth in stockholder's equity and no outstanding loans as of August 31, 2023. Its current ratio continued to be strong at 3.4

while debt to equity ratio remained low at 0.21. Fixed assets of core segments, including sugar milling, refinery, power generation, and distillery operations, accounted for 53% of total assets, with ongoing capital expenditure projects to enhance operational efficiency. Despite a rise in current liabilities attributed to provisions for third-party accountabilities from the incidents mentioned, the Group anticipates settlement of the claims by the next crop year.

MANUFACTURING OPERATIONS RESULTS

SUGAR



ALCOHOL



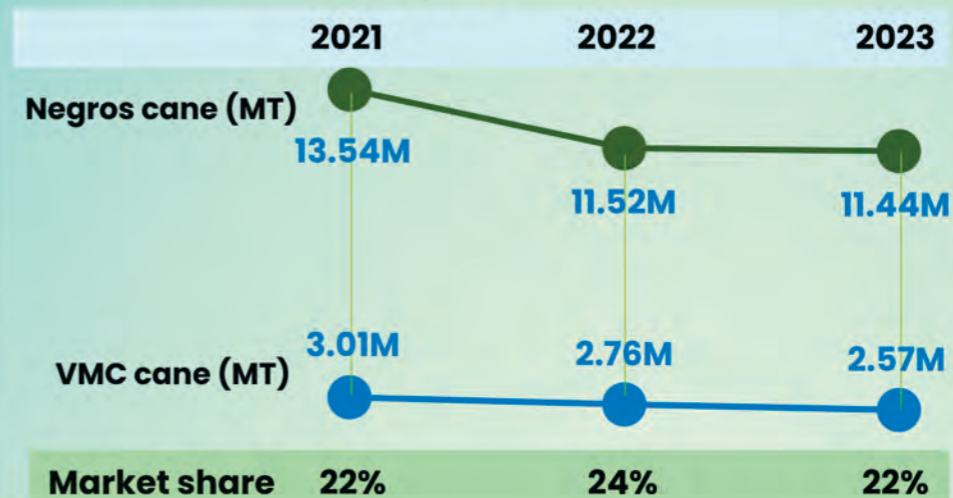
POWER



Total cane milled was 6.90% lower than last year. Lower cane tonnage milled was mostly attributed to the reduction of cane supply in the whole province. Raw sugar production from cane decreased by 3.45% against last year, but despite this, sugarcane yield increased to 1.76 compared to the previous crop year's 1.70.

Refinery production was 15% lower than last year due to insufficient fuel (bagasse) as a result of lower cane supply. Total molasses produced reached over 120,000 tons for both the raw house and the refinery. AHA production increased by 33.8% versus the previous year while molasses consumption rose by 25% this year. To date, the Cogeneration division has exported over 37 million kW-h to the grid at the approved F.I.T. rate.

Cane Supply



ACCELERATING OUR SUSTAINABILITY TRANSITION

Our Sustainability Journey

Initiating our sustainability transition in 2019, we integrated sustainability principles into our business processes, focusing on manufacturing's carbon footprint and waste. Adopting a closed production loop and a comprehensive circular economy approach, we optimized interrelationships among our agro-industrial segments—sugar mill, power co-generation, and bio-ethanol. Accelerating sustainability involves strategic corporate governance, requiring the crafting of a sustainability plan and emphasizing horizontal and vertical coordination, allowing each segment to identify critical activities for value creation. Harmonizing sugar, power, and bio-ethanol segments, sustainability relies on standardization and integration across value chains, ensuring economies of scope and scale for lasting impact.

Sustainability Vision and Management Approach

VMC, an integrated sugar, power and bioethanol enterprise, aspires to be an environmentally, socially, and economically responsible industry leader while contributing to the UN's Sustainable Development Goals.

Achieving this vision involves constant technological and social innovation in sourcing and manufacturing, ongoing process improvement with a focus on quality, customer satisfaction, and cost competitiveness. Guided by a closed-loop business system, VMC generates clean energy and practices good corporate governance in both existing and new investments, ensuring valuable returns for the community, investors, customers, employees, farmers, and stakeholders. This sustainability management approach empowers the team to achieve targets within set timelines, laying the foundation for long-term eco-conscious growth.

Sustainability Goals for the Medium-term

Aligned with its sustainability vision, VMC commits to a strategic management approach emphasizing responsibility in environmental stewardship, social welfare, and value creation. The Medium-Term Sustainability Goals guide performance management, aiming for a regenerative business that **Restores** environmental health; **Enhances** innovation and creativity; **Supports** staff, suppliers, and cane growers; **Towards** achieving a Net Positive Impact; **Organizes** circular economy practices; **Regenerates** new evolving systems;

and **Encourages** partnerships to advance the Company's objectives. This **Statement of Goals** reflects the company's journey toward building a regenerative environment, society, and economy, aiming to achieve zero waste and create a positive impact on the environment and society. The ultimate goal is to establish a flourishing and regenerative society, environment, and economy.

Sustainability Governance

VMC's sustainability governance rests on key pillars: 1) a formulated and implemented sustainability vision and goals; 2) embedding sustainability policies through Sustainability Management Systems (SMS); 3) establishing a governance structure with the Sustainability Management Team; and 4) regular submission of Sustainability Reports since 2019. The diverse VMC Sustainability Management Team includes representatives from various departments, ensuring operational activities generate value across economic, environmental, and social dimensions. Team managers in the Sustainability Team oversee sustainability issues within their domains, fostering a fully integrated approach. The team's responsibilities include establishing a

database to monitor and analyze sustainability performance, aligning with SEC Memorandum Circular to submit an annual Sustainability Report.

Double Materiality Assessment

VMC embraces the double materiality assessment in its sustainability reporting, departing from the previous single materiality approach. This evolved approach considers both the impact of sustainable factors on the Company's financial value and its influence on the environment and society. The double materiality assessment not only defines reporting scope but also optimizes resource allocation for compliance, offering valuable insights for strategic planning. This process, involving stakeholder engagement, identification of sustainability matters, impact analysis, and strategic planning, ensures transparency, informs decision-making, and focuses resources on pivotal issues, aligning with organizational priorities and societal concerns.

THRIVING TOGETHER

VMC's ECONOMIC PERFORMANCE SPOTLIGHT

The Company retained a modest 15% of the direct economic value generated during Crop Year 2022-2023 after deducting payments and dividends. Over 90% of the total distributed value went to suppliers and contractors, emphasizing the Company's commitment to fostering the growth of local businesses.

Capital expenditures were prioritized to enhance operational efficiency, expand production capacities, and improve environmental compliance, accompanied by increased tax contributions to the government.

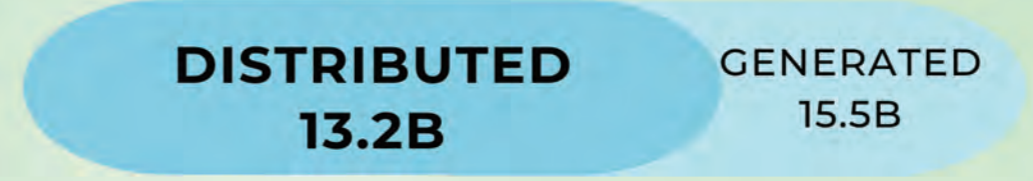
In a significant shift, dividends were distributed in the last two years, a departure from the trend since the 1990s when financial difficulties led to the suspension of trading of VMC shares with PSE. The Company intensified its community-focused investments through environmental protection programs, health clinics, and initiatives in education and sports.



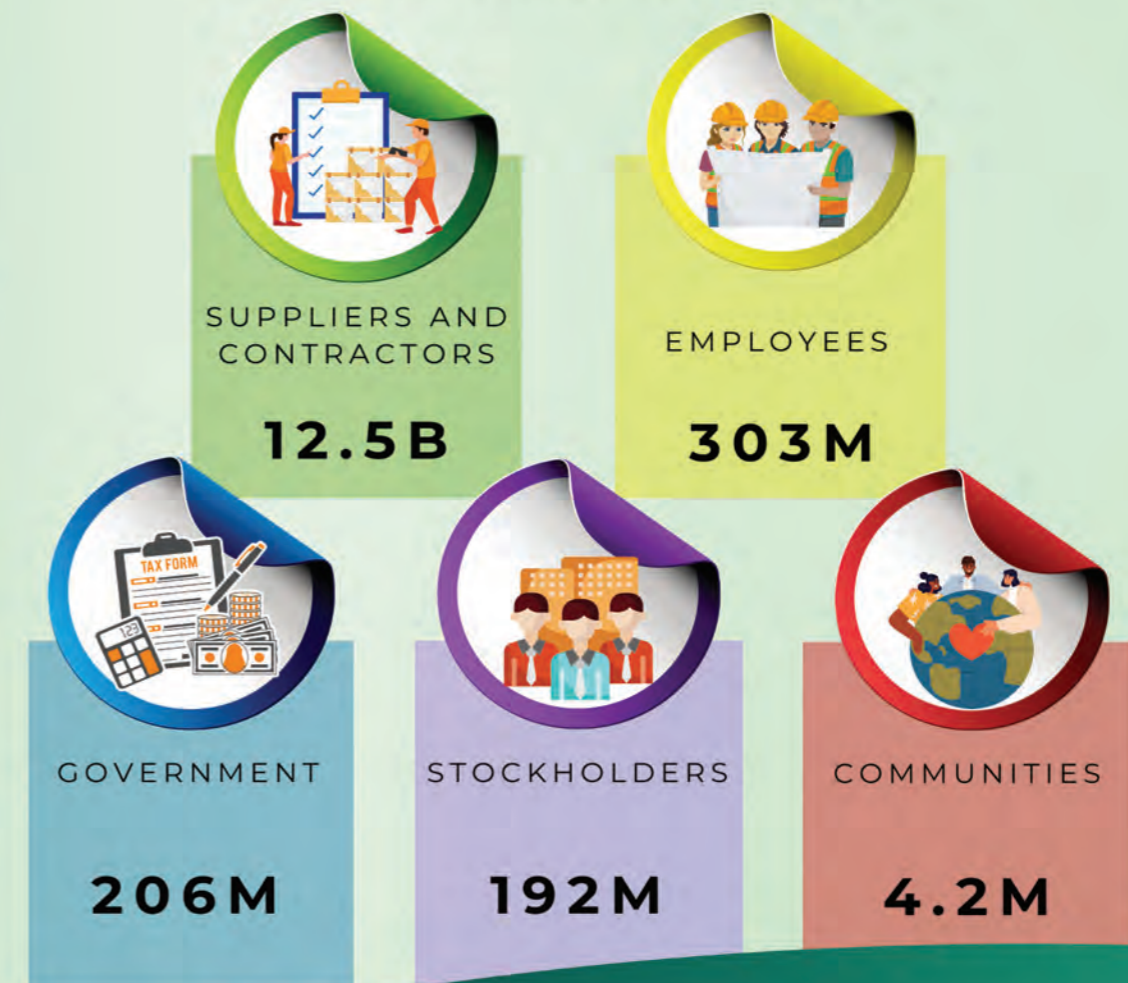
The Company's procurement policy, dedicated to local business growth and increased employment opportunities, aims to sustain sugar-based agro-industries and reduce its carbon footprint. Transparent bidding, convenient Purchase Order procedures, and reasonable payment terms promote flexibility amid market disruptions. Prioritizing local suppliers with the ability to match foreign prices ensures stability in the supply chain.

Exploring an online procurement and payment system for transparency and efficiency, the Company plans to complete a supplier accreditation system promoting sustainability. In the short to medium-term, maintaining a list of foreign and alternative local suppliers mitigates supply risks. The Company's future involves the development of a comprehensive online procurement system to meet evolving requirements.

DIRECT ECONOMIC VALUE



ECONOMIC VALUE DISTRIBUTED



ECOLOGICAL FOOTPRINT

VMC's ENVIRONMENTAL INITIATIVES

The Company is committed to reducing its environmental footprint in all its manufacturing and operational processes. Here are VMC's efforts in the realms of energy, water, and materials consumption, as well as in solid and hazardous waste management and the sustainable handling of air emissions and effluents.

A Year of Energy Evolution

This year, the Company bolstered its commitment to renewable energy, reducing fossil fuel dependency in production. The new biogas generator set in the Distillery Plant anticipates a surge in utilizing biogas from wastewater next crop year, fostering self-sufficiency and notably decreasing reliance on external electricity providers. Concurrently, the Company actively plants carbon-sequestering fast-growing vegetation, eyeing further expansion of renewable energy by maximizing biogas production and biomass plant capacities to diminish non-renewable energy use.

Flowing Toward Sustainability

The Company achieved a significant reduction in water consumption this year through enhanced recycling, focusing on the raw sugar and boiler operations. Treated Distillery wastewater is now used as organic fertilizer, as every segment of the business aligns with the Company's water conservation initiative. Measures include the installation of HDPE-lined ponds, improved distribution system at the Sugar Mill, the installation of new storm drain canals, and new charcoal walls around the ponds in both the Sugar Mill and Distillery Plants.

Materials Success

For this crop year, the Distillery increased its molasses consumption due to an increase in its operating capacity to 36 million liters annual production. The Company has adopted a key initiative of developing a more robust incentive scheme to encourage the sugar planters to supply their canes and molasses to the Company.

ENERGY CONSUMPTION

Biogas

↑ 4%
7.7M GJ



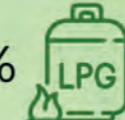
Diesel

↑ 8.3%
58K GJ



LPG

↓ 18.6%
915 GJ



Electricity

↑ 2.3%
96M KWH



WATER CONSUMPTION

Consumption

↑ 4.6%
3.4M m3



Recycled

↑ 50%
2M m3



MATERIALS CONSUMPTION

Renewable

Sugarcane and Molasses

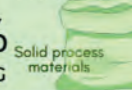
↑ 1.2%
2.9M TONS

Non-renewable

Fuel & Liquid process materials

↑ 40%
11M LITERS

↓ 35%
8.4M KG



AIR EMISSIONS AND POLLUTANTS

NOx

119 Tons

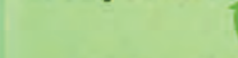
SOx

115 Tons



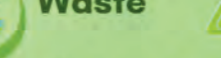
SOLID AND HAZARDOUS WASTES

Recyclable



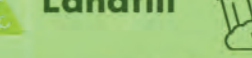
↓ 21.4%
106K TONS

Hazardous Waste



↑ 0.02%
18 TONS

Residual to Landfill



↓ 43%
139 TONS

Fresh Innovations

The company is strategically transitioning to an eco-friendly energy mix, combining renewables with conventional sources like diesel for manufacturing needs. Ongoing efforts involve facility expansion, pollution prevention measures, and the deployment of air pollution monitoring devices. Rigorous training programs ensure proficient management of boilers and air pollution control devices, reinforcing proactive measures.

Eco-friendly Waste Management Practices

In the previous crop year, the Company observed decreased recyclable by-products in its milling and distillery operations due to the adherence to the Company's policy on reusable food containers. The Company's policy on solid waste disposal can be seen in the reduced reliance on sanitary landfills for residual wastes and reduced degradation of land and water resources linked to ground aquifer contamination.

Navigating Hazardous Waste Challenges

The presence of hazardous waste poses significant threats to the environment, human health, and business sustainability. The Company outlines proactive measures: compliance with RA 6969 - Control of Toxic Substances and Hazardous and Nuclear Wastes, implementing a Chemical Management Procedural Manual, and employee training to prevent environmental contamination. In the short to medium term, the Company will renew its contract with a government accredited Hazardous Waste Treater and Hauler, conduct regular supplier audits, regularly monitor and improve storage areas for hazardous waste, and actively engage in government environmental advocacy programs.

Sustainable Waters

The Company's water recycling efforts continue to alleviate strain on local groundwater and surface water, benefitting the community. Immediate measures include separating wastewater from storm drainage to prevent contamination and the constant monitoring of water levels during heavy rains. In the medium-to-long term, a more efficient water recycling and liquid fertilization scheme, particularly in the Distillery Plant, is in the planning stages.



Training programs are conducted regularly to ensure proficient management of boilers and air pollution devices.



Biogas generator sets at the Distillery plant.

CLIMATE-RELATED RISK MANAGEMENT

The Company has embraced a goal of reducing greenhouse gas (GHG) emissions by 10-20% by the end of 2024, emphasizing environmental sustainability. The Sustainability Team outlines four key focus areas for the next three years:

- **Energy and Material Consumption Reduction.** The company actively reduces energy and material consumption through recycling, reusing by-products, and implementing water recycling initiatives in the Sugar Mills and Distillery. Efforts extend to distributing slops to farmers for fertilizer use, rainwater collection systems, and exploring paperless reporting.
- **Waste Minimization and Improved Waste Treatment.** VMC aims to minimize waste through recycling and regenerative production activities. It shows its commitment to embracing circular economy principles and sustainability management systems by integrating these into its operations and processes.
- **Renewable Energy Sources and Energy Sufficiency.** The Company is involved in renewable energy projects, including biogas digesters and biomass power plants. Future considerations include the potential operation of solar panels to supplement power requirements.
- **Carbon Sequestration.** Initiatives involve tree planting within company land and exploring neighboring areas for carbon sequestration. Research on technologies to capture carbon dioxide is also on the agenda.

The establishment of sustainability management systems involves integrating Circular Economy principles and creating a comprehensive Climate Change Action Plan (CCAP). This plan identifies GHG emission sources, sets departmental targets for emissions reduction, and aligns with the strategy of utilizing renewable energy and a 'closed-loop' management system.

The Sustainability Team, in collaboration with business segment heads, conducts a Double Materiality Assessment to identify priority risks, such as regulatory, environmental, and social factors affecting the Company's financial value. This involves formulating and coordinating risk response strategies at corporate-wide and departmental levels.

Quarterly monitoring by the Sustainability Team focuses on climate-related data and progress toward sustainability goals, ensuring ongoing commitment to environmental responsibility and continuous improvement.



ENVIRONMENTAL POLICY STATEMENT

At Victorias Milling Company, Inc., we embrace our role as environmental stewards, nurturing the environment and the communities within our operational domain. We understand the significance of our actions on the environment and remain steadfast in our commitment to reducing our ecological footprint and promoting responsible and sustainable practices for a brighter and greener future.

We pledge to prioritize the preservation and protection of the environment in all our actions. Our active efforts will be directed towards reducing waste, conserving resources, converting waste into useful materials, and mitigating potential environmental risks.

We commit to operating in full compliance with all relevant environmental laws, regulations, and standards. We will employ sound technologies and processes to consistently operate within these established environmental standards.

Our pledge is to optimize the utilization of energy resources through the implementation of advanced technologies and innovative practices. We aim to maintain operational output while minimizing energy consumption, thereby reducing greenhouse gas emissions and conserving valuable energy resources.

We are dedicated to the responsible use of resources, including land, water, and raw materials. We will actively seek opportunities to recycle and reuse materials whenever possible to minimize waste.

Our commitment is to respect and protect the biodiversity of the regions where we operate. We will actively engage in conservation efforts and support initiatives that promote biodiversity preservation.

We pledge to prevent pollution in all its forms, be it in the air, water, or soil. We will implement effective measures to control emissions and spills, ensuring a clean and healthy environment. We will explore alternative materials that pose less risk to the environment and communities.

Recognizing the importance of social responsibility, we pledge to build and nurture positive relationships with local communities. Through open dialogue and collaboration, we aim to understand their environmental concerns and aspirations, addressing their needs and co-creating solutions for mutual benefit.

Our commitment to continuous improvement drives us to enhance our environmental practices continually. We will diligently seek opportunities for advancement across our sugarcane processing operations. By embracing progressive, iterative improvements, we aim to optimize performance, efficiency, and quality while striving for a more positive environmental impact.

We pledge to empower our employees to be environmental advocates. Through training and awareness programs, we will ensure that each member understands their role in supporting our environmental objectives.

Transparency and accountability are integral to our approach. We pledge to communicate our environmental performance openly to stakeholders and hold ourselves accountable for delivering on our environmental commitments.

We at VMC affirm our dedication to a sustainable and responsible environmental future.



EMPOWERING THE WORKFORCE

VMC's SOCIAL PERFORMANCE

The Company maintains a steadfast commitment to prioritize the economic and social well-being of its employees, fostering a positive work environment overseen by the Human Resources and Organizational Development (HROD) Department. The overarching goal of HR is to establish itself as one of the premier employers in Negros, emphasizing the continuous enhancement of the workforce's overall welfare in professional and social realms within the workplace.

Employee Benefits. The HROD Department offers a diverse array of compensation packages and employee programs aimed at optimizing performance, maximizing productivity, and fostering continuous motivation.

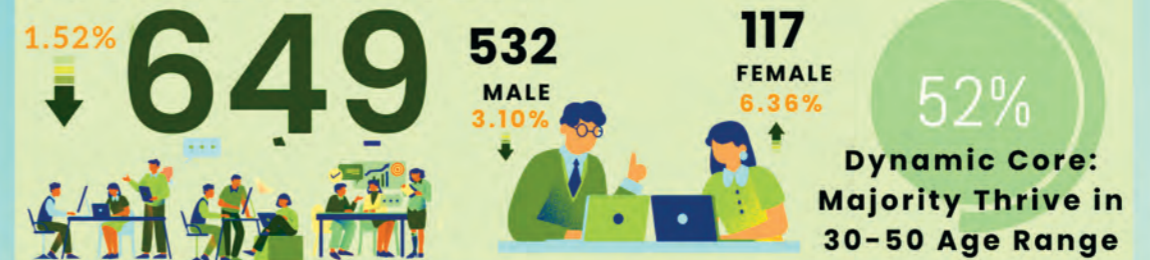
Gender Equality and Diversity. VMC adheres to international Business and Human Rights guidelines, ensuring the fundamental rights of directors, officers, employees, and stakeholders irrespective of gender, religion, culture, race, ethnic background, or other affiliations.

Employee Training and Development. The Company fosters a culture of continuous learning among employees through diverse courses aimed at enhancing their skills and contributing effectively to the company's objectives.

Health and Safety. Prioritizing Occupational Health and Safety (OSH) standards involves actively reducing, eliminating, or replacing potential workplace hazards, adopting a comprehensive approach to mitigate adverse effects.

Collective Bargaining Agreement. The Collective Bargaining Agreement (CBA) is anchored on guidelines set under pertinent laws and regulations. The CBA, effective from crop year 2022-2023 until crop year 2026-2027, covers all rank-and-file employees of VMC and includes economic and non-economic provisions amid market and regulatory challenges.

TOTAL EMPLOYEES



ATTRITION RATE

12.4%



LABOR MANAGEMENT RELATIONS

425

EMPLOYEES ARE COVERED WITH CBA



4

CONSULTATIONS CONDUCTED CONCERNING EMPLOYEE-RELATED POLICIES

1.0

RATIO OF LOWEST PAID EMPLOYEE AGAINST MINIMUM WAGE



TOTAL TRAINING HOURS

4,515 hrs.

14.4%



5.22 4.27

AVERAGE TRAINING HOURS PROVIDED TO EMPLOYEES

1,027,813

TOTAL SAFE MAN-HOURS



Training Programs



1,921 HOURS

REGULATORY AND CUSTOMER REQUIREMENT



1,907 HOURS

PROFESSIONAL AND TECHNICAL SKILLS



687 HOURS

SOFT SKILLS DEVELOPMENT

LEGEND
Male
Females

3

work-related injuries



ZERO

work-related fatalities



3

safety drills



Townhall Meeting



Self-defense class for women



Tribute to Fathers



Bloodletting Activity



In-house training program



Book donation for schools

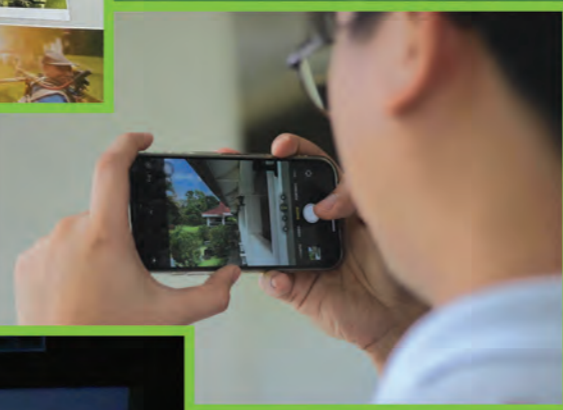




Summer outing



Photography class



Movie night



Wellness program



Sports fest



SUSTAINABILITY PERFORMANCE

RELATIONSHIP WITH LOCAL COMMUNITIES

Water Conservation Program and Access to Clean Water

Malihao and Sicaba River

Clean-up drives of Malihao and Sicaba Rivers by VMC involved 50+ employee volunteers collecting 2,000+ kilos of waste, mitigating water pollution and siltation while fostering community livelihood enhancement.

Environmental Programs

Manapla Distillery and Sugar Mill

VMC's Greening Program involved planting 275,000 seedlings across 250 hectares near Manapla Distillery and Sugar Mill. These trees, including 300 Acacia mangium and Indian tree seedlings this year, act as feedstock for additional fuel, sequester carbon dioxide, cool the community, improve water quality, and naturally filter the air in the community.

Logistics Operations

Manapla Distillery and Sugar Mill

VMC undertakes community planning initiatives, constructing roads, bridges, widening canals, and installing street lighting to address the basic needs of surrounding communities. These projects, which catered to about 400 planters this year, ensure efficient sugarcane planting and hauling to mills, preserving cane quality and reducing planters' truck maintenance costs. Additionally, the streetlight project enhances safety and security for residents.

Waste Management

Manapla Distillery and Sugar Mill

VMC's Fertilization Program innovatively repurposes organic slops, a plant by-product, providing farmers an eco-friendly alternative to chemical fertilizers. Collaborating with planters, employees from the Cane Supply department selected farmer beneficiaries. Aligned with VMC's zero waste policy, the initiative has benefited 66 haciendas since 2019, fertilizing over 1,242 hectares and saving approximately P35,000 per hectare. Additionally, ash from boilers and mud press generated during sugar production were distributed for free. This year, approximately 97,482 tons were given to farmers, covering about 679 hectares of farm land. This mitigates water pollution, enhances waste recycling and livelihood, and supports the farmers amid rising fertilizer prices. The initiative aligns with VMC's sustainability policy, recycling slops into organic fertilizer and reusing solid waste as a soil conditioner, contributing to farmers' livelihoods and improving sugarcane yields.



RELATIONSHIP WITH LOCAL COMMUNITES

River Clean Up Drives



Mangrove Planting



Rehabilitation of Day Care Centers



Bridge construction



Waste collection bins donation to the barangays

BEYOND BUSINESS

A CLOSER LOOK AT OUR CSR ENDEAVOURS

Well-being Initiatives: VMC's Community Programs

VMC is dedicated to enhancing the well-being of Filipinos through community development initiatives. These efforts focus on promoting environmental responsibility and fostering the creation of safe and healthy communities, with the ultimate goal of improving the overall quality of life for individuals in the Philippines. These are the community programs implemented by the Company in the past year.

Barangay Ko Love Ko is a gardening, cleanliness and beautification initiative done in partnership with Manapla civic and non-profit organizations for the benefit of over 4,104 households.

Barangay Clinics are set up monthly to bring medical care to the community and promote the general well-being of people. Over 1,299 elderly and adolescent patients have availed of the following medical services: medicine, free doctor consultation, dental extraction, and circumcision.

Barangay Empowerment. Over 30 officials and community workers from Barangay Purisima, Manapla, have successfully completed a 3-day Barangay Emergency Response Team (BERT) Training, equipping them to handle emergencies effectively. The program, a collaboration between Victorias Milling Company Foundation, Manapla Disaster Response and Rescue Management Team

(MDRRMT), and the Regional Mobile Force Battalion 6, covers disaster preparedness, basic life support, water emergencies, and emergency rescue operations. This initiative addresses the community's vulnerability to typhoons near Sicaba River and aims to enhance peace and order, promoting community resilience for a peaceful and healthy environment.

Barangay Solid Waste Management Program.

In a concerted effort for community development, VMC advocates for waste reduction and proper segregation. The establishment of the first Barangay Materials Recovery Facility (MRF) in Barangay Purisima is crucial for effective solid waste management, addressing recyclable and bio-degradable waste mismanagement. This initiative, aligned with Republic Act 9003, not only protects the environment but also lays the groundwork for self-sustainability and potential income generation in the future.

Building Brighter Futures: VMC's Youth Programs

VMC is committed to enhancing basic education and empowering the youth while facilitating learning that helps build character.

Miguel Ossorio Scholarship Grant helps the children of the Company's workers to gain a college education while achieving a high level of scholastic excellence.

Brigada Eskwela. In a philanthropic endeavor, VMC invested in upgrading 27 public schools across Victorias, Manapla, and Cadiz. Collaborating with the 605th Maneuver Company of the PNP and VMC employees, the 2022 Brigada Eskwela Program focused on repairs, repainting, and enhancements. Instead of traditional school supplies, VMC

prioritized creating a conducive environment for students returning to face-to-face classes. Through a Memorandum of Agreement with the Department of Education, VMC Foundation commits to improving learning environments and addressing resource shortages in public schools. In Manapla, upgrades included repainting classrooms and donating COVID-19 protection items, while Cadiz City saw various improvements, including LED TV sets for education. Victorias City received useful and practical items like thermal scanners, alcohol sprayers, nebulizers, handwashing stations,

garbage bins, and COVID-19 kits, tailored to the schools' specific needs. The philanthropic efforts extended to repairing roofs, ceilings, perimeter walls and electrical systems, setting up clinics, and enhancing water access for selected schools like Amanda School and Gawahon Elementary School.

Community Sportsfest. In partnership with Central Manapla Youth Federation, representing the youth of Brgy. Purisima, VMC helped to implement programs such as the annual Sportsfest and clean-up drives.



A CLOSER LOOK AT OUR CSR ENDEAVOURS



Roving Barangay Clinic



DRRM Barangay Training



Cleanliness Drive



Brigada Eskwela donations



Barangay Youth Sports Fest



CORPORATE GOVERNANCE

The responsibility for complying with principles of good corporate governance at Victorias Milling Company, Inc. (VMC) lies primarily with the Board of Directors and Management, as they, along with staff and shareholders, consider it an integral aspect of sound strategic management and commit to fostering awareness and compliance.

Code of Ethics

The business practices of VMC are governed by a rigorous Code of Conduct, applicable to all directors, officers, and employees, emphasizing adherence to fair and ethical policies. VMC believes that a strong set of business principles enhances work effectiveness and fosters success. Employees, as representatives of VMC, are expected to uphold integrity both within and outside the workplace. The Code of Conduct spans several key areas, including compliance with laws and regulations, fair dealings in business conduct, confidentiality of information, proper use of company property, and a commitment to anti-bribery and anti-corruption policies.

In terms of compliance, VMC ensures adherence to Philippine laws, regulations, and internal policies, emphasizing personal responsibility. Business dealings are guided by principles of respect, fairness, and professionalism towards customers, suppliers, competitors, business partners, colleagues, and government agencies. The Code prohibits unfair practices, manipulation, and misrepresentation. It further emphasizes the importance of confidentiality, detailing the proper handling of classified information and adherence to records retention policies. Additionally, the responsible use of company assets and the commitment to anti-bribery and anti-corruption policies form integral

components of VMC's ethical framework, reflecting its dedication to fair, transparent, and lawful business practices.

Corporate Governance Manual

The Board of Directors, Management, and staff of VMC hereby commit themselves to the principles of best practices contained in its Manual on Corporate Governance and acknowledge that the same shall be their guide in the attainment of corporate goals and objectives.

The Manual on Corporate Governance serves as VMC's guide to achieving corporate goals and objectives, institutionalizing the principles of good corporate governance throughout the entire organization. The Manual was revised and updated to ensure compliance with the latest circulars issued by the Securities and Exchange Commission (SEC) and relevant rules of the Philippine Stock Exchange (PSE). The most recent revision and amendment occurred in July 2020.

Board of Directors

The Board holds the responsibility of fostering the long-term success, competitiveness, and profitability of the Corporation, led by a competent and operational board, aligning with corporate objectives and prioritizing the long-term best interests of shareholders and other stakeholders.

- The Board should maintain an appropriate mix of competence and expertise, ensuring that members are qualified individually and collectively to fulfill roles and responsibilities, responding to organizational needs in the evolving business environment and strategic direction. All directors must collectively possess relevant knowledge, experience, or

expertise in the Corporation's industry.

- Directors are entrusted with a position of trust and confidence, requiring actions characterized by transparency, accountability, and fairness. They should operate on a fully informed basis, in good faith, with due diligence and care, always prioritizing the best interests of the Corporation and all shareholders.

- The Board is responsible for formulating the Corporation's vision, mission, strategic objectives, policies, and procedures, guiding its activities and decisions, and implementing effective monitoring of Management's performance.

- To ensure optimal decision-making and prevent group-thinking, the Board should establish a policy on board diversity. Groupthink, a mode of thinking where individuals accept a perceived group consensus, can hinder collective problem-solving efficiency within small cohesive groups.

- The fiduciary roles, responsibilities, and accountabilities of the Board, as outlined in the law, the company's articles of incorporation and by-laws, and other legal pronouncements and guidelines, should be clearly communicated to all directors, shareholders, and other stakeholders.

Composition

The Board shall be composed of eleven (11) directors, two (2) of which shall be independent.

Nomination and Election

Nominations are open for the eleven (11)

Board seats, allocated into 1 for Secured Creditors, 3 for Existing Stockholders, and 7 for Creditors with Debt Conversion. Only stockholders of record are eligible to nominate candidates, and the nominator's stockholder status as of the nomination date will be verified by the Corporate Secretary. Nominees are required to be stockholders of record as of the Record Date, and their qualification is contingent upon becoming a stockholder of record by that date, as verified by the Corporate Secretary. Furthermore, nominees must meet all qualifications and none of the disqualifications outlined in the Corporation's By-laws and the Corporate Governance Manual.

Orientation and Training

To enhance Board performance and ensure directors' ongoing qualifications for their responsibilities, the establishment of an orientation program for first-time directors and an annual continuing training for all directors are established. Directors will receive copies of the Corporation's essential documents and manuals, such as the Articles of Incorporation, By-Laws, Code of Business and Ethics, and Corporate Governance Manual, to aid them in this regard. First-time directors must complete an eight (8)-hour orientation program, covering topics mandated by the Commission on Corporate Governance, as well as the Corporation's business, Articles of Incorporation, By-Laws, and Code of Business and Ethics. Other directors must undergo a mandatory four (4)-hour training program, unless they are former directors and/or officers, covering business and regulatory developments, emerging risks relevant to the Corporation, and corporate governance matters such as audit, internal controls, risk management, sustainability, and strategy.

CORPORATE GOVERNANCE

Board Remuneration

Each director is entitled to a per diem and transportation allowance ranging from P25,000 to P30,000 per attendance at board meetings and committee meetings of which they are a member. There are no other arrangements for which VMC directors are compensated or expected to be compensated, either directly or indirectly, for any services provided to VMC in their capacity as a director.

Corporate Secretary

The Corporate Secretary holds primary responsibility to the Corporation and its shareholders, independent of the Chairman of the Board or the President. The Corporate Secretary collaborates fairly and objectively with the Board, Management, stockholders, and stakeholders, facilitating information flow between these entities.

Board Committees

Board committees are essential for facilitating the effective performance of the Board's functions, particularly in areas such as audit, risk management, compliance, and other key corporate governance matters like nomination and remuneration. To ensure clarity and accountability, the composition, functions, and responsibilities of all board committees should be detailed in their respective charters. All committee charters must be made publicly accessible on the Corporation's website.

The Board has established specific committees to aid in fulfilling its duties and aligning with principles of good corporate governance. Additionally, the Board reserves the right to create other committees or sub-committees as deemed necessary. While the committees are primarily composed of Board members, they have the authority to

request the attendance of resource persons, whether or not they are Board members, to enhance their deliberations and decision-making processes.

A. Executive Committee

The Executive Committee shall function on behalf of the Board during intervals between its meetings, as deemed necessary, except for matters that the law reserves for the approval of the Board. It shall perform oversight functions on the strategic initiatives identified by the Board.

B. Audit & Risk Committee

The AR Committee is tasked with various duties and responsibilities, including assisting the Board in overseeing the financial reporting process, internal control system, audit procedures, and compliance with relevant laws, rules, and regulations. It exercises oversight functions over both internal and external auditors, ensuring their independence and unrestricted access to records, properties, and personnel. Additionally, the committee, through the Internal Audit Department, monitors and evaluates the adequacy and effectiveness of the Corporation's internal control system, financial reporting integrity, and security of assets.

The committee also oversees the Internal Audit Department, recommending the appointment or approval grounds for an internal audit head or CAE. The AR Committee further plays a pivotal role in developing a comprehensive enterprise risk management plan, overseeing its implementation, and regularly evaluating its relevance, comprehensiveness, and effectiveness. Additionally, the committee ensures appropriate disclosure to regulating authorities regarding the company's RPT exposures and policies on conflicts of interest.

C. Legal, Nomination, Corporate Governance, and Related Party Transactions Committee

The committee's duties and functions encompass several key areas, including monitoring and reviewing the compliance of the Corporation's service providers or suppliers with applicable laws and regulations. It is also responsible for determining the nomination and election process for the Corporation's directors. Additionally, the committee oversees the implementation of the corporate governance framework, periodically reviewing it to ensure appropriateness in light of material changes to the corporation's size, complexity, business strategy, and regulatory environment. The adoption of corporate governance policies falls within its purview, and the committee ensures regular review and consistent implementation of these policies in both form and substance.

Furthermore, the committee assesses the effectiveness of the Board's processes and procedures in the election and/or replacement of directors, in accordance with applicable laws, By-laws, and the Approved Rehabilitation Plan. It maintains ongoing evaluations of relations between businesses and counterparties, identifying related parties, monitoring Related Party Transactions (RPTs), and capturing changes in relationships. The committee rigorously evaluates all material RPTs to ensure fair economic terms compared to transactions with non-related parties under similar circumstances and to prevent misappropriation or misapplication of corporate resources. Additionally, the committee ensures appropriate disclosure to regulating and supervising authorities regarding RPT exposures and policies on conflicts of interest or potential conflicts of interest, providing information on managing material conflicts that may arise due to affiliations or transactions with related parties.

D. Budget Committee

The Budget Committee shall assist the Board in fulfilling its responsibility to the shareholders concerning policies and practices related to the management of the financial and budgetary affairs of the Corporation.

E. Human Resource and Remuneration Committee

The HRR Committee serves to aid the Board in fulfilling its human resources management and oversight responsibilities, not only in compliance with the law but also in consideration of its obligations to shareholders, creditors, and other stakeholders. Among its various duties and functions, the committee oversees the periodic performance evaluation of the Board, its committees, and executive management, conducting an annual self-assessment. Additionally, the HRR Committee recommends continuing education/training programs for directors, assigns tasks/projects to board committees, develops a succession plan for board members and senior officers, and proposes remuneration packages based on corporate and individual performance. The committee also takes charge of planning relevant training for Board members and establishes a formal and transparent procedure to develop a policy for determining the remuneration of directors and officers in alignment with the Corporation's culture, strategy, and the business environment.

Governance Policies

In Victorias Milling Company, Inc. (VMC), ethical conduct and transparency form the foundation of its corporate policies, underscoring the Company's commitment to integrity, compliance with laws, and accountability to stakeholders. These policies provide a framework for promoting ethical behavior, preventing conflicts of interest,

CORPORATE GOVERNANCE

ensuring transparency in financial dealings, and encouraging a culture where employees can report concerns confidentially.

A. Insider Trading

This policy expressly prohibits any director, officer, executive, employee, consultant, or relative of these individuals who has access to material non-public information regarding the securities of VMC from engaging in acts of insider trading. Insider trading is defined as the unlawful sale or purchase of securities by an insider while possessing material nonpublic information.

It is also prohibited for any insider to communicate such information to another person if the insider knows or has reason to believe that the recipient will likely buy or sell the securities based on the confidential information. Additionally, in the context of a tender offer, it is unlawful for any insider to communicate material nonpublic information related to the tender offer to any person if the insider knows or has reason to believe that such person will likely buy or sell the securities while in possession of such information.

Where a tender offer has commenced or is about to commence, it shall be unlawful for any person (other than the one offering) who is in possession of material nonpublic information relating to such tender offer to buy or sell the securities of the issuer if this person knows (or has reason to believe) that the information is nonpublic and has been acquired directly or indirectly from the one who made the tender offer, those acting on its behalf, the issuer of the securities, or any insider of such issuer. It is likewise unlawful for anyone making the tender offer, those acting on its behalf, the issuer of the securities sought or to be sought by such tender offer, and any insider of such issuer to communicate material nonpublic information relating to the tender offer to any other person when such

communication is likely to result in a violation of the preceding SRC Rule.

B. Conflict of Interest

The policy explicitly prohibits all members of the Board of Directors, officers, executives, employees, and consultants of VMC from acquiring any personal or pecuniary interest, whether actual or apparent, that conflicts with their duties in VMC. Conflict of interest may arise in various areas, including dealings with suppliers, contractors, business partners, consultants, or third parties; interactions with directors, employees, consultants, and prospective employees and consultants; holding directorship, executive positions, or employment in other companies or organizations; use of property, services, and other resources; interactions with dealers and distributors of VMC's products; and dealings with customers or clients.

To address and manage potential conflicts of interest, directors, officers, executives, employees, and consultants are required to declare and disclose, in writing, any actual or potential instances of conflict of interest as defined in this policy. In cases where business transactions cannot be avoided or when a particular transaction may potentially result in a conflict of interest, the concerned director, officer, executive, employee, or consultant must provide a written disclosure about the transaction. Furthermore, the individual involved should refrain from direct or indirect participation at any stage of the transaction and must not sign any document related to it.

C. Related Party Transactions

In alignment with the Mission and Philosophy of Victorias Milling Company, Inc. (VMC), which emphasizes truthfulness, honesty, and transparency with customers, business partners, employees, and stakeholders, VMC expresses its commitment to ensuring that its financial statements include necessary

disclosures. These disclosures aim to highlight the potential impact of related parties on VMC's financial position and profit (or loss), encompassing transactions and outstanding balances, including commitments with such parties.

For transparency and scrutiny, any "Related Party" or "Corporation," along with its subsidiaries or affiliates, is required to disclose any related party transaction to VMC's Risk & Corporate Governance Committee before engaging in any transaction with VMC. The responsibility for disclosing related party transactions and adhering to other applicable disclosure requirements of the Securities and Exchange Commission lies with VMC's Finance/Accounting Department. Furthermore, VMC shall undertake a comprehensive review of related party transactions, evaluating whether these should be governed by its Policy on Conflict of Interest.

D. Whistleblowing

Integral to Victorias Milling Company, Inc.'s (VMC) business philosophy are the principles of integrity and accountability. As a matter of policy, all directors, managers, and employees at VMC are expected to conduct themselves with integrity, honesty, and in strict adherence to Philippine laws. The Policy on Whistleblowing has been instituted to provide a confidential reporting channel enabling individual employees to disclose information related to suspected misconduct, malpractice, or irregularities. Importantly, it is not intended to fuel personal disputes or challenge financial or business decisions made by the Corporation.

A whistleblower, as defined in this policy, is an employee who engages in various acts, including disclosing activities believed to violate laws, rules, or regulations; providing information to investigating committees; or objecting to practices inconsistent with VMC

rules, regulations, or public policy mandates. VMC is committed to encouraging its employees to uphold the highest standards of integrity and accountability by facilitating internal reporting channels for suspected or actual violations of company policy, practices, laws, or regulations. The company pledges to conduct thorough investigations into alleged violations, take appropriate corrective actions, and ensure protection against retaliation, discrimination, harassment, or adverse personnel actions for employees reporting in good faith. Confidentiality is prioritized, and the whistleblower's identity will remain undisclosed unless required as a witness. VMC emphasizes its commitment to investigating reports appropriately, even if submitted anonymously, ensuring information reliability through validation from reliable sources.

Our Reporting Channels

If a person happens to know someone connected with VMC who has done acts that are not in accordance with policies set by the Company, a report must be submitted regarding the incident by answering the Whistleblowing form:

Whistleblowing Form:

<https://forms.gle/Wmcsb4v6y9wkPeUX8>

Mobile/Telephone Number:
(+63) 9178125849 / (034) 702-4874

Email: whistleblower@victoriasmilling.com

Mail: Paner Hosaka & Ypil Attorneys-at-Law, Unit 502, Pacific Center Building, 33 San Miguel Avenue, Ortigas Center, Pasig City, Philippines 1600



DR. LUCIO C. TAN
CHAIRMAN EMERITUS
VICTORIAS MILLING COMPANY, INC.

On July 2, 2019, in the city of Manila, Victorias Milling Company, Inc., through its Board of Directors, conferred upon **DR. LUCIO C. TAN** the distinguished title of **CHAIRMAN EMERITUS** as a gesture of profound gratitude and appreciation.

Driven by an appetite for challenge and opportunity, Dr. Lucio Tan can recognize greatness in institutions whose true worth surpasses conventional valuation metrics. With VMC, his role extends beyond corporate revival; it is his noble commitment to safeguard and preserve the rich historical tapestry of the company. VMC proudly stands as one of the Philippines' premier sugar milling companies.

Dr. Lucio Tan supported VMC by providing the essential capital necessary to comply with the terms and conditions of the company's corporate rehabilitation plan. VMC had submitted this plan to the Securities and Exchange Commission (SEC) in 1997 in the wake of financial turbulence during the 1990s.

Thirteen years later, in 2016, VMC, propelled by Dr. Tan's steadfast commitment, effectively met its financial obligations, signifying the conclusion of a particularly challenging chapter in its history. The narrative of VMC's success is intertwined with Dr. Lucio Tan's belief and confidence in both VMC and the sugar industry.

VMC's abiding gratitude towards Dr. Lucio Tan resonates as a testament to his benevolence, wisdom, and discerning foresight, all of which ultimately empowered VMC not only to recover but also to endure.



Chairman of the Board Wilson T. Young, together with former President Minnie O. Chua, present the Resolution conferring the title of Chairman Emeritus on Dr. Lucio C. Tan.

VMC BOARD OF DIRECTORS

During VMC's Annual Stockholders' Meeting held on February 7, 2023, the following were elected as members of the VMC Board of Directors to serve as such from February 7, 2023 and until their successors shall have been duly elected and qualified:

1. Wilson T. Young, Filipino, currently holds the position of Chairman of the Board at VMC, where he plays a pivotal role in the company's leadership and decision-making processes. His influence, however, extends far beyond the corporate world. He serves as a member of the Board of Trustees of the University of the East and holds the position of Vice-Chairman at the University of the East Ramon Magsaysay Memorial Medical Center, Inc. His involvement in these institutions underscores his commitment to nurturing the next generation of leaders and professionals.

Furthermore, Mr. Young extends his influence to the field of healthcare as a member of the International Board of Advisers of the Philippine School of Prosthetics and Orthotics; and to the field of sports as a member of the Board of Managing Directors of the University Athletic Association of the Philippines (UAAP) Inc. He is also deeply committed to various charitable foundations. He serves on the boards of the Mithing Pangarap Foundation, Inc., Norfil Foundation, Inc., and the National Defense College of the Philippines Educational and Development Foundation, Inc. His involvement in these organizations highlights his passion for philanthropy and making a positive impact on society.

As a Certified Public Accountant (CPA) with a Master's Degree in National Security Administration, Mr. Young possesses a unique

blend of financial expertise and security knowledge. Moreover, his role as a trustee of Filipino Veterans, Inc. (Filvets, Inc.) underscores his commitment to honoring and supporting Filipino war veterans. His dedication to making a positive impact on society and his diverse skill set make him a valuable asset to the organizations and causes he supports.

2. Linley A. Retirado, Filipino, stands as a prominent figure at VMC, where he currently serves as the President. His journey to this prestigious position is a testament to his dedication and expertise in the field. Mr. Retirado's educational background laid the foundation for his remarkable career, as he graduated from the University of San Carlos in Cebu City with a Bachelor of Science in Chemical Engineering.

His journey at VMC began in 1987 when he joined as a Cadet Engineer. Over the years, he displayed remarkable commitment and talent, steadily rising through the ranks within the organization. His ascent within VMC reflects his outstanding contributions and leadership skills.

His influence extends beyond VMC's internal operations. In 2013, he assumed the role of President of the Philippine Sugar Technologists Association, Inc., showcasing his commitment to advancing the sugar industry in the Philippines. The following year, he took on the role of Chairman within the same association, underscoring his dedication to fostering growth and innovation within the industry.

Furthermore, his influence extends to other

organizations within his sphere of expertise. He serves as a Director of several significant entities, including VFC, VALCO, CDC, VGEC, and VGCCI, demonstrating his extensive involvement in various facets of the industry.

3. William Y. Chua, Filipino, is a distinguished leader with a notable presence in several key corporations, each contributing to his diverse portfolio of professional engagements. Currently, he is the President of three prominent companies: Agro Bulk Marine Corporation, Wilch Realty Corporation, and MC Metroplex Holding Corp. In addition to his corporate roles, Mr. Chua holds the position of Vice President within the Federation of Sugar Traders of the Philippines. This leadership role reflects his commitment to the sugar trading sector and his dedication to advancing the interests of industry professionals.

4. Reggie Hannah Y. Lorenzo, Filipino, stands as a key financial figure within the corporate landscape, holding pivotal positions in various organizations. Her role as Treasurer of VMC, coupled with her position as Chairman of the Audit and Risk Committee, underscores her instrumental role in financial oversight and risk management. A Certified Public Accountant by profession, Ms. Lorenzo graduated in the top 10% of her class from the University of St. La Salle, earning a Bachelor of Science in Accountancy. She holds a Masters of Business Administration Degree from the Hongkong University of Science and Technology. Ms. Lorenzo's professional journey also includes serving as a Junior Auditor in Sycip, Gorres, Velayo (SGV) & Co., one of the Philippines' leading accounting firms, and as General Manager of VCY Sales Corporation. She currently holds the crucial role of

Investment Manager within the VCY Group of Companies. In addition to her role at VMC, Ms. Lorenzo serves as the Chairman of VFC.

5. Peter Y. Ong, Filipino, has a rich and diverse background in both corporate leadership and strategic consultancy, making him a highly valued member of the VMC board since his election on May 27, 2016. His contributions extend beyond VMC, encompassing various roles in different organizations. Within the VMC board, Mr. Ong plays a crucial role as a member of the Audit and Risk Committee and the Budget Committee. These positions emphasize his commitment to ensuring financial transparency, accountability, and prudent budgeting within the organization. Mr. Ong's involvement with various organizations, including LT Group, Inc., Allied Bankers Insurance Corporation, Allied Leasing & Finance Corporation, Solar Holdings Corporation, Basic Capital Investment Corp., Iris Holdings & Development Corp., Allied Savings Bank, and Eton Properties Philippines Inc., showcases his extensive network and influence in diverse industries.

6. Anna Rosario V. Paner, Filipino, serves as the Chair of the Legal, Nominations, Corporate Governance, and Related Party Transactions Committee in VMC, showcasing her role in ensuring legal compliance, ethical conduct, and effective corporate governance practices. She also serves as a member of the Audit and Risk Committee, contributing to the organization's financial oversight and risk management.

As a private law practitioner since 1996, Atty. Paner is one of the founding partners of Paner

VMC BOARD OF DIRECTORS

& Ypil Attorneys-at-Law (formerly Paner Hosaka & Ypil Attorneys-at-Law). She holds a Juris Doctor degree from the Ateneo de Manila School of Law and a Master's Degree in National Security Administration from the National Defense College of the Philippines.

Beyond her legal career, Atty. Paner holds significant leadership roles in other notable organizations. She currently serves as the Vice-Chairman of VFC, playing a crucial role in the strategic direction of the company. Her chairmanship at VGCCI demonstrates her involvement in recreational and social endeavors. Atty. Paner also holds positions of authority in VALCO and CDC, where she serves as Vice Chairman and Corporate Secretary. Her involvement in these entities highlights her multifaceted leadership capabilities and her ability to navigate complex corporate structures.

7. Michael G. Tan, Filipino, holds the positions of President, Chief Operating Officer, and Director of Asia Brewery, Inc. This role positions him at the helm of one of the Philippines' leading beverage companies, overseeing its operations, growth, and strategic direction. In addition to his role at Asia Brewery, Inc., Mr. Tan also serves as the President, Chief Operating Officer, and Executive Director of LT Group, Inc. (formerly Tanduay Holdings Inc.), one of the Philippines' renowned conglomerates with interests in diverse industries. Moreover, his involvement in the travel industry is evident through his role as President of Lucky Travel Corp., highlighting his versatility and ability to manage businesses in different sectors.

Mr. Tan has also been associated with significant entities within the aviation and

hospitality industries. He held the position of Chairman at PNB Holdings Corp., further illustrating his influence in the banking sector. Additionally, his directorship roles at PAL Express, Treasurer & Director at PAL Holdings, Inc., and Director & Treasurer at Zuma Holdings & Management Corp. reflect his involvement in the aviation and hospitality sectors. His current roles as President and Chief Operating Officer in both Asia Brewery, Inc. and LT Group, Inc. underscore his influence and expertise in the beverage industry, and his extensive experience in various sectors makes him a prominent figure in the Philippine corporate landscape.

8. Kyle Ellis C. Tan, Filipino, serves on several crucial VMC Board committees, including the Executive Committee, Human Resource and Remuneration Committee, and Legal, Nominations, Corporate Governance and Related Party Transactions Committee. In his capacity as Chief Operating Officer & Director at Himmel Industries, Inc., and Manufacturing Services & Trade Corp. Mr. Tan plays an instrumental role in overseeing operations and contributing to the growth and success of these companies.

Mr. Tan also holds the position of Executive Vice President for Tanduay Distillers, Inc, Treasurer and Director at MacroAsia Corp., Vice President for Kilter Realty & Development Corp. and holds positions on the boards of seven other companies. This extensive involvement showcases his diverse skill set and his ability to manage a wide range of business interests.

9. Victor T. Yu, Filipino, serves as Director and Consultant of Sales and Business Development at VMC. His directorship at VMC

since 2017 underscores his involvement in the company's strategic decision-making and governance. Mr. Yu completed a Bachelor of Science degree in Management and Industrial Engineering at the Mapua Institute of Technology. He is also a Master's Degree holder in Business Administration from the University of the Philippines, Diliman.

In addition to his role at VMC, Mr. Yu holds the position of President and General Manager of Victorias Golf & Country Club, Inc. He also served as the President of VFC until this year.

10. Alvin C. Yu, Filipino, is a prominent business leader of multiple corporations, spanning various industries. His extensive roles highlight his versatility and expertise in managing diverse business ventures. As the President of Narra Capital Investment Corporation and Bacolod DN Triumph Steel Corporation, Mr. Yu oversees investment strategies and financial decisions, contributing to the companies' growth and profitability.

Mr. Yu graduated from the Ateneo de Manila University with a degree in Management Engineering and completed the Owner/President Management Program from Harvard Business School.

11. Martin C. Yu, Filipino, is a distinguished business leader with a remarkable career that spans both directorship roles and his presidency of Firefly Electric & Lighting Corporation. His directorship at VMC since 2014 underscores his significant role in shaping the strategic direction and governance of the company. As the President of Firefly Electric & Lighting Corporation since 2001, Mr. Yu plays a central role in leading and managing the company. His long-standing tenure as President signifies his dedication to

the organization and his instrumental role in its growth and success.

Mr. Yu pursued Business Management at the Ateneo de Manila University and completed the Owner/President Management Program from Harvard Business School.

The aforementioned are also the duly elected members of the Board effective February 7, 2023.

The following are the appointed corporate officers effective February 7, 2023:

1. Wilson T. Young, Chairman of the Board of Directors
2. Anna Rosario V. Paner, Vice Chairman
3. Linley A. Retirado, President and Chief Manufacturing Officer (The latter post was held until July 31, 2023)
4. Mr. Arnel J. Amparo, Chief Manufacturing Officer starting August 1, 2023 – present
5. Phoebe Lou B. Pastera, Chief Operating Officer
6. Reggie Hannah Y. Lorenzo, Treasurer
7. Emmanuel S. Ypil, Corporate Secretary
8. Kristine D. Cabugason, Chief Finance Officer and Creditor-Appointed Controller
9. Eva A. Vicencio-Rodriguez, Assistant Corporate Secretary, Compliance and Information Officer, and Chief Administrative Officer

VMC EXECUTIVE OFFICERS



Linley A. Retirado
President and Chief Manufacturing Officer

Linley A. Retirado, Filipino, stands as a prominent figure at VMC, where he currently serves as the President. His journey to this prestigious position is a testament to his dedication and expertise in the field. Mr. Retirado's educational background laid the foundation for his remarkable career, as he graduated from the University of San Carlos in Cebu City with a Bachelor of Science in Chemical Engineering.

His journey at VMC began in 1987 when he joined as a Cadet Engineer. Over the years, he displayed remarkable commitment and talent, steadily rising through the ranks within the organization. His ascent within VMC reflects his outstanding contributions and leadership skills.

His influence extends beyond VMC's internal operations. In 2013, he assumed the role of President of the Philippine Sugar Technologists Association, Inc., showcasing his commitment to advancing the sugar industry in the Philippines. The following year, he took on the role of Chairman within the same association, underscoring his dedication to fostering growth and innovation within the industry.

Furthermore, his influence extends to other organizations within his sphere of expertise. He serves as a Director of several significant entities, including VFC, VALCO, CDC, VGEC, and VGCCI, demonstrating his extensive involvement in various facets of the industry.

Phoebe Lou B. Pastera
Chief Operating Officer

Phoebe Lou B. Pastera, Filipino, serves as the Chief Operating Officer (COO) of VMC. Ms. Pastera's career journey includes valuable experiences at Punongbayan Araullo, an accounting firm, and ANZ Global Services and Operations (Manila), where she served as Operations Manager. She graduated from UP-Visayas with a degree in Accountancy and is a CPA by profession.



Kristine D. Cabuguaason
Chief Finance Officer and
Creditor-Appointed Controller

Kristine D. Cabuguaason, Filipino, serves as the Chief Finance Officer / Creditor-Appointed Controller at VMC. Before her role at VMC, she served as an Audit Director at SGV & Co., and previously worked as an assistant audit manager in Ernst & Young Bahrain. In addition to her role at VMC, she also serves as the Treasurer of several VMC subsidiaries, including VFC, VGCCI, VGEC, VALCO, CDC, and VFI. Ms. Cabuguaason completed her Bachelor's Degree in Accountancy at the University of St. La Salle and is a CPA in the Philippines and in the State of California, USA.

Eva A. Vicencio-Rodriguez
Chief Administrative Officer,
Assistant Corporate Secretary and Compliance
and Information Officer

Eva A. Vicencio-Rodriguez, Filipino, serves as the Chief Administrative Officer and Assistant Corporate Secretary and Compliance and Information Officer of VMC. This role highlights her involvement in governance and regulatory compliance, ensuring that the company adheres to legal and corporate standards. She also serves as Corporate Secretary in several VMC subsidiaries, including VFC, VGCCI, and VGEC, showcasing her commitment to governance and legal affairs across the VMC Group of Companies. Moreover, she holds the positions of President and Director at CDC and VALCO.

Atty. Rodriguez completed her Bachelor's degree in Psychology from West Negros College, graduating Magna Cum Laude. She holds a law degree, and a Masters in Business Administration from the University of St. La Salle.

Atty. Rodriguez's commitment to community development is also evident through her role as Chairperson of the Victorias Mill District Development Council Foundation, Inc., reflecting her dedication to contributing positively to the broader community.



DIVISION OFFICERS



SUGAR

L-R: Anthony Sanchez, Marlowe Lugador, Hanzel Malayo



DISTILLERY

L-R: Wilberto Tiangson, Giannina Kaw, Wilson Chiu



POWER

L-R: Jesus Edmundo Cardeñas, Raymond Ledesma, Glenn Sanchez, John Roel Rodriguez

DEPARTMENT OFFICERS



CMO GROUP

L-R: Jesus Edmundo Cardeñas, Linley Retirado, Russel Servando, Giannina Kaw, Anthony Sanchez



CFO GROUP

L-R: Jamaica Jagonos, Kristine Cabuguason, Robert Lau, Ma. Evelyn Segaya, Diana Aporador



COO GROUP

L-R: Phoebe Lou Pastera, Sheila Cabrestante, Hector Solatorio, Paulene Socorro Carreon, Allan Maravilla, Reese Bautista, Debbie Jane Vallar, Joseph Penuela



CAO GROUP

L-R: Eva Rodriguez, Jose Ramon Eduardo Unson



VICTORIAS MILLING COMPANY, INC.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

Consolidated Financial Statements
August 31, 2023, 2022 and 2021
with Independent Auditors' Report



REYES TACANDONG & Co.
FIRM PRINCIPLES. WISE SOLUTIONS.

BOA/PRC Accreditation No. 4782
August 16, 2021, valid until April 13, 2024
SEC Accreditation No. 4782 SEC Group A
Issued August 11, 2022
Valid for Financial Periods 2021 to 2025

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INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Victorias Milling Company, Inc.
VMC Compound, J.J. Ossorio Street, Barangay XVI
Victorias City, Negros Occidental

Opinion

We have audited the accompanying consolidated financial statements of Victorias Milling Company, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at August 31, 2023 and 2022, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended August 31, 2023, 2022 and 2021, and notes to consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at August 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years ended August 31, 2023, 2022 and 2021, in accordance with the Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to the audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements.

These matters were addressed in the context of our audits of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Accounting for Sugar Inventories

Sugar inventories amounted to ₱829.5 million as at August 31, 2023. The accounting for sugar inventories is significant to our audit because it includes accounting for quedans, a negotiable instrument representing sugar ownership, and sugar delivery orders, count procedures require the determination of sugar inventory accountabilities to third parties, and accounting for the provisions for inventory losses and third party liabilities resulting from the fire incident in 2023.

THE POWER OF BEING UNDERSTOOD
AUDIT | TAX | CONSULTING

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Our procedures included, among others, understanding of the inventory management process, including quedan monitoring, testing of relevant controls and inventory cost, observation of physical inventory count, review of inventory count summarization, testing of inventory count reconciliation, testing the reasonableness of assumptions used in determining the net realizable value, validation of sugar accountability report, including checking the sufficiency of sugar against outstanding quedans, checking the Group's compliance with the relevant regulations issued by the Sugar Regulatory Administration and ensuring the completeness of disclosures in the consolidated financial statements. We also reviewed and checked propriety of the recognized provisions for inventory losses and third party liabilities resulting from the fire incident.

Necessary disclosures are included in Note 5, *Inventories*, and Note 27, *Summary of Significant Accounting Policies*.

Estimating Provisions for Legal Claims

Provisions for legal claims amounted to ₱513.1 million as at August 31, 2023. Estimating provision for legal claims is significant to our audit because it represents 65% of total noncurrent liabilities. Moreover, it involves significant assumptions and high degree of judgment in estimating the timing and amount of the legal claims.

Our procedures included, among others, confirmation with the Group's legal counsel of the likely outcome and best estimates of claims, evaluation of competence of legal counsel engaged by management, assessing the reasonableness of assumptions used in determining the amount of provision and ensuring the completeness and appropriateness of disclosures in the consolidated financial statements.

Necessary disclosures are included in Note 11, *Provisions for Legal Claims*, and Note 27, *Summary of Significant Accounting Policies*.

Revenue and Cost Recognition of Sugar Milling Operations

The Group's revenue from milling services, related cost of sales and services and the receipt of its share on raw sugar and molasses produced are recognized based on fair market value at the date of production. The revenue and related cost of sales and services from milling services amounted to ₱3,267.5 million and ₱873.9 million, respectively, for the year ended August 31, 2023. This is significant to our audit because it represents 21% and 7% of total revenue and cost of sales and services, respectively. Moreover, the revenue and cost recognition of sugar milling operations is considered a complex transaction involving management judgment and estimates on various inputs affecting the recognition, timing and measurement of revenue, cost of sales and services and inventories.

Our procedures include, among others, the review of the application of the revenue and cost recognition policies, understanding of the process of its implementation, testing of relevant controls, review of milling and sale arrangements with the customers and validation of inputs in determining the revenue and cost of sales and services recognized, as well as ensuring the completeness and appropriateness of disclosures in the consolidated financial statements.

Necessary disclosures are included in Note 15, *Revenue*, and Note 27, *Summary of Significant Accounting Policies*.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report as at and for the year ended August 31, 2023, but does not include the consolidated financial statements and our auditors' report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report as at and for the year ended August 31, 2023 are expected to be made available to us after the date of the auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified in the foregoing when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRS, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibility for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the subsidiaries within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

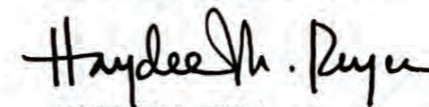
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements and are therefore considered key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is Haydee M. Reyes.

REYES TACANDONG & Co.



HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until April 13, 2024

SEC Accreditation No. 83522-SEC Group A

Issued March 10, 2020

Valid for Financial Periods 2019 to 2023

BIR Accreditation No. 08-005144-006-2022

Valid until October 16, 2025

PTR No. 9564561

Issued January 3, 2023, Makati City

December 5, 2023

Makati City, Metro Manila

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Amounts in Thousands

		August 31	
	Note	2023	2022
ASSETS			
Current Assets			
Cash and cash equivalents	2	₱2,729,542	₱2,472,802
Investments in Unit Investment Trust Fund	3	6,598	154,976
Trade and other receivables	4	543,971	491,689
Inventories	5	1,624,445	784,413
Other current assets	6	485,682	332,479
Total Current Assets		5,390,238	4,236,359
Noncurrent Assets			
Property, plant and equipment	7	7,129,727	6,176,708
Investment properties	8	803,391	721,646
Other noncurrent assets	9	220,327	210,279
Total Noncurrent Assets		8,153,445	7,108,633
		₱13,543,683	₱11,344,992
LIABILITIES AND EQUITY			
Current Liabilities			
Trade payables and other current liabilities	10	₱1,489,292	₱704,204
Income tax payable		83,870	46,826
Total Current Liabilities		1,573,162	751,030
Noncurrent Liabilities			
Payable to claimants, net of current portion	10	117,476	135,291
Provisions for legal claims	11	513,065	513,769
Net deferred tax liabilities	19	153,672	291,691
Net retirement liability	20	-	47,725
Other noncurrent liabilities		6,000	6,000
Total Noncurrent Liabilities		790,213	994,476
Total Liabilities		2,363,375	1,745,506
Equity Attributable to Shareholders of Parent Company			
Capital stock	12	3,042,061	3,042,061
Additional paid-in capital		840,720	840,720
Convertible notes awaiting conversion		5,450	5,450
Retained earnings		8,354,491	6,945,579
Other equity reserves		437,452	264,375
Treasury stock - at cost		(1,501,882)	(1,501,882)
Total Equity		11,178,292	9,596,303
Noncontrolling Interests			
Total Equity		2,016	3,183
		₱13,543,683	₱11,344,992

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Amounts in Thousands, except Basic/Diluted Earnings per Share

		Years Ended August 31		
	Note	2023	2022	2021
REVENUE				
Sale of goods	15	₱11,728,215	₱6,395,329	₱5,537,239
Service income		3,818,776	2,154,993	1,931,008
Total Revenue		15,546,991	8,550,322	7,468,247
COST OF SALES AND SERVICES				
	16	12,573,936	6,931,356	6,315,344
Total Cost of Sales and Services		12,573,936	6,931,356	6,315,344
GROSS PROFIT		2,973,055	1,618,966	1,152,903
OPERATING EXPENSES				
General and administrative	17	510,049	472,947	372,995
Selling		135,903	149,199	156,846
Total Operating Expenses		645,952	622,146	529,841
OPERATING INCOME		2,327,103	996,820	623,062
FINANCE COST				
	11, 12	(43,487)	(32,411)	(31,479)
Total Finance Cost		(43,487)	(32,411)	(31,479)
INCOME BEFORE INCOME TAX		1,723,593	1,089,639	861,045
OTHER INCOME (CHARGES)				
Provisions for:				
Third-party liabilities	10, 22	(468,851)	-	-
Inventory losses, net	5, 22	(314,349)	-	-
Net reversal of (additions to) provisions for legal claims	12	31,514	(172,703)	3,888
Other income - net	18	191,663	297,933	265,574
Total Other Income (Charges)		(560,023)	125,230	269,462
INCOME BEFORE INCOME TAX		1,723,593	1,089,639	861,045
INCOME TAX EXPENSE (BENEFIT)				
Current	19	358,246	157,969	120,187
Deferred		(205,325)	(34,400)	(45,378)
Total Income Tax Expense (Benefit)		152,921	123,569	74,809
NET INCOME		₱1,570,672	₱966,070	₱786,236
Net Income (Loss) attributable to:				
Shareholders of Parent Company		₱1,571,839	₱965,992	₱787,819
Noncontrolling interests		(1,167)	78	(1,583)
Total Net Income (Loss) attributable to Shareholders of Parent Company		₱1,570,672	₱966,070	₱786,236
Earnings per Share for Net Income attributable to Shareholders of Parent Company				
Basic and Diluted	13	₱0.57	₱0.35	₱0.29

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Amounts in Thousands

	Note	Years Ended August 31		
		2023	2022	2021
NET INCOME		₱1,570,672	₱966,070	₱786,236
OTHER COMPREHENSIVE INCOME (LOSS)				
<i>Items that will not be subsequently reclassified to profit or loss:</i>				
Revaluation increment of property, plant and equipment	7	270,671	-	-
Remeasurement gain (loss) on retirement liability	20	(1,446)	10,426	6,716
Deferred tax relating to components of other comprehensive loss		(67,306)	(2,606)	(1,679)
Effect of change in income tax rate	20	-	-	37,753
		201,919	7,820	42,790
TOTAL COMPREHENSIVE INCOME		₱1,772,591	₱973,890	₱829,026
Total Comprehensive Income (Loss) attributable to:				
Shareholders of Parent Company		₱1,773,758	₱973,812	₱830,609
Noncontrolling interests		(1,167)	78	(1,583)
		₱1,772,591	₱973,890	₱829,026

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED AUGUST 31, 2023, 2022 and 2021
Amounts in Thousands

	Equity Attributable to Shareholders of Parent Company									
	Capital Stock (Note 12)	Additional Paid-in Capital (Note 12)	Convertible Notes Awaiting Conversion (Note 12)	Retained Earnings Appropriated (Note 12)	Unappropriated (Note 12)	Other Equity Reserves (Note 12)	Treasury Stock (Note 12)	Total	Noncontrolling Interests	Total Equity
Balances as at August 31, 2020	₱3,042,061	₱840,720	₱5,450	-	₱5,413,264	₱266,237	(₱1,501,882)	₱8,065,850	₱4,688	₱8,070,538
Comprehensive income (loss):										
Net income (loss)	-	-	-	-	787,819	-	-	787,819	(1,583)	786,236
Other comprehensive income	-	-	-	-	-	42,790	-	42,790	-	42,790
Total comprehensive income (loss)	-	-	-	-	787,819	42,790	-	830,609	(1,583)	829,026
Transfer of revaluation increment to retained earnings	-	-	-	-	27,149	(27,149)	-	-	-	-
Balances as at August 31, 2021	3,042,061	840,720	5,450	-	6,228,232	281,878	(1,501,882)	8,896,459	3,105	8,899,564
Comprehensive income:										
Net income	-	-	-	-	965,992	-	-	965,992	78	966,070
Other comprehensive income	-	-	-	-	-	7,820	-	7,820	-	7,820
Total comprehensive income	-	-	-	-	965,992	7,820	-	973,812	78	973,890
Appropriations of retained earnings	-	-	-	1,410,000	(1,410,000)	-	-	-	-	-
Dividends declared and paid	-	-	-	-	(273,968)	-	-	(273,968)	-	(273,968)
Transfer of revaluation increment to retained earnings	-	-	-	-	25,323	(25,323)	-	-	-	-
Balances as at August 31, 2022	3,042,061	840,720	5,450	1,410,000	5,535,579	264,375	(1,501,882)	9,596,303	3,183	9,599,486
Comprehensive income (loss):										
Net income (loss)	-	-	-	-	1,571,839	-	-	1,571,839	(1,167)	1,570,672
Other comprehensive income	-	-	-	-	-	201,919	-	201,919	-	201,919
Total comprehensive income (loss)	-	-	-	-	1,571,839	201,919	-	1,773,758	(1,167)	1,772,591
Dividends declared and paid	-	-	-	-	(191,769)	-	-	(191,769)	-	(191,769)
Transfer of revaluation increment to retained earnings	-	-	-	-	28,842	(28,842)	-	-	-	-
Balances as at August 31, 2023	₱3,042,061	₱840,720	₱5,450	₱1,410,000	₱6,944,491	₱437,452	(₱1,501,882)	₱11,178,292	₱2,016	₱11,180,308

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Amounts in Thousands

	Note	Years Ended August 31		
		2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax		₱1,723,593	₱1,089,639	₱861,045
Adjustments for:				
Provisions for (reversal of):				
Third-party liabilities	10	468,851	-	-
Inventory losses, net	5	323,587	12,030	22,036
Impairment loss on property, plant and equipment	7	48,568	-	-
Impairment losses on trade and other receivables	4	21,463	27,765	3,731
Allowance for impairment losses for Input and advance output value-added tax	17	-	-	(55,204)
Depreciation and amortization	7	438,151	431,836	408,733
Interest income	2	(85,470)	(4,130)	(1,998)
Net gain on fair value changes of investment properties	8	(81,745)	(49,549)	(42,066)
Finance cost	11, 12	43,487	32,411	31,479
Net additions to (reversal of) provisions for legal claims	11	(31,514)	172,703	(3,888)
Retirement benefits	20	10,611	12,472	13,217
Gain on redemption of investments in Unit Investment Trust Fund	3	(3,536)	(14,211)	(6,140)
Gain on insurance claims	5	(2,356)	(44,242)	-
Unrealized loss (gain) on fair value changes of investments in Unit Investment Trust Fund	3	162	2,743	(606)
Net operating income before working capital changes		2,873,852	1,669,467	1,230,339
Changes in operating assets and liabilities:				
Decrease (increase) in current assets:				
Trade and other receivables		(73,745)	288,732	(313,449)
Inventories		(1,163,619)	179,298	650,488
Other current assets		(153,202)	79,367	(12,318)
Increase in trade payables and other current liabilities		316,236	121,351	84,491
Net cash generated from operations		1,799,522	2,338,215	1,639,551
Income tax paid		(321,038)	(130,163)	(159,894)
Interest received		85,470	4,130	1,998
Contributions to the retirement fund	20	(61,000)	(10,000)	(5,000)
Retirement benefits paid	20	(880)	-	(235)
Net cash provided by operating activities		1,502,074	2,202,182	1,476,420
CASH FLOWS FROM INVESTING ACTIVITIES				
Additions to:				
Investments in Unit Investment Trust Fund	3	(1,811,885)	(4,695,603)	(1,282,100)
Property, plant and equipment	7	(1,160,872)	(1,003,515)	(380,132)
Proceeds from:				
Redemption of investments in Unit Investment Trust Fund	3	1,963,638	5,660,666	296,771
Insurance claims	5	2,356	44,242	-
Decrease (increase) in other noncurrent assets		(16,144)	19,587	(63,879)
Net cash provided by (used in) investing activities		(1,022,907)	25,377	(1,429,340)

(Forward)

	Note	Years Ended August 31		
		2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES				
Payments of:				
Dividends	12	(P191,935)	(P262,966)	P-
Liabilities to claimants	10	(30,492)	(30,492)	(30,492)
Cash used in financing activities		(222,427)	(293,458)	(30,492)
NET INCREASE IN CASH AND CASH EQUIVALENTS		256,740	1,934,101	16,588
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		2,472,802	538,701	522,113
CASH AND CASH EQUIVALENTS AT END OF YEAR	2	P2,729,542	P2,472,802	P538,701

See accompanying Notes to Consolidated Financial Statements.

VICTORIAS MILLING COMPANY, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Amounts are in Thousands, unless otherwise Stated

1. Corporate Information, Status of Operations and Rehabilitation

Victorias Milling Company, Inc. (herein referred to as the Parent Company or VMC) was originally organized and registered on May 7, 1919 with the Philippine Securities and Exchange Commission (SEC) primarily to operate mill and refinery facilities for sugar and allied products, as well as to render engineering services. On May 7, 1969 the Philippine SEC approved the amendment of the Articles of Incorporation of the Parent Company to extend the corporate term for another 50 years as approved by the Parent Company's Board of Directors and stockholders.

The Parent Company has a corporate life of 50 years pursuant to its articles of incorporation. However, under the Revised Corporation Code of the Philippines, the Parent Company shall have a perpetual corporate life.

On July 3, 2013, the SEC approved the Parent Company's amended articles of incorporation to include, as among its business purposes, ethanol and/or potable alcohol production, infrastructure development, transportation, telecommunication, mining, water, power generation, recreation, and financial or credit consultancy.

VMC's common shares are listed in the Philippine Stock Exchange (PSE). VMC undertook a public offering of its common shares in 1993. There has been no subsequent listing made after its initial offering.

The Parent Company has the following subsidiaries:

Subsidiaries	Nature of Business	Effective Ownership
Victorias Foods Corporation (VFC)	Food Processing and Canning	100%
Victorias Agricultural Land Corporation (VALCO)	Agricultural Land Leasing and Cultivation	100%
Victorias Green Energy Corporation (VGEC)	Co-generation of Energy	100%
Canetown Development Corporation (CDC)*	Real Estate Development and Selling	93%
Victorias Golf and Country Club, Inc. (VGCCI)	Not-for-profit Golf Facilities	81%
Victorias Quality Packaging Company, Inc. (VQPC)	Manufacture of Bags and Packaging Materials	55%

*The effective ownership is inclusive of 5% indirect ownership through VALCO.

The Parent Company and its subsidiaries (collectively herein referred to as the Group) were incorporated in the Philippines.

Status of VMC's Rehabilitation Plan

On July 4, 1997, VMC filed a petition for rehabilitation with the SEC because of financial difficulties. The trading of VMC shares in the PSE was temporarily suspended but on May 21, 2012, the SEC and the PSE lifted the suspension order.

Based on the SEC Orders dated June 2, 1999, August 17, 1999 and August 19, 1999, the SEC approved VMC's Updated Rehabilitation Plan dated September 25, 1998, subject to the First Addendum to the Rehabilitation Plan as at February 5, 1999 and the Second Amendment to the Rehabilitation Plan dated July 22, 1999 (collectively the "Original Rehabilitation Plan").

As part of the implementation of the Original Rehabilitation Plan, VMC and the Management Committee created by the SEC (the “VMC Mancom”) conducted a public bidding of 53.35% of VMC’s outstanding capital stock, which bidding was declared a failure by the VMC Mancom for the reason that the deadline for the submission of the bids had expired without any bid having been submitted.

In view of the failure of the bidding, the VMC Mancom, as mandated by the Original Rehabilitation Plan, submitted to the SEC on May 11, 2000 an Alternative Rehabilitation Plan (the Plan), which was duly approved on November 29, 2000. A key element of the Plan is the restructuring of VMC loans. VMC and its creditors executed a Debt Restructuring Agreement (DRA) dated April 29, 2002.

The main basic features of the Plan and the DRA are as follows:

1. Increase in authorized capital stock from ₱496.0 million, consisting of 496.0 million common shares at ₱1 par value a share, to ₱4.61 billion, consisting of 4.61 billion common shares at the same par value.
2. Conversion of a portion of the principal of the unsecured loans and all unpaid interest into equity amounting to ₱1.1 billion.
3. Conversion of a portion of unsecured loans into Convertible Notes (CN) amounting to ₱2.45 billion (Note 13).
4. Restructuring of the secured and unsecured loans aggregating ₱4.4 billion over a period of 15 years, including a three-year grace period for the principal, at 10% annual interest for Philippine Peso-denominated loans and at 6% for U.S. Dollar-denominated loans.

Pursuant to the Plan, VMC has implemented the following:

1. VMC has increased its authorized capital stock to ₱3.04 billion at ₱1 par value a share.
2. ₱1.1 billion unsecured loans from creditors were converted into VMC common shares at ₱1 of debt to one common share at ₱1 par value a share.
3. Unsecured loans from creditors amounting to ₱2.4 billion were converted into CN at 8% interest, payable in 15 years. As at August 31, 2023 and 2022, CN awaiting conversion amounted to ₱5.45 million, which includes accrued interest amounting to ₱2.5 million.
4. The restructured loans from unsecured and secured creditors aggregating ₱4.4 billion with 10% interest for Philippine Peso-denominated loans and 6% interest for U.S. Dollar-denominated loans were fully paid as at May 31, 2013.

As part of VMC’s debt restructuring, the restructured trade liabilities were also fully paid in 2013.

As at the report date, VMC is compliant with the provisions of the Plan. There are, however, claims against VMC for Refined Sugar Delivery Order (RSDO) and Refined Sugar Quedan (RSQ) purportedly issued by VMC, which were allegedly used by North Negros Marketing Company, Inc. (NONEMARCO) to avail of bank loans for NONEMARCO’S own use and benefit. These were subject to litigation before the SEC.

On December 3, 2018, the SEC approved the (i) alteration or amendment of the Plan and DRA dated April 29, 2002 of VMC; and (ii) final amount due to the RSDO and RSQ claimants as full settlement of their claims payable beginning December 2019 over a period of 10 years (Notes 10 and 23).

Accordingly, VMC is still under rehabilitation as at August 31, 2023 and 2022. A Rehabilitation Receiver continues to monitor, together with the elected Board of Directors (BOD) and committees, the successful completion of the rehabilitation of VMC.

In its efforts to achieve continuing successful operations, VMC has continuously focused its corporate objectives, goals, strategies, and measures to attain sustainable financial stability through, among others: (a) synchronization of refined sugar and raw sugar operations; (b) significant improvements in plant efficiency; (c) increase in profitability by addressing cost efficiency through trimming down of corporate expenses; (d) ongoing programs for the optimization of human resources and (e) effective cash flows management leading to early repayment of debts.

The Parent Company’s registered principal place of business is located at VMC Compound, J.J. Ossorio Street, Barangay XVI, Victorias City, Negros Occidental.

The accompanying consolidated financial statements were approved and authorized for issue by the BOD on December 5, 2023 as reviewed and recommended for approval by the Audit and Risk Committee on the same date.

2. Cash and Cash Equivalents

This account consists of:

	2023	2022
Cash on hand	₱17,232	₱2,417
Cash in banks	558,928	2,360,676
Cash equivalents	2,153,382	109,709
	₱2,729,542	₱2,472,802

Cash in banks earn interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments with maturities of no longer than 90 days from the date of investment, and bear annual interest rates as follows:

	2023	2022
Philippine Peso	2.75% to 7.50%	0.10% to 2.38%
US Dollar	0.20% to 5.50%	0.00% to 0.35%

Interest income on cash and cash equivalents amounted to ₱85.47 million, ₱4.13 million and ₱2.00 million in 2023, 2022 and 2021, respectively (Note 18).

3. Investments in Unit Investment Trust Fund (UITF)

This account pertains to underlying portfolio with short-term fixed income.

Details of this account are as follows:

	2023	2022
Cost	₱5,883	₱154,099
Cumulative unrealized fair value gains	715	877
	₱6,598	₱154,976

Movements in this account are as follows:

	Note	2023	2022
Balance at beginning of year		₱154,976	₱1,108,571
Redemption		(1,960,101)	(5,646,455)
Additions		1,811,885	4,695,603
Unrealized loss on fair value adjustments	18	(162)	(2,743)
Balance at end of year		₱6,598	₱154,976

Proceeds from redemption of investments in UITF amounted to ₱1,963.64 million, ₱5,660.67 million and ₱296.77 million in 2023, 2022 and 2021, respectively. Gain on redemption of investments amounted to ₱3.54 million, ₱14.21 million and ₱6.14 million in 2023, 2022 and 2021, respectively (Note 18).

The fair value of UITF is based on the published net asset value per unit (NAVPU). NAVPU is computed as total assets of the fund less total liabilities divided by the total units outstanding as of the end of the reporting period. The fair value of investments in UITF was determined using Level 1 valuation technique. There was no change in the valuation technique applied on investments in UITF.

4. Trade and Other Receivables

This account consists of:

	Note	2023	2022
Trade:			
Third parties		₱552,886	₱414,911
Related parties	21	23,244	107,435
Others		28,092	28,951
		604,222	551,297
Allowance for impairment losses		(60,251)	(59,608)
		₱543,971	₱491,689

Trade receivables are noninterest-bearing with credit term of 15 to 30 days.

Movements in the allowance for impairment losses are as follows:

	Note	2023	2022
Balance at beginning of year		₱59,608	₱31,843
Provision	17	21,463	27,765
Write-off		(20,820)	–
Balance at end of year		₱60,251	₱59,608

Management assessed that the allowance for impairment losses as at August 31, 2023 and 2022 are reasonable and adequate.

5. Inventories

This account consists of:

	2023	2022
At cost:		
Refined sugar	₱646,381	₱21,768
Ethanol	297,237	27,493
Processed food	23,800	13,578
Real estate held-for-sale	20,089	20,296
Alcohol	5,496	60,321
Raw sugar	–	135,147
Molasses	–	123,127
Others	274	506
	993,277	402,236
Work-in-process	6,710	59,260
	999,987	461,496
At net realizable value (NRV):		
Materials and supplies	323,235	322,917
Salvaged raw sugar	183,104	–
Molasses	118,119	–
	624,458	322,917
	₱1,624,445	₱784,413

The cost of materials and supplies carried at NRV amounted to ₱368.44 million and ₱358.89 million as at August 31, 2023 and 2022, respectively. The Group recognized provision for inventory losses amounting to ₱323.59 million, ₱12.03 million and ₱22.04 million in 2023, 2022 and 2021, respectively (Note 17).

Provision for inventory losses in 2021 includes cost of damaged alcohol and other inventories amounting to ₱20.14 million arising from a flood incident in Victorias City on January 1 and 8, 2021. Subsequently, the provision resulting from a flood incident was written off in 2022. Insurance claims received on damaged inventories amounted ₱2.36 million and ₱44.24 million in 2023 and 2022, respectively (Note 18).

In 2023, the Group also recognized a provision for inventory losses amounting to ₱497.45 million, net of the salvaged raw sugar, resulting from the molasses tank incident and sugar warehouse fire incident, affecting molasses and raw sugar during the fiscal year. The estimated value of salvaged raw sugar of ₱183.10 million was recognized as inventory as at August 31, 2023. The Group is insured for fire incidents including its property, plant and equipment, and inventories, and is currently reviewing the claim with the insurance companies (Notes 7 and 22).

Movements in inventories, excluding materials and supplies, are as follows:

	Refined Sugar	Ethanol	Processed Food	Real Estate Held-for-Sale	Alcohol	Power	Raw Sugar	Molasses	Others	Work-in-Process	Total
Balances as at August 31, 2021	₱85,236	₱163,634	₱10,165	₱20,628	₱40,187	₱—	₱248,473	₱109,164	₱541	₱47,664	₱725,692
Additions	1,711,070	1,141,788	145,404	—	1,280,182	89,115	3,950,610	971,881	—	197,988	9,488,038
Cost of sales and production transfers	(1,774,538)	(1,277,929)	(141,991)	(332)	(1,260,048)	(89,115)	(4,063,936)	(957,918)	(35)	(186,392)	(9,752,234)
Balances as at August 31, 2022	21,768	27,493	13,578	20,296	60,321	—	135,147	123,127	506	59,260	461,496
Additions	4,452,193	1,911,169	205,638	—	1,869,599	339,232	8,789,934	1,888,284	5	193,162	19,649,216
Cost of sales and production transfers	(3,827,580)	(1,641,425)	(195,416)	(207)	(1,924,424)	(339,232)	(8,548,964)	(1,771,955)	(237)	(245,712)	(18,495,152)
Provision for inventory losses ⁽¹⁾	—	—	—	—	—	—	(193,013)	(121,337)	—	—	(314,350)
Balances as at August 31, 2023	₱646,381	₱297,237	₱23,800	₱20,089	₱5,496	₱—	₱183,104	₱118,119	₱274	₱6,710	₱1,301,210

(1) Net of estimated salvaged raw sugar amounting to ₱183.10 million as at August 31, 2023

Inventories charged to cost of sales and services amounted to ₱10,722.26 million, ₱5,268.36 million and ₱4,865.99 million in 2023, 2022 and 2021, respectively (Note 16).

6. Other Current Assets

The account consists of:

	Note	2023	2022
Input and advance output value-added tax (VAT)		₱192,614	₱193,726
Advances to suppliers		152,279	37,887
Current portion of receivables from a government bank	9	42,216	41,408
Performance bond		37,500	—
Prepaid expenses		37,396	38,714
Biological assets		18,291	19,419
Others		5,386	1,325
		₱485,682	₱332,479

Advances to suppliers represent amounts paid for the purchase of materials and supplies inventories not yet received by the Group. These are noninterest-bearing and are expected to be settled through delivery of goods by the suppliers within one year.

Receivables from a government bank pertain to uncollected proceeds on the land subject to Voluntary Offer to Sell and Compulsory Acquisition pursuant to the Comprehensive Agrarian Reform Program (CARP). In 2021, the Department of Agrarian Reform excluded certain properties from the CARP coverage resulting in the reversal of related receivable of ₱25.22 million resulting to a loss of ₱0.94 million recognized as "Others" under "Other income" account (Note 18). Current portion pertains to receivables with submitted requirements with the government bank and is expected to be collected within one year.

Performance bond pertains to bond paid to the Sugar Regulation Administration (SRA) in compliance to sugar importation and shall be released upon submission of proof of purchase of an equal volume of locally produced sugar contemporaneous with the importation.

Prepaid expenses pertain to advance payments for real property tax, insurance, utilities and other supplies.

Biological assets represent costs of fry and fingerlings and other related cultivation and growing expenses. The Group carries its biological assets at cost less any impairment in value because there is no active market and reliable basis of the fair value.

Others mainly pertain to refundable deposits, creditable withholding taxes and tolling cost yet to be billed to customers.

7. Property, Plant and Equipment

Movements in this account follows:

August 31, 2023	Land	Land Improvements	Buildings and Structures	Community Buildings and Equipment	Machinery and Equipment	Project under Construction (PUC)	Total
Acquisition Cost							
At September 1, 2022	₱298,007	₱324,093	₱928,619	₱20,874	₱8,644,208	₱686,394	₱10,902,195
Additions	–	17,417	4,840	–	113,760	1,024,855	1,160,872
Reclassification of completed projects	–	4,788	9,768	–	106,859	(121,415)	–
At August 31, 2023	298,007	346,298	943,227	20,874	8,864,827	1,589,834	12,063,067
Accumulated Depreciation and Amortization							
At September 1, 2022	–	207,730	728,640	14,737	4,719,266	–	5,670,373
Depreciation and amortization	–	17,434	23,093	499	350,475	–	391,501
At August 31, 2023	–	225,164	751,733	15,236	5,069,741	–	6,061,874
Allowance for Impairment Loss							
At September 1, 2022	–	8,002	–	–	–	–	8,002
Addition (reversal)	–	(8,002)	56,428	–	142	–	48,568
At August 31, 2023	–	–	56,428	–	142	–	56,570
At August 31, 2023	298,007	121,134	135,066	5,638	3,794,944	1,589,834	5,944,623
Appraisal Increase							
At September 1, 2022	658,822	249,921	652,459	1,370	3,990,574	–	5,553,146
Increase (reversal)	150,771	110,318	(3,700)	–	9,583	–	266,972
At August 31, 2023	809,593	360,239	648,759	1,370	4,000,157	–	5,820,118
Accumulated Depreciation and Amortization							
At September 1, 2022	–	198,378	652,459	1,370	3,748,051	–	4,600,258
Depreciation and amortization	–	7,648	–	–	30,808	–	38,456
Reversal of depreciation and amortization	–	–	(3,700)	–	–	–	(3,700)
At August 31, 2023	–	206,026	648,759	1,370	3,778,859	–	4,635,014
At August 31, 2023	809,593	154,213	–	–	221,298	–	1,185,104
Net Carrying Value	₱1,107,600	₱275,347	₱135,066	₱5,638	₱4,016,242	₱1,589,834	₱7,129,727

August 31, 2022	Land	Land Improvements	Buildings and Structures	Community Buildings and Equipment	Machinery and Equipment	Project under Construction (PUC)	Total
Acquisition Cost							
At September 1, 2021	₱293,407	₱271,465	₱900,984	₱20,874	₱8,248,362	₱163,588	₱9,898,680
Additions	4,600	38,422	17,393	–	200,701	742,399	1,003,515
Reclassification of completed projects	–	14,206	10,242	–	195,145	(219,593)	–
At August 31, 2022	298,007	324,093	928,619	20,874	8,644,208	686,394	10,902,195
Accumulated Depreciation and Amortization							
At September 1, 2021	–	192,757	705,957	14,238	4,367,522	–	5,280,474
Depreciation and amortization	–	14,973	22,683	499	351,744	–	389,899
At August 31, 2022	–	207,730	728,640	14,737	4,719,266	–	5,670,373
Allowance for Impairment Loss							
At September 1, 2021 and August 31, 2022	–	8,002	–	–	–	–	8,002
At August 31, 2022	298,007	108,361	199,979	6,137	3,924,942	686,394	5,223,820
Appraisal Increase							
At September 1, 2021 and August 31, 2022	658,822	249,921	652,459	1,370	3,990,574	–	5,553,146
Accumulated Depreciation and Amortization							
At September 1, 2021	–	198,378	652,459	1,370	3,714,308	–	4,566,515
Depreciation and amortization	–	–	–	–	33,743	–	33,743
At August 31, 2022	–	198,378	652,459	1,370	3,748,051	–	4,600,258
At August 31, 2022	658,822	51,543	–	–	242,523	–	952,888
Net Carrying Value	₱956,829	₱159,904	₱199,979	₱6,137	₱4,167,465	₱686,394	₱6,176,708

Additions to the PUC mainly include construction and assembly of steam turbine generator, boilers and mill equipment, mill electrification, construction of biodigester, additional storage tanks and distillery vacuum distillation plant and major repair of buildings. Completed projects amounting to ₱121.42 million and ₱219.59 million in 2023 and 2022, respectively, were transferred to the appropriate fixed asset category. No borrowing costs were capitalized in 2023, 2022 and 2021.

In 2023, the Group recognized impairment loss on property, plant and equipment amounting to ₱48.57 million based on the latest appraisal report. The impairment loss also include the impairment loss resulting from the fire incident amounting to ₱2.87 million (Notes 5 and 22).

The outstanding purchase commitments of the Group as at August 31, 2023 and 2022 amounted to ₱721.18 million and ₱831.66 million, respectively.

The cost of fully depreciated property, plant and equipment still being used in the Group's operations amounted to ₱2,825.30 million and ₱2,810.10 million as at August 31, 2023 and 2022, respectively.

The fair values of property, plant and equipment were based on the appraisal reports issued by qualified independent firm of appraisers engaged by management. The latest appraisal was conducted in March 2023. Appraisal increase recognized amounted to ₱266.97 million in 2023.

The fair value of the land was computed using the Market Data Approach (Level 2). In this approach, the value of the land was based on sales and listings of comparable property registered within the vicinity.

The fair values of other property, plant and equipment were determined using the Cost Approach (Level 3). Under this approach, an estimate is made of the current cost of replacement of the buildings and land improvements, in accordance with the prevailing market prices for materials, labor and overhead. Adjustments are then made to reflect depreciation resulting from physical deterioration, functional and economic obsolescence based on inspection by the appraiser of the buildings and other land improvements.

Depreciation and amortization recognized consist of:

	Note	2023	2022	2021
Property and equipment		₱429,957	₱423,642	₱400,546
Computer software	9	8,194	8,194	8,187
		₱438,151	₱431,836	₱408,733

Details of depreciation and amortization are presented in the consolidated statements of income as follows:

	Note	2023	2022	2021
Cost of sales and services	16	₱403,916	₱399,361	₱379,078
General and administrative expenses	17	26,745	24,629	25,771
Selling expenses	17	7,490	7,846	3,884
		₱438,151	₱431,836	₱408,733

8. Investment Properties

Investment properties are held for rentals and capital appreciation. The details of this account follow:

	Note	Land	Buildings	Total
Balance as at August 31, 2021		₱656,651	₱15,446	₱672,097
Fair value gain (loss)	18	53,187	(3,638)	49,549
Balance as at August 31, 2022		709,838	11,808	721,646
Fair value gain	18	75,991	5,754	81,745
Balance as at August 31, 2023		₱785,829	₱17,562	₱803,391

The fair values of investment properties were based on the appraisal reports issued by qualified independent firm of appraisers engaged by management. The latest appraisal was conducted in March 2023.

The fair value of the land was computed using the Market Data Approach (Level 2). In this approach, the value of the land was based on sales and listings of comparable property registered within the vicinity.

The fair value of buildings was computed using the Cost Approach (Level 3). Under this approach, an estimate is made of the current cost of replacement of the buildings and other land improvements, in accordance with the prevailing market prices for materials, labor and overhead. Adjustments are then made to reflect depreciation resulting from physical deterioration, functional and economic obsolescence based on inspection by the appraiser of the buildings and other land improvements.

Other information related to investment properties is shown below:

	Note	2023	2022	2021
Rental income	18	₱4,021	₱6,346	₱6,130
Direct expenses (mainly real property taxes)		5,078	5,316	5,158

9. Other Noncurrent Assets

Details of this account are as follows:

	Note	2023	2022
Advances to suppliers, net of allowance for impairment loss		₱181,392	₱161,658
Cash surety bonds		22,964	22,277
Receivables from a government bank	6	3,427	7,741
Net retirement asset	20	2,098	–
Refundable deposits		2,017	1,932
Computer software, net of accumulated amortization		1,386	9,580
Others		7,043	7,091
		₱220,327	₱210,279

Advances to suppliers mainly pertain to amounts paid for the construction and installation of the Group's plant projects. These are noninterest-bearing and are expected to be settled throughout the progress of the projects. Allowance for impairment losses amounted to ₱38.00 million as at August 31, 2023 and 2022.

Cash surety bonds pertain to cash collateral for the labor cases against the Group (Note 23).

Refundable deposits represent advances held by lessors to cover any possible damage to the leased premises aside from ordinary wear and tear, and any unpaid obligation and liabilities of the Group at the end of the lease term.

Computer software includes cost of developing the accounting system of the Group. Accumulated amortization amounted to ₱39.27 million and ₱31.08 million as at August 31, 2023 and 2022, respectively. Amortization amounted to ₱8.19 million in 2023, 2022 and 2021 (Note 7).

Other noncurrent assets include investment in an associate amounting to ₱5.73 million, which is fully provided with allowance for impairment losses. The investment in an associate pertains to 30% equity interest in Victorias Industrial Gases Corporation (VIGASCO). VIGASCO was incorporated and registered with the SEC on November 19, 1992 primarily to engage in importing, exporting, buying and selling, of gases. VIGASCO ceased business operations effective since December 31, 2014.

10. Trade Payables and Other Current Liabilities

The account consists of:

	Note	2023	2022
Provision for third-party liabilities	22 b	₱468,851	₱–
Trade:			
Third parties		428,680	359,122
Related parties	21 a	2,065	2,199
Accrued expenses		242,586	156,946
Due to government agencies		112,011	9,815
Customers' deposits		66,936	39,797
Retention payable		64,957	43,333
Liens payable		35,169	28,725
Current portion of payable to claimants	23	30,492	30,492
Others		37,545	33,775
		₱1,489,292	₱704,204

In August 2023, the Group recognized a provision for third-party liabilities amounting to ₱468.85 million representing the 0.15 million lkg that was damaged during the fire incident (Note 22).

Trade payables are noninterest-bearing and are normally settled on a 30 to 90-days term.

Accrued expenses pertain to accruals for contracted services, trucking allowance, security services and other operating expenses, which are payable within one year.

Due to government agencies include accrued remittances for statutory taxes withheld, contributions, and feed-in-tariff (FIT) rate differential payable to various government agencies.

Customers' deposits represent payments received in advance by the Group for sale of sugar and molasses. These are recognized as revenue upon transfer of quedans for raw sugar, issuance of warehouse receipts for molasses, and approval of RSDO for refined sugar.

Retention payable represents amounts withheld from contract price for construction contracts which is equal to a certain percentage of the total contract price or a fixed amount depending on the contract. This becomes payable upon completion or performance of terms and conditions as stated in the contract.

Liens payable represent amounts payable to the Sugar Regulatory Authority based on the volume of sugar produced. These are payable within one year.

Payable to claimants pertains to the agreed compromise amount with the RSDO and RSQ claimants, payable beginning December 2019 over 10 years (Note 23).

Details of current and noncurrent portions of payable to claimants are as follows:

	2023	2022
Payable to claimants	₱182,955	₱213,447
Unamortized discount	(34,987)	(47,664)
	147,968	165,783
Current portion	(30,492)	(30,492)
Noncurrent portion	₱117,476	₱135,291

Interest incurred on payable to claimants, included under "Finance cost", amounted to ₱12.68 million, ₱14.20 million and ₱15.60 million in 2023, 2022 and 2021, respectively. Payable to claimants is discounted at a rate of 9.37%.

Other payables include among others, amounts pertaining to social amelioration fund set aside for the sugar workers, association dues payable to the different planters' associations accredited by the Group and due to government agencies.

Management considers that the carrying amount of trade payables and other current liabilities approximates fair value due to their short-term maturities.

11. Provisions for Legal Claims

The Parent Company is currently involved in various legal proceedings which are still pending resolution or under suspension in view of the Parent Company's rehabilitation status (Notes 1 and 23).

Estimates of probable costs resulting from the resolution of these claims have been developed in consultation with the Group's legal counsels handling the defense on these matters and are based upon an assessment of potential results. Based on the progress of the legal cases as at reporting date, management has revised its previous estimate resulting to additional provision for legal claims amounting to ₱12.98 million and ₱172.70 million in 2023 and 2022, respectively, as recommended by the Group's legal counsel and reversal/settlement of provisions of ₱44.49 million and ₱3.89 million in 2023 and 2021, respectively.

Movements in this account are as follows:

	Note	2023	2022	2021
Balance at beginning of year		₱513,769	₱322,858	₱310,866
Reversals/settlement		(44,493)	–	(3,888)
Unwinding of discount		30,810	18,208	15,880
Additions		12,979	172,703	–
Balance at end of year	23	₱513,065	₱513,769	₱322,858

Unwinding of discount on provisions for legal claims is included under "Finance cost".

The undiscounted amount and the related unamortized discount follow:

	2023	2022	2021
Provisions for legal claims, undiscounted	₱597,511	₱620,133	₱412,050
Unamortized discount	(84,446)	(106,364)	(89,192)
	₱513,065	₱513,769	₱322,858

On an annual basis, the provisions are re-evaluated and recalculated based on latest available information. The provisions were discounted at 7.19% to 7.39%, 5.98% to 7.12% and 5.60% to 6.61% as at August 31, 2023, 2022 and 2021, respectively.

12. Equity

Capital Stock / Treasury Stock

Details are as follows:

	2023		2022		2021	
	Number of Shares ^(a)	Amount	Number of Shares ^(a)	Amount	Number of Shares ^(a)	Amount
Common shares at ₱1 ^(a) par value per share						
Authorized, issued and outstanding	3,042,061,094	₱3,042,061	3,042,061,094	₱3,042,061	3,042,061,094	₱3,042,061
Treasury shares	(300,010,530)	(1,501,882)	(300,010,530)	(1,501,882)	(300,010,530)	(1,501,882)
	2,742,050,564	₱1,540,179	2,742,050,564	₱1,540,179	2,742,050,564	₱1,540,179

(a) At absolute amount

On February 18, 2016, the Parent Company acquired 300 million treasury shares at ₱5 per share or a total of ₱1.50 billion.

CN Awaiting Conversion

CN awaiting conversion includes accrued interest amounting to ₱2.5 million as at August 31, 2023 and 2022.

Retained Earnings

The Second Amendment to the Rehabilitation Plan, dated July 22, 1999 and approved by the SEC in its order dated August 17, 1999, provided for the reduction of the capital stock and revaluation increment to reduce the Parent Company's deficit pursuant to a quasi-reorganization.

Under paragraph 7 of the SEC's Guidelines for Quasi Reorganization, the Parent Company's retained earnings is restricted for dividend declaration to the extent of the amount of deficit reduced and not recovered by accumulated depreciation or appraisal increment by the appraisal surplus. However, the SEC Order dated August 17, 1999 granted the Parent Company exemption from the application of the said paragraph.

Retained earnings are restricted for the declaration and payments of dividends to the extent of the cost of treasury shares amounting to ₱1,501.88 million as at August 31, 2023 and 2022.

On December 7, 2021, the BOD approved the appropriation of the Parent Company's retained earnings amounting to ₱1.1 billion for the acquisition of a medium pressure boiler and construction of warehouse facilities. The projects were approved by the BOD and are expected to be completed in 2023.

On the same date, the BOD also approved the appropriation of the Parent Company's retained earnings amounting to ₱274.21 million for the declaration of regular cash dividends in the amount of ₱0.05 per share and special cash dividends in the amount of ₱0.05 per share. Both regular and special cash dividends will be paid to all common shareholders of record as at December 22, 2021 and was paid on January 18, 2022.

On August 31, 2022, the BOD approved the appropriation of Parent Company's retained earnings amounting to ₱310.00 million for the acquisition of 30MW steam turbine generator. This is expected to be completed in 2023.

On December 5, 2022 the BOD approved the issuance of cash dividends from the Parent Company's unrestricted retained earnings as at August 31, 2022 as follows: (a) ₱0.05 per share as regular dividends and (b) ₱0.02 per share as special dividends payable on January 27, 2023 to all shareholders of record as at January 3, 2023.

On the same date, the BOD also approved the following subject to the approval of the shareholders in a meeting duly called for such purpose: (a) increase in the Parent Company's authorized capital stock from 3,042,061,094 shares to 10,000,000,000 shares, (b) the issuance of stock dividends from the Parent Company's unrestricted retained earnings as at August 31, 2022 consisting of 2,742,050,564 new shares by way and in support of the abovementioned increase in capital stock; (c) and the amendment of the Parent Company's Articles of Incorporation to reflect the proposed increase in authorized capital stock.

The Parent Company has already filed its application for the increase in authorized capital stock and the amendment in its Articles of Incorporation with the SEC. As at the report date, SEC approval of the application is still pending.

Other Equity Reserves

Details and movements in this account follow:

	Note	2023	2022	2021
Revaluation increment on property, plant and equipment:				
Balance at beginning of year		₱255,103	₱280,426	₱269,672
Net increase	7	270,671	–	–
Deferred income tax effect		(58,053)	8,420	9,025
Transfer of revaluation increment to retained earnings		(38,456)	(33,743)	(36,174)
Effect of change in income tax rate		–	–	37,903
Balance at end of year		429,265	255,103	280,426
Cumulative remeasurement gains (losses) on retirement liability:	20			
Balance at beginning of year		9,272	1,452	(3,435)
Remeasurement gains (losses)		(1,446)	10,426	6,716
Deferred income tax effect		361	(2,606)	(1,679)
Effect of change in income tax rate		–	–	(150)
Balance at end of year		8,187	9,272	1,452
		₱437,452	₱264,375	₱281,878
Total other equity reserves attributable to:				
Shareholders of Parent Company		₱407,556	₱250,152	₱267,152
Noncontrolling interests		29,896	14,223	14,726
		₱437,452	₱264,375	₱281,878

13. Earnings per Share (EPS)

EPS is calculated as follows:

	2023	2022	2021
Net income attributable to the Parent Company	₱1,571,839	₱965,992	₱787,819
Weighted average number of common shares	2,742,050	2,742,050	2,742,050
Basic and Diluted EPS	₱0.57	₱0.35	₱0.29

The weighted average number of common shares includes the mandatory convertible shares arising from the Parent Company's DRA (Notes 1 and 12).

14. Operating Segment Information

Business segment information is required on the basis that is used internally for evaluating segment performance and deciding how to allocate resources in operating segment. The segment information is provided to the Chief Operating Decision Maker (CODM), as represented by the President, in making operating decisions with regard to the business segments. Accordingly, the segment information is reported based on the nature of goods and services provided by the Group.

Segment performance is evaluated based on operating profit or loss. A detailed description of each segment is set below.

Sugar Operations

Revenue from sugar operations consists of the following:

- sale of raw sugar and molasses (mill share)
- sale of refined sugar
- tolling service
- milling service

For its raw sugar and molasses operations, the Group operates a raw sugar mill with a daily capacity of 15,000 metric tons. Cane supply is sourced from both district and non-district planters with a sharing allocation of 70% for planters and 30% for the Parent Company effective September 1, 2020 (Note 22).

The Group also operates a refinery plant with a daily capacity of 25,000 lkg. (1 lkg = 50 kilograms).

Distillery Operations

The division produces alcohol and ethanol with an actual daily capacity of 50,000 liters with molasses as the primary raw material. Molasses is sourced from sugar operations which produces it as a by-product. In 2020, the division started producing rubbing alcohol using ethyl alcohol as primary raw material. In March 2022, an expansion was implemented that increased the daily production capacity to 120,000 liters.

Power Generation

The primary purpose is to carry on the business of power generation derived from renewable energy resources for wholesale of electricity to power companies, distribution utilities, electric cooperatives, retail electricity suppliers, aggregators and other customers. The Group has a registered powerplant capacity of 70MW as at August 31, 2023.

Other Operating Segments

Common revenues and expenses are allocated to the various business segments. All other segment revenues and expenses are directly attributable to the segments.

Other operations of the Group include food processing, real estate sales, leasing and entertainment.

Food processing is involved primarily to sell processed, preserved and packaged food products such as canned sardines and luncheon meat.

Real estate is involved in the development and sale of subdivision and memorial lots. Among its projects are Phase I to III of Canetown Subdivision and the St. Joseph Memorial Garden which are both located in Victorias City. These projects were initially intended to provide for the housing and personal needs of the officers and employees of the Group. In recent years, however, certain lots had also been made available to the general public.

Leasing derives income from the lease of certain parcels of land to planters.

Entertainment derives income from membership fees when billed and when corresponding services are rendered.

Segment Assets and Liabilities

Segment assets include all operating assets used by a segment and consist principally of operating cash, receivables, inventories, prepaid expenses, and property, plant and equipment, net of related allowance for impairment losses and accumulated depreciation and amortization. The carrying amount of certain assets used jointly by the various segments is allocated to the segments on a systematic basis. Segment liabilities include all operating liabilities and consist principally of trade payables, accruals, VAT and other taxes, and customers' deposits. Segment assets and liabilities do not include deferred income taxes.

The following tables regarding operating segments present assets and liabilities as at August 31, 2023 and 2022 and revenue, income and expenses information for the years ended August 31, 2023, 2022 and 2021.

	2023					Total
	Sugar Milling	Distillery Operations	Power Generation	Others	Elimination Items	
Revenue						
External sales	₱12,849,945	₱2,377,916	₱221,704	₱97,426	₱-	₱15,546,991
Inter-segment sales	111,800	-	4,000	38,266	(154,066)	-
	₱12,961,745	₱2,377,916	₱225,704	₱135,692	(154,066)	₱15,546,991
Segment results	₱2,141,480	₱734,661	₱93,684	₱41,088	(₱37,858)	₱2,973,055
Unallocated corporate expenses	(562,430)	(54,717)	(12,075)	(116,840)	100,110	(645,952)
Operating profit	1,579,050	679,944	81,609	(75,752)	62,252	2,327,103
Finance cost	(43,487)	-	-	-	-	(43,487)
Other income (charges) - net	(546,160)	-	-	34,292	(48,155)	(560,023)
Income tax benefit (expense)	(102,055)	(51,843)	(537)	1,514	-	(152,921)
Net income (loss)	₱887,348	₱628,101	₱81,072	(₱39,946)	₱14,097	₱1,570,672

	2022					Total
	Sugar Milling	Distillery Operations	Power Generation	Others	Elimination Items	
Revenue						
External sales	₱6,547,154	₱1,850,096	₱23,194	₱129,878	₱-	₱8,550,322
Inter-segment sales	39,500	105	3,820	7,295	(50,720)	-
	₱6,586,654	₱1,850,201	₱27,014	₱137,173	(50,720)	₱8,550,322
Segment results	₱1,018,661	₱535,915	₱23,368	₱35,717	₱5,305	₱1,618,966
Unallocated corporate expenses	(575,504)	(20,366)	(2,491)	(32,758)	8,973	(622,146)
Operating profit	443,157	515,549	20,877	2,959	14,278	996,820
Finance cost	(32,411)	-	-	-	-	(32,411)
Other income (charges) - net	120,081	-	8,858	10,806	(14,515)	125,230
Income tax benefit (expense)	(75,494)	(40,631)	(2,215)	(5,229)	-	(123,569)
Net income	₱455,333	₱474,918	₱27,520	₱8,536	(₱237)	₱966,070

	2021					Total
	Sugar Milling	Distillery Operations	Power Generation	Others	Elimination Items	
Revenue						
External sales	₱6,498,192	₱820,519	₱37,556	₱111,980	₱-	₱7,468,247
Inter-segment sales	22,144	-	4,705	3,522	(30,371)	-
	₱6,520,336	₱820,519	₱42,261	₱115,502	(₱30,371)	₱7,468,247
Segment results	₱891,296	₱204,710	₱30,656	₱29,832	(₱3,591)	₱1,152,903
Unallocated corporate expenses	(500,851)	(5,430)	(997)	(27,292)	4,728	(529,842)
Operating profit	390,445	199,280	29,659	2,540	1,137	623,061
Finance cost	(31,479)	-	-	-	-	(31,479)
Other income (charges) - net	254,184	-	-	16,415	(1,137)	269,462
Income tax expense	(88,309)	(9,915)	-	23,415	-	(74,809)
Net income	₱524,841	₱189,365	₱29,659	₱42,370	₱-	₱786,235

Amounts in Millions	Segment Assets		Segment Liabilities	
	2023	2022	2023	2022
Sugar milling	₱10,069	₱8,462	₱2,254	₱1,656
Power generation	2,031	1,629	–	–
Distillery operations	1,019	907	–	–
Others	1,667	678	1,291	347
Eliminations	(1,242)	(331)	(1,182)	(257)
	₱13,544	₱11,345	₱2,363	₱1,746

15. Revenue

Revenue consists of:

	2023	2022	2021
Sale of goods:			
Raw sugar	₱4,754,977	₱2,464,947	₱2,428,364
Refined sugar	4,064,162	1,905,924	1,799,473
Ethanol	2,372,003	1,801,816	702,416
Power	221,704	23,194	37,556
Molasses	221,679	24,436	343,333
Alcohol	5,913	48,279	118,103
Others	87,777	126,733	107,994
	11,728,215	6,395,329	5,537,239
Service income:			
Milling service	3,267,450	1,497,984	1,395,758
Tolling fees	541,678	653,862	531,263
Others	9,648	3,147	3,987
	3,818,776	2,154,993	1,931,008
	₱15,546,991	₱8,550,322	₱7,468,247

16. Cost of Sales and Services

Cost of sales and services consist of:

	Note	2023	2022	2021
Inventories used	5	₱10,722,255	₱5,268,360	₱4,865,988
Repairs and maintenance		415,828	384,007	301,825
Depreciation and amortization	7	403,916	399,361	379,078
Materials and supplies		237,513	284,354	228,840
Direct labor		204,846	195,851	195,011
Professional fees and contracted services		185,625	110,695	117,965
Fuel		173,183	108,818	90,919
Light and water		164,993	121,966	78,332
Taxes and licenses		40,884	39,504	39,757
Others		24,893	18,440	17,629
		₱12,573,936	₱6,931,356	₱6,315,344

Cost of hauling for the years ended August 31, 2023, 2022 and 2021 amounting to ₱1,690.18 million, ₱1,616.51 million and ₱1,410.24 million, respectively, is presented as deduction against milling revenue.

17. Operating Expenses

(a) General and Administrative Expenses

The account consists of:

	Note	2023	2022	2021
Taxes and licenses		₱147,746	₱111,766	₱109,318
Professional fees and contracted services		89,779	104,159	93,527
Salaries and employee benefits		89,484	86,722	85,548
Representation and entertainment		56,645	28,653	36,369
Depreciation and amortization	7	26,745	24,629	25,771
Provisions (reversals of allowance) for impairment losses on:				
Trade and other receivables	4	21,463	27,765	3,731
Input and advance output VAT		–	–	(55,204)
Travel and transportation		14,434	6,861	4,917
Net retirement benefits	20	10,611	12,472	13,217
Provision for inventory losses	5	9,238	12,030	22,036
Repairs and maintenance		6,907	3,685	3,305
Supplies		6,679	5,617	7,530
Others		30,318	48,588	22,930
		₱510,049	₱472,947	₱372,995

Others include rental, insurance premium, utilities, communication and other administrative costs.

In 2021, the Group reinstated the amount claimed for refund to advance output VAT as a result of the tax authority's findings. The Group further assessed that it can fully utilize its advance output VAT. Accordingly, in 2021, the Group reversed the allowance for probable losses of ₱55.20 million recognized in 2019.

(b) Selling Expenses

The account consists of:

	Note	2023	2022	2021
Freight and handling		₱68,448	₱97,743	₱97,082
Taxes and licenses		24,768	7,160	12,655
Rental		15,094	15,075	21,804
Depreciation and amortization	7	7,490	7,846	3,884
Salaries and employee benefits		6,659	6,873	7,887
Repairs and maintenance		3,045	4,603	2,099
Materials and supplies		1,359	2,392	2,112
Others		9,040	7,507	9,323
		₱135,903	₱149,199	₱156,846

18. Other Income (Charges)

This account consists of:

	Note	2023	2022	2021
Storage, handling and insurance fees		₱121,649	₱143,271	₱178,051
Interest income	2	85,470	4,130	1,998
Net gain on fair value changes of investment properties	8	81,745	49,549	42,066
Non-refundable upfront fee	22c	(62,500)	–	–
Provision for impairment loss on property, plant and equipment	7	(48,568)	–	–
Scrap sales		13,093	4,606	5,091
Net foreign exchange gain (loss)		(5,479)	18,233	1,332
Rental income	8	4,021	6,346	6,130
Gain on redemption of investments in UITF	3	3,536	14,211	6,140
Gain on Insurance claims	5	2,356	44,242	–
Unrealized gain (loss) on fair value changes of investments in UITF	3	(162)	(2,743)	606
Sale of bagasse		–	–	13,893
Others - net		(3,498)	16,088	10,267
		₱191,663	₱297,933	₱265,574

Storage, handling and insurance fees pertain to warehousing fees, trucking services and fuel costs which are charged to traders and planters.

Others include proceeds from grid testing, loss in relation to reversal of reversal of receivable from a government bank, miscellaneous fees and penalty charges collected from suppliers and other parties.

19. Income Tax

The reconciliation of income tax expense computed at the applicable statutory rate to the effective income tax expense.

	2023	2022	2021
Income before income tax	₱1,723,593	₱1,089,639	₱861,045
Income tax expense at statutory rate	427,374	273,116	217,105
Tax effects of:			
Income subject to income tax holiday	(224,531)	(174,379)	(103,262)
Effect of adoption of accounting standard for financial reporting	(28,254)	21,097	6,388
Interest income subject to final tax	(21,358)	(1,031)	(496)
Excess retirement fund contribution	(12,817)	–	–
Expired Net Operating Loss Carry Over (NOLCO) and Minimum Corporate Income Tax (MCIT)	–	28	812
Effect of change in income tax rate	–	–	(48,260)
Other nondeductible expenses	12,507	4,738	2,522
	₱152,921	₱123,569	₱74,809

Income subject to income tax holiday (ITH) pertains to the income from the sale of power and sale of bioethanol, which are activities registered with the Board of Investments (BOI). Both activities are entitled to ITH for a period of seven years until 2022 and 2025, respectively. On July 1, 2022, the BOI approved the registration of biomass cogeneration power plant with ITH entitlement for a period of seven years until 2029.

The composition of net deferred tax liabilities follows:

	2023	2022
Deferred income tax liabilities:		
Cumulative fair value gains on investment properties	₱301,375	₱280,887
Net appraisal increase on property, plant and equipment	257,357	201,303
Capitalized borrowing costs	35,834	38,121
Accrued rent income	11,745	–
Others	3,595	4,824
	609,906	525,135
Deferred income tax assets:		
Provisions for legal claims and payable to claimants	165,258	169,888
Provision for third-party liabilities	117,213	–
Allowance for impairment losses	104,732	35,194
Retirement liability	30,336	18,439
Customers' deposits and accrued expenses	15,476	9,448
Others	23,219	475
	456,234	233,444
	₱153,672	₱291,691

The Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act or RA No. 11534 was signed into law on March 26, 2021 and took effect on April 11, 2021 which reduced the corporate income tax rate from 30% to 25% starting July 1, 2020. In 2021, the change in effective tax rate resulted to a reduction in the current income tax expense by ₱4.39 million, increase in deferred income tax benefit by ₱39.95 million and increase in other comprehensive income by ₱37.75 million.

The composition of current income tax expense in 2021 is as follows:

Current income tax expense	₱124,575
Impact of change in income tax rate beginning July 1, 2020	(4,388)
	₱120,187

Details of carry forward benefits arising from NOLCO and excess MCIT over RCIT are as follows:

NOLCO

Year Incurred	Beginning Balance	Additions	Applied/ Expired	Ending Balance	Available Until
2020	₱401	₱–	₱–	₱401	2025
2021	240	–	–	240	2026
2023	–	10,729	–	10,729	2026
	₱641	₱10,729	₱–	₱11,370	

Under Revenue Regulations 25-2020, net operating loss incurred for taxable years 2020 to 2022 may be carried over for the next five consecutive taxable years immediately following the year of such loss.

MCIT

Year Incurred	Beginning Balance	Additions	Applied/ Expired	Ending Balance	Available Until
2020	₱34	₱-	₱34	₱-	2023
2021	21	-	-	21	2024
2022	49	-	-	49	2025
2023	-	787	-	787	2026
	₱104	₱787	₱34	₱857	

20. Retirement Plan

The Parent Company has a formal retirement plan covering all qualified employees. The Plan is a defined benefit plan registered with the Bureau of Internal Revenue (BIR) as a tax-qualified plan under Republic Act No. 4917, An Act Providing that Retirement Benefits of Employees of Private Firms shall not be subject to Attachment, Levy, Execution, or any Tax, whatsoever, as amended. The Parent Company estimates its retirement benefits under Republic Act No. 7641, *Retirement Pay Law*, in which retirement benefit due to a qualified employee is equivalent to 22.5 days-pay of final monthly basic salary for every year of credited service.

The Parent Company, through the retirement committee, has entered into a trust agreement with a trustee bank to manage and administer its plan assets. The plan assets are comprised of cash in bank and debt instruments.

Retirement benefit obligation is actuarially calculated using the projected unit credit method. The Parent Company's latest actuarial valuation was performed by independent actuary as at August 31, 2023.

Components of retirement benefits are as follows:

Note	2023	2022	2021
Current service cost	₱7,587	₱9,911	₱11,260
Interest cost	3,024	2,561	1,957
18	₱10,611	₱12,472	₱13,217

Retirement benefits recognized in profit or loss is included under general and administrative expenses in the consolidated statements of income.

Movements in the cumulative remeasurement gains (losses) on retirement liability recognized in other comprehensive income are as follows (Note 12):

	2023	2022	2021
Balance at beginning of year, net of tax effect	₱9,272	₱1,452	(₱3,435)
Remeasurement gain (loss)	(1,446)	10,426	6,716
Change in income tax rate	-	-	(150)
	7,826	11,878	3,131
Deferred income tax charged to other comprehensive income	361	(2,606)	(1,679)
Balance at end of year, net of tax effect	₱8,187	₱9,272	₱1,452

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

	2023	2022
Present value of defined benefit obligation	₱55,527	₱50,081
Fair value of plan asset	(57,625)	(2,356)
Retirement liability (asset)	(₱2,098)	₱47,725

Movements in the present value of retirement benefit obligation for the years ended August 31 are as follows:

	2023	2022
Balance at beginning of year	₱50,081	₱56,626
Current service cost	7,587	9,911
Benefits paid from:		
Plan asset	(5,874)	(8,615)
Operations	(880)	-
Interest cost	3,174	2,605
Remeasurement gain from:		
Changes in experience	2,874	(116)
Changes in financial assumptions	(1,435)	(10,330)
Balance at end of year	₱55,527	₱50,081

Changes in the fair value of plan asset are as follows:

	2023	2022
Balance at beginning of year	₱2,356	₱947
Actual contributions	61,000	10,000
Benefits paid	(5,874)	(8,615)
Interest income	150	44
Actual return	(7)	(20)
Balance at end of year	₱57,625	₱2,356

The Group expects to contribute ₱5.00 million to the plan in 2024.

The principal actuarial assumptions used were as follows:

	2023	2022
Discount rates	6.70%	6.4%
Salary increase rate	3.00%	2.0%-3.0%

The average remaining service life of employees as at August 31, 2023 and 2022 is 13 years.

The plan exposes the Group to the following risks:

- *Liquidity Risk* - The inability to meet benefit obligation payout when due.
- *Interest Rate Risk* - The present value of defined benefit obligation is relatively sensitive and inversely related to the discount rate. In particular, if the discount rate, which is referenced to government bonds, decreases then the defined benefit obligation increases.
- *Salary Risk* - The present value of defined benefit obligation is relatively sensitive and directly related to future salary increases. In particular, if the actual salary increases in the future are higher than expected then the defined benefit obligation and benefits are higher as well.
- *Market Risk* - As plan assets are invested in financial instruments, the retirement plan is exposed to potential losses due to unexpected changes in external markets, prices, or rates, related to general market movements or a specific asset on the plan assets.

The expected maturity analysis of undiscounted retirement benefit payments are as follows:

	2023	2022
0 to 5 years	₱42,398	₱36,044
6 to 10 years	41,901	47,281
11 to 15 years	38,044	31,380
16 years and up	352,897	279,765

	Change in Assumption	Impact on Retirement Liability	
		Increase in Assumption	Decrease in Assumption
2023			
Discount rate	1%	Decrease by ₱4,316	Increase by ₱5,074
Salary increase rate	1%	Increase by ₱5,217	Decrease by ₱4,501
2022			
Discount rate	1%	Decrease by ₱3,907	Increase by ₱4,574
Salary increase rate	1%	Increase by ₱4,689	Decrease by ₱3,977

The foregoing sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement liability recognized within the consolidated statements of financial position.

21. Related Party Transactions and Balances

Related party transactions are as follows:

August 31, 2023	Transactions for the Year	Outstanding Balance	Terms and Conditions
Shareholder with significant influence			
Sale of goods and services (Note 4)	₱564,437	₱23,244	Unguaranteed and unsecured; noninterest-bearing average credit period of 15 to 30 days
Purchase of goods, rental and other services (Note 10)	237,002	(2,065)	Unguaranteed and unsecured; noninterest-bearing normally settled on a 30 to 90-days term.
Cash in bank, money market placements and UITF investments		470,190	
Retirement fund held-in-trust		59,195	
		₱550,564	
Key management personnel			
Salaries and wages	₱22,381	₱-	
Retirement benefits	588	-	

August 31, 2022	Transactions for the Year	Outstanding Balance	Terms and Conditions
Shareholder with significant influence			
Sale of goods and services (Note 4)	₱647,913	₱107,435	Unguaranteed and unsecured; noninterest-bearing average credit period of 15 to 30 days
Purchase of goods, rental and other services (Note 10)	94,973	(2,199)	Unguaranteed and unsecured; noninterest-bearing normally settled on a 30 to 90-days term.
Cash in bank, money market placements and UITF investments		1,670,180	
Retirement fund held-in-trust		3,145	
		₱1,778,561	
Key management personnel			
Salaries and wages	₱17,687	₱-	
Retirement benefits	1,681	-	

Rental

The Parent Company and two subsidiaries, as lessors, entered into a non-cancellable operating lease agreement with another subsidiary for the lease of a parcel of land. The period of the lease covers a period of 25 years and is subject to renewal based on mutual agreement by the parties. Rent is paid annually, with an escalation rate of 3%. The impact of the inter-company transactions and its related balances and were eliminated as a result of the consolidation procedures of the Group.

22. Agreements and Commitments

The significant agreements are as follows:

- a. Under Republic Act No. 809, The Sugar Act of 1952, VMC and the planters should share from the sugar and molasses produced from sugar canes owned by the planters milled by VMC. Effective September 1, 2020, the sharing allocation is 70% for the planters and 30% for VMC.
- b. The Parent Company has in its custody sugar owned by several quedan and delivery order holders with volume of about 0.30 million lkg as at August 31, 2022. The said volume of sugar is not reflected in the consolidated statements of financial position since this is not owned by the Parent Company. The Parent Company is accountable to both quedan holders and sugar traders for the value of these trusted sugar or their sales proceeds.

In August 2023, the Group recognized a provision for third-party liabilities amounting to ₱468.85 million representing the 0.15 million lkg that was damaged during the fire incident (Note 10). The Group is insured for fire incidents including its property, plant and equipment, and inventories, and is currently reviewing the claim with the insurance companies.

- c. On September 1, 2022, the Parent Company entered into a Sale and Purchase Agreement (SPA) with Tanduy Distillers, Inc., Prior Holdings Inc. and Castelbridge Investment Corporation for the acquisition of 100% of the outstanding capital stock of Asian Alcohol Corporation (AAC), a manufacturer of rectified and denatured alcohol. Non-refundable upfront fee paid by the Group in 2023 amounted to ₱62.50 million (Note 18).

The Parent Company did not continue the acquisition of AAC pursuant to the SPA.

23. Provisions and Contingencies

The Group's management and legal counsels are of the opinion that the positions taken by the Group in the legal proceedings briefly discussed below are highly meritorious. However, the Group cannot anticipate with certainty the progress and the outcome of the legal proceedings, the appreciation of the available evidence by the relevant courts or tribunals involved and the development of jurisprudence or precedents that will be decided by the highest court, which will be relevant to the pending cases.

- a. RSDO and RSQ Claims

NONEMARCO availed of bank loans and used RSDO and RSQ, allegedly issued by VMC, as security. NONEMARCO defaulted payments on these loans. Consequently, the creditor banks filed collection cases aggregating ₱1.19 billion against NONEMARCO.

VMC denied liability to creditor banks on the RSDO and RSQ claims because these claims lacked factual or legal basis and that these were issued by officers of NONEMARCO who acted fraudulently.

In 2015 and 2016, the SEC Special Hearing Panel ("SHP") ordered VMC to settle the claims of certain claimant banks. VMC appealed the relevant orders of the SHP to the SEC En Banc, but were denied. In 2017, VMC filed separate Petitions for Review with Prayer for Preliminary Injunction and Temporary Restraining Order ("Petitions for Review") before the Court of Appeals (CA) relating to the decisions of the SEC En Banc. On October 13, 2017, the CA granted the Petitions for Review and set aside the SEC En Banc decisions.

VMC continues to contest the claims, but in order to achieve the objectives of the rehabilitation, to buy peace, promote stability in its operations, and avoid further protracted litigation, VMC filed a Motion for the Alteration or Modification of its Plan ("Motion for Alteration") on April 17, 2018 with respect to the RSDO and RSQ claims. The concerned parties interposed no objection to, agreed with, and supported the Motion for Alteration. On December 3, 2018, the SEC granted the Motion for Alteration and approved the (i) alteration or amendment of the Plan and DRA; and (ii) payment to the RSDO and RSQ claimants a total compromise amount of ₱304.92 million as full settlement of their claims payable beginning December 2019 over a period of 10 years. Accordingly, a portion of the provision for RSDO and RSQ claims was reversed in 2018 amounting to ₱876.23 million.

The current portion of the claims amounted to ₱30.49 million as at August 31, 2023 and 2022. The noncurrent portion amounted to ₱117.48 million and ₱135.29 million as at August 31, 2023 and 2022, respectively (Note 10).

- b. Labor, Civil and Other Cases

There are various lawsuits and claims such as labor and collection cases filed by third parties against VMC. Relative to this, VMC is required to put up surety bonds (Note 9). On December 3, 2018, the SEC SHP issued an order directing VMC to validate other pending claims of the third parties. VMC continues to monitor these claims and has recognized provisions accordingly (Note 11).

VMC also has legal actions against third parties in the ordinary course of business.

- c. Proceeding with the Pollution Adjudication Board (PAB)

VMC has a proceeding with the PAB on non-compliance with water and air standards. To comply with the order of the Department of Energy and Natural Resources, VMC acquired, constructed and installed air and water pollution control devices amounting to about ₱350 million. VMC submitted a number of pleadings to the PAB to prevent a re-imposition of the Cease and Desist Order on which the PAB issued temporary lifting orders (TLO). VMC also filed Position Papers, praying for the reduction of fines imposed by the PAB.

On June 19, 2017, VMC filed a Motion for issuance of Formal Lifting Order before the PAB, which was denied on April 19, 2018. On May 17, 2018, VMC filed a Motion for Reconsideration and Clarification, stating that the denial of the request for Formal Lifting Order was prematurely issued. On December 11, 2019, the PAB issued the Formal Lifting Order.

Provisions for legal claims amounted to ₱513.07 million and ₱513.77 million as at August 31, 2023 and 2022, respectively (Note 11). Management believes that the provisions for legal claims are reasonable and adequate to cover for potential losses from these legal cases.

24. Significant Accounting Judgments and Estimates

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. Estimates, assumptions and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates, assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical Accounting Judgments

a. Recognizing Revenue from Milling Services (Note 15)

Under Republic Act No. 809, *The Sugar Act of 1952*, VMC and the planters should share from the sugar and molasses produced from sugar canes owned by the planters milled by VMC (the Output Sharing Arrangement). Effective September 1, 2020, the sharing allocation is 70% for the planters and 30% for VMC.

The Group assessed that beginning September 1, 2019 its Output Sharing Arrangement with the planters constitute a milling service, which is a separate performance obligation. The Group recognizes the milling revenue and inventories received based on the fair value of the mill share estimated at the average raw sugar and molasses selling prices in the week of production.

b. Determining the Operating Segments (Note 14)

Determination of operating segments is based on the information about components of the Group that management uses to make decisions about the operating matters. Operating segments use internal reports that are regularly reviewed by the Parent Company's chief operating decision maker in order to allocate resources to the segment and assess its performance. The Parent 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) its assets are 10% or more of the combined assets of all operating segments.

The Group determined that its operating segments are organized and managed separately based on the nature of the business segment, with each business representing a strategic business segment.

c. Determining the Classification of Financial Instruments (Note 25)

Classification of financial instruments depends on the results of the business model test and "sole payment of principal and interest" (SPPI) test performed by the Group. The Group exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives.

d. Recoverability of Deferred Tax Assets (Note 19)

The Group reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable profits together with future tax planning strategies. However, there is no assurance that the Group will utilize all or part of the deferred tax assets. Any deferred tax asset will be remeasured if it might result to derecognition in cases where the expected tax law to be enacted will impose a possible risk on its realization.

e. Distinction between Investment Properties and Owner-occupied Properties (Notes 7 and 8)

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to property but also to the other assets used in the production or supply process.

Some properties comprise a portion that is either held to earn rentals or for capital appreciation and another portion is held for use in the production or supply of goods or services or for administrative purposes. If these portions cannot be sold separately as at reporting date, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

Critical Accounting Estimates

a. Estimating the NRV of Inventories (Note 5)

In estimating NRV of inventories, management takes into account the most reliable evidence available at the time the estimates are made. The Group's business is subject to changes which may cause inventory obsolescence and the nature of the Group's inventories is susceptible to physical deterioration, damage, breakage and technological changes. Moreover, future realization of the carrying amounts of inventories is affected by price changes in the market. These aspects are considered key sources of estimation uncertainty and may cause significant adjustments to the Group's inventories within the next financial year.

b. Allocation of Cost to Inventory Products (Note 5)

Management uses judgment to measure and allocate cost to its inventory products. When the costs of conversion of each product are not separately identifiable, these are allocated among the products on a rational and consistent basis.

c. Accounting for Loss arising from the Fire Incident (Notes 5, 10 and 22)

As a result of the fire incident on August 27, 2023, management recognized a liability to the holders of quedan and delivery orders equivalent to the fair value or selling price of the trusteed sugar as at reporting date (Note 10).

In estimating the salvaged raw sugar arising from the fire incident, management takes into consideration, the most reliable evidence available at the time of the estimate.

The recoverable amount of the salvaged raw sugar is the amount of fair value less estimated cost of rework. Fair value is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable and willing parties. Cost of rework pertains to the costs that will be incurred in order to reprocess the salvaged inventories into salable inventories.

d. Assessing the Impairment of Financial Assets (Notes 2, 3, 4, 6 and 9)

Impairment losses on financial assets are determined based on expected credit losses (ECL). In assessing the ECL, the Group uses historical loss experience adjusted for forward-looking factors, as appropriate.

The Group's cash and cash equivalents are maintained at reputable financial institutions with good industry rating and score.

For investments in UITF, receivable from a government bank, performance bond, cash surety bonds, and refundable deposits, the Group estimates impairment based on 12-month ECL. Investments in UITF, receivable from a government bank, performance bond, cash surety bonds, and refundable deposits, which have credit quality equivalent to "high grade" and have low credit risk at reporting date, are presumed to have no significant increase in credit risk since initial recognition.

The Group estimates impairment on trade receivables based on lifetime expected credit loss using a provision matrix that is based on days past due and takes into consideration historical credit loss experience, adjusted for forward-looking factors, as applicable. Management recognizes losses on credit-impaired receivables from related parties considering its ability to pay based on its available assets.

For other receivables, the impairment loss is based on 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

e. Assessing the Impairment of Non-financial Assets (Notes 6, 7, 8 and 9)

The Group assesses impairment on its non-financial assets when events or changes in circumstances indicate that the carrying amount may not be recoverable. If any such indication exists, and if the carrying amount exceeds the estimated recoverable amount, the assets or cash-generating units (CGU) are written down to their recoverable amounts. The recoverable amount of the asset is the greater of fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less costs of disposal. Value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

f. Estimating the Useful Lives of Property, Plant and Equipment (Note 7)

The Group estimates useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use. The Group reviews regularly the estimated useful lives of property, plant and equipment based on factors that include asset utilization, internal technical evaluation, technological changes, environmental and anticipated use of the assets tempered by related industry benchmark information.

It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in factors mentioned. A reduction in the estimated useful lives of property, plant and equipment would increase depreciation and amortization and decrease noncurrent assets.

There are no changes in the estimated useful lives of property, plant and equipment in 2023 and 2022.

g. Determining the Fair Value of Financial Assets (Note 3)

Certain financial assets are carried at fair value. When the fair values of financial assets recorded in the consolidated statements of financial position cannot be measured based on quoted prices in active market, their fair value is measured using valuation techniques including the Discounted Cash Flow model. The inputs to this model are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. Judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

h. Determining the Fair Value of Non-financial Assets (Notes 7 and 8)

The fair values of the Group's property, plant and equipment and investment properties are determined from market-based evidence by appraisal that was undertaken by an independent firm of appraisers in calculating such amounts. While management believes that the assumptions and market-based evidences used are reasonable and appropriate, significant differences in actual experience or significant changes in the assumptions may materially affect the valuation of the Group's property, plant and equipment and investment properties.

Since several factors are considered in the estimation fair values of property, plant and equipment and investment properties, the Group has deemed it impracticable to perform a reasonable sensitivity analysis.

i. Determination of Retirement Liability (Note 20)

The determination of the cost of retirement benefits and related retirement liability is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. The assumptions, which include among others, discount rate and rate of salary increase are described in Note 20.

Actual results that differ from the assumptions are accumulated and are recognized as part of other comprehensive income. While management believes that the assumptions are reasonable and appropriate, significant differences in the Group's actual experience of significant changes in the assumptions may materially affect the retirement liability.

j. Estimating the Provisions and Contingencies (Notes 11, 22 and 23)

The Group is currently involved in various legal proceedings (Note 23) which are still pending resolution or under suspension in view of the Group's rehabilitations status and contractual obligations (Note 22). Estimates of probable costs resulting from the resolution of these claims and contractual obligations have been developed in consultation with the legal counsels handling the defense in these matters and are based upon an analysis of potential results.

The Group discounts its provisions over the period such provisions are expected to be settled. The discount rate used by the Group is a government bond rate which is a pretax rate that reflects current market assessments of the time value of money and those risks specific to the liability that have not been reflected in the best estimate of the expenditure. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

Since several factors are considered in the estimation of provision for legal claims, the Group has deemed it impracticable to perform a reasonable sensitivity analysis. The future results of operations could be materially affected by changes in the estimates or in the effectiveness of the Group's strategies relating to the foregoing proceedings.

25. Risk Management, Objectives and Policies

Regulatory Risk

The Group is subject to laws and regulations in the Philippines in which it operates.

The Group has established policies and procedures in compliance with local and other laws. Management performs regular reviews to identify compliance risks and to ensure that the systems in place are adequate to manage those risks.

Financial Risk Management

The Group's activities expose it to a variety of financial risks: credit risk, market risk (including price risk and cash flow and fair value interest rate risk) and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

The BOD of the Parent Company has overall responsibility for the establishment and oversight of the Group's risk management framework. Moreover, market and credit risk management are carried out by the Group's Treasury department. The objective is to minimize potential adverse effects on its financial performance due to unpredictability of financial markets.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group.

The Group trades only with recognized and creditworthy third parties. All customers who wish to transact on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis. The amounts presented in the consolidated statements of financial position are net of allowances for impairment losses on receivables, estimated by the Group's management based on prior experience and their assessment of the prevailing economic environment at any given time.

The Group uses a provision matrix to calculate ECL for receivables. The provision rates are based on days past due for each type of customers. The Group adjusts historical default rates to forward-looking default rate by determining the closely related economic factor affecting each year. At each reporting date, the observed historical default rates are updated and changes in the forward-looking estimates are analyzed.

Receivables for which an impairment provision was recognized were written off against the provision when there was no expectation of recovering additional cash.

For the Group's other financial instruments measured at amortized cost, it is the Group's policy to measure ECL on the foregoing instruments on a 12-month basis. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

When determining if there has been a significant increase in credit risk, the Group considers reasonable and supportable information that is available without undue cost or effort and that is relevant for the particular financial instrument being assessed, as discussed in Note 25 to the consolidated financial statements.

As at August 31, 2023 and 2022, the Group's maximum credit exposure is equal to the carrying values of the following financial assets:

	2023	2022
Cash and cash equivalents ⁽¹⁾	₱2,712,310	₱2,470,385
Investments in UITF	6,598	154,976
Trade and other receivables ⁽²⁾	541,591	488,001
Receivable from a government bank	45,643	49,149
Performance bond	37,500	–
Cash surety bonds	22,964	22,277
Refundable deposits ⁽³⁾	3,503	1,932
	₱3,370,109	₱3,186,720

(1) excluding cash on hand

(2) excluding advances to officers and employees included under other receivables; net of allowance for impairment losses

(3) including refundable deposits presented under "Others" in Other Current Assets

At the reporting date, there were no significant concentrations of credit risk as the Group's financial assets are actively monitored.

The table below presents the summary of the Group's exposure to credit risk and shows the credit quality of the assets by indicating whether the assets are subjected to 12-month ECL or lifetime ECL as at August 31, 2023 and 2022.

	2023				Total
	12-month ECL – Not Impaired	12-month ECL – Credit Impaired	Lifetime ECL – Not Impaired	Lifetime ECL – Credit Impaired	
Financial assets at amortized cost					
Cash and cash equivalents	₱2,712,310	₱–	₱–	₱–	₱2,712,310
Trade receivables:					
Third parties	482,634	–	20,194	50,058	552,886
Related parties	23,244	–	–	–	23,244
Other receivables ⁽¹⁾	7,104	–	8,415	10,193	25,712
Receivable from a government bank	45,643	–	–	–	45,643
Performance bond	37,500	–	–	–	37,500
Cash surety bonds	22,964	–	–	–	22,964
Refundable deposits ⁽²⁾	3,503	–	–	–	3,503
Financial assets at FVPL					
Investments in UITF	6,598	–	–	–	6,598
	₱3,341,500	₱–	₱28,609	₱60,251	₱3,430,360

(1) Excluding advances to officers and employees amounting to ₱2,380

(2) Including refundable deposits presented under "Others" in Other Current Assets amounting to ₱1,486

	2022				Total
	12-month ECL – Not Impaired	12-month ECL – Credit Impaired	Lifetime ECL – Not Impaired	Lifetime ECL – Credit Impaired	
Financial assets at amortized cost					
Cash and cash equivalents	₱2,470,385	₱–	₱–	₱–	₱2,470,385
Trade receivables:					
Third parties	353,315	–	12,181	49,415	414,911
Related parties	107,435	–	–	–	107,435
Other receivables ⁽¹⁾	6,454	–	8,616	10,193	25,263
Refundable deposits ⁽²⁾	2,432	–	–	–	2,432
Receivable from a government bank	49,149	–	–	–	49,149
Cash surety bonds	22,277	–	–	–	22,277
Financial assets at FVPL					
Investments in UITF	154,976	–	–	–	154,976
	₱3,166,423	₱–	₱20,797	₱59,608	₱3,246,828

(1) Excluding advances to officers and employees amounting to ₱3,688

(2) Including refundable deposits presented under "Others" in Other Current Assets amounting to ₱500

Information on the Group's other current receivables that are impaired as at August 31, 2023 and 2022 and the movements of the allowance for impairment losses are disclosed in Note 4 to the consolidated financial statements.

Liquidity Risk

Liquidity risk is the risk of not meeting obligations as they become due because of an inability to liquidate assets or obtain adequate funding. The Group monitors and maintains a level of cash deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following tables summarize the maturity profile of the Group's financial assets and financial liabilities as at August 31, 2023 and 2022 based on contractual undiscounted payments:

	2023			Total
	On Demand	Within One Year	More than One Year	
Financial Assets				
Cash and cash equivalents	₱2,729,542	₱–	₱–	₱2,729,542
Investments in UITF	6,598	–	–	6,598
Trade receivables:				
Third parties ⁽¹⁾	19,906	482,922	–	502,828
Related parties	–	23,244	–	23,244
Others ⁽¹⁾	506	15,013	–	15,519
Receivable from a government bank	–	42,216	3,427	45,643
Performance bond	–	37,500	–	37,500
Refundable deposits	–	1,486	2,017	3,503
Cash surety bonds	–	–	22,964	22,964
	2,756,552	602,381	28,408	3,387,341
Financial Liabilities				
Trade and other current liabilities:				
Third parties ⁽²⁾	1,242,619	–	–	1,242,619
Related parties	2,065	–	–	2,065
Payable to claimants	–	30,492	152,463	182,955
	1,244,684	30,492	152,463	1,427,639
	₱1,511,868	₱571,889	(₱124,055)	₱1,959,702

(1) net of allowance for impairment losses

(2) excluding customers' deposits, liens payable and due to government agencies

	2022			Total
	On Demand	Within One Year	More than One Year	
Financial Assets				
Cash and cash equivalents	₱2,472,802	₱–	₱–	₱2,472,802
Investments in UITF	154,976	–	–	154,976
Trade receivables:				
Third parties ⁽¹⁾	183,826	181,670	–	365,496
Related parties	–	107,435	–	107,435
Others ⁽¹⁾	4,822	9,993	–	14,815
Receivable from a government bank	–	41,408	7,741	49,149
Refundable deposits	–	500	1,932	2,432
Cash surety bonds	–	–	22,277	22,277
	2,816,426	341,006	9,673	3,167,105
Financial Liabilities				
Trade and other current liabilities				
Third parties ⁽²⁾	593,177	–	–	593,177
Related parties	2,199	–	–	2,199
Payable to claimants	–	30,492	135,291	165,783
	595,376	30,492	182,952	761,159
	₱2,221,305	₱332,791	(₱173,279)	₱2,380,817

(1) net of allowance for impairment losses

(2) excluding customers' deposits, liens payable and due to government agencies

Market Risk

Market risk is the risk that the fair value of financial instruments of the Group from fluctuation in market interest rates (interest rate risk), price with respect to sugar (price risk), foreign exchange rates (foreign currency risk) and equity price (equity price risk), whether such change in prices is caused by factors specific to the individual instruments or its issuer, or factors affecting all instruments traded in the market.

a. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Group's exposure to interest rate risk is limited only to holdings of investments in UITF classified as financial assets at fair value through profit or loss (FVPL) (Note 3). The underlying pool of assets for these UITF is consist however, of short-term money market instruments which are not exposed to significant interest rate risks.

b. Foreign Currency Risk

Foreign exchange risk is the risk that the fair value or future cash flows of financial instruments will fluctuate because of changes in foreign exchange rates. It arises on financial instruments that are denominated in a foreign currency other than the functional currency.

The Group's exposure to foreign currency risk is very minimal and is limited only to its bank deposits (included in cash and cash equivalents):

	August 31, 2023	August 31, 2022
US Dollar	\$219	\$2,290
Japanese Yen	¥119	¥216,034

Accordingly, no sensitivity analysis is deemed necessary.

Fair Value of Financial Assets and Liabilities

The carrying values of cash and cash equivalents, trade and other receivables and trade and other current payables approximate their fair values due to the short-term maturity of these instruments.

The carrying value of long-term debt approximates its fair value and is calculated by discounting the expected future cash outflows at prevailing effective interest rate.

26. Capital Management

Capital is managed to ensure that the Group will continue as a going concern while maximizing the return on the investments of shareholders. For this purpose, capital is defined as total equity attributable to the shareholders of Parent Company as presented in the consolidated statements of financial position.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE has required a minimum of 10% of the listed companies' issued and outstanding shares, exclusive of any treasury shares, to be held by the public. The Group is compliant with respect to this requirement.

The Group is governed by the Plan as submitted and approved by the SEC. The details of these plans or programs are disclosed in Note 1.

The debt to asset ratio of the Group as at August 31, 2023 and 2022, which has been within the Group's acceptable range as set by the BOD, is calculated as follows:

	2023	2022
Total liabilities	₱2,363,375	₱1,745,506
Total assets	13,543,683	11,344,992
	0.17:1	0.15:1

27. Summary of Significant Accounting Policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC) issued by the Philippine Financial and Sustainability Reporting Standards Council (formerly Financial and Reporting Standards Council) and adopted by the SEC, including the SEC provisions.

The consolidated financial statements have been prepared under the historical cost convention, as modified by revaluation of investments in UITF, revaluation of certain property, plant and equipment and investment properties.

The preparation of consolidated financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgment in the process of applying the Group's accounting policies. The areas involving higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 24.

Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries.

VQPC has ceased operations and liquidated its assets since June 2012 as approved by the BOD. As at reporting date, VQPC has no assets and is only waiting for final clearances from the government agencies.

On April 13, 2016, the Group incorporated VGEC, a wholly-owned subsidiary. Its primary purpose is to carry on the business of power generation derived from renewable energy resources for wholesale of electricity to power companies, distribution utilities, electric cooperatives, retail electricity suppliers, aggregators and other customers. VGEC is yet to commence operations as at August 31, 2023.

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Group's voting rights relative to the size and dispersion of holdings of other shareholders give the Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. These are de-consolidated from the date that control ceases.

The Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any noncontrolling interest in the acquiree either at fair value or at the noncontrolling interest's proportionate share of the acquiree's identifiable net assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PFRS 9 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any noncontrolling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, noncontrolling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) *Transactions with Noncontrolling Interests*

Transactions with noncontrolling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from noncontrolling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to noncontrolling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Company are reported in consolidated equity as noncontrolling interests. Profits or losses attributable to noncontrolling interests are reported in the consolidated statements of income as net income (loss) attributable to noncontrolling interests.

Noncontrolling interests represent the interest not held by the Parent Company in CDC, VGCCI and VQPC in 2023, 2022 and 2021 (Note 1).

Changes in Accounting Policies

Adoption of Amended Standards and Framework

The FRSC approved the adoption of a number of amended standards and framework as part of PFRS.

The Company adopted the amended PFRS effective September 1, 2022:

- Property, Plant and Equipment - Proceeds Before Intended Use (Amendments to PAS 16, *Property, Plant and Equipment*). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the consolidated statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the consolidated statements of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the consolidated financial statements in which the company first applies the amendments.

- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract – i.e. it comprise both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS Standards 2018 to 2020 Cycle contain changes to four standards, of which the following are applicable to the Company:
 - Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). This amendment clarifies that for the purpose of performing the '10 per cent test' for derecognition of financial liabilities, in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
 - Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16). The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

The adoption of the foregoing amended standards and framework did not have a material effect on the consolidated financial statements of the Group. Additional disclosures were included in the consolidated financial statements, as necessary.

Amendments to PFRS in Issue but Not Yet Effective or Adopted

Relevant amendments to PFRS, which are not yet effective and have not been applied in preparing the consolidated financial statements, are summarized below.

Effective for annual periods beginning on or after September 1, 2023:

- Amendments to PAS 1 and PFRS Practice Statement 2, *Making Materiality Judgments - Disclosure Initiative - Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2 is amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.
- Amendments to PAS 12, *Income Taxes - Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments should be applied on a modified retrospective basis. Earlier application is permitted.

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

Revenue Recognition

Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Group perform its obligations; (b) the Group’s performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Group’s performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Group also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Group has assessed that it acts as a principal in all of its revenue sources.

The following specific recognition criteria must also be met before revenue is recognized.

Milling Service Revenues. Revenue is recognized upon conversion of the planters’ canes into raw sugar and molasses based on the fair value of the mill share at the average raw sugar and molasses selling prices in the week of production.

The Group provides subsidies to planters for hauling cost of sugar cane transported to the mill site. The consideration payable to the planters is accounted for as a reduction against milling service revenues unless the payment to the planters is in exchange for a distinct good or service that the planters transfer to the Group.

Sale of Raw Sugar. Revenue is recognized upon surrendering of quedans and issuance of sugar release order which represents ownership title over the raw sugar.

Sale of Refined Sugar. Revenue is recognized upon approval and release of refined sugar delivery order.

Sale of Ethanol and Alcohol. Revenue is recognized upon delivery of ethanol and alcohol inventories to customers.

Sale of Power. Revenue from sale of power is recognized on the period the electricity is provided to the Wholesale Electricity Spot Market (WESM).

Sale of Molasses. Revenue is recognized upon transfer of molasses warehouse receipts which represents ownership title over the molasses inventories.

Sale of Canned Goods and Processed Meat. Revenue is recognized when the products are delivered to the customer.

Tolling Revenues. Revenue is recognized when the tolling services have been rendered.

Real Estate Sales and Internment Services. Revenue from real estate is recognized using full accrual method upon reaching 20% collection of net contract price.

Internment services is recognized when the services were already performed to clients who have acquired the said services. The services include fabrication of internment vault, marker services, fees for funeral mass, and other related services.

Interest Income. Interest is recognized as interest accrues, taking into account the effective yield of the asset, net of final tax.

Rental Income. Income is recognized on a straight-line basis over the lease term.

Other Income. Other income such as income from storage, handling and insurance fees, scrap sales, and gains from disposal is recorded when earned.

Cost and Expense Recognition

Costs and expenses are recognized in the Group’s consolidated statements of income when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

Cost of sales and services includes the direct and allocated indirect costs which are incurred upon processing of the Group’s products and rendering of its tolling services. These are recognized when the related goods are sold or the related services are rendered.

Operating and selling expenses are recognized by the Group when incurred. These are the expenses which are not directly related to the cost of sales and services of the Group.

Financial Instruments

Recognition and Initial Measurement. 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.

The Group recognizes a financial asset or a financial liability in the consolidated statements of financial position when it becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is initially measured at the fair value of the consideration given or received. The initial measurement of financial instruments, except for those designated as FVPL, includes transaction costs.

Financial Assets and Liabilities

Date of Recognition. The Group recognizes a financial asset or liability in the consolidated statements of financial position when the Group becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those measured or designated at FVPL, includes transaction cost.

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

Financial Assets

Classification. The Group classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). The classification of a financial instrument largely depends on the Group’s business model and its contractual cash flow characteristics.

As at August 31, 2023 and 2022, the Group has no financial assets classified and measured at FVOCI.

Financial Assets at Amortized Cost. A financial asset should be measured at amortized cost if both of the following conditions are met:

- the financial asset is held within a business model whose objective is 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.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized, impaired and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

The Group classifies its cash and cash equivalents, trade and other receivables excluding advances to officers and employees included under other receivables; net of allowance for impairment losses, receivable from a government bank, performance bond, cash surety bonds and refundable deposits under this category.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated at FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting date, with any fair value gains or losses recognized in profit or loss to the extent these are not part of a designated hedging relationship.

This category includes investments in UITF.

Financial Liabilities

Classification. The Group classifies its financial liabilities at initial recognition as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Group’s business model and its contractual cash flow characteristics.

The Group does not have financial instruments classified as financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost unless either the financial liability is held for trading and is therefore required to be measured at FVPL or the entity elects to measure the liability at FVPL. Financial liabilities are recognized when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments. These financial liabilities are initially recognized at fair value less any directly attributable transaction costs.

After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

The Group classifies its trade and other current liabilities (excluding provisions for third-party liabilities, due to government agencies, customers' deposit and liens payable), and payable to claimants under this category.

Reclassification

The Group reclassifies its financial assets when, and only when, the Group changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

Impairment of Financial Assets

The Group assesses at the end of each reporting year whether a financial asset or a group of financial assets is impaired.

The Group recognizes impairment loss based on ECL, which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the simplified approach and has calculated ECL based on the lifetime expected credit losses. The Group 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.

For other financial assets at amortized cost, which comprise cash equivalents (excluding cash on hand), investments in UITF, other receivables (excluding advances to officers and employees), receivable from a government bank, performance bond, cash surety bonds and refundable deposits, ECL is based on 12-month ECL, which pertains to the portion of lifetime ECL that result from default events on a financial instrument that are possible within 12 months after the reporting date.

Derecognition of Financial Assets and Liabilities

A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized by the Group when:

- The rights to receive cash flows from the asset has expired; or
- The Group 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
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and benefits of the asset, or (b) has neither transferred nor retained substantially all the risks and benefits of the asset, but has transferred control over the asset.

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

A financial liability is derecognized when the obligation under the liability is discharged, 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 profit or loss.

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 Group 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 profit or loss.

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.

Offsetting of Financial Assets and Liabilities

Financial assets and liabilities are offset and the net amount reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability 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.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Inventories

Inventories are valued at the lower of cost and net realizable value (NRV). Net realizable value is the estimated selling price less the costs to sell.

Inventories are accounted for as follows:

Refined Sugar, Alcohol and Ethanol. Determined using weighted average method. This includes the cost of production and related direct labor and overhead cost incurred in the conversion of sugar cane to different outputs. Production costs are allocated to inventories based on a rational and consistent basis.

Processed Food. This includes direct materials, labor and a proportion of manufacturing overhead costs based on normal operating capacity. The cost is determined using the specific identification method.

Real Estate Held-for-sale. Real estate held for sale is carried at the lower of cost or NRV. The cost includes acquisition and development costs of the real estate property plus other costs and expenses incurred incidental to the development of the property. Cost is further reduced by any provision for write-down. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost to complete and the estimated cost necessary to make the sale.

Work-in-process. Cost consists of allocated costs of production, direct labor and overhead cost. The cost is determined using cost allocation based on the production phase of the product.

Materials and Supplies. This includes the purchase cost and other directly attributable costs determined based on their original purchase price. The cost is determined using weighted average method.

Raw Sugar and Molasses. Determined using weighted average method. Beginning September 1, 2019, cost of raw sugar and molasses consist of milling service consideration valued at fair value at the time of production and costs of purchases from third parties. Prior to September 1, 2019, cost of raw sugar and molasses consists of costs of production, direct labor and overhead cost and costs purchases from third parties.

Real estate held for sale is derecognized when sold or written-off. When real estate under development is sold, the carrying amount of the asset is recognized as an expense in the period in which the related revenue is recognized.

For raw and refined sugar, alcohol, ethanol, molasses, work-in-process and real estate held-for-sale, NRV is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. For materials and supplies, the NRV is the current replacement cost.

The excess of cost over the net realizable value is recognized as write-down in profit or loss. Reversals of previously recorded write-downs are credited to profit or loss based on the result of management's update assessment, considering the available facts and circumstances, including but not limited to net realizable value at the time of disposal. An allowance for inventory write-down and obsolescence is also provided for slow-moving, obsolete and defective inventories based on management's physical inspection and evaluation. When inventories are sold, the cost and related allowance is removed from the account and the difference is charged against operations.

Inventories are derecognized when these are sold. The carrying amount of those inventories is recognized as cost of sales and services in profit or loss in the year in which the related sale is recognized.

Other Assets

Other assets are expenses already paid but not yet incurred and are initially recorded at face value and subsequently measured at carrying value less any impairment loss. These include excess input VAT and advance output VAT, advances to suppliers and contractors, prepaid expenses, biological assets and other assets.

Input and advance output VAT. Revenue, expenses, assets and liabilities are recognized net of the amount of VAT, except where the VAT incurred on purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognized as part of the cost of acquisition of the asset or as part of the expense as applicable.

The net amount of VAT recoverable from the taxation authority is included as part of "Other current assets" in the consolidated statements of financial position.

Biological asset. Biological asset pertains to the accumulated costs of purchasing, cultivating and propagating the live and unharvested fish. Since there are no active market for the biological assets of the Group and due to the absence of a reliable estimate to measure the fair value less estimated point-of-sale costs, biological assets are measured at cost less any impairment in value as allowed under PAS 41, *Biological Assets*.

Investment in an Associate

Investment in an associate is accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

An investment is accounted for using the equity method from the day it becomes an associate. On acquisition of investment, the excess of the cost of investment over the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is accounted for as goodwill and included in the carrying amount of the investment and not amortized. Any excess of the investor's share of the net fair value of the investee's identifiable assets, liabilities and contingent liabilities over the cost of the investment is excluded from the carrying amount of the investment, and is instead included as income in the determination of the share in the earnings of the investees.

Under the equity method, the investments in the investee companies are carried in the consolidated statements of financial position at cost plus post-acquisition changes in the Group's share in the net assets of the investee companies, less any impairment in values. The consolidated statements of income reflects the share of the results of the operations of the investee companies. The Group's share of post-acquisition movements in the investee's equity reserves is recognized directly in equity. Profits and losses resulting from transactions between the Group and the investee companies are eliminated to the extent of the interest in the investee companies and for unrealized losses to the extent that there is no evidence of impairment of the asset transferred. Dividends received are treated as a reduction of the carrying value of the investment.

The Group discontinues applying the equity method when their investment in an associate is reduced to zero. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee companies. When the investee companies subsequently report net income, the Group will resume applying the equity method but only after its share of that net income equals the share of net losses not recognized during the year the equity method was suspended.

The reporting date of the investee and the Group are identical and the investee's accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in the consolidated statements of income.

Related Party Relationship and Transactions

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises 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 enterprises, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholder. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

Property, Plant and Equipment

Property, plant and equipment are initially recognized at cost and subsequently revalued based on periodic valuations by external independent appraisers, less accumulated depreciation, amortization and impairment losses, except for land and projects under construction.

The net appraisal increase resulting from the revaluation is credited to "Revaluation increment on property, plant and equipment" account, net of corresponding deferred tax liability in the consolidated statements of financial position and consolidated statements of changes in equity.

The amount of revaluation increment absorbed through depreciation and revaluation increment approved by the SEC for quasi-reorganization are transferred directly to retained earnings. Initially, an item of property, plant and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the year in which these are incurred.

All costs that are directly and clearly associated with the construction of certain property, plant and equipment, including borrowing costs, are capitalized.

Projects under construction, included in property, plant and equipment, represent structures under construction and are stated at cost. These include cost of construction and other direct costs. Projects under construction are not depreciated until such time as the relevant assets are completed and put into operational use.

Major spare parts and stand-by equipment qualify as property, plant and equipment when the Group expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Estimated future dismantlement costs of items of property, plant and equipment arising from legal or constructive obligations are recognized as part of property, plant and equipment and are measured at present value at the time when the obligation was incurred.

Depreciation and amortization of the Group are computed using the straight-line method over the assets' revised estimated useful lives. The estimated useful lives are as follows:

	In Years
Land improvements	10
Buildings and structures	15
Community buildings and equipment	15
Machinery and equipment	15 to 20

The assets' estimated useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Stand-by equipment should be depreciated from the date it is made available for use over the shorter of the life of the stand-by equipment or the life of the asset the stand-by equipment is part of, while major spare parts should be depreciated over the period starting when it is brought into service, continuing over the lesser of its useful life and the remaining expected useful life of the asset to which it relates.

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

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and related accumulated depreciation, amortization and impairment losses are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

The carrying amount of the Group's property, plant and equipment is written down immediately to its recoverable amount if the asset's carrying amount is higher than its recoverable amount. The recoverable amount of the Group's property, plant and equipment is the higher between their fair values less cost of disposal and value in use.

If the carrying amount of the Group's asset is decreased as a result of revaluation, this decrease is recognized as other comprehensive loss to the extent of any credit balance existing in the revaluation increment in respect of that asset. The excess of such decrease over the existing balance in the revaluation increment is recognized in profit or loss.

An increase in the carrying amount of the Group's property, plant and equipment is recognized in profit or loss to the extent that it reverses a revaluation decrease of the same asset previously recognized in profit or loss.

Investment Properties

Investment properties composed of land and buildings, which are properties held by the Group either to earn rentals 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 initially measured at cost. Subsequently, investment properties are measured at fair value with any change therein recognized in profit or loss following the fair value model. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the year in which these arise.

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

Investment property is derecognized when it has either been disposed of or permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the derecognition of an investment property is recognized in profit or loss in the year of derecognition.

Computer Software

Computer software acquired is measured on initial recognition at cost. Following initial recognition, computer software is carried at cost less accumulated amortization and any impairment in value.

Computer software is amortized over the estimated economic life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method are reviewed 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 are treated as changes in accounting estimates.

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

Impairment of Other Nonfinancial Assets

The carrying amount of the Group's nonfinancial assets which include input and advanced output VAT, advances to suppliers and contractors, biological assets, investment in an associate, property, plant and equipment, investment properties and computer software are reviewed for at each reporting date to determine whether there is any indication of impairment. If such indication exists, the asset's recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the higher of the asset's fair value less costs of disposal and value in use. Fair value less costs of disposal 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 measurement date, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Any impairment loss is recognized in profit or loss unless the asset is carried at revalued amounts. Any impairment loss on a revalued asset is treated as a revaluation decrease.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. A reversal of an impairment loss in respect of a revalued asset is recognized in profit or loss to the extent that it reverses an impairment loss that was previously recognized in the profit or loss. Any additional increase in the carrying value of the asset is treated as a revaluation increase.

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 measurement date.

The fair value of a nonfinancial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and nonfinancial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

All assets and liabilities for which fair value is measured or disclosed in the 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:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3)

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. Note that under PFRS 13, *Fair Value Measurement*, the use of bid and asking prices is still permitted but not required. These instruments are included in Level 1. The fair value of investments in UITF was determined using Level 1 valuation technique.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine fair value of the instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3. As at reporting date, the Group does not have financial assets or liabilities included in Levels 2 and 3.

The Group uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques for nonfinancial assets are as follows:

- Market approach - A valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable (i.e., similar) assets, liabilities or a group of assets and liabilities, such as a business.
- Income approach - Valuation techniques that convert future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.

Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

Equity Instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Capital stock is classified as equity and is determined using the nominal value of shares that have been issued. Additional paid-in capital (APIC) includes any premiums received on the initial issuance of capital shares. Any transaction costs associated with the issuing of shares are deducted from additional paid-in capital, net of any related income tax benefits.

When capital stock is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognized as a deduction from equity. Repurchased shares are classified as treasury stock and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognized as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to/from retained earnings, after considering any remaining APIC related to treasury stock.

Compound financial instruments issued by the Group comprise CN that can be converted to capital stock at the option of the holder, and the number of shares to be issued does not vary with changes in their fair value.

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized initially as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

The mandatory CN of the Group are presented as an equity item under the "Convertible notes awaiting conversion" account. These are non-derivative instrument for which the entity is or may be obliged to deliver a fixed number of the entity's own equity instruments. The Group already fixed the number of shares to be converted into common shares based from the 1:1 share of the principal CN to common shares. The 8% interests accrued from the CN are treated as APIC upon conversion rather than a determinant in identifying the number of shares to be converted.

Retained Earnings

Retained earnings represent the accumulated net income or losses, net of any dividend distributions and other capital adjustments.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented as other equity reserves under the consolidated statement of changes in equity) that are not recognized in profit or loss for the year. Other comprehensive income (loss), which is presented as "Other equity reserves," includes revaluation increment on property, plant and equipment, cumulative remeasurement gains or losses on retirement liability, and cumulative unrealized gains or losses on fair value changes of investments in UITF.

Earnings per Share (EPS)

The Group presents both basic and diluted EPS. Basic EPS is computed by dividing the net income applicable to common shareholders by the weighted average number of common shares outstanding during the year, adjusted for treasury stock, conversion of convertible instruments and with retroactive adjustments for stock splits. Diluted EPS is computed in the same manner as basic EPS, except that the net income attributable to common shareholders and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares. The Group's potential common shares comprise CN.

Leases

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset. This may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all the economic benefits from use of the asset throughout the period of use; and
- the Group has the right to direct the use of the asset. The Group has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. The Group has the right to direct the use of the asset if either:
 - the Group has the right to operate the asset; or
 - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group as a Lessee

The Group recognizes right-of-use assets and lease liabilities at the lease commencement date (i.e., the date the underlying asset is available for use). The right-of-use assets are initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are subsequently amortized using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use assets or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liabilities.

The lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liabilities comprise of the following:

- Fixed payments, including in-substance fixed payments, less any lease incentives receivable
- Variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- Amounts expected to be payable under a residual value guarantee
- The exercise price under a purchase option that the Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early

The lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

When the lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the right-of-use assets, or is recognized in profit or loss if the carrying amounts of the right-of-use assets have been reduced to zero.

The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery and equipment that have a lease term of 12 months or less and leases of low-value assets. The Group recognizes the lease payments associated with these leases as expense on a straight-line basis over the lease term.

The Group as a Lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

The accounting policies applicable to the Group as a lessor are not different from those under PAS 17. However, when the Group is an intermediate lessor, it accounts for the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease. If a head lease is a short-term lease to which the Group applies the recognition exemption, it classifies the sub-lease as an operating lease.

If an arrangement contains lease and non-lease components, the Group applies PFRS 15 to allocate the consideration in the contract.

Employee Benefits

Short-term Benefits

The Group recognizes a liability net of amount already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given to its employees include salaries and wages, statutory contributions, short-term compensated absences and bonuses, and non-monetary benefits.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits

The Group's net obligation in respect of the defined benefit plan is calculated by estimating the amount of the future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligation and valuation of the plan asset is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined benefit liability or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest), if any, and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in Other Comprehensive Income (OCI). The Group determines the net interest expense or income on the net defined benefit liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss.

The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made as at August 31, 2023 and 2022 and for the years ended August 31, 2023, 2022 and 2021.

Foreign Currency Transactions and Translations

Functional and Presentation Currency. Items included in the Group's consolidated financial statements are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Group's financial statements are presented in Philippine Peso, which is the Group's functional currency.

Transactions and Balances. Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

Income Tax

The income tax expense for the period comprises current tax and deferred tax. Tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case the tax is also recognized directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using the tax rate (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (NOLCO) and unused tax credits (excess MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. The Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized. Deferred tax liabilities are recognized in full for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

Provisions and Contingencies

Provisions are recognized when the Group 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 has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date. The discount rate used to determine the present value reflects current market assessments of the time value of money and the increases specific to the liability.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

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

Borrowing Cost

Borrowing costs incurred for the construction of any qualifying asset, if any, are capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Other borrowing costs are recognized and charged to profit or loss in the year in which these are incurred.

Events after the Reporting Year

The Group identifies post year-end events as events that occurred after the reporting date but before the date when the consolidated financial statements were authorized for issue. Any post year-end events that provide additional information about the consolidated statements of financial position at the reporting date (adjusting events) are recognized in the consolidated financial statements. Events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

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